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

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

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

EXPLANATION OF SYMBOLS

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

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

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

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

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

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

Minor discrepancies in totals and percentages are due to rounding.

FINANCIAL INTERMEDIATION IN LATIN AMERICA

INTRODUCTION

The present study aims at continuing to explore the topic of financial development as part of the wider issue of the mobilization of resources by expanding on a number of points discussed in an earlier article.¹ The purpose is to shed light on certain theoretical aspects of the general functions of the financial sector and its possible relationships with the pattern

¹ "Mobilization of domestic resources", *Economic Bulletin for Latin America*, vol. XV, No. 2, second half of 1970.

of economic development; and also to look more deeply into the problems of recent financial development in Latin America. After outlining the various stages through which financial intermediation in Latin America has passed, the study takes a general look at the different types of institution and their function in the new phase of Latin America's development and considers recent trends of financial development in certain countries for which detailed data are available. The study ends with a number of conclusions and options relating to systems of financial intermediation.

I. NATURE AND FUNCTIONS OF FINANCIAL INTERMEDIATION

It is fairly generally assumed that the formation of a capital market is both necessary and in itself enough to raise the over-all saving rate, since efficient financial intermediation should increase the mobility of community surpluses and promote their use as investment in sectors that are of prime importance of economic development. It is true that, as they become more diversified, the financial intermediaries provide an economy that is becoming increasingly "capitalist" with the means of transferring funds from the surplus to the deficit sectors, and in so far as their action is more rapid and efficient than the system of direct transfers from enterprise to enterprise or family unit to enterprise, they will improve the general level of efficiency of the modern economic sector. But to assume from this somewhat axiomatic statement that progress in the field of financing automatically increases the over-all rate of savings and investment and channels savings from the actual or potential surplus sectors to the strategic sectors which are of greater significance for development in the long term is not borne out by the actual facts in most countries, or by studies on the theoretical bases of financial intermediation.

As far as can be seen from Latin American experience, it may be assumed that, except in cases where developmental financing institu-

tions under the control of the public sector have been set up for this express purpose, it is difficult for a country to solve the problems associated with the transfer of funds to the more backward sectors, or to new sectors or regions, through the normal working of financial intermediaries.

Moreover, there is also no clear correlation between the level of financial development and the savings-investment ratio, except in Japan, for reasons that will be discussed below. This is not to deny that the recent development of capital markets in Latin America has led to a certain amount of diversification in the supply of funds, and in some cases has prevented personal savings from being rendered unproductive for lack of suitable catchment. But this is the first stage, where funds flow from families and enterprises to financial intermediaries. The second stage, where they flow from the financial system to credit users is obviously governed by considerations of profitability and liquidity, and of the risk involved in loaning the funds requested, and not by developmental or social goals. Access to the funds of the financing institutions therefore depends on the guarantee furnished, which generally means that the clients operating in the highest profit-making sectors, who are consequently more solvent, have the applications approved. In

Latin America, many of the applications for this type of loan are made in order to pay for family consumer durables and to provide working capital for enterprises, and not for real investment in new activities or in sectors which are of prime importance for development.

The situation on the capital markets of developed countries is not much different.² There, too, the main recipients of funds are the large enterprises that are already established on the market; small and newly established enterprises find only a limited supply of credit, both in terms of the size of loans, and in terms of the financial cost and the guarantees required. The problem of financing small enterprises, from which most of the developed countries have suffered, has been solved, to a greater or lesser extent, by setting up special financing institutions, which usually have no connexion with the regular financial markets. In several developed countries it has also been found necessary to create special funds for financing investment in new sectors of strategic importance for development; these funds are also not part of the traditional pattern of financial intermediation and their resources generally come from the public sector. In addition it has been common practice to allow liberal deductions in respect of depreciation for certain activities with good growth possibilities, and this, together with a high level of retained profits provided many enterprises with a sizable domestic source of funds for financing investment and gave them a larger measure of independence from capital markets. Hence, although the financial markets are very highly developed in the industrial countries, the financial institutions making up the market, in the usual sense of the term, do not have a hand in the financing of a large proportion of investment.³

The above remarks call for a review of the functions of financial intermediation which are: to create credit; to make loans; and to permit the accumulation and diversification of assets.

The *creation of credit* means that the various economic agents (enterprises, government and family units) are allowed to incur debts, i.e., that their total expenditure can be higher than their current income.

In a rapidly growing capitalist economy, the growth of funds is more rapid than the capital

formation. Therefore, the direct indebtedness of the spending agents, plus the indebtedness incurred indirectly by the intermediaries, accounts for an even larger proportion of national income and wealth.⁴

Credit can be used to help finance real capital formation, current production, consumption and the purchase of existing real or financial assets. Only in the first of these cases is the creation of financial investments directly related to the increase of a country's productive capacity and, consequently, to its growth in the long term.

The importance of this function depends on the level of self-financing by enterprises: it is less important when this is high (as in the United States and the United Kingdom) and more important when it is low (as in Italy and most of all in Japan). On the other hand, this function may play a very important role in financing increases in public spending (United Kingdom and virtually all the Latin American countries), and it will also promote economic growth, provided that there is a positive correlation between the use of credit and public sector investment.

The second function—the financing of current activity—is the basic function of the traditional financial intermediaries, particularly the banking system, and is common to all countries without exception (irrespective of whether they are capitalist or socialist). This function is related to the maintenance of a given level of economic activity and, for it to be effective, the financial instruments involved in the debt-credit process have to grow more rapidly than the gross national product as economic activity gradually becomes more monetized and decentralized both at the sectoral level and in spatial and institutional terms. The development of a dynamic banking system capable of guaranteeing a suitable degree of liquidity has over the years been an essential component in financing an expanding economy.

The third function—the financing of consumption—is more directly linked to the maintenance or expansion of a level of effective demand, which is of particular significance in at least two situations. The first, which is of a continuing nature, involves covering expenditure on consumer durables of high unit value, the sales prices of which may not be in line with the average current income of the popula-

² See United Nations, *World Economic Survey 1960* (United Nations publication, Sales No.: 61.II.C.1), chapter 1.

³ *Ibid.*, p. 54.

⁴ See Curley and Shaw, "Financial aspects of development", *The American Economic Review*, vol. XLV, No. 4, September 1955, Stanford, California.

tion. The second occurs when it is wished to raise the level of effective demand if demand has contracted because of temporary phenomena or is depressed because income is concentrated at the very top of the income scale. In this latter case, increasing the size of loans for consumption and their repayment periods may expand the effective market to include the middle-income strata, enabling them to increase expenditure by going heavily into debt. In the long run, however, greater participation by these strata cannot be sustained unless their share of total income is modified. This kind of credit instrument has been used by banks and also by agencies outside the banking system to cope with the first situation in the developed capitalist countries and both situations in several Latin American countries.

Lastly, financial intermediation can create credit for purchasing existing real or financial assets for purposes of speculation or accumulation, in which case it does not have a functional relationship with actual production, consumption and investment flows. As the return on such operations depends to a large extent on prevailing institutional conditions, it tends to fluctuate violently and amplifies the normal cycles of the capitalist economy. It should be remembered however, that this kind of financial accumulation gave birth to and promoted the capital markets, and its main purpose was therefore not to finance fixed capital formation; although this is not to say, that it has no direct or indirect effects on the rate of real investment. In actual fact, inasmuch as financial accumulation yields healthy profits it stimulates economic activity, boosts demand and strengthens or steps up the expansion of the economy. This, in turn, may raise real investment to levels higher than can be financed out of financial expansion alone. On the other hand, a drop in the rate of return on financial accumulation may, through a crisis in demand, bring about a more depressed situation in which opportunities for profitable investment disappear, for a while at least.

The sharp fluctuations characteristic of open capital markets, in which the stock market is the keystone, have tended to disappear (particularly in the post-war period) as a more stable financial market has emerged, because of institutional changes and official intervention, and also because of the control exerted by the major national and international financing houses. Institutional investors, such as the large insurance companies, mortgage societies, mutual funds, and in particular the

investment banks operating on a world-wide scale, have provided a greater degree of stability in national and international financial accumulation and have brought about a more functional relationship between accumulation and the real expansion of national economies through their search for fresh investment opportunities and the expansion of markets.

Another major purpose of the financial system is to *transfer loan funds*, which is an inherent part of its function as intermediary between creditor and debtor economic units. Instead of the surplus spending units supplying financing directly to the deficit spending units, the intermediaries act as a link mechanism that makes the channelling of funds more efficient and permits a much larger number of debits and credits in the economy as a whole.

Under a direct financing system, the deficit spending units borrow resources by issuing primary liabilities (shares, bonds, commercial paper, mortgages) that are purchased by the surplus spending units either directly or on the open securities market. Under an indirect financing system, it is the banking system and all the various specialized financial institutions that purchase the primary liabilities issued by the deficit spending units (direct debt) and then issue their own liabilities (indirect debt) which are purchased by the surplus spending units. This process of separating out the direct debt and the indirect debt helps to expand credit and at the same time helps to compatibilize a liability structure containing all the various repayment periods, risks and guarantees that correspond to the different types of expenditure to be financed with a financial asset structure that is suited to the interests of savers. This means that there must be a *wide variety of financial assets that can be used by the surplus spending units*—and this is essentially the third basic function of the financial system.

Certain spending units (generally families and enterprises) have surpluses on their current budgets that cannot be used immediately within the unit, nor can they be used directly for the purchase of real assets or in new activities because the amounts involved are too small and the units are not in a position to take on the risk of investment. Given that real assets are indivisible, and given the scale of operation of new activities, the lead time of investment and uncertainty regarding its economic return, many "savings" might lie idle were it not for the possibility of placing them in financial assets. This is precisely the purpose

of the financial system since its role is to diversify assets and provide the divisibility, liquidity, profitability and security required by savers. It is also necessary for the system to be easily accessible to surplus spending units or sectors and for there to be a certain level of specialization and competition among the intermediaries, as long as this does not build up too much pressure on the sources of funds themselves.

The operation of the financial sector reconciles the interests of the economic agents involved: namely the users of credit in deficit spending units, who need resources suited to the structure of expenditure they have to finance; the surplus spending units, which are the source of the resources used; and the financial intermediaries, whose function is to make credit available at the lowest possible risk and the highest possible return. When the interests of these three agents are all met, which happens when the financial instruments help to increase both assets and liabilities, it can be said that the system is functional, quite apart from whether it is efficient in the micro-economic or macroeconomic sense. It is functional in what may be termed a "neutral" sense, i.e. it is a system that is capable of meeting with a reasonable degree of flexibility all the short-, medium- and long-term needs of the dominant growth sectors, even though it may achieve neither peak microeconomic efficiency (minimum operating costs or optimum scale of the financing units) nor peak macroeconomic efficiency (optimum distribution of real resources or maximum economic growth rate).

In this connexion, it may be worth while recalling what is generally understood from the theoretical standpoint by the optimum structure of financial development, namely a structure which "within a framework of specific circumstances uses factors of production up to the point at which the marginal social cost of the factors is equal to the marginal social benefit of their use, and in which the factors of production are used in the most efficient way and in a manner that minimizes marginal costs at all levels of the product".⁵ This definition assumes a theory of general equilibrium and takes as parameters "a given level of decentralization in decision-making, a given

⁵ See John G. Curley, "*Hacia una teoría de las estructuras financieras y el desarrollo económico*", in *Estructura financiera y desarrollo económico* (Editorial del Instituto Torcuato di Tella, Buenos Aires, 1968), p. 89.

income distribution and a given rate of unemployment".⁶ A financial structure may be optimum, therefore, without being capable of sustaining or raising the growth rate of the gross product or investment to the level desired by the State or society.

It might be maintained, therefore, that the sole purpose of a functionally neutral financing system is to permit and facilitate the accumulation of just the amount of investment actually required by the economic agents, and to promote the channelling of funds to—and, most probably, their concentration in—the most important sectors or activities from the point of view of their profitability and sure prospects of dynamic growth, given the structure of demand. If the sector is viewed in this light, it can hardly be expected to assume such responsibilities as that of correcting the intrinsic features of a specific pattern of development, channelling allocations of real resources in a specific direction, or even of raising the real investment rate.

Financial intermediaries may, of course, be conceived to have a development function, i.e., to be institutions that play an active role in the allocation of resources. In this case, the intermediaries channel resources in a different direction from that in which they would flow if the intermediaries had a neutral function: they direct the flow to the fields considered to be of prime importance to the economy because they act as a spur to economic and social development, and these fields will mostly be different from those that would be selected purely for reasons of private profit.

When financial intermediation has a development function, it may have two other avowed objectives as well: first, to raise the savings and investment rate of the economy and increase the flow of financing that goes through the intermediaries; and secondly, to spread the allocation of funds. This is the reverse of what happens when the intermediaries are neutral in function because, on the one hand, the conventional standards of private profit and guarantees for channelling funds (which implicitly tend to favour the large enterprises, most of them monopolies) are discarded and, on the other, a conscious effort may be made to encourage productive units other than those which have always received financing or that have already consolidated their position, i.e., to favour units which for

⁶ *Ibid.*, p. 90.

various reasons deserve priority attention, such as export firms and small- and medium-sized enterprises.

Among the forms that the system of intermediation may assume to fulfil the function of promoting economic and social development, two separate possibilities may be considered.

The first consists, essentially, in readapting and restructuring the intermediation that is functionally neutral, that is, in linking intermediation with an explicit development strategy and imposing on it a strict and effective government policy with proper co-ordination and central control. This means that the State should have effective means of influencing the quantity and quality of the system as a whole and of each individual intermediary, whether public or private.

The second alternative, which is followed in most centrally-planned economies, is for the

financial intermediaries to be entirely State-run and to meet directly the applications for financing to mobilize real resources in accordance with the current development plan. In other words, the flow of financing conforms strictly to the directives and controls of the central planning authority.

Obviously, there are many intermediate positions between these two model alternatives for the organization and operation of a neutral or developmental financing system. There is ample evidence of this in the world context, and clear examples exist even in the experience of different Latin American countries, as will be shown when consideration is given to the development of the system in selected countries and, in the final section of this paper, to the chances of success and possible features of a system of intermediation that would serve the general purposes of development.

II. RELATIONS BETWEEN ECONOMIC DEVELOPMENT AND THE GROWTH OF THE FINANCIAL SYSTEM

The relationship between the real and financial components of the development process is decisively influenced by a number of factors that create a wide variety of symmetrical and asymmetrical relationships between them.⁷ They include factors affecting financial growth whose relationship with economic development is very difficult to pinpoint, for example the degree of centralization of the economy, international relations, method of financing the public debt, and the existence of chronic or acute inflation. Another set of factors affects the structure and *modus operandi* of the economy and the financial system and includes the size of the subsistence economy, degree of sectoral and spatial diversification, patterns and level of urban consumption compared with average disposable income, prevailing habits and forms of saving by the economic agents, etc. Lastly, it

⁷ One of the writers who has been most concerned with establishing a theoretical relationship between the growth of the financial system and economic development, namely Raymond W. Goldsmith, argues that there is not necessarily a close correlation between the two. In *La estructura financiera y el crecimiento económico* (Mexico City, Centro de Estudios Monetarios Latinoamericanos, 1963), p. 47, he states that the aspects of economic growth that seem to have the greatest influence on the nature of the financial structure in a country and the rate of financial development are not the same aspects that are considered of primary importance in explaining economic growth itself.

must be remembered that the method of operation of the financial institutions and the way in which agents and functions are specialized depend to a great extent on the characteristics of each country, especially its economic policy guidelines, relations between the public and the private sector as regards financial matters and the level of openness or self-financing of the dominant enterprises in the main sectors.

To illustrate the first set of factors, it may be useful to look at the socialist economy in which a very high level of centralization goes hand in hand with a not very diversified financial system. Even with the recent efforts at economic decentralization and the emergence of a greater number of surplus and deficit spending units, financial intermediation continues to be undertaken by only a few central public agencies. The financial sector is virtually nothing more than a simplified monetary system with the basic functions of regulating liquidity and ensuring that financial flows are in tune with real transactions, without neglecting transfers by the State for investment purposes. The system does not create debt in order to sustain a given level, composition or rate of growth for effective demand. The financial system (and the taxation system as well) simply fulfils the function of adapting

over-all and sectoral levels of demand to production targets.

At the other extreme, where the financial system has developed to the maximum, are countries with highly interrelated financial systems such as the United Kingdom and Switzerland, because of their position as international bankers, and in the case of the United Kingdom, because of the size of its external debt and its method of financing it on the open market; and also the United States, because of its international position as a net exporter of capital, the size of its public debt, and the habits and forms of personal and institutional saving.

In the two English-speaking countries, the level of self-financing in goods-producing enterprises, particularly the major enterprises, is among the highest in the world, and hence the development of their financial markets is not linked in the first instance with real capital formation in the main sectors of the domestic economy (see table 1). In actual fact, the basic function of the financial intermediaries in the mature capitalist countries is not to collect resources to finance the real expansion of the economic system but, on the contrary, to seek alternative uses for net surpluses and thus maintain a rate of return on total capital that will sustain anticipated expansion and maintain the rate of accumulation.

In the United States, for example, the financial agents outside the banking system began to specialize quite some time ago, and the share of the various private savings and insurance institutions in total financial assets, which was already large at the beginning of the century, steadily increased until the 1960s.⁸ Given the growing volume of savings normally tapped by these institutions, the financial system basically focused on seeking opportunities for profitable investment. This led to the formation of conglomerate companies, in which the interests of producers and financial enterprises were merged, with the function of providing greater flexibility and fluidity in the channelling of resources among the various sectors.

This new manner of directing the allocation of resources is not subject to any great degree of intervention by public financial institutions, either as regards resources or as regards control or management policies. The conglomerate has two basic functions, both of which have a key role in sustaining the accumulation process set in motion by the major national and international enterprises. The first is to diversify portfolios in order to minimize the risk of holdings and guarantee a reasonable level of return. The second, and the most important, is to seek out the sectors, activities or enterprises

⁸ See Goldsmith, *op. cit.*

Table 1
TRENDS IN THE RATE OF SELF-FINANCING
(Percentage of gross fixed capital formation)

Country	1960	1961	1962	1963	1964	1965	1966	Average
United States ^a	102.0	106.5	112.0	112.4	106.0	99.6	95.5	104
United Kingdom ^a	—	122	113	142	138	136	121	129
^b	—	77	83	104	116	113	99	99
Federal Republic of Germany ^a	93	82	77	79	80	72	74	78
^b	82	68	67	77	83	82	—	77
France ^a	—	67	71	65	65	68	67	67
^b	—	74	73	69	69	71	70	71
Italy ^a	56	51	38	34	38	62	—	47
^b	79	59	41	36	40	58	73	55
Japan ^a	74	63	69	74	81	82	—	74
^b	—	53	49	66	65	—	—	58

SOURCE: Léopold Jeorger, "Etude comparée du financement des entreprises dans six pays industrialisés", in *Economie Appliquée*, Archives de l'Institut de Science Economique Appliquée, vol. XXI, 1968, Nos. 3-4, Geneva, p. 568.

^a For United States and United Kingdom: annual financial accounts; for other countries: company balance sheets.

^b Corrected average: estimated average figure, taking account of the corrections that have to be made to each country's figures to make them comparable.

with the greatest growth potential, in either the domestic economy or abroad, so as to be able to invest in such a way that they will be able to control the future rate of accumulation of their enterprises and thus ensure the growth of the conglomerate over the long term.

The situation in Italy and Japan is not the same, even though the financial system in these countries had developed rapidly in recent decades.⁹ Because these countries are in a rapid process of expansion and modernization and undergoing radical changes in patterns of industrialization and forms of economic organization, both of them, and particularly Japan, have problems in financing their economic activity that are completely different from those of the mature capitalist countries. Their enterprises are more dynamic and have a low level of self-financing and a high rate of dependence on external sources of funds (see table 2). Moreover, since average income in both countries is somewhat lower than in the majority of developed countries, financing requirements for domestic consumption are more acute given that the mass market is expanding—the mass market having already become relatively stabilized in the “affluent” societies. On the other hand, these two countries do not possess private savings institutions (insurance companies, etc.) of the scale and significance of those in the English-speaking countries. The third difference lies in the level of public intervention in the direction of the economic development process, which in the financial sphere takes the form of greater participation by public financial institutions in the collection, supply and channelling of financial resources to certain priority sectors or enterprises. The fact that the banking system plays a more important role in financial intermediation also makes it possible for the central bank and other centralized financial agencies of the public authorities to play a more significant role and exercise a greater degree of control.

⁹ If the indicator of over-all financial development is taken to be the ratio of financial liabilities to national income, Japan and Italy have one of the highest coefficients in the world, immediately after Switzerland (see Leopoldo Solís, “*El sistema financiero en 1980*”, in *El perfil de México en 1980*, Editorial Siglo XXI). The situation would appear much the same if the indicator used was Goldsmith’s coefficient of financial interrelations (total financial assets: tangible assets, at current values). See also R. W. Goldsmith, “The determinants of financial structure”, document No. 1/II of the Eighth Meeting of Officials of Central Banks on the American Continent, Buenos Aires, 7 November 1966.

Lastly, in the case of Japan, conglomerate companies were formed at a much earlier stage than in the other capitalist countries, although with very different forms of organization and operation. From the outset, the *keiretsu* organized in the post-war period to replace the pre-war *zaibatsu* established a much more functional relationship between the major producer enterprises, private financial agencies and major private banks as regards the strategy for expansion. Furthermore the Central Bank of Japan plays a decisive role in supplying the conglomerates with funds.¹⁰ The question is not, as it was in the United States, of moving from a structure in which the major vertically integrated producer enterprise coexisted with a certain degree of freedom with the major financing savings-investment finance companies towards a more flexible structure in which the conglomerate disregards the traditional links between sectors that are interconnected by type of activity and seeks a diversified interrelationship between real and financial capital, under the umbrella of financial capital. Right from the beginning in Japan, the *keiretsu* leaned heavily on a bank with its ancillary financial enterprise, which constituted the central supply point for a constellation of producer enterprises situated in the major dynamic sectors of Japanese industry. The form of organization, therefore, is not vertical and production by the enterprises in each group is not integrated. The seven principal *keiretsu*, apart from being supported by the seven major banks (from which each group takes its name) compete fiercely amongst themselves in the same highly modern sectors, such as metal-transforming, industrial chemicals, paper and electrical equipment. Consequently, the conglomerate is not basically looking for economies of scale and specialization, as the United States joint-stock companies were, but rather to “internalize” external economies, especially those relating to financing, technology and marketing. The high level of competition among the various groups and even among enterprises within the same group has had the effect of orienting growth towards maximizing sales rather than profits.

This style of development has been supported by the Japanese public sector by means of a series of industrial and foreign trade policy measures, including a policy of “equal treatment” for all *keiretsu*, under the Bank of

¹⁰ See “Rapid economic growth in post-war Japan”, in *The developing economies*, vol. V, No. 2, June 1967.

Table 2
COMPOSITION OF SOURCES AND MAIN USES OF CORPORATE FINANCING
(Percentages)

	<i>Federal Republic of Germany</i>		<i>United States</i>	<i>France</i>		<i>Japan</i>		<i>United Kingdom</i>		
	<i>(A)</i>	<i>(B)</i>	<i>(A)</i>	<i>(A)</i>	<i>(B)</i>	<i>(A)</i>	<i>(B)</i>	<i>(A)</i>	<i>(B)</i>	
Domestic financing	68.3	62.8	66.8	52.9	55.9	30.8	25.2	73.5	55.4	
Amortization	43.6	47.4	22.9	—	—	—	18.5	73.1	29.8	
Undistributed profits	19.7	9.7	43.9	—	—	—	3.4			
Capital transfers	4.8	2.5	—	—	—	—	—	0.4	—	
Other	—	3.2	—	—	—	—	3.3	—	3.3	
External financing	31.7	37.2	33.2	44.4	44.1	69.2	74.8	26.5	44.6	
Stocks and shares	4.1	11.3	1.5	6.7	10.3	7.3	10.3	10.6	11.6	
Liabilities	1.4	12.8	7.6	3.6	15.3	2.4	1.6			
Long- and medium-term loans ..	11.2		3.6	16.7		59.5	14.6	15.9	7.3	
Short-term loans	6.8	5.6	3.3	48.3						
Other	8.2	13.1	14.4	17.0	18.5	—	—	14.0		
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	
<i>Uses</i>										
Fixed investment	80.8	74.6	64.3	78.1	59.0	41.8	43.4	55.7	54.1	
Stocks	6.3	8.1	8.1	6.3	15.1	7.7	9.1	13.6	13.5	
Financial issues	12.8	17.3	23.1	15.6	—	50.5	47.5	31.7	32.4	
Long-term issues (shares, etc.)	—	5.8	—	—	22.8	—	7.2	—	18.0	
Liquid assets	3.8	11.5	9.6	—	—	—	11.2	—	14.4	
Commercial credit	—		13.5	—	—	—	23.7	—		

SOURCE: Léopold Jeorger, op. cit., p. 565.

Note: The figures given are averages for 1959-1965 or 1960-1966.

(A) Figures taken from financial accounts.

(B) Figures taken from balance-sheets.

Japan's policy of increasing credit in virtually the same proportions to each of the main private banks heading each group.

These features of financial intermediation in Japan are not usual in the other developed countries, even in countries in which the public sector plays an important role in the financial sector, such as Italy and France. In no other capitalist country is there this institutionalized economic and financial solidarity in activities by the Government and large-scale enterprise.¹¹ Even in France, where the State holds a tight rein over the banking system, and financial institutions are in the main public or semi-public, the large-scale enterprise, either because of its high level of self-financing, or because it has recourse to the open financial market outside the banking system, does not depend very much on public credit, which flows to medium-scale and small enterprises, to the large nationalized enterprises, or to financing specific sectoral or regional development objectives.

In developed and developing countries where developmental public institutions have become more important and there is a great deal of control over the banking system (Italy, Mexico, Chile and Brazil, for example), two types of financial intermediation coexist with different functions and a *modus operandi* and institutional organization which correspond to the particular roles assigned to the public and the private sectors. Thus, there is not the same kind of integration and solidarity that is so evident in the operation of the over-all financial system in Japan. An important factor in financial intermediation in the private sector is, *inter alia*, the degree of "de-nationalization" or financial dependence on foreign sources of the key sectors or enterprises in the economy.

Foreign penetration into the key sectors of national economies has been accompanied in recent years by a form of domestic financial development controlled from outside, which represents a new form of international financial capitalism without the classic features of the open movement of capital. At present, the level of financial, commercial and technological dependence of subsidiary and associated companies on direct foreign investment is growing, in the countries at the centre and in those on the periphery. All the mutual funds, investment banks and other financing houses asso-

¹¹ This may be attributable to the fact that in no European country is large-scale enterprise so dominantly "national" as in Japan, owing to the greater level of penetration into the European economies by United States or multinational companies.

ciated with the multinational enterprises are gradually replacing the traditional form of direct control with majority shareholdings in the capital of enterprises. Even the foreign commercial banks are gradually losing their role as the main instrument of international financial capital for penetration and control since the banking system has been nationalized in a number of countries, or is under the strict control of the central banks.

The role and functions of public financial intermediation have been changing over recent decades in line with the style of economic and social development adopted in each country.

In the countries with mature economies and a comparatively greater degree of financial stability, one of the prime functions of the major public agencies is to regulate the money supply and the general liquidity of the financial system and to maintain an open securities market in balanced operation. These agencies, however, are not greatly involved in financing economic development and do not play an important role in directing or controlling the resources of the private financial enterprises.¹²

The developmental public financial institutions were formed in the European countries in order to undertake the task of post-war reconstruction, and in the developing countries for a wide range of purposes, ranging from financing infrastructural projects and the basic industries to taking over responsibility for directing and financing programmes for industrial or regional development. The public institutions concerned exclusively with the first task (for example the Bank for Reconstruction in West Germany) have gradually lost their functions. Similarly, several of the developmental agencies that were operating only with specific projects or without regular means of collecting resources also declined in importance.

Among the public agencies that continued to grow or at least to maintain their relative importance are the financial institutions specializing in credit to particular sectors (agriculture, processing, construction) or regions, to small- and medium-scale industry and to foreign trade. Among the European countries, the most striking examples of this type of financing are in France and to a lesser extent, Italy, and, among the Latin American countries, in Mexico, Chile, Argentina and Brazil. Certain public financial institutions as well as engaging

¹² This is not to ignore the great influence and weight of public spending and subsidies in the development of key sectors, often those of military significance.

in financing activities are responsible for regulating the private financial market and issue government bonds (in addition to the Central Bank), noteworthy examples of these being Nacional Financiera S.A. in Mexico, the Istituto Mobiliare Italiano (IMI) in Italy and—for a short time in the post-war period—its Argentine copy.

It is irrefutable that within Latin America's experience the existence of inflation in certain countries and at certain periods has had an

appreciable impact on financial development. This aspect will be taken up when considering individual countries. Nevertheless, it can be said immediately that recent trends in Chile and Brazil have shown that when the stage of development makes it necessary the hurdle of inflation can be overcome and machinery can be created (such as monetary readjustment) to provide an institutional footing for financial instruments that are acceptable to the broad mass of savers.

III. FINANCIAL INTERMEDIATION AT SIGNIFICANT STAGES IN LATIN AMERICA'S DEVELOPMENT

This chapter will examine the way in which financial intermediation has grown in Latin America in response to the need to diversify the internal productive structure of the region. The analysis will cover the relatively more developed Latin American countries in which two well-defined stages of development are observable: up to the 1930s, with the emphasis on primary exports, or outward-directed growth; and from the Second World War onwards, with the emphasis on import substitution as a form of inward-directed growth.

1. *Financial intermediation during the primary export stage*

Applications for financing in the period of outward-directed growth came virtually exclusively from the export sector, either directly to finance the production and marketing of primary activities, or indirectly to finance the expansion of the infrastructure.

As regards capital accumulation, although the productive capacity of the agricultural sectors was expanded mainly out of real and financial domestic resources, these resources were largely the result of the high returns accruing on foreign trade. Furthermore, investment in the most capital-intensive sectors, such as mining, transport, energy, etc., was financed virtually completely with foreign capital, either through direct investment or, in the case of government financing, through issuing government bonds on foreign capital markets.

The largest financial houses were principally engaged in export and import activities and most of them were formed by foreign banking houses, some of which were subsidiaries of the major world banks. Completely national financial intermediaries, which were rather

small in scale and not very well organized, were formed to deal with the flows of domestic trade and to finance farmers by issuing mortgage credit instruments or urban activities by issuing direct debt commercial paper.

Stock markets have been operating for quite some time in Latin America, and in some countries (Argentina, Chile, Brazil) they were more important during some periods of the primary export stage than during the domestic industrialization stage that followed it. This was attributable not only to an increase in financial operations based on foreign trade and exchange speculation but also, and sometimes to a very large extent, to the formation of a multitude of private joint-stock companies which offered shares on the financial market and thus gave rise to a great deal of speculation.

The emergence of banking institutions with the right to issue money, together with sharp fluctuations in the exchange market, speculation in real estate and in the stock market, led to a marked degree of instability in Latin America's financial markets, which were as yet in their infancy and not well organized. Towards the end of the last century, many countries experienced violent fluctuations which accompanied and amplified the trade cycles, with rapid inflows and outflows of external capital, periods of runaway inflation, devaluation of national currencies and considerable losses in public and private financial securities.

Owing to this crisis in financial activity, government intervention was increased in the exchange market and public banks were established with exclusive rights to the issue

of paper money and began to exert a degree of control over the expansion of the banking system.

However, national banking systems proper with separate financial, commercial and speculative functions, did not appear until much later. As a result of the Great Depression, when many international financing houses went out of business and the gold standard was finally abandoned, the major State banks began to meet the needs of the public sector by acting as the main heads of the banking system, although not necessarily with functions different from those of the central banks.

The main features of financing during this period can be summed up as follows: in the private sector, the banking system operated by tapping resources from the surplus spending units in agriculture (chiefly for export) and in rapidly expanding urban activities (commerce and construction), and transferring these resources to the deficit spending units in these same sectors. The surpluses generated by export-oriented agriculture to finance capital accumulation in the major urban centres do not appear to have been transferred at this stage through the price mechanism nor in many cases through taxation, but by transferring the profits accruing from exports to urban investment, either directly as in the case of civil construction, or indirectly through the financial system. All this accumulation was based on an infrastructure of basic economic services financed, as noted earlier, directly or indirectly by foreign capital.

At this stage, industry was just beginning and it did not benefit from the transfer of surpluses in any appreciable scale. Generally speaking, it financed itself on the basis of its artisan-type activities and took advantage of improvements in relative prices resulting from temporary balance-of-payments problems and the prospects of expansion offered by the diversification of urban demand for goods and services. Industry's most prosperous moments were associated with the foreign trade crisis or with periods of great financial activity when credit was expanding and speculation was on the rise. When the financial situation stabilized owing to the recovery of the export sector, industry's prospects for expansion were weakened and it again experienced a setback in its prospects for growth and serious competition from imports. Over the long run, however, the internal accumulation of healthy profits in times of prosperity, together with a cheap and relatively skilled labour market

(often swelled by immigrants) enabled industry to be self-sufficient, although for long periods it remained stationary as for example in the period between the First World War and the Depression.

2. *Financing and financial intermediation during the import substitution stage*

(a) *The transitional stage*

During the transitional stage—from the Great Depression until after the Second World War—the export sector continued to be a generator of surpluses and to make net transfers of resources to domestic development through such instruments as the manipulation of exchange rates and taxation. Nevertheless, the external bottleneck and the resulting sharp rise in domestic relative prices provided very lucrative prospects for established industry with idle capacity which was automatically protected from foreign competition. This helped to raise the level of self-financing in industry. Moreover, the inflow of foreign capital dried up completely, and the flight of capital during the Depression was counterbalanced by the moratorium on the external debt and the exchange controls that Governments were forced to introduce to stem the drain on the balance of payments. In the process, the subsidiaries of foreign companies established in the sectors producing goods for urban consumption found themselves forced to participate in domestic capital formation by retaining and ploughing back a large proportion of their profits, since they could not remit them abroad.

Furthermore, the foreign banking houses lost their preponderant role in financial flows and a national banking system sprang up and gradually acted as the intermediary between surplus and deficit spending units by providing the financing required for marketing domestic production, which during this period increased in importance relative to export and import activities.

Investment in the economic infrastructure ceased to receive fresh resources from abroad; and the majority of foreign holders of public utility concessions did not show any great interest in expanding productive capacity out of their profits, both because profits ceased to be high comparatively speaking, and because it was difficult for them to remit their profits abroad or finance the imports they needed.

Hence, programmes to expand the infrastructure became an increasing burden on the public sector which as a general rule did not have:

fiscal or financial instruments at its disposal to finance them properly.

In this transitional stage, the traditional financial markets lost much of their former vitality, since speculation on the stock market and also transfers between international financial agencies and the major exporting houses were clearly in a downward cycle. On the other side of the balance-sheet, however, as noted earlier, a commercial banking system began to spring up under the umbrella of the large public banks. In Argentina, because of its comparatively greater level of urban development, a genuine national market dealing in public and private securities was in operation, and public credit institutions were established in several countries to meet the long-term needs of various sectors of the economy, such as agriculture, industry and construction.

The new financial system benefited the private as well as the public sector, not being affected by the fluctuations of international trade and foreign capital flows, and helped to establish domestic channels for tapping resources to finance production. Although investment in urban-industrial activities appears to have been financed by the resources of the enterprises concerned, it is quite clear that it was bank credit which fuelled marketing activities in the different sectors and regions and hence led to an expansion of monetary markets, which in turn increased profits and monetary savings and stepped up the accumulation process.

(b) *Industrialization in the "easy" post-war period*

By the end of the Second World War, this domestic capital formation process was already on quite a scale, without there being transfers of any great size between sectors, except those effected by the export sector to domestic activity. Nevertheless, the possibilities of further industrial expansion were somewhat limited with this kind of structure. The wear and tear on the existing productive apparatus, and also domestic capacity for financing, appeared to be such that industrial development was prevented from moving into a stage of modernization and expanding scales.

Quite clearly, the recovery or expansion of the export sector, which continued into the first half of the 1950s, helped to swell real investment capacity (imports of equipment) and to transfer to industry a large part of the profits of the export sector through the price mechanism and, in particular, exchange policy.

The improvement in the terms of trade also enabled Governments to siphon off some of the profits of the export sector and increase their financial resources by fiscal or para-fiscal means.

Nevertheless, public budgets also began to feel the pressure of increased investment in basic services and social welfare costs. This trend worsened to such an extent that at the end of the period (around 1954), the financial situation of the public sector deteriorated in some countries and moved into chronic deficit, and this, coupled with the tightening of the external bottleneck, led to severe inflation.

As regards the financing of industrial expansion, the main branches of manufacturing were net requestors of resources from the financial system, mainly for working capital, since high profits, the subsidies implicit in imports of equipment, and external suppliers' credits, provided them with enough resources to finance fresh investment.

Furthermore, the inflow of non-compensatory foreign capital was of little significance in financing public and private investment in this stage of extensive industrialization. The same was the case with foreign private investment and foreign loans to the public sector. The external debt increased mainly as a result of the commercial debts of importers. Accumulation in many countries had the effect of worsening the balance-of-payments situation, even though the purchasing power of primary goods exports was markedly expanding.¹³

Generally speaking, it can easily be shown that this period of industrialization, closely linked as it was with the speeding-up of the urbanization process, had substantial financial requirements that had to be covered out of domestic resources. These resources were basically short- and medium-term funds to finance the current activities of the private sector, and came from the commercial banking system. Long-term loans posed a more difficult problem, particularly as regards the major infrastructural projects being promoted by the public sector and certain types of investment of key importance for development in basic sectors.

¹³ The piling-up of the commercial debt and the extremely large balance-of-payments deficits in the first two years of the 1950s were due not only to the exchange policies prevailing in most Latin American countries, but basically to the fear that the Korean conflict would interrupt supplies from abroad, which led to a considerable expansion of imports of durable goods and equipment.

A public form of financial intermediation of a developmental character began to emerge in several Latin American countries, as a result either of the formation of new agencies—the National Economic Development Bank (BNDE) and the Nordeste Bank in Brazil, the Industrial Bank in Argentina—or the activities of existing agencies—the Chilean Development Corporation (CORFO) and the Nacional Financiera in Mexico. These agencies fulfilled an important function subsequently, as the industrialization process became more intensive, as regards both the promotion and orientation of public and private investment, and the channelling of domestic and particularly external financing into new activities.

(c) *Intensive industrialization*

Only Brazil, followed by Mexico and later Argentina, moved during the second half of the 1950s into the stage of industrialization corresponding to import substitution in the heavier branches of industry such as transport equipment, metal-transforming and other basic inputs and equipment.

The need for financing expanded considerably as the rate of import-saving industrialization stepped up, while the sectors associated with exports with transferable surpluses ceased to be net providers of resources and some even became deficit units. The need for financing was greater because the productive process had become longer and “internalized”, and because the composition of activities had become more capital-intensive. With the introduction of a series of links between primary production and the production of final manufactures, which enlarged the economic scale of intermediate production, there was an automatic rise in the coefficient of direct or indirect financial requirements per unit of final product. “Internalizing” the production of inputs and capital goods involves an increase in the production costs of the consumer goods industries and an automatic loss of external suppliers’ credits, and this also swelled current financing needs based on domestic resources. Lastly, the emergence of new import-saving sectors meant that, even though the over-all rate of investment in industry did not rise in some countries, the fact that the composition of industry changed to include heavier branches involving larger scales of production and longer lead times made it necessary to tie up a large amount of financial resources.

Much of this investment was effected directly by foreign companies, but there was still an

increase in the pressure on domestic resources and in some cases a rise in the share of external resources in the total financing of these new sectors. In most of the branches producing consumer durables or producers’ goods, even though the capital was virtually entirely owned by foreigners, the inflow of resources in the form of direct investment or loans represented only slightly more than the amount needed to finance equipment imports. The resulting process of capital accumulation was attributable, at the investment stage, to the capacity to attract domestic resources from other sectors, particularly from the public sector, by means of exchange, fiscal or financial subsidies (both overt and covert). Once a plant entered into operation, the foreign enterprise, which was virtually always in a dominant position, if not the only enterprise in the sector, had a broad range of possibilities for self-financing. It obtained large profits from what was a virtually completely reserved market and could easily turn to the national banking system to finance its current operations. Thus, if a distinction is made between the *ownership* of resources (foreign) and the *formation* of resources (domestic market), it may be concluded that an initial injection of external capital generates a considerable demand for short-, medium- and long-term funds which is eventually satisfied by using the actual or potential surpluses generated by the other domestic sectors.

The public sector, by expanding its investment expenditure considerably and maintaining or increasing current transfers to consumers and to public enterprises with growing operating deficits, without the backing of fiscal savings, went chronically and openly into deficit and began to exert considerable pressure on the financial system for additional resources.

Although many countries made use of such instruments as earmarked taxes and compulsory rates and loans, and have linked them to capital expenditure, these were only a means of guaranteeing the implementation of public investment programmes. As Governments did not manage to raise current income at the same time as total spending, there were always large deficits that usually had to be financed with resources from the banking system.

Furthermore, perhaps for the first time on any scale since the period of inward-directed growth began, external credit became an important source of resources. Although the inflow of foreign credit or investment to Gov-

ernments created a demand for additional domestic financial resources, the actual savings potential and in particular the investment potential was expanded during this period, owing to the external inflow, chiefly in those countries that offered the best prospects for investment, i.e., a sufficient margin in the market for import substitution. The fact that this increase in potential apparently did not lead to a considerable rise in the actual savings-investment coefficient appears to have been due, above all, to domestic difficulties in the mobilization of resources.

Nevertheless, this increase in demand for public and private financing was not accompanied by sizable changes in the domestic financial structure. The capacity was lacking to tap and transfer voluntary savings in a volume and manner suited to the financing of industrial development and also to establish new fiscal and para-fiscal methods of tapping resources to replace the traditional methods and also those methods used to tap the surpluses generated by the export sector. Hence, most countries began to use inflationary expansion as a means of striking a balance between the pressures exerted by the private and the public sectors on the financial system. In some cases, and for periods which varied depending on the characteristics of each country, this became an effective means of forced saving that was an *a posteriori* confirmation of investment decisions in the sectors with the greatest prospects, but over the long term completely lost its effectiveness. It is no coincidence that Mexico and Venezuela stand out among the more dynamic economies because they did not have to resort to inflation. Under the control of the public sector, Mexico has managed to build up financial institutions that can tap the resources generated by most of the potential surplus spending units and allocate them to the deficit sectors with the best growth possibilities, including the decentralized public sector. During this period in Venezuela, the export sector maintained its favourable position and this enabled it to function as a standing source of surpluses that could be transferred by fiscal or para-fiscal means to other sectors that were modernizing.

The forced saving represented by inflation only had any degree of effectiveness for fairly short periods in rapidly expanding economies where there was no risk of strong pressure for redistributing income as inflation gradually eroded the resource tapping mechanism. As long as these conditions prevailed during the

period 1957-1961, Brazil offered perhaps the most striking example of this. Inflation was in effect an instrument for transferring resources among sectors since it absorbed the potential surpluses of all the economic agents and sectors whose capacity for reaction and expansion was not comparable to that of the more dynamic sectors. The transfer was effected by monetary means through sharp changes in the relative prices of the principal goods and services, to the detriment—naturally enough—of wages, interest, rent and other relatively inflexible forms of contractual income.

If inflation continues for a relatively longer period, all the economic and social agents begin to react more rapidly and as the inflationary spiral accelerates the capacity effectively to transfer resources is lost. Once the price system becomes highly intermeshed (any price rise in one sector being propagated virtually instantaneously to the rest), the trend of inflation is anticipated and extrapolated because prices are expected to rise, and thus it becomes useless as a financing mechanism. Inflation loses its functional usefulness once it becomes self-propagating and uncontrolled.

As a result of these circumstances, which arose in various countries, fairly radical stabilization policies were instituted that, while usually not eradicating inflation, at least brought it under control. Thus, it became absolutely essential to create or develop another type of financial organization that would be compatible with a degree of control of inflationary pressures and with the new needs arising out of the transition towards the new pattern of development that basically characterized the second half of the 1960s.

Among the relatively more developed countries in the region, Mexico's growth and policies are an exception to the trends and problems of other economies. Above all from the mid-1950s onwards, Mexico managed to achieve effective control over inflationary pressures, and was clearly determined to place its intermediation institutions and machinery in the service of developmental economic objectives.

(d) *Mexico, a typical case of financial development*

The financial structure in Mexico was developed some time before that of the other Latin American countries.¹⁴ Its most striking

¹⁴ The basic financial structure was set up in 1931-1936 and still prevails, with the Banco de México

feature from 1955 onwards is the key role of the public sector, both as regards direct participation by governmental financial intermediaries in over-all financing, and as regards specific action by the Bank of Mexico and Nacional Financiera in handling a policy designed to develop a market in long-term securities. The decisions of these two governmental bodies on types and rates of interest, coupled with the creation of specialized indirect financial assets and the control of private financial companies, appear to have played a key role in channelling investment towards and ensuring a good supply of funds for projects of rather doubtful private profitability over the short term, but of social value.

The funds available to the governmental financial intermediaries came from fiscal revenue, from the rest of the world and from sales of bonds to the private sector. Given the volume of resources obtained from the public sector itself and from abroad, the public financial intermediaries began to diversify their indirect financial assets and to manipulate the rate of interest charged in order to attract towards themselves the maximum of public demand. As a means of bridging the gap between the quantity of funds allocated by the public financial agencies and the types and rates of interest on the open market, they controlled the private financial enterprises by subjecting flows of funds within the financial system to strict qualitative and quantitative regulations. In this way, it was not only the preferences of entrepreneurs or individuals for specific types of indirect asset that determined the quantity of funds allocated by the financial institutions; considerable weight was exerted by the measures imposed as result of government financial policy aimed at channelling funds towards the sectors considered to be of priority importance.

The quantitative importance of public financial intermediation can be gauged by the

acting very effectively as the central bank and maintaining control of private credit institutions and Mexico's international finances while being at the same time the main source of financing for the public deficit. The Nacional Financiera was also created about the same time, and its methods of operation were gradually improved right up to the second half of the 1950s.

For a more detailed account of financial trends in Mexico see Robert L. Bennett, *The financial sector and economic development: The Mexican case* (Johns Hopkins Press, 1965); Raymond W. Goldsmith, *The financial development of Mexico* (OECD); and particularly Dwight S. Brothers and Leopoldo Solís M., *Evolución financiera de México* (Centre for Latin American Monetary Studies, Mexico City, 1967).

fact that 30 per cent of all new financing for the private sector between 1945 and 1953 came from Government sources.¹⁵ This did not mean, however, that external financing sources accounted for a large proportion of investment in enterprises, since during the period 1940-1960 between 70 and 90 per cent of gross private investment was financed out of own resources.¹⁶

Another striking feature is that monetary expansion in favour of the public sector, which in several countries automatically led to a secondary expansion in favour of the private sector, was offset in Mexico by requiring 100 per cent reserves on all increases in deposits in the financial system in general.¹⁷ Monetary and financial controls, which were stepped up following the 1954 devaluation, prevented first the commercial banking system and later the other financial institutions from operating as propagating agents for the pressure on liquidity exerted by the public sector. Moreover, selective controls on credit forced private financial institutions to finance economic development by obliging them to purchase specified bond issues and to grant development credit to priority activities.

The public bonds that were a compulsory component of the portfolios of the private financial institutions accounted for a growing proportion of their net marginal deposits and, furthermore, yielded a much lower return than the current rate of interest. As a result, the Government turned in the first instance to these institutions, and this made it possible for it to implement public financing policy and at the same time a heterodox policy of monetary stabilization.

The way in which the financial institutions operated was certainly an important factor in preventing inflationary pressures (of the kind common to an intensive process of urbanization with marked changes in the composition of demand and the productive structure) from creating financial mechanisms that would propagate inflation. Mexico was thus able to curb a chain reaction in pressure for financing from the private and the public sectors by practising a selective credit policy that brought growth

¹⁵ See Robert L. Bennett, *The financial sector and economic development: The Mexican case*, op. cit. The figure for new financing does not include short-term credit from the traditional financial system, depreciation reserves, retained profits, and direct investment of accumulated savings.

¹⁶ See *Evolución financiera de México*, op. cit.

¹⁷ ECLA, *Economic Survey of Latin America*, 1969 (United Nations publication, Sales No.: E.71.II.G.1).

requirements of the priority sectors into line with the need to maintain a high level of stability in the financial system.

At the same time, the financial authorities encouraged and controlled the expansion of non-monetary financial intermediation by stimulating the diversification of private financial assets. With this aim in view, the Banco de México backed the quotations for a wide range of fixed-interest securities and guaranteed virtually all credit supplied by the financial institutions. In order to provide bond-holders with a hedge against inflation, it also authorized private and public financial bodies to receive deposits in foreign exchange. Although this measure did mean a loss to official foreign exchange reserves, for the country as a whole it does not appear to have led to a substantial loss in over-all exchange reserves, since the foreign currency inflows to deposit accounts were not used on any very large scale for purchasing drafts on financial institutions abroad. In other words, given the relative financial stability that prevailed after 1956, coupled with the confidence existing in domestic securities, the control exercised over virtually the entire market by the Banco de México and competition from public intermediation, there were no transfers of funds on any large scale to foreign financial markets.

Private non-monetary financial intermediation (outside the banking system) developed very rapidly during the post-war period and picked up pace after 1955 as a result of the measures described above. The share of the Banco de México in all fixed-income securities in circulation fell from 51.5 per cent in 1942 to 10.6 per cent in 1960, while that of the private institutions rose from 5.3 to 28.3 per cent over the same period.

Between 1956 and 1960 the assets of the private non-monetary institutions increased very rapidly, eventually accounting for one-third of the total increase in the assets of the financial system. The most important type of non-monetary private credit institution was the *financiera*, whose share in the total resources of this financial subsector rose from 4.5 per cent in 1940 to 37.9 per cent in 1950, 37.6 in 1955 and 60 in 1960. More than 70 per cent of the growth in the total resources of all financial institutions during this period was accounted for by the *financieras*.¹⁸

The resources of the *financieras* were used mainly for loans and credit to private enter-

¹⁸ See *Evolución financiera de México*, op. cit.

prises and other financial institutions and also, owing to the fact that selective credit controls were made applicable to them from 1958 onwards, they were forced to increase credit to the Government considerably.

The operation of this framework of institutions enabled the Mexican economy to develop with a reasonable level of liquidity and with a regular supply of domestic medium- and long-term domestic financial resources consonant with the needs to diversify the structure of production, and this at a time (1956-1961) when several Latin American countries were already experiencing growing difficulties in their domestic financing, both private and public.

There are no signs that these financial trends in Mexico have had the effect of raising the gross domestic savings rate of the economy as a whole which, until recently, was not amongst the highest in Latin America.¹⁹ Moreover, over the period 1956-1960, as in virtually all the Latin American countries, what did increase was the share of external savings, owing to the increasing deficit in the balance of payments. Nevertheless, public financial operations appear to be responsible both for the relative stability of the Mexican economy and for the fact that it was possible to maintain the rate of investment without increasing the direct participation of the Government in capital formation, which remained around 40 per cent between 1940 and 1960 (including the investment costs of public enterprises whose relative share increased).²⁰

One decisive factor that enabled the Government to retain its freedom of manoeuvre in channelling and financing investment in priority areas without any great increase in its direct share or in the fiscal burden was the creation of Nacional Financiera and of certain public non-monetary financial agencies. Nacional Financiera is Mexico's largest financial institution after the Banco de México. It operates principally as a development bank and is the largest supplier of funds for financing industrial investment, and also a major issuer of securities. The terms on which it offers its securities to the public tend to determine the structure

¹⁹ During the period 1950-1960 it ranged between 13 and 14 per cent of the gross national product. See *Evolución financiera de México*, op. cit.

²⁰ See Raymond W. Goldsmith, *The financial development of Mexico*, op. cit. The proportion of 40 per cent is valid for the old estimates of national accounts; in the new estimates it is probably much lower, close to 30 per cent.

of interest rates and repayment periods for the market as a whole. Moreover, it acts as a fiscal agent for the Federal Government in the sale of government bonds and as a government agent in the management and administration of external loans. Although no cash flow statements show Nacional Financiera's share in the total resources of the financial institutions, it is estimated that during the 1950s its resources represented between 30 and 40 per cent of the combined resources of all national non-monetary credit institutions, excluding the Banco de México. Owing to Nacional Financiera's sound financial reputation, the Government has been able to sell bonds in the foreign as well as the domestic market.

Nacional Financiera's funds were used mainly to finance expenditure on the infrastructure (thus preventing an increase in the tax burden) and other investment in industry and manufacturing, in both public and private sectors. A relatively small and shrinking proportion of its funds has been made available to a number of commercial and services enterprises, and to other financial institutions and government units.

The Mexican experience is, in broad outline, totally unlike that of the other Latin American countries. In the first place, no other country has developed a form of public financial inter-

mediation designed to supply long-term resources that is on the same scale and as long-standing as in Mexico. Secondly, although some State banks and development agencies have played an important role in supplying long-term funds and channelling them towards investment in priority areas in the public and private sectors (such as the Brazilian National Economic Development Bank—BNDE—and the Chilean Development Corporation—CORFO), none of them, unlike the Nacional Financiera, has offered indirect securities in the financial market, or controlled loan applications from private financial agencies, let alone regulated, in conjunction with the Central Bank, intra-sectoral flows within the same financial system. No other Latin American country has set up a public institutional apparatus to organize and develop a long-term securities market under its control that is even capable of transferring resources from private to public financial intermediation if the Government has priority projects that lack financial backing.²¹

²¹ The contribution of private financial agencies to the financing of the public deficit was not very large before 1955; during the period 1956-1960, however, it represented close to 50 per cent of the increase in the financial system's total holdings chargeable to the government sector, equal to close to 51 per cent of the increase in its assets over the period. See *Evolución financiera de México*, op. cit.

IV. RECENT TRENDS

1. *Problems raised by the new stage of development in Latin America*

By the beginning of the 1960s, several Latin American countries had achieved a certain degree of industrial development at varying levels of diversification as regards the internal structure of the manufacturing sector. At the same time, virtually all the dynamic growth possibilities afforded by import substitution based on reserved markets or limited market expansion had been exhausted.

The limitations of the domestic market became obvious when the process of expansion ceased to be stimulated by demand from the various sectors for complementarity and diversification that are a natural concomitant of rapid change in the productive apparatus. A sign of this phenomenon was the downward trend of the growth rate in several Latin American countries towards the middle of the

1960s, and it can be attributed to a number of closely related problems.

First, problems relating to the base of the domestic market, aggravated by the low income, in absolute terms, of most of the population and by the exaggerated concentration of income in a small group, constituted restrictions on growth derived from the structure and scope of demand.

Secondly, problems relating to the structure of supply, which reflected the lack of an integrated set of new projects that could sustain and energize intersectoral links and increase income and employment, were determined by a set of circumstances, including the difficulty of financing government projects and the lack of interest on the part of foreign investors in promoting import substitution through more complex projects of doubtful profitability.

Thirdly, there were sometimes drastic limitations on import capacity, because of the sluggishness of traditional exports and the difficulty of placing more diversified exports on the international market. Lastly, there were a number of very concrete difficulties, such as the stabilization crisis in Brazil or the progressive decline in liquidity in Argentina as a result of a restrictive monetary policy.

As was mentioned earlier, this was the time when it was found that the mechanisms used to expand the domestic market were inadequate and that maintaining the level of modern industrial activity no longer depended on new changes in the structure of production. Of greater and perhaps decisive importance was the need to expand and diversify demand. In other words, the key issue was to find medium-term financing for the sale of goods that could be produced with the existing installed capacity.

Thus, the enterprises in the major dynamic sectors which had hitherto confined themselves to using bank credit to finance their current expenditure and to employing retained profits to finance expansion, began to be faced by a number of problems that hampered their capital formation activities.

First, the level of profitability expected from the new investments was held down by the general restraint on expansion and there arose a high proportion of idle capacity in several sectors.

In consequence, it became necessary to make better use of the possibilities of a market characterized by the concentration of income in the high-income groups, and where the middle-income strata in urban areas were particularly vulnerable to the demonstration effect of the conspicuous consumption of the high-income groups. This made it necessary increasingly to finance sales of all kinds of consumption goods beginning with durables. The need to make more credit available to urban consumers and to extend repayment periods, however, came up against the inflexibility of the financial apparatus, and its basic nucleus, the traditional banking system, which was unable to make credit available on easier terms because of the increasing control by the monetary authorities over the secondary expansion of the money supply, as a means of holding down inflation.

This situation led to the formation of an embryo financial market outside the banking system, side by side with or superimposed

upon the traditional market and composed of a number of new financial institutions whose function was to supply enterprises with additional resources to finance sales or to enable consumers to broaden the margin between their disposable current income and their capacity to spend.

The initial capital to start a process of capital formation which would provide the basis for expanding consumer credit (an essential condition for the recovery of economic activity and for the utilization of idle capacity) came from the following sources:

First, and in most cases, from the traditional banking system, which tended to create subsidiary financial enterprises as a means of putting its profits to better use and expanding its total credit capacity, generally independently from the growth in the money supply permitted by the monetary authorities.

Secondly, inflows of short-term foreign capital attracted by the high profits likely to accrue from the rapid growth of a new financial sector and, in the case of countries with a high rate of inflation, by the prospects for currency speculation offered by successive devaluations.

Lastly, surpluses generated by certain enterprises in the sectors of production directly concerned with increasing sales, such as the consumer durables industries, which in many cases created their own sales subsidiaries or consumer financing agencies.

Once the process has been started, expansion is assured by the possibilities of accumulating resources within the financial institutions themselves, and soon growth becomes self-sustained, provided that the issue of direct debts to families or enterprises is proportionately less than the inflow of indirect credit to the financial institutions. Generally speaking, issues of securities by the latter are guaranteed because they offer suppliers of resources a higher interest rate than other operations on the financial market. In countries that suffer from severe inflation, such as Chile and Brazil, "monetary correction" measures were introduced in order to revalue income on fixed-income securities and to prevent a reduction in the real value of financial assets.

Problems of financing in the public sector became much more complex and urgent in the 1960s than in previous decades. Governments were obliged to keep their share in the total expenditure of the economy at a high and sometimes growing level on account of com-

mitments to development programmes involving various kinds of investment in the basic sectors of economic and social infrastructure, and they no longer had an easy arbitrary right to obtain resources through inflationary measures.

Moreover, there were few possibilities of holding down consumer expenditure. What was generally done in the short term was to adopt emergency measures for freezing or reducing wages and salaries, and in the long term, to trust in the effectiveness of administrative reorganization, without going to the extent of laying off large numbers of workers who could not be absorbed in the labour market. Nor was it feasible to reduce investment expenditure, without serious repercussions on economic activity in general, and the sectors producing inputs and equipment in particular, since they were increasingly dependent on public demand.

In the circumstances, the public sector was obliged to increase the tax burden, to use new mechanisms to obtain domestic public credit by competing on the private financial market, or in many cases, to increase the external debt. Combinations of these three means of action depended to a large extent on the conditions in each country.

Although the public sector's propensity to invest is greater than that of the private sector during the period when there is a downward growth trend and a transition to a new pattern of development, it is very difficult to obtain all the surplus from high-income families or from enterprises with scant opportunities for productive investment, when it is the same "ex-ante" saving potential that is used to finance production and sales by the major modern industries, which often have a considerable amount of idle capacity.

For this reason, in the 1960s, economic policy on public sector financing, in the countries of South America at least, was directed along two sometimes contradictory lines: control of inflation and the renewal of growth, which made it necessary to use fiscal and monetary instruments more cautiously and in a more sophisticated fashion than in the previous decade.

In order to find new sources of funds and be able to increase expenditure without at the same time increasing inflationary pressure, some Latin American governments had to carry out more or less far-reaching fiscal reforms (Brazil and Chile), or considerably to increase the tax burden using the same tax

structure. In both cases, the greater tax burden affected consumers and not entrepreneurs, who were protected by various tax exemptions or subsidies.

In the field of financial policy, public institutions were generally given new instruments to attract funds (readjustable bonds and debentures, special funds), and in nearly all the countries the external debt was increased sharply.

The more rapid growth of exports, including traditional exports, allowed certain economies to improve their tax situation which continued to derive support from foreign trade income.

Government action aimed at bringing about a recovery in the growth rate of both Government and private activities and at maintaining a manageable level of inflation did not always produce successful results. In some countries, such as Chile, expansion was achieved through public spending, but it was not possible for the private sector to recover its dynamism or for inflation to be kept at a stable rate.

In other countries, such as Brazil and Argentina, inflation was controlled, Government participation in economic activity was increased and the most dynamic branches of private industry (using more complex technology) recovered their dynamism.

This latter trend was determined both by the effect of demand derived from autonomous government investment in the main capital goods and production sectors, and by the new interest of foreign investors in the modernization and expansion of certain industries connected with the import substitution process (petrochemicals and other inputs of capital goods), the diversification of consumption in the middle- and high-income strata (and new services) and with exports of non-traditional products, particularly in areas of Latin America that are carrying out market integration.

In brief, towards the middle of the decade, there began in many Latin American countries a more or less sharp transition to a new stage and a new pattern of development, based on the increased consumption of the middle-income strata and the growing importance of the State not only in setting the trend and in promoting a whole range of private activities, but also as an independent investor.

New forms of public and private financing through international financial organizations were essential to this process of transition, since they permitted the expansion of the

market for consumer durables and allowed for a greater degree of complementarity between internal and external funds, independently of the problem of financing the balance of payments.

Thus, for instance, for the first time in the post-war period, the sharp increase in the short-term external debt of the more developed countries in the region was unrelated to problems connected with import capacity. Indeed, in the last few years of the decade, Mexico, Brazil, Chile and Argentina, among others, achieved a net inflow of capital that could be used to bolster up reserves and not just to finance the balance-of-payments deficit. In other words, short-term capital flows were "financial" and were aimed at establishing new forms of domestic credit to replace or complement traditional bank financing.²² Thus, non-monetary financial institutions outside the banking system and connected with international financial corporations grew in importance, while the position of the traditional commercial banks and, in some cases, of "developmental" public intermediaries, declined. In cases where the latter maintained or improved their position, this was due mainly to the fact of their receiving deposits of fresh funds from abroad, particularly for special projects financed by the IDB or the World Bank.

2. Trends in financial intermediation

Before examining some of the trends of financial intermediation in Latin America and looking at its most characteristic features in various countries it may be useful to indicate the criteria used.

The first point is that the development of financial intermediation has been affected by factors relating to inflationary pressures, stabilization policies and, more specifically, the monetary policies instituted in recent years in various Latin American countries. Hence, it may be that the trends that can be taken as normal in the financial sector as per capita income rises—for example, an increase in liquidity and a gradual decline in the importance of the traditional intermediaries—will change as a result of concern with inflation and

²² In some countries the Central Bank issued special instructions to facilitate the inflow of speculative investment not allocated to specific projects or controlled by specific repayment clauses (deadlines, rates, etc.): in Brazil, Central Bank instruction No. 289 and circular No. 63; in Chile, article 14 of Decree No. 1272.

the possible effect of an over-all expansion of the money supply.

Secondly, the institutional range of financial intermediation must be taken into account, which has been affected by three basic factors:

(a) Modernization of the traditional financial apparatus, chiefly the banking system, in two respects: first, the use of new installations and equipment (incorporating modern banking techniques); and secondly, an effort to find more specialized ways of tapping and allocating resources that will enable the system to extend its coverage to more sectors and persons;

(b) Creation of new public and private institutions with different machinery for tapping resources and different functions as regards the use of funds;

(c) Improved integration of the new institutions or readaptation of traditional institutions to bring them into line with changes in the international financial system, as regards the activities of new international private groups and of inter-governmental and other financing groups, such as IBRD, IDB and USAID. Some of these institutions were even specifically set up to tap certain external resources directly.

Wherever this process has occurred, successive changes have had to be made in the legal and institutional framework of the financial sector, both to provide greater flexibility for private operations and to pave the way for government financial policy of a kind that would make the intermediaries more suited to the new growth needs of the key sectors. In some cases, more cohesion has been given to the internal structure of the system as a result of greater control by the financial authorities; in others, a traditional line of monetary policy has virtually confined public operations to the banking system or to State development agencies and given free rein to the proliferation of agencies outside the banking system which do not operate in a co-ordinated fashion and which compete for the same total stock of resources.

Thirdly, the development of financial intermediation in Latin America has a basically functional side with respect to the tapping and the allocation of resources. A number of major factors are involved:

(a) As to attracting resources, several mechanisms have been introduced to tap domestic savings, relying in varying degrees on a number of incentives (degree of liquidity, profitability, readjustability, coverage, tied

saving, etc.),²³ which have led to a substantial increase in the income of the intermediaries and provided them with a broader scope for distributing resources among the financial agencies and among the various functions.

In this connexion, it should be noted that voluntary saving has remained the principal mechanism, and that forced saving has not become widespread; if it had, it would have completely changed the structure of the relations between savers and intermediaries. Only in a few countries have compulsory deductions from wages been instituted as a means of financing the construction of housing.

Furthermore, external resources are being attracted on an increasing scale and form an important part of the flow of resources to the financial intermediaries.

(b) With respect to the allocation of resources, the dominant trend is for resources to be channelled towards four major areas. First, a substantial part of the new funds obtained has been devoted to increasing consumption of durable goods. Secondly, there has been appreciable growth in the use of resources to finance housing construction. The allocation of resources for these two purposes is of relatively recent date in Latin America, for in a number of countries it began in the late 1950s or early 1960s.

Thirdly, the resources of the intermediaries have continued to flow towards more traditional areas, and the criteria governing loans have mainly been of private profit and the guarantees offered by prospective borrowers.

Lastly, a proportion of resources, which differs appreciably from one Latin American country to another, has gone to finance real capital formation in priority growth sectors, and more flexible and "developmental" criteria have been used in evaluating the corresponding investment.

3. Main institutional and functional aspects of financial intermediation in Latin America

In line with the criteria suggested above, this subject will be discussed under two broad institutional heads, while a third and supplementary subsection will deal with the "foreign infiltration" that has occurred in various parts of the financial system. Thus a distinction will be drawn between public and private financial

intermediation, and the functional aspects of each will be considered.

(a) Public financial intermediation

(i) *Modernization of traditional machinery.* The first point to note is that the *central banks* or equivalent monetary authorities have modified their regulatory activities, on the one hand, by using new instruments for attracting resources, and, on the other, by strengthening their general operational capacity. Where the former procedure is concerned, the monetary authorities in several countries (in particular, Brazil, Chile and Colombia, together with Argentina and Mexico, which adopted the practice some time ago) collect funds through the sale of securities. What is more, in Brazil and Chile, because of the inflation affecting both these economies, the securities issued are readjustable in accordance with the rise in the cost of living. That is, the institutions issuing them have specialized in tapping "untied" domestic savings, i.e., those funds that the surplus spending units place at the disposal of the intermediaries with financial gain motives and not with the aim of subsequently obtaining resources from intermediaries to cover expenditure for specific purposes.

There has also been a widespread tendency to strengthen the operational capacity of central banks, through administrative and legal changes in their financial systems, and by making greater and more careful use of the means at their disposal.

Although the Latin American monetary authorities guide and control the intermediation process in its over-all aspects, they have exerted much less influence on the sectoral distribution of resources, despite the efforts made in this direction. The case of Mexico is an exception to the general rule, as has been shown.

Secondly, *State banks* run as commercial banks have not been modernized to any great extent, especially as regards their *modus operandi* for the tapping and allocation of resources. Although some progress has been achieved in respect of the methods used to obtain funds, as in the case of the Banco del Estado de Chile with its readjustable savings accounts, in general the role played by such institutions has undergone no radical change, and their operation has resembled, in broad outline, that of the commercial banks.

Thirdly, *official development agencies or corporations* have likewise shown little sign of

²³ See ECLA, "Mobilization of domestic resources", *Economic Bulletin for Latin America*, vol. XV, No. 2 (second half of 1970), chapter III.

moving with the times, especially inasmuch as they do not have their own sources of financing, and their expansion and the extent of their sectoral operations are therefore conditioned by the inflow of official external loans—mainly those granted by international agencies—and the funds obtainable from the Governments concerned, whose action has generally been cramped by budgetary stringency.

In several of the countries analysed (Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Peru and Uruguay), official external resources intended for specific purposes (in industry and agriculture, and the energy and other sectors) are no longer transmitted through public development institutions but directly to specialized public and private agencies and even to the investor enterprises themselves. This trend is particularly marked in the case of the International Bank for Reconstruction and Development and the Agency for International Development; only the Inter-American Development Bank has continued to channel its credits through the official development organizations.²⁴

Similarly, short-term foreign capital has found its way primarily into the new private financial associations, and the public development agencies have been disregarded.

Owing, therefore, to the limits set to their supply of funds, the traditional development agencies seem to be playing a less important part in the promotion of Latin America's economic growth, despite the improvements in their internal organization and in the loan methods applied. Once again Mexico presents a different picture, as was mentioned above.

The fourth group comprises *specialized official banks or agencies*. It should first be pointed out that they are not very common in Latin America (especially in terms of one for each sector, for instance, industry, agriculture and housing). Of the countries studied, Brazil, Colombia and Peru are among those that have developed these specialized agencies to the greatest extent.

Generally speaking, the modernization of these intermediaries has been linked to the countries' increasing practice of negotiating loans from international agencies, since there has been no additional tapping of domestic resources through the use of new instruments. Similarly, funds for investment purposes have continued to be allocated according to largely

traditional patterns, and guiding principles stemming from the external loans themselves.

Lastly, the traditional public intermediaries include *social security institutions*. In almost all the Latin American countries studied, with the probable exception of Peru, a concomitant of the failure to modernize these agencies has been a steady decline in the savings generated by the social security system. Thus the tendency for social security systems to act as instruments of distribution rather than of capital formation has become more marked. In view of this decrease in the formation of social security savings, it is not surprising that little has been done to improve the administration of the systems in question or to introduce new methods of tapping and allocating resources.

(ii) *Establishment of new agencies*. Hence the first observation to be made is that during the 1960s new and specialized official development agencies were established, where they did not already exist, partly because of the lack of modernization and of diversification characterizing the traditional development agencies and partly because of the specialized nature of the external loans obtained from some international credit institutions. These agencies have accordingly acquired increasing importance in the negotiation of official external loans and in the financing of investment in specific sectors.

A second instance of new public intermediaries is afforded by the central and controlling agencies of savings and loan associations with housing as their object. Examples of such agencies, which act as veritable "central banks" of the financial subsystem for housing, are the Banco Nacional de Habitación in Brazil, the Caja Central de Ahorros y Préstamos in Chile, and the Banco Central Hipotecario in Peru. Besides guiding and monitoring (i.e., supervising and controlling) the operations of savings and loan associations, their functions include channelling public funds and obtaining external and internal savings in order to provide support for the housing subsystem and give it liquidity. For the purpose of tapping "untied" savings, these institutions have mainly resorted to the sale of securities which they themselves issue, while their principal source of external funds has been the Inter-American Development Bank.

(b) *Private financial intermediation*

(i) *Modernization of traditional machinery*. The traditional group of private financial in-

²⁴ See, below, a more detailed analysis of this question.

stitutions comprises most of the banks and the insurance companies. On the other hand, the new private intermediaries sector would seem to be made up of the investment banks and almost all the private agencies other than commercial banks: savings and loan institutions, mutual funds and financial associations.

Among the traditional private intermediaries, the modernization process has consisted primarily in improving the operational efficiency of the institutions concerned, through the purchase of new equipment and the introduction of more up-to-date organization and methods systems. In several countries it has been linked—especially in the case of the commercial banks—to the increasing participation of foreign (particularly United States) banks which have been set up in various parts of Latin America where new branches have been opened or national banks bought up.²⁵

In most of the countries considered, little has been done to introduce new techniques for tapping and allocating resources in the *deposit and savings banks*. Practically no new methods of absorbing domestic funds have been adopted, and there have been few changes in time deposit systems, except in Brazil, where a monetary readjustment clause has been included in their regulations.

On the other hand, the commercial banks have played an important part in obtaining and channelling a substantial proportion of the private foreign loans negotiated by the region.

The granting of loans has continued to follow traditional patterns, although some countries have begun to apply such procedures as higher percentages of cash reserves in relation to increases in deposits—with provision for allowing the monetary authority to release these reserves for specific purposes—and credit lines in accordance with cash budgets agreed upon by the enterprises and the commercial banks. In addition, the commercial banks may have kept up or increased their indirect financing of the expansion of consumption of durable goods, through the general credits granted to producers of consumer durables.

It should be noted that the low degree of modernization of deposit and savings banks in the private sector is often due to the more or less restrictive monetary policies which are applied in many Latin American countries as

²⁵ See Miguel S. Wionczek, *La banca extranjera en América Latina*, a document presented at the ninth session of a group of technical experts from Latin American central banks (Lima, Peru, November 1969).

part of a broader anti-inflation strategy, and which especially affect the expansion possibilities of these financial intermediaries. In effect, the area which best lends itself to manipulation by monetary policy is constituted by the aggregate sums that the private banks absorb and lend.

The *mortgage banks* have not been modernized either to any significant extent, and, in practice, the movement of resources through the sale and purchase of mortgages has lost importance in Latin America, except for the operations of these banks in financing of house-building.

Lastly, among the traditional private-sector intermediaries are the *insurance companies*. As a general rule, they have not been modernized, and at the same time their contribution to the intermediation system has become much less significant than it used to be. In Latin America, in contrast to what has taken place in some of the industrialized countries, particularly the United States, the endowment policy type of insurance, which is tantamount to a form of tied savings, has gained little impetus.

(ii) *Establishment of new agencies*. While the public sector has been characterized by the modernization of the existing machinery for financial mediation, the opposite has been true of the private sector, especially in the area outside the banking system, where the establishment of new agencies has usually been preferred.

In banking, the outstanding development has been the establishment of *investment banks*, although this solution is not widespread and appears only in Brazil, Colombia and Mexico, of the countries under review.

Investment banks have taken over functions which in a sense complement those of the public development agencies; in other words, their task is to channel resources into enterprises to finance the expansion of production capacity and, although on a lesser scale, to meet requirements in terms of more working capital.

These banks have some salient characteristics which are to be found in the various banks established in Latin America. First, they have shown versatility in tapping funds, using various procedures which range from selling securities and receiving deposits, in the domestic market, to extending loans, mainly short-term private loans with a high rate of return, in the external market. Secondly, the establishment and expansion of these agencies have been directly

related to foreign financial agencies or groups, including the International Finance Corporation (IFC), the ADELA Investment Company, the United States conglomerate, DELTEC, and the Hanneman group in Europe. Thirdly, the investment banks have generally been associated or have acted in co-ordination with important national financial groups which are offshoots of the commercial banking system itself—especially where the commercial banks have been prevented by the monetary authorities from expanding very much—with fairly large private enterprises or groups of enterprises, and with other intermediaries outside the banking system, particularly mutual funds and some financial associations. Fourthly, they have used their funds flexibly and for many different purposes, i.e., on the one hand, they have rapidly mobilized resources by lending to some enterprises and investing in others and, on the other hand, they have not confined themselves to financing one type of productive activity but have spread their operations over such widely different fields as petrochemicals, livestock breeding, construction and supermarkets.

An important factor in the role played by investment banks is the high proportion of their resources that has been channelled into priority sectors. This is due both to the slant given to their operation by the banks themselves and to the degree of control exercised by some government agency. As mentioned previously, Mexico's Nacional Financiera is the most representative example of centralized management in this field.

Among the intermediaries outside the banking sector, the most important group of new agencies is the *savings and loan associations* for housing purposes. These have developed considerably in some countries, particularly Brazil and Chile, and to a lesser extent Peru. They are a typical example of saving tied to a powerful motive, such as home ownership, which involves a complete transformation of the system of intermediation. In other countries, such as Colombia and Mexico, on the other hand, the amount of resources mobilized in this way has been small, while in others these associations have got off to a very slow start.

Savings schemes linked to specific goals also include *financial associations* whose function is to finance the consumption of durable goods, particularly motor vehicles. These financial associations have usually been supported by

the enterprises which produce the articles concerned, and which are wholly or partly owned by parent companies abroad.

In some countries, including Argentina, Brazil and Uruguay, financial associations have also come to participate in the regular financing of enterprises, which has given rise to a parallel credit market operating side by side with the commercial banks.

There is very little quantitative data available on private financial associations in Latin America, so it is not easy to gauge how much they have developed with any degree of accuracy. They are, however, becoming more and more important in most of the Latin American countries examined, where the growth pattern of demand and the effect of the urban high- and middle-income groups on its structure, and any restrictions there may have been on banking operations have encouraged their expansion. The application of restrictive monetary policies and the legal ban on paying more realistic interest rates on savings have favoured the expansion of operations outside the banking system, which were not subject to control or could generally evade it. Furthermore, in order to continue expanding, the financial associations have adopted the procedure of selling documents representing money owed to them (their own securities) and investing the profits, contracting short-term external loans, and obtaining loans from the commercial banks also.

Only a small proportion of the resources handled by financial associations seem to have been used for expanding production capacity in priority sectors, for two main reasons: first, allocations are determined by the consumption to finance which the associations were established and, secondly, the central government has hardly any control over their policy or their operations.

Mutual funds constitute another group of private intermediaries outside the banking system that have been recently established in Latin America. They have become quite important in countries such as Brazil, Colombia and Mexico. Their development has been largely determined by the growth of investment banks and the operation and rapid expansion of the security markets. The participation of some foreign groups has been a decisive factor in the establishment and operation of these funds, and has strengthened and extended the influence they exercise through the investment banks.

As to whether or not they perform a useful function, it can be said that mutual funds have become of some importance in tapping domestic resources and securing short-term external loans, and in allocating the funds thus obtained for the purchase of existing assets.

(c) *Foreign infiltration in the financial system*

Increasing foreign influence in financial intermediation calls for a study in greater depth.

In the first place, foreign infiltration has obviously been taking place in the private rather than the public intermediaries. Nevertheless, as pointed out above, the foreign influx has played an important part in the establishment and strengthening of specialized public agencies in several countries, while the traditional development institutions have had less importance. Moreover, in some countries, the trend towards decentralization of the public agencies in contracting external loans and allocating the resulting funds has been accentuated, since these funds have been channelled not only directly to public or private enterprises, but also to private financial intermediaries. It may be inferred, therefore, that the first fact to be stressed in connexion with the infiltration of the system is that it has been due, in some degree, to the way in which the relationship between public intermediaries and foreign lenders has been developing.

In the case of private intermediaries, the procedure has followed different patterns, and has more resembled a take-over. In some cases, foreign institutions have acquired a majority share of the capital stock of existing national agencies, which has gained them control of the intermediary concerned. This has happened mainly in the case of some of the commercial banks in several Latin American countries.

In other cases—also in connexion with commercial banks—the parent firm has acted directly and set up subsidiaries. This has been the procedure followed by the principal United States banks in many capitals and other important cities of Latin America. But the take-over has been particularly marked among the non-traditional intermediaries, especially through the establishment of new investment banks and mutual funds. To that end, representatives of foreign firms have often operated in co-ordination with national groups of private investors and have taken up a minority or a majority share, as the case may be, of the new intermediaries' capital stock.

The influence of foreign groups on private financial intermediation in Latin America cannot, however, be measured only in terms of their share of the intermediaries' capital. Through a minority share they can sometimes be very influential in the management of these agencies, and even in policy-making and decisions on key appointments.

The new "foreign" agencies grant loans and make fresh capital investments, using their own resources and also acting as intermediaries for foreign—and sometimes national—investors, who generally delegate their powers to them. They also seem to have been making more and more use of domestic resources for their own purposes. The impact of these agencies, particularly investment banks and mutual funds, has therefore snowballed.

Through this procedure, "foreign" intermediaries have come to control or influence the decisions of a great many enterprises in the region, particularly in the manufacturing sector. In other words, the foreign take-over of financial intermediaries has spread to the production area, and is a process which has acquired considerable importance in several Latin American countries.

4. *Particular aspects of the evolution of the structure of financing in selected countries*²⁶

(a) *General features*

As has been shown in *Mexico*, which was able to pass without great difficulty from a stage of easy import substitution to a stage of diversification and expansion of consumption and production, public financing institutions played a decisive role in the financing and reconciliation of public and private objectives in the 1950s. In the period 1960-1968, the combined share of the Banco de México and other national development institutions in the country's total financial assets fell from 55 to 46 per cent, despite the continued increase in their credits (see table 3). Most of the drop was accounted for by the Banco de México itself (from 22 to 16 per cent).

In the meantime, private financial associations, which had developed rapidly in the second half of the 1950s, continued to expand, and increased their share in the total financial assets from 15 to 24.5 per cent, while the share of private deposit banks declined to 18 per cent in 1968.

²⁶ The evolution of Colombia, Chile, Ecuador and Peru is examined below in some detail.

Table 3
MEXICO: TOTAL ASSETS, CREDITS AND DEPOSITS
(Millions of pesos)

	Total	Assets										
		National institutions			Private institutions							
		Bank of Mexico	Other ^a	Subtotal	Deposit banks	Savings banks	Savings and loan associations for family housing	Financial	Mortgage	Capital formation	Trust funds	Subtotal
1960	59,467	13,205	19,545	32,750	13,351	2,903	116	9,058	471	627	191	26,717
1968	188,017	29,845	56,896	86,741	33,010	9,740	115	45,870	11,074	955	512	101,276
<i>Percentage of total</i>												
1960	100.0	22.2	32.9	55.1	22.5	4.9	0.2	15.2	0.8	1.1	0.3	44.9
1968	100.0	15.9	30.2	46.1	17.6	5.2	0.1	24.4	5.9	0.5	0.3	53.9
<i>Credit</i>												
1960	33,024	3,465	14,783	18,248	7,929	(Savings and deposits)	109	6,312	96	325	5	14,776
1968	101,673	3,193	43,184	46,377	16,612	4,125	101	25,767	8,176	503	12	55,296
<i>Percentage of total</i>												
1960	100.0	10.5	44.8	55.3	24.0	(Savings and deposits)	0.3	19.1	0.3	1.0	—	44.7
1968	100.0	3.1	42.5	45.6	16.3	4.1	0.1	25.3	8.0	0.5	—	54.4
<i>NC and FC Deposits</i>												
1960 ^b		2,470	811	3,281	11,304	(Savings and deposits)	89	22	—	—	—	11,415
1960 ^c		522	14	536	2,018	(Savings and deposits)	—	2	—	—	—	2,020
1968 ^b	17,252	2,992	825	3,817	13,322		89	24	—	—	—	13,435
1968 ^b		7,251	1,239	8,490	25,581	7,798	69	264	—	—	—	33,712
1968 ^c		568	15	583	2,124	783	—	2	—	—	—	2,909
1968 ^c	45,694	7,819	1,254	9,073	27,705	8,581	69	266	—	—	—	36,621
<i>Percentage of total</i>												
1960	100.0	17.3	4.8	22.1	77.2	(Savings and deposits)	0.5	0.1	—	—	—	77.9
1968	100.0	17.1	2.8	19.9	60.6	18.8	0.2	0.6	—	—	—	80.1

SOURCE: Bank of Mexico, *Informe anual*, 1961 and 1968.

^a Includes credits and joint funds of the Certificados de Nacional Financiera S.A.

^b National currency.

^c Foreign currency.

Brazil experienced an even more radical change, especially from 1964 onwards. A number of institutional changes in its financial system have improved the different methods of channelling financial flows and caused the traditional institutions to lose considerable ground. Thus, the banking system, including the Banco do Brasil and the commercial banks, which in 1964 was the source of 80 per cent of the credit accorded to the private sector, granted only 55 per cent in 1969 (see table 4).

At the same time, what is now known as housing financing, which did not exist in 1964, expanded so rapidly that in 1969 it already represented 13 per cent of the total financing of the private sector. Moreover, private financial groups, such as credit corporations and investment banks operating outside the banking system, which accounted for barely 6 per cent in 1964, raised their share to 17 per cent in 1968-1969. In contrast, the importance of public development agencies declined slightly in over-all terms, although they greatly diversified their operations and created new financing funds which were closely connected with international agencies.

All these changes were reflected in the composition of the financial assets owned by the public (see table 5). In 1963, 95 per cent of the financial assets in the hands of economic units consisted of bank-notes and coins, and bank deposits; investment securities at fixed or variable interest rates represented barely 2.3 per cent of the total. By 1969, the new private and public securities, which were introduced after the adoption of the currency readjustment

clause, already amounted to 26 per cent of the total financial assets in circulation.

In *Argentina*, between 1960 and 1965 (the last year for which data are available), banking institutions had not lost ground in the intermediation system, except for mortgage credit institutions whose share fell from nearly 13 per cent in 1955 to 4 per cent (see table 6). Outside the banking system, private financing agencies increased their share slowly from 1955 onwards and practically doubled their share between 1960 and 1966. In 1965 they accounted for 16 per cent of the total financial assets reclaimable from non-financial sectors. The share of social security institutions, on the other hand, fell steadily between 1955 (26 per cent) and 1965 (less than 13 per cent).

It should be borne in mind that there was a continuous decline in the coefficient of liquidity and in financial transactions in the whole Argentine system from 1955 until the end of the 1960s, owing to an extremely rigid monetary policy. As a result, the balance of securities representing indirect liabilities issued by the group of traditional financial intermediaries diminished in real terms for all institutions (see table 7). Financial institutions outside the banking system alone were able to bring about a substantial increase in their indirect debt by considerably increasing their time deposits (see table 8).

Colombia's traditional banking system has also maintained its position in total financial assets of which it owns about 60 per cent, divided equally between the Banco de la

Table 4
BRAZIL: PRIVATE SECTOR LOANS AND FINANCING

Institutions	End of 1964		End of 1969	
	Millions of new cruzeiros	Per-cent-age	Millions of new cruzeiros	Per-cent-age
Banking system	3,267	79.9	25,040	55.3
Commercial banks	2,226	54.4	15,693	34.7
Banco do Brasil	1,041	25.5	9,347	20.6
Development agencies	571	14.0	5,569	12.3
Credit and investment corporations and Investment Bank	245	6.0	7,648	16.9
System of financing housing	—	—	5,876	13.0
Other	—	—	1,132	2.5
TOTAL	4,089	100.0	45,265	100.0

SOURCE: Central Bank of Brazil.

Table 5
BRAZIL: ASSETS IN THE HANDS OF THE PUBLIC

	End of 1963		End of 1969	
	Millions of new cruzeiros	Per-cent-age	Millions of new cruzeiros	Per-cent-age
Money in circulation	684	21.3	5,422	12.4
Demand deposits	2,254	70.2	23,868	54.7
<i>Subtotal</i>	2,938	91.5	29,290	67.1
Savings deposits	—	—	887	2.0
Time deposits	99	3.1	2,033	4.7
Bills of exchange	73	2.3	6,174	14.2
Real estate bills	—	—	933	2.1
Readjustable Treasury bills	—	—	4,280	9.8
Other	100	3.1	—	—
TOTAL	3,210	100.0	43,602	100.0

SOURCE: Central Bank of Brazil.

República and the commercial banks. The 10 per cent of the mortgage banks and the Banco Popular must be added to this figure. The chief cause was an intensive modernization of the system, as will be shown in more detail in the relevant section.

In Colombia, changes took place mainly in the intermediaries outside the banking system. The share of all insurance and capital formation companies in the country's total financial

assets fell from 12 per cent in 1960 to 5 per cent in 1969. On the other hand, the financing corporations, including investment funds, increased their share from 1.5 per cent in 1960 to 9 per cent in 1969. There was also a decrease in the share of the assets of the Caja Agraria, the largest development institution in the country (see table 9).

Chile showed much the same trend as Argentina as regards the over-all liquidity coefficient

Table 6
ARGENTINA: FINANCIAL ASSETS OF FINANCIAL INTERMEDIARIES
(Percentages)

	1955	1958	1960	1962	1964	1965
A. Banking institutions	69.8	72.4	75.0	68.1	72.2	74.3
Central bank	5.6	20.2	28.3	20.0	22.7	22.8
Commercial banks	49.0	38.4	37.9	40.4	45.2	43.1
Mortgage credit institutions	12.8	11.9	7.3	6.1	4.1	4.0
Caja Nacional de Ahorro Postal	2.4	2.0	1.6	1.6	2.8	4.4
B. Institutions outside the banking system	30.2	27.6	25.0	31.9	27.8	25.7
Credit co-operatives	0.2	0.2	0.4	0.6	1.1	1.3
Savings and loan associations	—	—	—	—	0.6	0.5
Insurance companies	2.3	1.8	1.9	2.8	2.4	2.4
Social security institutions	25.8	22.4	15.9	16.2	10.7	9.6
Others	1.9	3.2	6.8	12.3	13.0	12.9
<i>Value of total assets in thousands of pesos at 1960 prices^a</i>	<i>771.7</i>	<i>775.5</i>	<i>519.8</i>	<i>452.8</i>	<i>508.2</i>	<i>507.6</i>

SOURCE: S. Itzcovich, *Los intermediarios financieros extrabancarios en la República Argentina*, Tor-

cuato Di Tella Institute, September 1966, table 2.
^a Deflator: cost-of-living index, 1960 = 100.

Table 7
ARGENTINA: BALANCE ON THE DIFFERENT TYPES OF INDIRECT LIABILITIES
ISSUED BY FINANCIAL INTERMEDIARIES
(Percentage distribution)

	1955	1958	1960	1962	1964	1965
1. Money in the hands of the public ..	30.5	30.1	26.7	23.0	21.7	22.6
2. Demand deposits	18.9	19.2	18.9	14.7	16.8	16.5
3. Time deposits	24.9	28.1	27.3	30.4	32.4	32.2
4. Shares and bonds	12.9	11.8	14.8	20.2	16.4	15.1
5. Insurance companies	3.0	2.9	3.0	3.8	3.2	3.2
6. Social security institutions	9.8	7.9	9.4	7.9	9.6	10.5
<i>Total balance in thousands of millions</i> <i>of pesos at 1960 prices^a</i>	533.2	544.6	394.9	403.8	476.5	462.7

SOURCE: S. Itzcovich, *Los intermediarios financieros extrabancarios en la República Argentina*, op. cit. table 5.

^a Deflator: cost-of-living index, 1960 = 100.

or the ratio of financial assets to the gross national product. This ratio declined steadily from 36 per cent in 1940 to barely 13.2 per cent in 1959. It recovered slowly after that year, and more quickly from the years 1964-1966 onwards, as a result of changes in monetary and financial policy, reaching 22.6 per cent in 1968.

Although the banking system expanded in real terms, its over-all position deteriorated, and this trend affected both the Banco del Estado and the commercial banks. The share of the former, which in 1960 accounted for a little under half the securities held by the main financial institutions, fell to 37 per cent in 1968; that of the commercial banks fell from 52 to 42 per cent.

On the other hand, savings and loan associations were of small significance in 1960, but by virtue of operating within the system of savings linked to housing construction and of new readjustable conditions of saving, they boosted their sales to over 19 per cent of the total for the whole financial system in 1968 (see table 10).

As in Brazil, this development of intermediaries outside the banking system altered the composition of financial assets; the share of currency and banking assets proper (banknotes and coins, and deposits) in the total funds of the main institutions of the financial system declined from 98 per cent in 1960 to 86 per cent in 1968 (see table 10). In other words, virtually the whole increase in the ratio

Table 8
ARGENTINA: TIME DEPOSITS RECEIVED BY FINANCIAL INTERMEDIARIES
(BALANCES)
(Percentage distribution)

	1955	1960	1962	1965
1. Commercial banks	73.0	55.5	47.5	57.7
2. Credit co-operatives	—	0.3	0.4	1.0
3. Savings and loan associations ..	—	—	—	1.6
4. Caja Nacional de Ahorro Postal	14.1	7.7	5.2	4.2
5. Other financial institutions outside the banking system	12.9	36.5	47.0	35.6
<i>Total deposits (thousands of mil-</i> <i>lions of pesos at 1960 prices)^a</i>	131.3	107.8	122.7	148.7

SOURCE: S. Itzcovich, *Los intermediarios financieros extrabancarios en la República Argentina*, op. cit., table 8.

^a Deflated by the cost-of-living index, 1960 = 100.

Table 9
COLOMBIA: ASSETS OF THE FINANCIAL SYSTEM
(Millions of pesos at current prices)

<i>Institutions</i>	<i>1960</i>		<i>1969</i>	
	<i>Millions of pesos</i>	<i>Percentage</i>	<i>Millions of pesos</i>	<i>Percentage</i>
Banco de la República	3,915	29.1	24,622	31.8
Commercial banks	4,479	33.3	24,241	31.3
Mortgage banks	1,022	7.6	5,648	7.3
Caja Agraria ^a	1,795	13.4	8,364	10.8
Financial corporations	200 ^b	1.5	5,983	7.7
Investment funds	4	—	1,110	1.4
Warehouses	52 ^c	0.4	505 ^c	0.7
Insurance companies	662	4.9	2,810 ^b	3.6
Capital formation companies ..	922	6.9	1,363 ^b	1.8
Banco Popular	394	2.9	2,675	3.5
TOTAL	13,445	100.0	77,331	100.0

SOURCE: *Revista del Banco de la República; Revista de la Superintendencia Bancaria.*

^a Caja Agraria and Banco Ganadero.

^b Estimates.

^c January of each year.

of financial assets to gross national product since 1964 is attributable to the new forms of financing linked to the financial system of savings and loans.

In *Peru*, significant changes are also observable in the financial structure, both within the banking system and outside it, besides the drastic institutional reforms initiated recently, which introduced very different financing rules and modes of operation from those previously in force.

In the banking system, apart from the smaller participation of the Central Bank and the commercial banks in total assets and credit, new government banks have made their appearance, not only in the general credit area (Banco de la Nación) but in specialized areas as well (Banco de la Vivienda). The Banco de la Nación, in particular, has assumed considerable importance, accounting for 15 per cent of assets, 27 per cent of the deposits of the banking system, and more than 17 per cent of the total credit accorded by the financial system in 1969 (see table 11).

As regards specialized development banks, the relative importance of the Banco Central Hipotecario, the Banco Agropecuario and the Banco Minero did not change, while that of the Banco Industrial increased considerably. In all, the State development agencies accounted

for over 20 per cent of the total credit accorded by the financial system in 1969, a share exceeded only by that of the commercial banks, while the share of the whole group of public financial institutions in the financial and banking systems was nearly 60 per cent and 70 per cent, respectively, in 1969.

As in other countries, the decline in the relative importance of insurance companies contrasted with a substantial increase in the number of intermediaries operating outside the banking system which are linked with foreign financial groups, particularly in mutual funds and savings and loan co-operatives, of which there were virtually none in 1960 but which had come to provide more than 8 per cent of total credit in 1969.

Ecuador also followed the general trend towards a decline—although less pronounced than in other countries (see table 12)—in the share of the banking system in the system's total assets, and the emergence of new specialized public financing agencies. The *Compañía Financiera Nacional* was founded in 1962 to finance the fixed capital formation of industry, assuming the main functions formerly assigned to the Banco Nacional de Fomento. Although the latter's operations have continued to expand, it has lost much of its character as a general and industrial development agency and

Table 10
CHILE: FUNDS AND SECURITIES IN CHILEAN CURRENCY HELD BY SELECTED FINANCIAL INSTITUTIONS
(Millions of escudos at December 1965 prices)

<i>Institutions</i>	<i>Funds</i>				<i>Securities</i>				
	<i>End of 1960</i>		<i>End of 1968</i>		<i>Institutions</i>	<i>End of 1960</i>		<i>End of 1968</i>	
	<i>Escudos</i>	<i>Per-centage</i>	<i>Escudos</i>	<i>Per-centage</i>		<i>Escudos</i>	<i>Per-centage</i>	<i>Escudos</i>	<i>Per-centage</i>
Commercial and State banks	1,615.6	72.4	2,824.2	64.9	Commercial banks	641.3	52.2	1,118.5	42.6
Demand deposits	1,101.9	49.4	2,035.9	46.8					
Time deposits	513.7	23.0	788.3	18.1					
Central Bank	563.1	25.3	986.1	22.6	Banco del Estado ^a	562.7	45.8	982.2	37.4
Notes and coin in free circulation	563.1	25.3	930.2	21.3					
Readjustable savings certificates ..	—	—	55.9	1.3					
Mortgage banks					Mortgage banks	25.7	2.1	17.7	0.7
Value of the bond market	51.6	2.3	14.9	0.3					
National savings and loan system ...					Savings and loan associations	—	—	509.0	19.4
Deposits, mortgages, IOUs and bonds	—	—	529.7	12.2					
TOTAL	2,230.3	100.0	4,354.9	100.0	TOTAL	1,229.7	100.0	2,627.4	100.0

SOURCE: Figures taken from Padro Jeftanovic, *Estudio sobre el mercado de capitales chileno* (Centro de Estudios Socio-Económicos, August 1969), mimeographed.

^a Does not include the overdraft on the consolidated public sector account.

Table 11
PERU: SHARE OF FINANCIAL ORGANIZATIONS IN TOTAL ASSETS
 (Millions of soles)

	Total	Central Reserve Bank	Commercial and savings banks	Banco Central Hipotecario	Banco de Fomento Agropecuario	Banco Industrial	Banco Minero	Banco de la Vivienda	Banco de la Nación	Insurance companies	Mutual funds	Savings and credit co-operatives
1960	22,793	6,338	13,418	522 ^a	1,659 ^a	526 ^a	330 ^a	— ^b	— ^c			
1969	98,547	20,916	44,943	3,767	7,318	4,266	1,204	1,005	15,128			
<i>Percentage of total</i>												
1960	100.0	27.8	58.9	2.3	7.3	2.3	1.4	—	—			
1969	100.0	21.2	45.6	3.8	7.4	4.3	1.2	1.0	15.5			
<i>Credits</i>												
1960	14,555	4,170	6,785	495	1,470	514	240	— ^b	— ^c	855	1.0	25
1969	64,622	11,988	19,538	2,451	6,446	3,901	902	615	11,207	2,099	3,025	2,450
<i>Percentage of total</i>												
1960	100.0	28.6	46.6	3.4	10.1	3.5	1.6	—	—	5.9	—	0.2
1969	100.0	18.6	30.2	3.8	10.0	6.0	1.4	1.0	17.3	3.2	4.7	3.8
<i>Deposits</i>												
1960	11,549	1,764	9,073	30	669	11	2	— ^b	— ^c			
1969	45,736	2,766	26,913	151	2,150	962	193	271	12,330			
<i>Percentage of total</i>												
	100.0	15.3	78.6	0.2	5.8	0.1	—	—	—			
	100.0	6.0	58.8	0.3	4.7	2.1	0.4	0.6	27.0			

SOURCE: Superintendencia de Bancos y Seguros, *Memoria 1969*, Peru.
^a Only available funds, securities and investments.

^b 1963: Assets, 195; credits, 91; deposits, 5.
^c 1966: Assets, 5,522; credits, 3,158; deposits, 4,592.

has become practically the main public agency for agricultural financing.

Specialization in private financial intermediation has been less intensive than in other Latin American countries and the relative importance of private commercial banks is still considerable, and much greater than in the other countries studied. The most important form of diversification in intermediaries not belonging to the banking system was the establishment of a private financing agency, the Ecuadorian Finance Corporation (COFIEC), initially financed jointly by the International Finance Corporation (set up by the World Bank) and ADELA (a private international group).

Contrary to trends in the other countries studied, in Ecuador there has been an increase in the importance of social security institutions outside the banking system, represented by the Caja Nacional de Seguro Social, whose share in total financial assets rose to 9 per cent in 1968 (see table 12).

(b) *Relations with international organizations*

As was mentioned earlier, the *modus operandi* of public law international financial organizations (IBRD, AID and IDB) had a great influence on the creation of new public agencies and on the way in which they attracted resources and assigned them to sectors. In particular, given the specialized nature of the new external funds, they often helped to decentralize official development organizations and to minimize the relative importance of traditional development agencies. To give an idea of their influence, a general outline is given below of their activities in the 1960s and of the amount of loans from international financial organizations to the government development organizations in the various countries, which may be compared with the overall amounts loaned out up to 1970 (see table 13).

In Latin America, IBRD has financed mainly highways, transport and electrical energy systems. In the last years of the 1960s it generally made direct loans to decentralize government organizations or to foreign enterprises, with the Government's guarantee that the funds would be channelled through national development agencies (such as CORFO in Chile and the BNDE in Brazil) or through the development banks in Colombia, Peru, Ecuador and Argentina. In the last two years of the decade loans were also granted for livestock development in Bolivia, Colombia, Ecuador, Uruguay and Brazil, but they were made directly to

specialized agencies or through State banks. Loans to industry were normally directed through financial institutions or private investment banks.

The only important exception to this rule was the channelling of funds by the World Bank into energy, transport and other programmes, through the Nacional Financiera de México, a centralized national development organization.

AID makes loans for many purposes, ranging from feasibility studies to the financing of imports, housing, education, health, agricultural programmes, etc. It also grants loans to decentralized, public, semi-public, autonomous and private agencies, without first directing them through large national official development agencies.

In Brazil, for instance, loans for a total of 1,179 million dollars were authorized up to mid-1970, and were directed to scores of regional, state and sectoral projects, most of which are outside the control of centralized financial agencies.

In Chile, of the 566 million dollars in loans authorized up to 1970, barely 58.3 million were allocated through CORFO.

In Argentina, out of a total of 137 million, 24.7 million were recorded as loans for economic development and were directed to the Government, with no mention of any financial development organization.

In Colombia, out of a total of 636.5 million, only 20 million were loaned directly to the investment fund of the Banco de la República and 4 million to the Banco Ganadero.

In Ecuador, nearly all the 103 million dollars granted up to 1970 went to finance the government budget or to specific decentralized projects. Development agencies as a whole received barely 10.4 million.

Lastly, in Mexico, where AID loans are much smaller, a total of 65 million dollars was loaned out, all through the Nacional Financiera, except for 3 million directed to the University of Guadalajara.

IDB is the only international organization that has continued making large loans through centralized official development agencies, although it has often made direct loans to decentralized public services (energy, transport and communications) and, less often, to private enterprises, particularly in countries where development agencies are of relatively minor significance.

Table 12
ECUADOR: SHARE OF THE FINANCIAL INSTITUTIONS IN TOTAL CREDITS
(Millions of sucres)

	<i>Total</i>	<i>Central Bank</i>	<i>Private banks</i>	<i>Banco de Fomento</i>	<i>Banco de Cooperativas</i>	<i>COFIEC</i>	<i>Corporación Financiera Nacional</i>	<i>Caja Nacional de Seguro Social</i>
1960	4,160.8	1,058.4	2,579.0	241.4	—	—	—	282.0
1968	8,994.3	2,217.1	5,004.3	549.3	11.4	218.3	185.4	808.5
<i>Percentage of total</i>								
1960	100.0	25.4	62.0	5.8	—	—	—	6.8
1968	100.0	24.6	55.6	6.1	0.1	2.4	2.1	9.0
<i>Deposits</i>								
		<i>Central Bank</i>			<i>Private banks</i>			
		<i>General government</i>	<i>Public</i>	<i>Banks</i>	<i>National currency</i>	<i>Foreign currency</i>	<i>Banco de Fomento</i>	
1960	1,894.2	151.4	56.1	311.9	1,181.7	44.9	148.2	
1968	4,829.4	218.6	54.3	740.5	3,386.7	185.6	243.7	
<i>Percentage of total</i>								
	100.0	8.0	3.0	16.5	62.4	2.4	7.8	
	100.0	4.5	1.1	15.3	70.1	3.8	5.0	

SOURCE: National Board for Economic Planning and Co-ordination, *Indicadores Económicos*, July 1970.

Table 13
LATIN AMERICA: LOANS BY INTERNATIONAL AGENCIES AT 30 JUNE 1970
(Millions of dollars)

Country	World Bank				IDB ^a		AID		Total	
	Paid out	Total authorized	Under negotiation	Total	Paid out	Total authorized	Paid out	Total authorized	Paid out	Authorized and under negotiation
Argentina	168.2	329.5	—	329.5	175.2	459.1	105.5	137.1	448.9	925.7
Bolivia	—	—	23.3	23.3	48.8	95.1	88.8	113.6	137.6	232.0
Brazil	225.8	473.2	205.0	678.2	365.0	678.1	823.7	1,179.0	1,414.5	2,535.3
Colombia	322.9	465.9	127.6	593.5	145.9	324.1	491.9	636.5	960.7	1,554.1
Costa Rica	33.9	68.9	—	68.9	28.5	42.9	38.2	70.5	100.6	182.3
Chile	97.7	147.7	19.3	167.0	153.7	273.1	499.9	566.0	751.3	906.1
Ecuador	33.7	41.2	—	41.2	44.4	78.8	66.0	102.8	144.1	222.8
El Salvador	24.8	32.2	—	32.2	27.0	42.2	30.2	51.2	82.0	125.6
Guatemala	11.4	28.7	—	28.7	28.0	78.2	16.7	61.7	56.1	168.6
Haiti	0.5	0.5	—	0.5	4.8	7.2	4.5	4.6	9.8	12.3
Honduras	25.2	37.1	5.5	42.6	31.4	52.5	25.4	48.4	82.0	143.5
Mexico	532.2	763.0	21.8	784.8	192.0	428.9	64.5	65.0	788.7	1,278.7
Nicaragua	22.4	37.9	—	37.9	33.5	56.3	46.5	72.1	102.4	166.3
Panama	7.6	7.6	42.0	49.6	22.6	41.5	49.7	103.4	79.9	194.5
Paraguay	5.8	11.2	6.0	17.2	41.2	96.8	20.5	39.1	67.5	153.1
Peru	119.3	154.0	—	154.0	76.7	152.1	66.7	102.1	262.7	408.2
Dominican Republic	1.7	25.0	—	25.0	25.6	53.8	136.0	167.8	163.3	246.6
Uruguay	51.6	54.0	6.3	60.3	25.3	70.6	32.1	51.0	109.0	181.9
Venezuela	212.1	274.7	—	274.7	116.0	168.4	55.0	55.0	383.1	498.1

SOURCE: World Bank, Annual Report, 1970; IDB, Tenth Annual Report, 1969; AID, Statement of Loan, 30 June 1970.

^a At 31 December 1969.

In Chile, most loans, whether directed to industry, agrarian reform, agricultural and commercial credit organizations or universities, were negotiated and channelled through CORFO. The major exceptions were loans to finance housing and public works in general, which were negotiated through different decentralized agencies, from the Corporación de Servicios Habitacionales to the Caja Central de Ahorro y Préstamos.

In Mexico, as in the case of external loans, Nacional Financiera had absolute pre-eminence. Out of 429 million dollars loaned by IDB up to the end of 1969, barely 5 million went directly to private enterprises. Nacional Financiera even handled a loan of 35 million from the Social Progress Trust Fund.

In Brazil, on the other hand, loans were completely decentralized. Not only did loans to government development agencies go through federal bodies (National Economic Development Bank, Banco do Brasil, Banco do Nordeste, National Housing Bank, state banks) but the loans granted by the Social Progress Trust Fund to finance infrastructure and resources were distributed among a large number of

public or semi-public decentralized agencies.

The BNDE, which was the largest development agency in Brazil in the 1950s, received only 74 million dollars in loans from different IDB funds up to the end of the 1969 financial year.

The situation of the other Latin American countries was somewhere between that of Mexico, Brazil and Chile. In countries where international development agencies had no great influence, most loans from international development agencies went directly to private enterprises, and were hardly ever guaranteed by a centralized government institution.

In Argentina, although the Banco Industrial de la República intervened to grant international loans to industries (chemicals, refrigeration, paper, petrochemicals), these loans were made directly to the enterprises concerned. The only exception was an industrial credit of 33 million dollars granted to the Banco Industrial for transfer to small and medium-sized enterprises, 10 million dollars of which were authorized in 1968. This type of loan is similar to the credits granted to the BNDE in Brazil in 1964 and 1967.

V. CONCLUSIONS AND SUGGESTIONS

1. The background material and the comments in this document show that during the 1960s there has been considerable development of the systems of financial intermediation in Latin America.

2. It has also been shown that this development has features which are peculiar to each country, for in each it is determined by a variety of factors, the most important being the stage of economic and social development they have reached, the pattern and pace of their development, and, lastly, the over-all and the specific economic policy towards the financial sector adopted by each Government. Of these, those connected with the objectives and requirements of development seem to have been most instrumental in producing the structural changes that have occurred in the machinery of intermediation.

3. One striking fact which emerges from recent experience is that Latin America possessed a substantial personal saving potential of which hardly any had been tapped or channelled through the system of intermediation.

Thanks to the introduction in most of the countries considered of various tied and untied savings schemes, fundamental structural changes have been made in the intermediation machinery, as the intermediaries have begun to receive a substantial proportion of the new funds generated by family savings. These funds have largely gone to finance housing construction and to increase consumption of durable goods.

4. Another conclusion that emerges from this paper is that there is not necessarily a synchronous relationship between the level of development and sophistication of the intermediation system and the promotion and direction of the economic and social development process. Indeed, the function of the intermediation systems in Latin America, given the basic structures of the economies, has been to facilitate the flow of funds from the surplus to the deficit spending units, although the activities or goals of the latter are not always and most frequently are not among those usually considered to be of prime importance for development.

Experience seems to show that the intermediation systems with a neutral function

aggravate certain unfavourable trends or do not help to solve problems that have been brought to light by most analyses, such as inequalities between social groups, regional imbalances, and the lag in the production of consumer goods that are essential for the bulk of the population or to maintain economic growth. Such a situation may have an unfavourable effect on the allocation of resources and the rate of savings and investment, and may increase the existing sectoral, regional and social disparities in the different countries.

5. In several countries there has been considerable foreign infiltration in financing and credit institutions, which, in turn, has led to the take-over of some enterprises, particularly in the manufacturing sector. This process has been fostered by short-term foreign loans, which have been attracted to the region mainly by the possibility of making profits and dominating markets.

On the other hand, most official long-term external loans have been granted to government development agencies, particularly the specialized institutions, to be channelled into enterprises. In many countries, however, these loans have been made directly to public and private enterprises.

It is interesting to note that foreign infiltration of several intermediation systems in Latin America has gone hand in hand with greater control of the financial sector by the government monetary authorities. This shows that foreign infiltration has been encouraged in some cases, or at least permitted, by financial policy, while in others no definite line has been followed. At all events, the fact that the financial authorities have focused their attention on over-all policy-guidance and control of the intermediation system has made possible structural changes such as those described above, unintentional though they may have been.

6. In the light of the foregoing conclusions, it may be of interest to present some possible and alternative ways of improving the operation of the intermediaries with a view to speeding up and reorienting the process of intermediation along the lines laid down in national development strategies.

Generally speaking, it is essential to give the financial system a function that enables it to respond immediately to the basic needs of economic and social development. Obviously, therefore, the guidelines of the system cannot

be laid down *in vacuo*, they will have to be in line with each country's own economic policy.

One way of making the intermediaries function in this way is to make some changes in the system prevailing in the region but leaving the existing structure more or less untouched.

Another method consists in making substantial changes in the system to enable it to fulfil the economic and social requirements of development. The line of action being followed by Chile at the present time seems to be based on this more radical approach. In Chile, the intermediaries, or most of them, have been nationalized, so that, as was pointed out earlier, the flow of funds should conform strictly to the Government's directives and controls.

In any event, if the system is to operate properly, the first prerequisite is that financial policy should be part of economic policy. For this purpose, it is essential that development plans should go into the planning of the financial sector explicitly and in some detail. In other words, it cannot be assumed—as has sometimes been done in the past—that the flow of funds will adapt itself almost automatically to the requirements of the planned mobilization of real resources; on the contrary, there must be a prior definition of the ways in which the financial resources will be used to help achieve the stated goals.

Consideration should be given to other factors that are also important if the system is to have a developmental function, especially in cases where the existing structure has been adapted.

(a) The strengthening of government guidance and control of the over-all and sectoral aspects of the intermediation system, in terms of institutions and functions and in deciding whether funds shall be drawn from local or foreign sources, is worthy of note. In this last connexion, the lines laid down for the extent and the form of foreign infiltration and for its control are important.

(b) It is also important that financial policy should be realistic and enable the intermediaries, especially the private and public banks, to offer attractive loan conditions—in respect of interest rates and degrees of liquidity, for instance—to the surplus spending units, so as to induce them to pour their funds into the system.

Experiments like Mexico's provide some suitable formulas for achieving the above aims.

On the other hand, wherever there have been no explicit guidelines and restrictions, or the controls exercised by the financial authorities have proved ineffective, the intermediation system has expanded more or less unchecked, especially in the private sector outside the banking system and led to unproductive specialization and competition, the misuse of resources and higher costs for financing.

(c) From the institutional standpoint, it is advisable that support be given to government bodies such as development agencies or corporations, whose influence declined in the last decade in nearly all the countries that had been using them as a lever for development. With support, these agencies would be able to use a wide range of devices in order to gain access to untied community savings and channel them into investment in priority sectors. In addition, most of the foreign savings, in the form of official credit and short-term loans, could flow to and from those bodies, thus guaranteeing greater efficiency in borrowing and allocating foreign resources and avoiding an undesirable take-over of the intermediation system.

(d) The strengthening and modernization of the traditional government intermediaries could be accompanied by the creation of carefully selected new public development bodies, without leading to excessive specialization of functions, and, hence, to a proliferation of agencies and unnecessary competition to attract resources. In achieving this purpose, flexibility in the allocation of resources within the public sector is important, so as to obviate such competition and ensure a suitable distribution of funds among priority objectives.²⁷

(e) Tied savings for housing construction may continue to account for a significant and probably growing proportion of the resources

²⁷ In this connexion, see Part II of "Public enterprises: their present significance and their potential in development", *Economic Bulletin for Latin America*, vol. XVI, No. 1, first half of 1971.

mobilized by the intermediation system. For that reason, it is advisable that the development of this subsystem should be planned and oriented towards the solution of the housing problems of the lower income groups. Definite policies for this purpose must be formulated and adopted so as to give these groups better and easier access to housing savings and loan facilities.

(f) It is possible that tied savings to finance increased consumption of durables may also continue to grow in importance in Latin America's economic development. Bearing this possibility in mind, it will be advisable to calculate how much is to be spent for this purpose and to make provision for this amount in financial programming and in whatever policies are formulated and applied.

In the policy to be adopted in this field, the measures that the authorities may adopt to influence the volume and possible categories of such consumption are of great importance.²⁸ By influencing the volume and structure of consumption, the authorities can thus intervene in the process of intermediation.

Lastly, it should be stressed that all these aspects are particularly important when it has been decided to modify the existing system, and many of them are important also if a government opts for more radical changes in the financial system.

²⁸ In the case of automobiles, which is the most representative, it is most important to specify the plans for the production and annual sales of vehicles and their price. Both variables, quantity and price, are flexible enough to make it possible to determine the amount of funds needed to market the annual output. It may be noted incidentally that the automobile models chosen for domestic production in the Latin American countries have a considerable influence on the amount of resources required from the intermediaries. For example, at a given level of output, a United States "compact" vehicle costs about twice as much as a small European car. Unfortunately, manufacturers have been allowed considerable freedom to produce relatively expensive automobiles, unlike producers in some European countries, such as France and Italy, twenty years ago.

Annex

FINANCIAL INTERMEDIATION IN COLOMBIA; CHILE, ECUADOR AND PERU

COLOMBIA

I. GENERAL FEATURES

The development of the Colombian system of financial intermediation during the 1960s has certain

characteristic features that will be considered in some detail, in particular as regards the flexibility of the financial apparatus to adapt to the pace and pattern of Colombia's development. The intermediaries in Colombia have played an active part in mobilizing

resources from the surplus to the deficit spending units in a way consonant with the trends of Colombia's economic development.

It is also worth noting that the Monetary Board (Junta Monetaria) has played a fundamental role in guiding the development of the financial system.^a

The financial system increased fairly rapidly; expressed as a proportion of the gross domestic product they grew steadily from about 50 per cent in 1960 to close to 70 per cent in 1969. This upward trend provides the background for the structural changes that have taken place in Colombia's financial system, as can be seen from the figures given in table 9 of the main body of this study.

The first salient feature is that the commercial banking subsystem maintained and even slightly increased its share in total financial assets. Taking the assets of the Banco de la República, the commercial banks and the Banco Popular together, this share rose from 65.3 per cent in 1960 to 66.6 per cent in 1969. Only on the mortgage side did the share of the commercial banks show a slight decline.

The share of the rest of the traditional financial sector in Colombia—including the Caja Agraria, the Almacenes Generales de Depósito, insurance companies and capital formation companies—declined sharply, from 25.6 per cent of total assets in 1960 to 17 per cent in 1969. More than half this decline is attributable to the substantial reduction in the share of capital formation companies (see table 9 *supra*).

This decline was accompanied by a rapid rise in the assets of the new intermediaries—financial corporations and investment funds—whose share of the total rose from 1.5 per cent in 1960 to 9.1 per cent in 1969. As will be seen below, the growth of these intermediaries and its special features constitute another salient aspect of the evolution of financial intermediation in Colombia during the 1960s.

II. PUBLIC FINANCIAL INTERMEDIATION

To some extent, the modernization of the traditional system of public financial intermediation in Colombia is closely intertwined with the creation of new agencies. The Monetary Board is a typical illustration of how these two processes occurred simultaneously. Hence it may be useful to consider the institutional side of public intermediation from the standpoint of renovation of existing bodies and the creation of new ones.

A. THE MONETARY BOARD

1. General background

Until the beginning of the 1960s, central bank functions were exercised by the Banco de la República which was initially owned by the private banks, private shareholders and the Government. The Government, however, was always a minority shareholder

^a In this connexion, see "Mobilization of domestic resources", *Economic Bulletin for Latin America*, vol. XV, No. 2, second half of 1970, p. 142.

from the beginning, and in the early 1950s it sold off all its shares. The Banco de la República was managed by national and foreign banks and by trade associations representing agriculture, coffee-growing, commerce and industry. The Board of Directors was the supreme monetary authority and was responsible, *inter alia*, for discounting and re-discounting transactions in the public and the private sectors.

Given this organizational structure, it was difficult to co-ordinate financial and economic policy, even though some efforts were made—mainly around 1959 and 1960—to make the system more developmental in function. It was established initially that banks should earmark 15 per cent of their demand and time deposits for loans to agriculture and fisheries at a basic interest rate of 10 per cent per year. Subsequently, it was laid down that banks should earmark 70 per cent of their savings deposits for financing investment in certain sectors considered to be of priority importance.

The financial sector began to take on a developmental function, and also to be co-ordinated with economic policy, in November 1963 when the Monetary Board began operations, and the situation was further improved when the Board's powers were expanded in 1967. Co-ordination with economic policy was made possible because, unlike the Board of Directors of the Banco de la República which was dominated by credit users, the Monetary Board is made up of high-level officials in charge of formulating and implementing national economic policy. These officials are the Ministers of the Treasury, Development and Agriculture, the chief of the Administrative Department of the National Planning Commission, and the Manager of the Banco de la República. The Board also has two permanent advisers participating in its discussions without the right to vote, one on monetary matters and the other on economic matters. The Monetary Board has also taken over the substantive functions of the Board of Directors of the Banco de la República, which has in a sense become a kind of secretariat to it.

2. Operating functions and characteristics

(a) Over-all supervision of the financial system

The Monetary Board took over the Banco de la República's responsibilities for the note issue and was also given other functions, including: (i) fixing the maximum interest or rediscount rates chargeable by the financial intermediaries; (ii) fixing the length of repayment periods, the types of documents to be used and the size of particular transactions by financial intermediaries; (iii) prohibiting the use of specific credit instruments, for example guaranteeing liabilities in legal currency; and (iv) determining the terms for retail credit sales of movable goods or services.

The Monetary Board has very broad functions, particularly if compared with similar institutions in other Latin American countries. Of particular note is the fact that it can allocate resources directly to the financial intermediaries through the Banco

de la República and also through other funds that will be discussed below. It is also empowered to determine the kind of indirect debt securities that the intermediaries may issue.

It also has a special function of regulating instalment credit operations, chiefly for the purchase of consumer durables, for example, by fixing the maximum interest rates chargeable on such transactions.

The system used by the Monetary Board to regulate the resources of the traditional financial sector consists basically in requiring intermediaries to follow a certain distribution in allocating funds, with the accent on loans to the sectors considered to be of priority importance. Each intermediary is bound to follow the distribution or else he must neutralize his funds in a compulsory reserve either in the form of cash or as low-yield bearer securities.

In other words, except for a proportion equal to 20 per cent of the savings deposits they receive, the intermediaries cannot use the resources they have available for loans or investment exactly as they see fit.

The fact that the Monetary Board can allocate resources within the traditional financial system is particularly important if it is remembered that the interest rates prevailing during the 1960s in Colombia have generally been negative in real terms, taking account of price rises. In other words, the users of credit have quite definitely been encouraged and subsidized, particularly certain priority sectors which were eligible for interest rates lower than those generally prevailing.

In order to comply with the pattern of distribution established by the Board, the intermediaries in Colombia have been obliged to engage in promotional activities in the sectors in which the demand for resources has been relatively weak. They have also had to be prepared to grant credit to productive units which did not offer the best repayment prospects, compared with the large established traditional enterprises, and this helped to reduce the level of concentration of bank credit.

The net result is that the traditional intermediaries, with the aim of increasing their own profits, have to some extent endowed the financial system with a developmental function by giving preference to the sectors considered of priority importance in speeding up growth.

Although the Monetary Board has played a highly significant role in directing the growth of the financial sector in Colombia, it has come up against some obstacles. First of all, while it has been able to guide the activities of the commercial banking system, it has not been able to exert the same influence over the rest of the intermediation system and has had virtually no influence over some agents outside the banking system.

Secondly, the share of savings, particularly personal savings, within the resources mobilized by the commercial banks and regulated by the Board has fallen. Hence, the supply of resources for the commercial banking system has continued to depend to a very great extent on the trends of demand deposits

and the rediscounts offered by the Banco de la República. To offset this, however, it was proposed in 1970 to raise the real rate of interest paid on savings and time deposits to take account of inflation.

(b) *The Monetary Board's development funds*

The Monetary Board's special funds are an important means of regulating the trends of the financial sector. The domestic resources of the funds generally come from bonds issued by the Board, which the financial intermediaries can purchase for use as cash reserves.

The Board's funds have two main characteristics. The first is that their resources, which come from bond issues and external loans, are used to provide direct financing for priority sectors that cannot secure financing on a regular basis from the intermediaries. This considerably expands the Board's functions as a channel for resources, and brings it close to the position and functions of National Financiera in Mexico.

The second concerns the role of these funds in regulating the resources of the commercial banking sector. Given the system of compulsory cash reserves, the banks can use their surplus resources to purchase bearer securities issued by the Government and by the Board that fulfil certain conditions. Thus, the bonds issued by the Board are used by banks to comply with cash reserve requirements and allow for the flexible channelling of credit on both a permanent and a seasonal basis.

(i) *Private Investment Fund (Fondo de Inversiones Privadas—FIP)*. As its name indicates, the purpose of this Fund is to strengthen private investment in Colombia. It was established in 1963 under an agreement between the Governments of Colombia and the United States providing that the programme loans granted by AID would generate a counterpart contribution in local currency that would be used to finance the operations of the Fund. FIP has also received foreign exchange resources from AID, IDB and public agencies in the Federal Republic of Germany and the Netherlands.

FIP has devoted most of its energies to promoting production for export and import substitution, either directly or by passing on resources to other intermediaries, especially financing companies. At the end of 1969, 45.7 per cent of the resources it had on loan in national currency (1,013 million pesos) were allocated to the export sector and 36.5 per cent to import substitution. For credits in foreign currency (17.8 million dollars), these proportions were 30.6 and 64.4 per cent respectively.

The loans granted by the FIP, with both national and foreign resources, have repayment periods of up to ten years at a basic annual interest rate of 15½ per cent for most operations and 12 per cent for planting cocoa beans. Given that between 1963 and 1969 domestic prices rose on average by 11 per cent each year, these interest rates are rather low in real terms.

The loans granted by FIP are generally for financing real investment, although for 1970 onwards

provisions were introduced allowing 20 per cent of each loan to be used for financing working capital.

(ii) *Industrial Financing Fund (Fondo Financiero Industrial—FFI)*. This Fund was established in 1968 in order to rediscount the credits granted by banks and financing houses to small- and medium-scale industry. These credits must be used to finance working capital, technical assistance and, under certain conditions, the purchase or installation of equipment. The functions of FFI were recently expanded to include the financing of up to 80 per cent of purchases by small- and medium-scale industry of domestically-produced capital goods.

Most of the Fund's resources come from the issue of six-month bonds bearing an annual interest of 11 per cent. Furthermore, in order to make these bonds more liquid, the Banco de la República rediscounts them at a rate three points below the stated rate.

(iii) *Urban Financing Fund (Fondo Financiero Urbano—FFU)*. This Fund was established in 1968 with the basic purpose of rediscounting securities issued by municipalities to finance urban development projects. Also, as with the FFI, rediscount facilities are available for the banks and finance houses purchasing such securities at the same rediscount rate.

The FFU, in addition to providing resources to finance the urban development programmes undertaken autonomously by municipalities, also helps to provide the domestic funds required by the municipalities as their counterpart contribution for external credits.

(iv) *Agricultural Financing Fund (Fondo Financiero Agrario—FFA)*. The operations of this Fund were transferred to the Banco de la República in 1966 by decision of the Monetary Board. The bonds it issues must be taken up by the banks which can, however, rediscount them with the Banco de la República for up to 65 per cent of their value and at an annual rediscount rate of 7 per cent.

The resources thus collected are used to provide subsidized credit to the agricultural sector under a credit programme designed to encourage investment in certain branches specified in national development plans.

B. OTHER PUBLIC INTERMEDIARIES

There is little to add regarding the development of the remainder of the public intermediation system in the 1960s, for such changes as did occur were on a very small scale.

First of all, the Banco Popular—which is the State-owned commercial bank—did not grow in any substantial way and increased its share in total financial assets from 2.9 per cent in 1960 to 3.5 per cent in 1969 (see table 9 *supra*). There were some technical improvements in the Banco Popular's organizational structure, but no substantial modifications were made in the qualitative aspects of its functions. In general, thus, it can be said that its growth was closely associated with that of the private commercial banking system.

Secondly, as noted earlier, the Caja Agraria declined in importance, both quantitatively and qualitatively, within the intermediation system. Between 1960 and 1969, its share in total financial assets fell from 13.4 to 10.8 per cent, which is a reflection of the fact that it did not modernize to any great extent and also shows the volume of resources that were channelled through the Agricultural Financing Fund of the Monetary Board from 1966 onwards.

The case of the Industrial Promotion Institute (IFI) is interesting, since the IFI has grown in importance in step with the rapid development of the private investment banks. Although the functions of the private and the public development banks are not co-ordinated in a very detailed way, there is no doubt that competition among them has not curbed the rapid growth of the industrial sector.

III. PRIVATE FINANCIAL INTERMEDIATION

As indicated above, the most striking feature of the development of private financial intermediation in Colombia is the creation of several investment banks and the increase in the activity of existing investment banks.

A. THE INVESTMENT BANKS

During the 1960s, the investment banks increased their share in total financial assets fivefold (from 1.5 per cent in 1960 to 7.7 per cent in 1969). This trend is mainly related to the growth of three investment banks: the Corporación Financiera Colombiana, the Corporación Financiera Nacional and the Corporación Financiera de Caldas. At the end of 1969, the capital and reserves of these three institutions represented two-thirds of the capital and reserves of all the investment agencies in Colombia, even though several of them were not in existence before 1967. The proportion is similar with respect to assets.

The International Finance Corporation of the World Bank has a majority holding in these three corporations, having contributed a total of 4.7 million dollars to their capital (2 million to the Corporación Colombiana, 2 million to the Corporación Nacional and 0.7 million to the Corporación de Caldas).

The Colombian investment banks have several unusual operating features. First, as regards the collection of resources, they have received funds from other sources for a variety of purposes: (a) from the Private Investment Fund of the Monetary Board, which as well as lending directly also transfers funds to other intermediaries, most of the funds in this case coming from the local currency generated as a result of AID programme loans; (b) from the Banco de la República, which channels resources originally loaned by international agencies and by public agencies in other countries to the financial corporations; and (c) from other external sources, mainly banks.

Taking the balance of loans and discounts granted by these corporations at the end of 1968, 41 per cent was financed from own funds, 18 per cent

from FIP resources, 11 per cent from credit from the Banco de la República and 30 per cent from direct loans of international resources. In other words, the credit capacity of the investment banks based on their own resources had increased by roughly two and a half times (see table A).

As regards the growth trends of the different types of income, the rapid expansion of own resources is fundamentally attributable to the capitalization of new inflows and undistributed profits. In contrast, the resources received by the corporations via savings deposits—which are included under the head of own resources—did not show much change. This has been a serious obstacle to the activities of the corporations.

The volume of funds supplied by FIP and international loans contracted directly by the corporations has also grown very rapidly (the latter from 1968 onwards). The same is not true, however, for the funds from the Banco de la República, which have grown very slowly in money terms (see table A).

Secondly, as regards the allocation of resources by the financial corporations, they have tended to make capital contributions to most of the enterprises to

which they have provided financial assistance.^b In addition they have supplemented this with support through supplying loans and other resources, in the form of credit or capital contributions, from national and foreign sources. In other words, the financial institutions have helped to centralize the distribution of resources, and are concerned with much more than simply the funds they supply directly.

The investment banks have also been important in qualitative terms, since their links with the enterprises to which they have supplied financial assistance have generally been fairly close,^c ranging from control of policies and management to varying degrees of influence on their main lines of action and on appointments to key posts.

In this respect, it is clear that the Colombian financial corporations have been concerned simultaneously with the profits they could derive from

^b In 1968, capital contributions accounted for around one-fifth of the loans granted by the financial corporations.

^c These enterprises generally belong to the manufacturing sector (petrochemicals, textiles, etc.).

Table A
COLOMBIA: FINANCIAL CORPORATIONS
(Millions of pesos at current prices)

	1965	1966	1967	1968
<i>Total Assets/Liabilities</i>	1,557	1,751	2,159	3,829
A. Cash	79	54	94	295
1. Bank cash reserves (local currency)	25	31	80	287
2. Bank cash reserves (foreign currency)	54	23	14	8
B. Total investment	227	286	455	660
1. Investment in securities	216	268	407	580
(a) Shares and other holdings in non-financial enterprises ...	(215)	(266)	(380)	(542)
(b) Mortgage bonds	(1)	(2)	(27)	(38)
2. Other investment	11	18	48	80
C. Portfolio	1,052	1,179	1,477	2,706
1. Loans and discounting	625	779	1,183	2,272
(a) Own resources	(268)	(332)	(547)	(931)
(b) FIP resources	(142)	(213)	(353)	(419)
(c) Banco de la República resources	(211)	(231)	(237)	(241)
(d) International resources	(4)	(3)	(46)	(681)
2. Credits and acceptances	427	400	294	434
D. Fixed and deferred assets	11	13	33	55
E. Other assets	188	219	100	113

SOURCE: *Revista* of the Banking Authority.

their operations and with the development of the enterprises they have supported, which include some new and some established enterprises with problems of poor management or which could not obtain the funds they required for current activities or for expansion. It is indisputable that financial corporations in Colombia, and in other countries of the region, have taken on certain of the functions of the securities markets in the financial systems of the more industrialized countries by allowing enterprises to raise funds through the sale of shares and debentures.

In brief, it appears clear that the Colombian financial corporations have played an important part in promoting the growth of many enterprises, while at the same time being fundamental in giving material form to external influences upon the intermediation apparatus and, through it, upon the productive system.

B. OTHER PRIVATE INTERMEDIARIES

Of the other changes that took place during the 1960s in private intermediation, especially as regards the creation of new machinery, of particular note is the creation of mutual or investment funds, both because of the growth of such funds and because they complement the activities of the financial corporations. It should be noted that Colombia is one of the few Latin American countries in which mutual funds have grown to any considerable extent.

Apart from the creation of financial corporations and mutual funds, no other private intermediaries of any special significance have emerged in Colombia. For example, there is no savings and loan institution for the financing of housing construction of the kind existing in other countries at a similar level of economic development designed to tap and channel tied savings for housing.

Furthermore, as regards financing the expansion of consumption, particularly of durable goods, no new intermediaries have been created on a par with those in other countries of the region. This is attributable, in the first instance, to the fact that the Colombian motor-vehicle industry only began to speed up its growth rate at the very end of the 1960s. Secondly, the financing of consumption has not led to the establishment of any scale of financing companies, for example, because the resources available have flowed through other channels, notably the traditional banking system.^d

As regards the modernization of traditional private intermediation, it appears that the most significant changes occurred in the commercial banking system.

The banking sector managed in practice to maintain its share in total financial assets even though, as noted above, it was not authorized during the 1960s to offer terms for time deposits of a kind that would have attracted resources from the surplus spending units. In order to offset this, the commercial

^d Other methods have been used to finance increases in consumption, for example, credit cards, some of which were backed by United States and European banks.

banks basically took two steps. First, they modernized internally, especially as regards administrative organization and methods and the installation of modern accounting equipment. Secondly, and at the same time, they opened a large number of branches in different regions of the country.^e This improvement in the coverage of the banking sector helped to increase the number of current bank accounts and to collect funds in the form of increased demand deposits.

The resources absorbed by the banks have continued to be used for the most part to finance the current activities of enterprises, under the supervision of the Monetary Board. Nevertheless, the data available indicate that some of these resources have flowed directly and indirectly towards the expansion of consumption of consumer durables, although it is not possible to put a figure on the actual amount.

One of the factors attracting funds towards the financing of consumption—that part of their funds which banks are free to dispose of without consulting the Monetary Board—is the fact that banks were authorized to charge a total annual interest rate of up to 50 per cent on loans to individuals. This rate provided the commercial banks with a very attractive profit margin and encouraged them to grant credit to finance the expansion of consumption.

It must be noted, however, that the rapid growth of domestic production of consumer durables has already made it clear that the existing financial system in Colombia will have difficulties in financing the growth demand for instalment credit. It is therefore possible that the present system may have to be radically changed.

In conclusion, it is worth while noting that the other traditional private financial intermediaries, for example the mortgage banks and the insurance and capital formation companies, have not modernized on any great scale.

CHILE

I. GENERAL FEATURES

The 1960s in Chile were characterized by efforts to bring the financial system out of its relatively backward state and to establish machinery to restore liquidity to the system, which had steadily become less and less liquid since 1940.

Together with increased control by the Banco Central, several financial mechanisms were created and modernized through the establishment of new intermediaries and the introduction of innovations into the traditional financial structure.

In the public sector, the basic changes were the modernization of traditional institutions, with the issue of readjustable savings certificates by the Banco Central, and the creation of readjustable savings deposits and new methods of financing the public sector in the Banco del Estado. The Caja Central de

^e It was only in 1969 that the Banking Authority introduced restrictions on the opening of new branches.

Ahorros y Préstamos was also established to regulate the national savings and loan system.

In the private sector, the most important changes were the creation of new institutions specializing in tied savings, mainly for the financing of housing (national savings and loan system). Although from 1965 onwards legislation was enacted providing for other changes, these did not take place or did so only recently, which makes it difficult to assess their impact. The traditional private intermediaries, unlike those in the public sector, have not modernized as regards the introduction of new mechanisms for tapping and allocating resources, and have confined themselves to modernizing their installations and equipment. As a result, their share in the financial system has dropped.

Links with the international financial system have not taken the form of the establishment of new institutions, except for savings and loan associations, but rather consist in an inflow of short-term capital into the banking system. As a consequence, there are no apparent links between national and foreign groups. Legislation restricting the association of domestic and foreign capital in the formation of new institutions (for example, private development banks) has been an obstacle to the creation of such institutions and made it difficult to find out what links exist between the two groups.

A look at some financial indicators shows that over the past thirty years in Chile the growth of

the means of payment and of the total assets of the financial system has not been in line with the real growth of the economy.

The coefficient of real liquidity (ratio of means of payment to national product in real terms) and the ratio of total financial assets to the national product fell between 1940 and 1959 (see table B). The first ratio (coefficient of real liquidity) fell by 50 per cent over the period; but the ratio of total assets to the product fell by even more, in 1959 being only slightly more than one-third of what it had been in 1940.^f

Inflation is the main factor responsible for these trends. It discouraged the holding of liquid assets and constantly made it necessary to apply monetary policy measures. The monetary stabilization measures taken so far, by restricting the secondary expansion of the means of payment, have reduced the effective level of liquidity, and this has brought the problem of the lack of development of the financial sector to almost intolerable levels.

Among the measures put into effect during the 1960s, it is worth while noting those adopted in 1959 and 1960, which did at least arrest the downward trend. Over the first five years of the decade (1960-1964), the liquidity of the economy

^f See Pedro Jeftanovic, "Estudio sobre el mercado de capitales chilenos" (Centro de Estudios Socio-Económicos, Santiago, 1969), mimeographed.

Table B
CHILE: RELATIONSHIPS BETWEEN MEANS OF PAYMENT, FINANCIAL ASSETS AND GROSS NATIONAL PRODUCT

(Millions of escudos at December 1965 prices)

	Notes and coin in circulation	Demand deposits in commercial banks and Banco del Estado	Total means of payment	Total assets ^a financial system	Gross national product	Gross national product	
						Means of payment	Financial assets
						Percentages	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	
1940	386	926	1,312	2,443	6,740	19.5	36.2
1950	485	1,113	1,598	2,161	9,677	16.5	22.3
1955	445	954	1,399	1,548	11,294	12.4	13.7
1959	465	790	1,255	1,706	12,954	9.7	13.2
1960	563	1,102	1,665	2,230	13,828	12.0	16.1
1961	565	1,081	1,646	2,311	14,686	11.2	15.7
1962	582	1,390	1,972	2,609	15,373	12.8	17.0
1963	517	1,200	1,717	2,297	16,130	10.6	14.2
1964	610	1,452	2,062	2,642	16,775	12.3	15.7
1965	725	1,518	2,243	2,921	17,547	12.8	16.6
1966	872	1,768	2,640	3,609	18,510	14.3	19.5
1967	918	1,705	2,623	3,770	18,900	13.9	19.9
1968	930	2,036	2,966	4,355	19,297	15.4	22.6

SOURCE: *Boletín Mensual* of the Banco Central de Chile, quoted by Jeftanovic, op. cit.

^a Assets of the commercial banks, Banco Central, mortgage banks and national savings and loan system.

did increase over the 1959 figure but without showing an upward trend. In the mid-1960s, further measures to stimulate financial development steadily increased liquidity (see table B). Recent trends in the Chilean financial system fall into two periods, demarcated by the average values of the indicators of liquidity.

The first period runs from 1960 to 1964 with a coefficient of liquidity (ratio of means of payment to gross national product) of 11.8 per cent and a ratio of financial assets to gross national product of 15.8 per cent. The second runs from 1965 to 1968, in which these coefficients were 14.1 and 19.7 per cent respectively.

The difference in the growth of the financial system in these two periods is even more apparent from a comparison of the real growth of the assets and liabilities of the financial system. In the first period, the financial system's total assets grew by 18 per cent and total liabilities by 46 per cent. In the second, these figures were 65 and 47 per cent respectively. The real growth of liabilities was much the same in both periods, which indicates that the economy's financing needs are more or less rigid and are not subject to the trends followed by assets. If assets do not grow at the same pace, the financing of the system then depends on increasing the rate of circulation of monetary assets and on raising the multiplier of the banking system.

These were the trends in the early 1960s. The purpose of the measures introduced in 1964 and 1965 was precisely to create machinery to encourage the surplus spending units to hold their savings in the form of financial assets. The result was a sharp increase in the real growth of the assets held by the financial intermediaries, which meant that the financing of the economy during the second period was less dependent on the multiplier effect of the primary issues.

II. PUBLIC FINANCIAL INTERMEDIATION[§]

A. THE BANCO CENTRAL

The Banco Central acts as the overseer of the financial system and also as a financial intermediary engaging in transactions with the public.

As regards the first of these functions, the Banco Central has gained added importance in the financial system in the 1960s, although this gain may have been greater in the regulations issued than in actual practice. More recently, reforms have been advocated

[§] The division between the public and the private sectors is not altogether clear-cut since the Banco del Estado functions as a development bank and the financing agency of the public sector and also as a commercial bank. For purposes of analysis, it will be considered a public intermediary as regards the first of these functions and a private intermediary as regards its functions as a commercial bank. The same is the case with the Caja Central de Ahorros y Préstamos, which will be considered in conjunction with the national savings and loan system, given that it has special features not shared by the other financial intermediaries.

whose basic purpose is to provide the Banco Central with a greater real capacity to supervise the Chilean financial system.

The Banco Central's activities vis-à-vis the public have declined in importance, and are at present confined to the public warehouse warrants of the Almacenes Generales de Depósitos, some transactions with industry, namely the nitrate and steel industries, and, in open market transactions, to transactions between banks. In 1965 an innovation was introduced in its relations with the public which enabled the Banco Central to tap savings. Since 1965 it has issued readjustable savings certificates (CAR) which to some extent maintain the real value of the public's liquid savings. These certificates have grown in importance (see table C) and the most recent data indicate that this trend will continue and become more marked. The resources generated by the issue of the CAR have gone in the first instance to long-term financing in the private sector and some public enterprises, and in particular to financing the expansion of export enterprises and enterprises producing capital goods.

B. OTHER PUBLIC INTERMEDIARIES

The general trend for there to be less public participation in credit to the private sector, and in financial intermediation, is also evident in Chile, although to a lesser extent, because the public sector has modernized its operations in the financial system by creating new machinery within its traditional institutions.

1. *The Banco del Estado*

The main change, which occurred in the mid-1960s, in the operation of the banking system was the creation of readjustable savings deposits in the Banco del Estado and the authority given to the Banco del Estado to act as a development bank providing readjustable long-term loans.

The Banco del Estado, like the commercial banks, maintains demand and time savings deposits, which declined in importance from 1965 onwards owing to inflation. At the beginning of 1966, these deposits were made readjustable according to the rate of inflation up to an amount deposited per account equivalent to 1.5 basic annual salaries.

The readjustment was to be financed out of the earnings on the development loans granted by the Banco del Estado. In practice, however, these earnings have covered only a small fraction of the amount required, the rest being covered by nominal fiscal contributions (acknowledgement of debts). At all events, readjustable savings deposits have been quite successful as a means of tapping savings (see table C).

Innovations have also been made in the way the Banco del Estado finances the public sector. All public agencies hold accounts in the Banco del Estado and, for purposes of Treasury overdrafts, these accounts are considered to be a single account: the "consolidated public sector account". The overdraft may be up to 70 per cent of the balance of this account; and if the Treasury takes the initial overdraft,

Table C
CHILE: ASSET STRUCTURE OF SELECTED FINANCIAL INSTITUTIONS
(Millions of escudos at December 1965 prices)

	<i>Commercial banks and Banco del Estado</i>					<i>Banco Central</i>			<i>Mortgage banks</i>		<i>National savings and loan system</i>		<i>Total assets</i>	
	<i>Demand deposits (excluding draft in clearance) Commercial banks and B. del Est.</i>	<i>Percent- age of total assets</i>	<i>Time deposits</i>		<i>Percent- age of total assets</i>	<i>Notes and coin in circulation</i>	<i>Percent- age of total assets</i>	<i>Read-justable savings certificates</i>	<i>Percent- age of total assets</i>	<i>Mortgage bonds in circulation</i>	<i>Percent- age of total assets</i>	<i>Deposits, mortgages, promissory notes and bonds</i>		<i>Percent- age of total assets</i>
			<i>Banco del Estado</i>	<i>Commercial banks and Bco. del Estado</i>										
1940	926.0	37.9	(586.8)	808.1	33.1	385.7	15.8	—	—	323.1	13.2	—	—	2,442.9
1950	1,112.8	51.5	(356.1)	446.3	20.6	484.6	22.4	—	—	117.7	5.4	—	—	2,161.4
1955	954.3	61.7	(92.6)	122.9	7.9	444.6	28.7	—	—	26.0	1.7	—	—	1,547.8
1960	1,101.9	49.4	(249.5)	513.7	23.0	563.1	25.2	—	—	51.6	2.3	—	—	2,230.6
1961	1,080.9	46.8	(336.7)	592.7	25.7	565.4	24.5	—	—	71.5	3.1	—	—	2,310.5
1962	1,390.4	53.3	(321.4)	550.6	21.1	581.5	22.3	—	—	51.3	2.0	35.4	1.4	2,609.2
1963	1,200.0	52.2	(304.4)	486.5	21.2	516.9	22.5	—	—	30.1	1.3	63.6	2.8	2,297.1
1964	1,452.0	55.0	(275.9)	457.9	17.3	610.1	23.1	—	—	19.4	0.7	102.6	3.9	2,642.0
1965	1,518.2	52.0	(286.7)	476.0	16.3	724.5	24.8	—	—	15.5	0.5	186.3	6.4	2,920.5
1966	1,768.4	49.0	(434.3)	641.2	17.8	871.5	24.2	14.9	0.4	13.5	0.4	299.1	8.3	3,608.6
1967	1,705.3	45.2	(516.3)	726.0	19.3	917.6	24.3	21.2	0.6	13.8	0.4	386.4	10.2	3,770.3
1968	2,035.9	46.7	(577.0)	788.3	18.1	930.2	21.4	55.9	1.3	14.9	0.3	529.7	12.2	4,354.9

SOURCE: *Boletín Mensual* of the Banco Central, data quoted by P. Jeftanovic, op. cit.

deposits it in the accounts of the various public agencies and then overdraws again, it can have available to it, in addition to the balance of its own account, an amount equal to 2.3 times the funds actually on deposit in the accounts of the other public agencies.

This means of financing grew in importance during the 1960s. The data available indicate that in 1965 the resources obtained by the public sector through overdrafts on the consolidated account accounted for 85 per cent of all credit obtained by the public sector from the Banco del Estado.^h A comparison of the growth rates of loans to the public sector by the Banco del Estado and of the total liabilities of the banking system indicate that the more rapid growth of the former occurred from 1960 onwards, which demonstrates that being able to overdraw the consolidated account was what prevented the public sector in Chile from having more serious problems with its current financing than it actually did.

2. The public development agencies

The public sector in Chile has specialized credit institutions basically designed to provide long-term financing for fixed investment and the infrastructure. These include the Production Development Corporation (CORFO), the first to be established, which promotes development in all sectors through loans, direct investment and shareholdings in enterprises; the Housing Corporation (CORVI) which participates in financing the construction of low-cost housing and at present operates in much the same way as the savings and loan system but in close association with the social security institutions; the National Mining Enterprise (ENAMI), which finances small- and medium-scale mining; and the Agricultural Development Institute (INDAP) and the Agrarian Reform Corporation (CORA) which are responsible for promoting agricultural development and financing the agrarian reform.

In the mid-1960s, loans by these agencies accounted for about 25 per cent of all loans granted by the banking system.ⁱ Their resources come mainly from fiscal contributions and external loans, the only exception being CORVI which obtains resources from social security funds and saving deposits by the public.

As noted earlier, there has been a tendency recently in Latin America for the centralized development agencies to lose their importance as a means of channelling external credit to the productive system. In Chile, however, the public agencies have managed to maintain a certain degree of control over external credit (see table D). While direct external credit to the private sector remained virtually stationary in the period 1965-1968, credit negotiated with public sector guarantees—i.e., approved or supervised normally by CORFO—increased. This had the effect of reversing the ratio of credit guaranteed by the public sector to direct external credit from 16 per cent in 1965 to almost 60 per cent in 1968. If suppliers' credits are left out of account, in other words, con-

sidering only credit from international agencies, banks and Governments, the upward trend of external credit guaranteed by the public sector is even more marked, rising from 15.4 per cent in 1965 to 87.3 per cent in 1968 (see table D).

Chile's external situation in 1964 and 1965 had the effect of making the lenders of funds require government guarantees, and this was largely responsible for the sharp rise in the ratio from 15 per cent in 1965 to 80 per cent in 1966. Only subsequently did the monetary authorities become more concerned about using government guarantees for external loans as a means of influencing the allocation of resources.

All the above, however, is not to say that Chile's position is different from that of the region as regards the centralization of external credit. More and more, external resources arrive already earmarked for specific projects and not as lump sums for subsequent allocation. The fact that there is greater control is a consequence of the way in which CORFO operates in guaranteeing external credit.

III. PRIVATE FINANCIAL INTERMEDIARIES

A. THE BANKING SYSTEM

The share of the assets of the banking system (including the Banco del Estado and the commercial banks) in total assets has declined steadily but not very sharply in recent years. Taking account of demand and sight deposits, its share fell from 72.4 per cent in 1960 to 64.9 per cent in 1968 (see table 10). This ratio does not, however, explain the way in which the system actually evolved.

The share of demand deposits increased between 1960 and 1964, reaching a level of 55 per cent in the latter year. From then on they declined steadily in importance, although they grew more in real terms than in the previous period. This would seem to show that their greater share in total assets in earlier periods was largely due to the lack of development of the system as a whole. Time deposits, on the other hand, have shown exactly the reverse trend. Their share in the total assets of the financial system declined up to 1965, and from then on increased, which is explained by the introduction of readjustable savings accounts in the Banco del Estado (see table C).

The commercial banks have not been able to bring their system of time deposits into line with the new system of readjustable savings introduced by the Banco del Estado. The interest rates on time deposits in commercial banks fluctuated around 15 per cent a year; because of inflationary trends, such interest rates became negative in real terms, except in 1960 and 1961.

The banking system's share in the total loans of the financial system also fell throughout the decade (see table 10), from 98 per cent in 1960 to only 80 per cent in 1968.^j

^j These figures are overestimates of total financing in Chile because of the exclusion of State development agencies (CORFO, CORVI, etc.), social security institutions and consumer credit organizations.

^h See Jeftanovic, *op. cit.*, p. 114.

ⁱ *Ibid.*, p. 170.

Table D
CHILE: USE OF EXTERNAL CREDIT BY THE PRIVATE SECTOR
(Millions of dollars)

	1965		1966		1967		1968	
	Dollars	Percent	Dollars	Percent	Dollars	Percent	Dollars	Percent
<i>Guaranteed by the public sector</i>	11.3	15.8	21.0	25.6	21.0	30.6	81.8	59.2
International agencies	5.6	7.8	10.5	12.8	8.7	12.7	45.4	32.9
Governments	—	—	2.2	2.7	5.5	8.0	10.2	7.4
Private Banks	—	—	—	—	6.8	9.9	4.0	2.9
Other suppliers	5.7	8.0	8.3	10.1	—	—	22.2	16.1
<i>Direct private debt</i>	60.5	84.2	61.0	74.4	47.6	69.4	56.3	40.8
International agencies	21.7	30.2	1.6	1.9	5.5	8.0	8.7	6.3
Private Banks	9.1	12.7	1.4	1.6	—	—	—	—
Other suppliers	29.7	41.8	58.0	70.7	42.1	61.4	47.6	34.5
<i>Total</i>	71.8	100.0	82.0	100.0	68.6	100.0	138.1	100.0
International agencies	27.3	38.0	12.1	14.8	14.2	20.7	54.1	39.2
Governments	—	—	2.2	2.7	5.5	8.0	10.2	7.4
Private Banks	9.1	12.7	1.4	1.6	6.8	9.9	4.0	2.9
Other suppliers	35.4	49.3	66.3	80.9	42.1	61.4	69.8	50.5

SOURCE: Foreign Trade Division of the Planning Office (ODEPLAN), quoted in "Análisis y Diagnóstico", Santiago, year VI, No. 5 (mimeographed).

B. THE NATIONAL SAVINGS AND LOAN SYSTEM

The modernization of the financial system in Chile began in 1959 with the formulation of norms to govern incentives to financing and building low-cost housing units.^k A system of "tied savings" was introduced and provision was made for the Corporación de la Vivienda to be the financial intermediary in charge of such operations. In 1960,^l the law was broadened to allow the establishment of private savings and loan associations controlled and financed by the Caja Central de Ahorros y Préstamos, acting as a Government agency.

The twenty-five savings and loan associations operating today attract resources by collecting savings deposits from the public, selling readjustable mortgage securities and through loans from the Caja Central de Ahorros y Préstamos. Table E shows that most of the resources of these associations come from public savings deposits (62 per cent in 1968). Loans are for housing construction, are readjustable and have long repayment periods (maximum twenty-five years).

The Caja Central de Ahorros y Préstamos supervises and provides financial support for the system of tied savings. Most of its funds come from the exchequer and from external credits, supplemented by the sale of mortgages and readjustable bonds to the public. The data contained in table 10 give a

^k Legislative decree No. 2 of 1959.

^l Legislative decree No. 205 of 4 April 1960.

rough idea of the way in which these institutions have expanded in Chile. In 1968, they held 12 per cent of the total assets of the system and their sales accounted for nearly 20 per cent of the same total.

C. OTHER PRIVATE INTERMEDIARIES

The importance of *mortgage banks* (there are currently two, together with the mortgage department of the Banco del Estado) within the financial system in Chile has declined (see table 10). In 1965, their rules of operation were altered to enable them to take advantage of monetary readjustments. The prior authorization from the Central Bank needed to make this change effective was delayed until 1968, when authorization was given for two issues of readjustable bonds for specific amounts by private banks.

The real annual volume of transactions carried out on the country's two *stock markets* fell from 73.4 million escudos (at 1958 prices) in 1940 to 9.7 million in 1968. At the same time, the real share index fell from 3,562.4 in 1940 to only 698 in 1968.^m

In the 1960s certain measures were taken to alter the above trend, but they produced no concrete results. Indeed, the temporary fluctuations observed on the stock exchanges were dictated by different political trends rather than by specific situations.

By virtue of legislative decree No. 324 of 1960, authorization was granted for the establishment of four *mutual funds* and one investment company from

^m See P. Jektanovic, op. cit., p. 166.

Table E
CHILE: SAVINGS AND LOAN ASSOCIATIONS
(Millions of escudos at December 1965 prices)

	Loans	Funds		Total funds
		Savings deposits	Readjustable mortgage certificates	
1962	52.0	35.4	—	35.4
1963	140.8	63.6	—	63.6
1964	179.5	95.1	3.4	98.5
1965	298.0	164.1	20.2	184.3
1966	283.0	252.0	44.3	296.3
1967	375.0	301.4	75.9	377.3
1968	509.0	344.7	162.4	507.1

SOURCE: Monthly bulletins of the Central Bank, quoted by P. Jeftanovic, op. cit.

that year onwards. Naturally, given the conditions under which the Chilean stock exchange has developed, these funds have met with no success.

A law on *development banks* promulgated in 1965 contains a set of regulations governing the operation of mortgage banks and the development activities of the Banco del Estado.

The law stipulates that development banks must grant readjustable loans for upwards of three years and that at least 51 per cent of their social capital must be owned by Chileans. However, no institution of this type has been set up for want of agreement on the structure it should be given, and this has meant that CORFO and, to a lesser extent, the Banco del Estado, have continued to fulfil the functions of a development bank.

D. CONSUMER CREDIT

There was a fairly sharp upswing in consumer credit in Chile in the 1960s, which cannot, however, be measured with exactitude because of the lack of systematic information.^a

Nevertheless, most of the burden has fallen on non-specialized institutions which have taken on neither the form nor the function of consumer credit organizations. The financial institutions have a small share in mobilizing resources for consumer credit owing to rediscount limits set by the Central Bank (in the case of loans by the commercial banks) and to the fact that such mobilization is carried out by institutions that do not have the capacity to issue indirect liabilities on a generalized scale. For this reason, most consumer credit is granted by the producers and distributors of goods for which financing is available. Moreover, the real reason for the

existence of that type of credit is that the producers finance their sales to the distributors. The purpose of these and the other institutions (financial association) is to expand and facilitate consumer credit.

An analysis of the structure of the liabilities of the producers and distributors of durable consumer goods partly confirms the above. Moreover, it shows that the share of the banking system in consumer credit is not so small as might be supposed. Indeed, the resources of the banking system are used indirectly to finance consumption, since they are largely made up of credits obtained by producers to finance their sales (see table F).

Moreover, a study undertaken by the Banco Central de Chile shows that in September 1968, the credit granted by producers and distributors for the purchase of textiles, furniture, clothing, footwear, household appliances and cars amounted to an estimated 775.8 million escudos, or the equivalent of 20 per cent of the total credit transactions of the banking system.

It may be concluded that the system of consumer credit in Chile is basically traditional and therefore offers no prospects for a continuance of the process of expansion noted up to now: direct participation by the banking system in consumer credit (since 1965) is restricted by strict rediscount ceilings; the thirteen consumer credit institutions in existence have no efficient machinery to guarantee very rapid growth—in practice, their expansion depends on the reinvestment of profits and the growth of their clientele, since they have no source of funds apart from the fees they charge commercial firms and clients—and social security institutions also have a share in consumer credit by virtue of the loans they grant to members. However, their importance is on the wane, and their contribution to total consumer credit is insignificant nowadays. The future growth of this type of financing will depend largely on the growth of the number of producers and distributors who finance their sales and on an increase in the number of products that can be financed.

^a The work by Erna Kunz and Marina Weinstein, *El crédito para el consumo en Chile*, goes a long way towards filling that gap. (Economics Institute of the University of Chile, 1969.) Mimeographed.

Table F
CHILE: STRUCTURE OF THE LIABILITIES OF PRODUCERS AND
DISTRIBUTORS OF CONSUMER DURABLES

(Percentages)

	<i>Appliances</i>	<i>Clothing</i>	<i>Footwear</i>	<i>Textiles</i>
<i>Producers</i>				
Suppliers' credit	9.0	13.0	24.0	5.0
Bank credit	16.0	11.5	2.5	29.0
Own capital	48.0	27.0	27.0	38.5
Other liabilities	27.0	48.5	46.5	27.5
<i>Total liabilities</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
<i>Distributors</i>				
Producers' credit	57.0	42.8	24.7	40.5
Bank credit	8.0	1.9	1.0	1.7
Own capital	23.0	42.5	63.0	41.3
Other liabilities	12.0	12.8	11.3	16.5
<i>Total liabilities</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

SOURCE: Catholic University of Chile, *Algunos aspectos del crédito al consumo*, quoted by Erna Kunz and Marina Weinstein, op. cit.

ECUADOR

I. GENERAL REMARKS

The financial sector developed at a moderate rate in the 1960s. The first indication of this trend is the fact that the ratio of financial assets to gross domestic product rose from 29.4 per cent in 1960 to 33 per cent in 1968;^o that is, a fairly slow rise compared with trends observed in other countries of the region.

As regards the structure of financial intermediaries, the first point worth noting is that the Central Bank and the commercial banks have largely monopolized the loan market, although their share of that market declined in the 1960s, from 87.4 per cent in 1960 to 80.2 per cent in 1948. As will be shown below, the Central Bank and the commercial banks should be considered together because in Ecuador the Central Bank normally fulfils the function of granting credits to the private sector.

The above-mentioned decline was compensated by the increase in the total credit acquired by the Caja Nacional de Seguro Social, and by the part played by two financial institutions which were set up during the period under review: one public, the Corporación Financiera Nacional, and the other private, the Ecuadorian Finance Corporation (COFIEC). On the other hand, there was little change in the importance of the Banco Nacional de Fomento (see table 12).

The level of diversification of the country's financial system is comparable to other more devel-

oped countries of the region. Thus, in addition to the traditional banking sector (Central Bank and commercial banks) there are an official development corporation, government and private financial institutions, agencies to finance the construction of housing, credit co-operatives and insurance companies.

However, this diversification is marked by two singular features. First of all, the number of intermediaries of each type is small, and, as has been shown, the credits granted by the Central Bank and the commercial banks continue to dominate the structure of the financial system, although the share of the new intermediaries has increased slowly. Secondly, there is little specialization by the different organizations. Thus, in addition to granting loans of at least one year to finance the current expenditure of enterprises, the commercial banks also act as mortgage banks (mortgages account for approximately one-fifth of total bank transactions) and, generally speaking, grant loans with repayment periods of one year and more. Moreover, in practice there are two government development banks (the Banco Nacional de Fomento and the Corporación Financiera Nacional), which overlap, to some extent, in financing manufacturing, and, in addition, a private bank (the Ecuadorian Financial Corporation) which covers the same field. Lastly, the Central Bank acts simultaneously as a commercial bank, as was shown above.

II. PUBLIC FINANCIAL INTERMEDIARIES

A. THE TRADITIONAL INTERMEDIARIES

Generally speaking, there was no marked revival of activity by the traditional government intermediaries in the 1960s, especially as regards the

^o See table 12. Moreover, between 1960, and 1968 the gross domestic product grew from 14,140 to 27,288 million sucres at current prices. (Source: *Statistical Bulletin for Latin America*, vol. VII, No. 1-2, United Nations publication, Sales No.: E/S.70.II.G.5, p. 180).

tapping and allocation of resources. On the other hand, some progress was made in administrative organization and the provision of equipment.

1. *The Central Bank*

The Central Bank has continued to act as a monetary authority along traditional lines, giving priority attention to the over-all facets of the system, except as regards direct loans to the private sector.

As regards attracting funds, the Bank has not begun to issue securities, which would have enabled it to participate in the financial market and obtain "untied" savings from spending units. Its general prospects for action to channel financial resources have, therefore, been limited.

Concerning Central Bank loan activity, it should be pointed out first of all that, up to 1967 its credit transactions, including loans to Government, private enterprises and commercial and development banks, grew very slowly. Only from 1968 was there a more rapid rise in the amount of loans granted by the Central Bank, especially loans to Government, development banks and, to a smaller extent, private enterprises. In other words, the Ecuadorian monetary authority has only recently begun to make greater use of the possibility of acting in the financial system through the issue of direct loans and the adoption of complementary measures to channel and control such loans.

Secondly, it is observed that the Central Bank granted a very low level of credits to the commercial banks throughout the 1960s and there was no tendency for this level to rise.^p Thus, the banks' capacity to increase their credit was determined almost exclusively by the amount of resources they were able to attract directly. This must have made it more difficult for the Central Bank to carry out its credit supervisory function, as it had no instrument of direct action at its disposal such as the manipulation of cash ratios.

Lastly, Central Bank direct loans to the private sector amounted to about one-fifth of commercial bank loans to the same sector at the end of 1969. This proportion, which had fallen to about one-seventh at the end of 1967, is similar to that observed at the beginning of the 1960s.^q

The data available on the evolution of the sectoral distribution of this type of Central Bank direct credit show that priority was given to industrial loans, while there was a decline in commercial loans. Thus, between 1962 and 1968, the amount of loans to industry increased from 252 to 623 million sucres at current prices, while loans to the commercial sector fell from 826 to 559 million sucres at current prices.^r The figures given serve only to illustrate general trends, as it is well known that statistics on the sec-

^p For instance, at the end of 1969, the balance of credits stood at 106 million sucres at current prices, equivalent to less than one-twelfth of commercial bank reserves. See International Monetary Fund, *International Financial Statistics*.

^q See IMF, *International Financial Statistics*.

^r See National Board for Economic Planning and Co-ordination, *Indicadores Económicos*, July 1970.

toral distribution of credit have serious conceptual limitations.

2. *The Banco Nacional de Fomento*

Under its statute, the function of this traditional official agency is to finance the development of the manufacturing sector. However, following the transformation of the Comisión Nacional de Valores into the National Finance Corporation in 1963, the bank came to deal exclusively with small-scale and artisan-type industry. The rest of its resources have been directed chiefly to financing agricultural growth.

Table G shows that there were fluctuations in total credits granted by the Bank, in terms of currency at current prices, between 1958 and 1966, but no upward trend is evident. Only from 1967 can a clear increase be seen in the Bank's credit activities. In other words, for several years the chief official credit agency waned in importance within the system of intermediation.

This trend was influenced by the fact that, for much of the 1960s, there was no rise in Government allocations to the Bank. Nevertheless, the Bank could not or would not utilize its possibilities of attracting funds through the powers granted to it to accept time and sight deposits under conditions that made it competitive with the commercial banks.

An increasing proportion of the Bank's loans have been going to agriculture, to the detriment of the other sectors (see table G).

3. *Other traditional government intermediaries*

Special mention should be made of the Caja Nacional de Seguro Social, because of the growth on the credit it grants. This upswing (from 6.8 to 9 per cent of total credits within the system, according to table 12) is distinct from growth trends observed in many other Latin American countries. Unfortunately, there is insufficient background information to allow an analysis of the reasons for this trend.

B. THE NEW GOVERNMENT INTERMEDIARIES

1. *The Corporación Financiera Nacional*

As mentioned above, this institution owes its origin to the restructuring of the Comisión Nacional de Valores and from 1963 it became responsible for promoting industrial investment, except for small-scale and artisan-type industry.

At the end of 1968, the credits granted by the Corporación amounted to 185.4 million sucres at current prices, or 2.1 per cent of total loans within the financial system. Around 70 per cent of this amount was recorded as loans to manufacturing enterprises, while 20 per cent was directed to financing investment in electric power. The remaining 10 per cent went to other sectors.^s

^s See National Board for Economic Planning and Co-ordination, op. cit. About 75 per cent of the loans granted to the manufacturing sector went into traditional industries (chiefly food and textile).

Table G
ECUADOR: CREDITS GRANTED BY THE BANCO NACIONAL DE FOMENTO^a
(Millions of sucres at current prices)

1958	17.9	67.1	265.6	0.5	351.1
1959	14.3	40.5	189.4	0.8	245.0
1960	12.8	39.5	188.8	0.3	241.4
1961	22.9	45.5	234.2	32.0	334.6
1962	19.4	41.7	183.9	18.3	263.3
1963	20.8	44.3	201.9	27.6	294.6
1964	20.7	81.4	246.9	27.1	376.1
1965	13.3	42.0	253.4	27.0	335.7
1966	16.7	39.7	304.8	17.2	378.4
1967	19.0	46.5	354.0	46.0	465.5
1968	23.1	39.8	438.9	47.5	549.3
1969	23.2	49.2	470.1	60.5	603.0

SOURCE: National Board for Economic Planning and Co-ordination, *Indicadores Económicos*, July 1970.

^a Balance at 31 December.

Basically, this new development bank obtains its income from Government subsidies, and through external credits with international organizations and governmental organizations in other countries. It has not, however, taken an active part in attracting resources from spending units. For this reason, its capacity to expand may be hampered in the future, as happened previously with the Banco Nacional de Fomento.

It is worthy of note that the Corporation is currently devoting special attention to the promotion of investment projects directed to the expanded Andean subregional market. Indeed, with that end in view, it has started to work jointly with the Chilean Production Development Corporation (CORFO).

2. *The Banco Ecuatoriano de la Vivienda*

This institution started operating in 1962, when it was given the task of financing housing construction. To that end, it grants mortgage loans, either directly or through mutual funds.

The Bank has developed to only a limited extent because, on the one hand, the commercial banks have continued to operate in this field and, on the other, the resources available to it have been scarce, being made up of Government subsidies and external funds. The division of functions between the Banco de la Vivienda and the commercial banks consists in the fact that the former is concerned chiefly with credits of more than twenty years, while the latter confine themselves to much shorter repayment periods.

In quantitative terms, the loans granted by the Housing Bank have been of small significance; at the end of the 1960s they amounted to less than 10 per cent of total loans granted by the commercial banks.^t

^t See National Board for Economic Planning and Co-ordination, *op. cit.*

III. PRIVATE FINANCIAL INTERMEDIARIES

A. THE TRADITIONAL INTERMEDIARIES:

THE COMMERCIAL BANKS

The commercial banks are the most important of the traditional private intermediaries. Their characteristic function is to grant short-term loans to finance the current expenditure of enterprises. However, as mentioned above, they also take an active part in granting loans of more than one year and in financing housing construction.

There has been no substantial modernization of the commercial banks in Ecuador. For instance, the establishment of branch companies up and down the country has taken on such a dimension as to permit the more widespread use of current accounts. In practice, the network of banks is concentrated to a large extent in the central areas of Guayaquil and Quito. Nor has significant progress been made in the methods of attracting and allocating resources.

Although the private banks have hardly been modernized, they have continued to be of key importance within the intermediation system, particularly in respect of the acquisition of funds (see table 12). This is an indirect illustration of the fact that the new intermediaries have developed very little and of the possible future importance of funds from surplus spending units if a decisive policy is undertaken in this field.

B. THE NEW PRIVATE INTERMEDIARIES:

THE ECUADORIAN FINANCE CORPORATION

This Corporation (COFIEC) began operating in 1966. Its capital is owned by Ecuadorian residents (with 48.9 per cent of the total), private foreign banks (with 41.5 per cent) and international financial organizations, such as the International Finance Corporation and ADELA (with the remaining 9.6 per cent).

The main function of COFIEC is to establish relations between international private capital and Ecuadorian enterprises that are modernizing or expanding their productive activities. The Corporation uses three procedures to achieve this end: granting of loans, purchase of capital in enterprises and granting of guarantees on external credits accorded to certain national companies. COFIEC's activities within the first two spheres of action have been fairly limited; but under the third procedure it has extended guarantees for more than 10 million dollars.

COFIEC has operated in several sectors of production, but most of its financing has gone to manufacturing, agriculture, and livestock, construction and transport. These sectors absorbed around 90 per cent of total financing in 1969, and rather more than 55 per cent of the same total went into industry.¹¹

It can be seen, therefore, that the activities of this new private intermediary reflect the low level of sectoral specialization which is generally typical of the operations of the country's financial system.

PERU

I. GENERAL REMARKS

In quantitative terms, the financial sector in Peru has broadly followed the trends noted in many other Latin American economies. Up to the end of the 1950s, the traditional financial structure was maintained, in which the central bank regulated all transactions between the commercial banks and the sectors of production. The commercial banks were the cornerstone of the financial system, for on them depended the tapping of surplus resources from the public and private sectors and their allocation in accordance with seasonal demands—important in a country relying on agriculture and fishing—and the demands of the economy's growth. Other entities that played a complementary role in the system were insurance and capital formation companies, and development and mortgage banks in their capacity as public law organizations. These intermediaries, however, were of small significance.

To the above were added, in the 1960s, the types of private intermediaries that currently form the financial landscape of many countries. They include savings and credit co-operatives, mutual funds (savings and loan associations) concerned basically with the construction of housing, investment banks and financial associations. Moreover, the Banco de la Nación and the Banco de la Vivienda were set up as Government intermediaries.

The evolution of the financial sector in Peru has brought with it an increase in the ratio of financial assets to gross domestic product (from about 41 per cent in 1960 to 49 per cent in 1969). Most of this increase is attributable to the development of the Banco de la Nación, set up in 1966 (see table 11).

¹¹ See COFIEC, *Informe Anual 1969* (Quito, 1970), p. 32.

The Banco Hipotecario, the Banco Industrial and the Banco de la Vivienda have also increased their share in total financial assets. However, the share of the Central Reserve Bank and the commercial banks has fallen considerably.

The financial sector in Peru takes on a singular aspect if account is taken of the functional features of the system. Indeed, at the beginning of the 1960s, the central banks ceased to play their traditional role with regard to the commercial banks, since their resources were reserved almost exclusively for Government use, largely as a result of the sharp upswing in central government spending. Moreover, the activities of the Banco de la Nación, a financial agent of the Government, began to acquire growing importance in the second half of the decade.

For this reason, the operations of the private intermediaries were subordinated to their capacity to attract resources from domestic and foreign surplus spending units. Although the former were the main source of funds, large amounts of private foreign capital also flowed into the national market, in the form of loans or to acquire shares in the capital of private intermediaries, mainly the commercial and investment banks.

The different types of private intermediaries began to compete for the same domestic resources in the second half of the 1960s, in circumstances that were less favourable than in the first half, in view of the fact that the growth rate of the economy had fallen and a number of more or less restrictive financial policies had been introduced to deal with inflationary pressures. In this situation of a relative scarcity of liquid funds, the traditional and also the new private financial intermediaries were limited in their ability to attract funds from surplus spending units.

This subject will be taken up again later, particularly in examining the reduction in the commercial banks' loan activities from 1966 onwards.

Lastly, it should be emphasized that important changes began to take place in the financial structure of the country in 1969, coinciding with substantial changes in general economic policy. The repercussions of some of these changes were felt in the same year, as will be shown below. It is obvious, however, that the changes in the financial system will take effect in the 1970s, and for that reason they must fall outside the purview of this document.

II. PUBLIC FINANCIAL INTERMEDIARIES

Traditional public intermediaries in Peru include a number of institutions engaged in different fields of actions. There is thus a distinction between the Central Reserve Bank, on the one hand, and specialized development banks of fairly long standing, on the other (the Banco de Fomento Agropecuario, the Banco Industrial and the Banco Minero were set up between 1929 and 1942). The establishment of the Banco Central Hipotecario dates from the same period. This traditional subsystem is, therefore, broad and diversified.

Two new intermediaries were set up in the 1960s: the Housing Bank^v in 1962, which was intended to act as a sort of central bank for the housing savings and loan system; and the Banco de la Nación in 1966, mentioned above.

A. THE TRADITIONAL INTERMEDIARIES

1. *The Central Reserve Bank*

The country's monetary authority did not undergo a great deal of modernization in the 1960s, particularly as regards the attraction and allocation of resources. Its action therefore continued to be centred, basically around the management and control of the more over-all aspects of monetary expansion.

An important factor is the fact that a very high proportion of the Central Bank's direct loans were issued to the Government, while loans to the commercial banks were sporadic and for small amounts. There was also a fairly sizable increase in credits granted to development banks, particularly in the first half of the decade.^w

Other Central Bank activities included the formation of special funds, using a procedure followed in other countries of the region, such as Colombia. The Fondo de Inversiones privadas falls under this head, although it did not develop to any great extent.

2. *Other traditional intermediaries*

The combined share of the agricultural, industrial, mining and mortgage banks in the issue of credits rose from 18.6 per cent in 1960 to 21.2 per cent in 1969 (although nearly the whole of this increase is attributable to the Banco Industrial).^x That is, the relative importance of the specialized public sector banks, which was already great in 1960, increased even more during the last decade.

In this connexion it should be stressed that the increase took place despite the fact that Central Bank credits to the development banks fell during the second half of the decade. However, during the same period the agricultural and industrial banks were authorized to receive deposits from the public at large. This authorization led to more successful results in the Banco Industrial, as can be seen from an analysis of the figures for deposits in table 11.^y

In addition to credits supplied by the Central Bank and deposits from the public, the specialized

^v It is classified as a Government intermediary, although AID owned 56 per cent of its capital at the end of 1969, the remainder being Government-subsidized. Nevertheless, a legislative decree was promulgated in 1969, stipulating that the Bank's board of directors should be appointed by government decision.

^w See International Monetary Fund, *International Financial Statistics*.

^x See table 11.

^y For a comparison with the deposits received by the commercial banks, it should be considered that the latter had more than ten times as many offices as the development banks at the end of 1969.

development banks have had other resources with which to finance their expanding credit portfolio. These have come directly from the Government, from the sale of mortgage certificates, and from their own shares and external credits. However, the rate at which such funds have been tapped has not been high enough to meet the needs of these institutions for the grant of medium- and long-term loans.

During the 1960s the specialized banks gradually took on a more active role in granting credits for developmental purposes, despite the relative limitation on their operating capital. In addition, the industrial and mining banks were authorized to obtain shares in the capital of enterprises with a view to promoting their establishment or establishing them directly. But this procedure was very little used up to the end of 1968.

The Banco Agropecuario was the most important of the development banks as regards activities in the field of credit, maintaining a share of around 10 per cent in the total credit granted by the financial system.

This stability, which was achieved at a time when its share in the collection of deposits declined (see table 11) was especially important for two main reasons: first because, as will be shown below, the actual amount of commercial bank loans to agriculture declined from 1964 onwards; and secondly because, in accordance with a measure adopted at the beginning of the 1960s, half the Bank's credits were absorbed by small-scale national agricultural enterprises. It should be mentioned that these enterprises were the most severely affected by the natural catastrophes that devastated Peru in the 1960s.

B. THE NEW PUBLIC INTERMEDIARIES

Supplementing what was said above about the Banco de la Vivienda, it may be noted that it developed slowly between 1962 and 1968. Only as from 1969 did it begin to grow faster, as a direct result of the promulgation of legislative decree No. 17863 in October of that year. This decree empowers the Bank to start a policy of financing new low-cost housing projects, and to issue mortgage certificates (bonos de fomento hipotecario). In addition, a new set of measures is established to regulate the system of savings and loans for housing.

To give a general idea of the impact that the new system of operation may have, it is worth noting that between the end of 1968 and the end of 1969 the book value of the Bank's liabilities increased fivefold.^z

The second new public intermediary set up in the 1960s is the Banco de la Nación, whose rapid growth and growing field of activity are explained by its role as a financial agent of the Government. The new responsibilities entrusted to it as of 1969 should contribute to an even greater increase in its rate of growth. Some of the functions assigned to it were

^z See Superintendencia de Banca y Seguros, *Memoria 1969* (Lima, 1970), p. 63.

the collection of rents from the Central Government and from the independent government sub-sector and the buying and selling of bonds, securities and other public and private liabilities.^{aa}

The importance acquired by the Banco de la Nación—which is basically a combination of treasury and State bank, can be appreciated from the fact that, at the end of 1969, it held 27 per cent of total deposits in the system of intermediation (see table 11) and, what is more, the book value of its deposits doubled between the end of 1968 and the end of 1969.^{bb}

There is no doubt that this increase was a fundamental factor in limiting the commercial banks' ability to attract more funds in order to expand their loan activities.

III. PRIVATE FINANCIAL INTERMEDIARIES

A. THE TRADITIONAL INTERMEDIARIES: THE COMMERCIAL BANKS

First of all, mention should be made of a point raised in an earlier study,^{cc} namely, that the most essential aspect of the modernization of Peru's commercial banks was the introduction of the savings account system in the 1950s, its expansion, particularly in the first half of the 1960s, and the opening of a large number of new bank branches during the same period. Thus, at the end of 1969 there were 2,724,000 savings accounts books, with an average deposit of 2,700 soles per book, since total savings amounted to around 7,500 million soles (see table H).

In other words, of the total deposits collected by the commercial banks in 1969, 28 per cent were collected through savings accounts, which shows the

^{aa} Superintendencia de Banca y Seguros, op. cit., p. 36.

^{bb} *Ibid.*, p. 37.

^{cc} See "Mobilization of domestic resources", *Economic Bulletin for Latin America*, vol. XV, No. 2, pp. 134 and 135.

Table H

PERU: NUMBER OF SAVINGS ACCOUNT BOOKS AND TOTAL SAVINGS^a

Year	Number of books	Total savings (millions of sales at current prices)	Average per book (sales)
1955	828.653	1,037.6	1,252
1960	1,388.766	2,014.5	1,451
1965	2,098.151	5,402.4	2,575
1966	2,269.745	6,502.3	2,865
1967	2,430.316	6,548.0	2,694
1968	2,589.345	7,111.9	2,748
1969	2,723.567	7,459.9	2,739

SOURCE: Superintendencia de Banca y Seguros, *Memoria 1969*, Lima, 1970, p. 228.

^a Balance at 31 December.

important influence of low-income groups in mobilizing savings and in compensating for the restrictions on the commercial banks' ability to acquire other funds.

However, it is worthy of note that there was a marked regional disequilibrium between the processes of attraction and allocation of resources originating in savings accounts. Indeed, a large proportion of those savings were collected from the most backward areas of the country, while the proportion of loans directed to those areas was very small. To remedy this situation, the Government gave instructions in 1969 that the funds collected in each constituency (department) should be loaned within the same department.

With regard to the commercial banks' loan activities, the first point to be mentioned is that total loans rose from 6,785 million soles at current prices at the end of 1960 to 19,538 million at the end of 1969. This meant, on the one hand, that the ratio of loans by these banks to total loans by the system of intermediation fell from 46.6 per cent in 1960 to 30.2 per cent in 1969 and, on the other hand, that in the same period, the share of this type of loan in the gross domestic product fell from 12.2 per cent to 9.7 per cent, while the ratio of total loans to the gross domestic product rose from 26.2 to 32.3 per cent (see table 11).

This decline in the commercial banks' loan activities was not a feature of the entire decade. Between 1960 and 1965 the ratio of commercial bank loans to the gross domestic product rose from 12.2 to 12.8 per cent, and then fell in 1969 to the figure of 9.7 per cent mentioned above. It can be seen, therefore, that the seeds of this decline were sown in the establishment and expansion of the Banco de la Nación, on the one hand, and in the policy of refusing rediscounts followed by the Central Bank, on the other.

As is well known, figures on the sectoral distribution of credit are not easily calculated and are not very significant, because of serious conceptual limitations inherent in their collection. It therefore seems appropriate to note some general trends in this connexion.

It is observed that the decline in loan activities during the second half of the 1960s mainly affected the financing of the commercial sector (whose share in total financing by the commercial banks fell from 40 per cent in 1965 to 30 per cent in 1969)^{dd} and, to a smaller extent, agriculture and livestock breeding, and fishing (whose shares fell from 11 to 9 per cent and from 5 to 3.5 per cent, respectively). On the other hand, the share of manufacturing rose from 25 per cent in 1965 to 30 per cent in 1969, while that of construction doubled (from 4.5 to 9 per cent).^{ee}

^{dd} However, this decline was partly compensated by the increase in financing for miscellaneous activities, which grew from 10 to 17 per cent during the same period.

^{ee} See Superintendencia de Banca y Seguros, op. cit., pp. 208 and 209.

It should be mentioned that the increase in allocations to the construction sector is closely bound up with the growth of the subsystem of intermediaries specializing in financing housing construction. Indeed, the commercial banks have increasingly been playing the role of go-betweens by providing building firms and urban development corporations with advances on loans to be obtained from such intermediaries.

B. THE NEW PRIVATE INTERMEDIARIES

The two existing private development banks have taken on great importance, as has happened in other countries of the region. The biggest, the *Compañía de Fomento e Inversiones S.A.*, formed with capital from the International Finance Corporation. ADELA and private investors, both foreign and domestic, had granted credits for rather more than 6 million dollars at the end of 1969.

It is also interesting to note the development of mutual housing funds, which were set up all during the last decade. In 1969, they granted 5 per cent of the total credits accorded by the system of intermediation, while their share was zero, as is obvious, at the end of 1960.

With regard to the above-mentioned growth trend, it should be pointed out that it was achieved at a time when the system of private intermediaries was gradually being improved, and that, in comparison with other countries, especially Chile, very little external aid was received. It is, therefore, to be hoped that the increased support they have received since 1969, including the strengthening of the activities of the Banco de la Vivienda, will lead to the more rapid growth of the savings and loan system for housing in the next few years.

Lastly, a singular aspect of the financial system in Peru has been the rapid development of savings and credit co-operatives, especially in highly populated non-urban areas. Their share in total loans granted by the system of intermediation rose from 0.2 per cent in 1960 to 3.8 per cent in 1969 (see table 11).

These co-operatives have established their own rules of operation. In any case, all their loans must be directed to participants in their savings scheme, and resources must be allocated in accordance with previously determined priorities. With this *modus operandi* they have come to compete with the commercial banks, particularly in the areas mentioned above.

SOME REGIONAL DEVELOPMENT PROBLEMS IN LATIN AMERICA LINKED TO METROPOLITANIZATION

1. *Purposes*

Metropolitanization is one of the most important regional development problems affecting Latin America. Various historical, economic and social factors have led to the increasing concentration of the population and of economic activities in specific urban areas. This involves two types of interrelated problems: first, the intrinsic significance of the process and, secondly, its implications for other regions in view of its interdependent character.

This study presents some background data and raises certain questions concerning the problem. For this purpose, use is made of material that was prepared by ECLA for a more extensive study on the subject, and advantage is taken of other studies which, though on different subjects, contain information related to regional development (such as income distribution).

First and foremost, an attempt is made to identify the problem, and a brief description follows of two different typical situations, according to whether there are one or several large urban agglomerations in a given country. Lastly, some questions are raised in connexion with external economies, the use of urban land, and interregional and urban-rural relations.

2. *General characteristics*

(a) *The regional problem and metropolitanization*

Two movements converged in the concern felt for regional development problems, one from the national and the other from the local standpoint. The national outlook suggested the need to consider the geographical distribution of the population and resources in national development strategies and plans in the light of three basic considerations: first, the fact that there are densely populated areas in the various countries whose per capita incomes and living levels are far below those found in the more developed parts of those countries;

secondly, the increasingly acute problems deriving from population growth in the large cities; and, lastly, the benefits which could be obtained from exploiting potentially rich but sparsely populated regions, or through making better use of the resources found in backward areas. Besides these considerations, whose relative importance varies from country to country, there is often concern for consolidating the national frontiers and improving administrative efficiency by decentralizing the decision-making process. From a local standpoint, it was noted that in attempts to plan or define strategies at this level, both in physical planning and in the organization of society or the efforts to add to the value of economic resources, many of the problems encountered had to be considered within a broader regional context or at a national level.

Thus the convergence of these two movements led to the definition of this new area of activity in development programming: at a national level, with considerations of an inter-regional nature and those connected with the geographical location of investment in addition to over-all and intersectoral considerations; and at a local level, with the progressive establishment of new regional planning techniques. In this new area of work, however, social and political considerations have contributed most to the formulation and implementation of policies. There is a general lack of empirical studies and much still remains to be done before regional development options can be based on strictly economic criteria. In this respect, it would be interesting to determine—even if only from an analytical standpoint—what would be the most suitable geographical distribution to correct the existing defects and establish healthier development patterns. In other words, the point is to determine the best location for the population and capital in a particular country, given the existing natural resources and other economic and social factors.

Among the regional planning problems—at the national or regional level—for which this

deficiency is most noticeable is metropolitanization.

The metropolis may be described as an exceptionally large city, either because of the contraction of hundreds of thousands of inhabitants, because of its continuing urbanization measured in hundreds of square kilometres or because of the importance of the regions and cities under its economic jurisdiction. A metropolis is normally a city-region which, starting from a main nucleus and with the help of the industrial community's resources, sparks off the rapid urbanization of neighbouring areas, incorporating old population centres in a new socio-economic set-up and bypassing their politico-administrative units.¹

The metropolitanization process is very visible in Latin America, either with the predominance of a single national centre or with the existence of several regional centres. Although in some countries there is a fairly well-co-ordinated system of cities, on the whole the rate of expansion of the major national centres—and certain regional centres—results in their reaching a size which is several times greater than the largest secondary centres, thus leading to a state of metropolitanization. Table 1 shows the absolute and relative importance of the five largest cities of each country in 1940, 1950, 1960 and 1970. It may be noted that—with some exceptions which include São Paulo—the order of importance of the cities has been maintained over the years. As regards the relative importance of the principal urban centre, it will be seen that in eight countries it harbours over 20 per cent of the total population, in four the proportion ranges from 15 to 20 per cent and in eight it is less than 15 per cent. However, despite the importance which the problem of metropolitanization has thus acquired in Latin America, the existing studies on the subject focus essentially on its social advantages or disadvantages and the nature of its political functions.

The purpose of this study is merely to raise some questions of an economic nature, but certain data on economic and social issues such as income distribution are also included, and an attempt is made to define some economic options involved in investment decisions in metropolises.

First, a description is given of the essential characteristics of the economy's operation in

¹ Luis Carlos Costa, "Metropole e planejamento", *Revista de Administração Municipal*, Rio de Janeiro, Brazil, March-April 1970.

the spatial context, then some data is furnished on the situation prevailing in two types of countries, according to whether or not they have a dominant urban centre, i.e., Chile and Colombia. This is followed by data that have been gathered on certain economic conditions of the metropolitanization process, considering the metropolis itself and its relations with other parts of the country.

(b) *Operation of the economy in the spatial context*

In market economies of the type found in most of the Latin American countries, the economy's operation in the spatial context presents some typical features:

(i) There has been a clear trend towards the spatial concentration of economic activities in one or a few points, around which large urban agglomerations have formed. In the early stages of primary-export economies the binding factor was the export sector and certain politico-administrative activities. Later, the economic activities which gave most impetus to these agglomerations were associated with manufacturing and services. This trend is observable even in cases where policies designed to reduce this concentration have been applied.

(ii) The external economies deriving from these agglomerations provided comparative advantages for the concentration of industry, particularly a higher level of capital productivity. Consequently, a significant proportion of the income obtained in peripheral regions finds its way to the centres.

(iii) The concentration in these centres of industrial activities—and above all of accompanying services—pushes up employment, which leads to an increase in the migratory movements from peripheral regions to the centre, consisting mainly of the most highly skilled manpower available in the periphery of each country. Consequently, the centres in each individual country gain in demographic importance, in both quantitative and qualitative terms.

(iv) As a result of this concentration of population and economic activities, which generally goes hand in hand with the centralization of administrative activities, these centres acquire more political influence and greater bargaining power in the decision-making process than the various parts of the periphery. Thus, the centre obtains a larger share of the investment resources allocated by the public

Table 1
LATIN AMERICA: URBANIZATION ACCORDING TO THE FIVE MAJOR MOST DENSELY POPULATED CITIES
(Absolute figures (in thousands) and percentages)

Country	Major city	1970			1960			1950		
		Population of the country ^a	Population of the principal city ^b	Percent-ages	Population of the country ^a	Population of the principal city ^b	Percent-ages	Population of the country ^a	Population of the principal city ^b	Percent-ages
Argentina	Buenos Aires*	24,352	8,400	34.5	20,850	6,700	32.1	17,085	4,500	26.3
	Rosario*		803	3.3		672	3.2		570	3.3
	Córdoba*		791	3.2		589	2.8		426	2.5
	Mendoza*		573	2.3		427	2.0		256	1.5
	La Plata*		556	2.2		414	2.0		325	1.9
Bolivia	La Paz*	4,658	564	12.1	3,696	427	11.6	3,013	821	10.7
	Cochabamba		123	2.6		96	2.6		81	2.7
	Oruro		112	2.4		87	2.4		63	2.1
	Santa Cruz		97	2.0		69	1.9		43	1.4
	Potosí		82	1.8		57	1.5		46	1.5
Brazil	São Paul*	93,244	7,849	8.4	70,327	4,383	6.2	52,326	2,450	4.7
	Río de Janeiro*		6,821	7.3		4,392	6.2		2,890	5.5
	Recife*		1,626	1.4		1,027	1.5		650	1.2
	Belo Horizonte*		1,436	1.5		730	1.0		370	0.7
	Porto Alegre*		1,410	1.5		780	1.1		430	0.8
Colombia	Bogotá	22,160	2,551	11.5	15,877	1,662	10.5	11,629	655	5.6
	Medellín		1,012	4.6		718	4.5		328	2.8
	Cali		872	3.9		618	3.9		241	2.1
	Barranquilla		695	3.1		493	3.1		276	2.4
	Cartagena		307	1.4		218	1.4		111	1.0
Chile	Santiago*	9,780	2,781	28.4	7,683	2,072	27.0	6,058	1,413	23.3
	Valparaíso		314	3.2		253	3.3		219	3.6
	Concepción		183	1.9		147	1.9		120	2.0
	Viña del Mar		169	1.7		115	1.5		85	1.4
	Antofagasta		128	1.3		87	1.1		62	1.0
Ecuador	Guayaquil	6,028	766	12.7	4,323	511	11.8	3,207	259	8.1
	Quito		532	8.8		354	8.2		210	6.5
	Cuenca		80	1.3		60	1.4		40	1.2
	Ambato		71	1.8		53	1.2		31	1.0
	Manta		60	1.0		34	0.8		19	0.6
	Asunción	2,419	464	19.2	1,740	310	17.8	1,337	207	15.5
Paraguay	Encarnación		22	0.9		19	1.0		13	0.9
	Concepción		21	0.9		18	1.0		15	1.1

Table 1 (continued)
(Absolute figures (in thousands) and percentages)

Country	Major city	1970			1960			1950		
		Population of the country ^a	Population of the principal city ^b	Percentages	Population of the country ^a	Population of the principal city ^b	Percentages	Population of the country ^a	Population of the principal city ^b	Percentages
Peru	Lima-Callao*	13,586	2,815	20.7	10,024	1,784	17.8	7,969	614	7.7
	Arequipa		172	1.3		135	1.3		77	1.0
	Trujillo		141	1.0		100	1.0		37	0.5
	Chiclayo		135	1.0		96	1.0		32	0.4
	Cuzco		113	0.8		80	0.8		41	0.5
Uruguay	Montevideo*	2,889	1,415	49.0	2,542	1,159	45.6	2,198	800	36.4
	Salto		72	2.5		58	0.0			
	Paysandú		64	2.2		52	0.0			
	Rivera		49	1.7		41	0.0			
	Las Piedras		48	1.7		41	0.0			
Venezuela	Caracas*	10,755	2,277	21.2	7,740	1,336	17.3	5,330	694	13.0
	Maracaibo		695	6.5		422	5.5		236	4.4
	Barquisimeto		328	3.0		199	2.6		105	2.0
	Valencia		280	2.6		164	2.1		89	1.7
	Maracay		245	2.3		135	1.7		65	1.2
Costa Rica	San José*	1,798	440	24.5	1,233	320	26.0	849	180	21.2
	Alajuela		24	1.3		20	1.6		14	1.6
	Punta Arenas		24	1.3		20	1.6		13	1.5
	Limón		24	1.3		19	1.5		11	1.3
	Heredia		24	1.3		19	1.5		12	1.4
Cuba	Havana*	8,341	1,963	23.5	6,819	1,607	23.6	5,520	1,211	21.9
	Santiago de Cuba		276	3.3		223	3.3		163	3.0
	Camagüey		185	2.2		150	2.2		110	2.0
	Guantánamo		149	1.8		118	1.7		65	1.2
	Santa Clara		144	1.7		114	1.7		77	1.4
El Salvador	San Salvador	3,441	370	10.8	2,512	256	10.1	1,922	162	8.4
	Santa Ana		97	2.8		73	2.9		52	2.7
	San Miguel		55	1.6		40	1.6		27	1.4
	Nueva San Salvador		38	1.1		27	1.1		18	0.9
	Villa Delgado		34	1.0		24	1.0		13	0.7
Guatemala	Guatemala*	5,179	772	14.9	3,868	573	14.8	2,907	284	9.8
	Quetzaltenango		59	1.1		45	1.2		28	1.0
	Escuintla		33	0.6		25	0.6		10	0.3
	Puerto Barrios		29	0.6		22	0.6		15	0.5
	Mazatenango		24	0.5		20	0.5		11	0.4

Haiti	Port-au-Prince	5,229	283
	Cap. Haitien		50
	Gonaives		29
Honduras	Tegucigalpa	2,583	223
	San Pedro Sula		117
	La Ceiba		35
	Puerto Cortez		23
Mexico	Mexico City*	50,718	8,360
	Guadalajara*		1,135
	Monterrey*		920
	Puebla de Zaragoza*		450
	Ciudad Juárez*		403
Nicaragua	Managua	2,021	353
	León		53
	Granada		34
	Masaya		30
	Chinandega		29
Panama	Panama City	1,406	412
	Colón		68
	David		35
	La Chorrera		26
Dominican Republic	Santo Domingo	4,348	671
	Santiago de los Caballeros		155
	San Francisco de Macorís		44
	San Pedro de Macorís		42
	Barahona		38

^a ECLA, *Statistical Bulletin for Latin America*, vol. VI, No. 1, 1969.

^b ECLA, on the basis of national censuses.

* Including the suburban area.

5.4	4,138	195	4.7	3,380	134	4.0
1.0		35	0.8		24	0.7
0.6		20	0.5		14	0.4
8.6	1,849	134	7.2	1,389	72	5.2
4.5		59	3.2		21	1.5
1.4		25	1.4		17	1.2
0.9		17	0.9		12	0.9
16.5	36,046	4,900	13.6	26,640	2,880	10.8
2.2		737	2.0		378	1.4
1.8		597	1.7		333	1.3
0.9		289	0.8		211	0.8
0.8		262	0.7		123	0.5
17.5	1,501	235	15.7	1,133	109	9.6
2.6		44	2.9		31	2.7
1.7		29	1.9		21	1.9
1.5		23	1.5		17	1.5
1.4		22	1.5		13	1.1
29.3	1,021	273	26.7	765	128	16.7
4.8		60	5.9		52	6.8
2.5		23	2.3		15	2.0
1.8		14	1.4		9	1.2
15.4	3,129	370	11.8	2,303	182	7.9
3.6		86	2.7		57	2.5
1.0		27	0.9		16	0.7
1.0		22	0.7		20	0.9
0.9		20	0.6		15	0.6

sector (mainly to social and basic infrastructure projects).

(v) Increased employment in the centres is reflected in a rise in disposable personal income, which is a spur to the diversification and expansion of activities in the tertiary sector. The development of tertiary activities, in turn, helps to generate more employment and, therefore, to increase disposable income. This whole cycle results in the continuing expansion of the centre's internal market, which favours larger scales of production, higher capital productivity and, therefore, higher rates of return for the private entrepreneur. This is an incentive to transfer financial resources from the periphery to the centre for purposes of capital formation, which takes concrete shape in the establishment of new activities in the centre; these new activities help to give more impetus to the process described above, which thus operates in the form of a cycle.

(vi) The fact that the economy revolves around the activities located in the centres sets the pattern for the basic infrastructure at the national level, which is conceived in terms of the centre's requirements and thus generally favours concentration.

The way in which this process is taking place in two Latin American countries—Chile and Colombia—is described in the light of these general trends.

(c) *The case of a country with a dominant national urban centre*

In order to illustrate the basic characteristics and certain important features of the regional operation of a Latin American country with a large dominant urban centre, this section will consider in broad outline the case of Chile. When looking at the process of metropolitanization, what is most important is the degree of concentration of the population and economic activity in the large urban centre. The following paragraphs will discuss what has happened in this respect in Santiago and in the other regions of Chile.

(i) *General features.* Table 2 shows the differences between the various regions as regards level of habitability, population density and road density. There are major disparities in land settlement and the country is virtually divided into "consolidated" areas (of which more than 50 per cent is habitable and population density is above the national average) and

"settlement" areas² (of which less than 50 per cent is habitable and population density is below the national average).

In the "settlement" areas in the far north and south of the country, productive activity is normally dominated by the exploitation of one or two basic resources. The production areas are in the interior (copper in the north, petroleum and livestock in the south) and on the coast there are service cities with a small amount of industry from where trade is organized and links are established with the rest of the country and to a large extent with foreign countries. Although population density in these areas is very low, the urbanization rate is the highest in the country (close to 90 per cent), and this, coupled with the high level of productivity in mining, petroleum and other activities, makes for levels of living that are very much above the national average.

In the "consolidated" area, on the other hand, resources are more diversified, the physical environment is less hostile and the climate is more favourable; these factors, together with the past history of land settlement, have made for a high rate of land occupation. This area, as well as having high population and road densities, also forms a unified land system because of the close relation between cities and the efficient and varied means of transport that connect them.

In this area, the cities are spread out alternately on the coast (Valparaíso, Concepción, Valdivia) and in the central valley (Santiago, Rancagua, Talca, Chillán, Temuco, Osorno). The cities in the interior grew up basically because of farming which has traditionally been the most stable activity. In the consolidated area, the network of transport, communications, electric power stations and waterworks is fairly dense and corresponds virtually exactly to the area of the power grid running from La Serena to Castro.

(ii) *Population.* As regards the distribution of the population by region, the most recent censuses (see table 3) show that, apart from Santiago, only the Tarapacá region increased its share in the total and that the Fiord district and Magallanes maintained their share between 1960 and 1970. These regions, however, account for no more than 8 per cent of

² For a definition of "consolidated" and "settlement" areas see National Planning Office (ODEPLAN), *El desarrollo económico y social de Chile en la década 1970-1980*, tomo II, vol. I, pp. 25-26.

Table 2
CHILE: LEVEL OF HABITABILITY, POPULATION DENSITY AND ROAD DENSITY

<i>Region</i>	<i>Level of habitability^a (percentage)</i>	<i>Population density inhab./km² 1970</i>	<i>Road density km of road/total area 1967</i>
I. Tarapacá	29.0	2.6	5.2
II. Antofagasta	7.1	2.2	3.6
III. Atacama-Coquimbo	35.7	4.8	7.1
IV. Valparaíso-Aconcagua	79.6	65.5	16.3
Metropolitan area	70.0	191.3	19.1
V. O'Higgins-Colchagua	59.6	33.9	22.4
VI. Maule (Curicó, Talca, Linares and Maule)	75.5	23.9	24.4
VII. Bío-Bío (Ñuble, Concepción, Arauco, Bío-Bío and Malleco)	84.5	33.3	26.1
VIII. Cautín	80.0	25.7	37.3
IX. The Lake district (Valdivia, Osorno) ..	79.5	19.0	17.2
X. The Fiord district (Llanquihue, Chiloé, Aysén)	43.3	2.6	3.3
XI. Magallanes	42.5	0.7	2.4
<i>Average</i>	<i>43.5</i>	<i>12.9</i>	<i>8.6</i>

SOURCE: Planning Office (ODEPLAN).
^a Habitable area as a percentage of total area.

Table 3
CHILE: DISTRIBUTION OF THE TOTAL POPULATION BY REGION^a

<i>Region</i>	<i>1952</i>	<i>Per-centage</i>	<i>1960</i>	<i>Per-centage</i>	<i>1970</i>	<i>Per-centage</i>	<i>Average annual rate of growth 1960-70</i>
I. Tarapacá	108,751	1.7	129,716	1.7	187,600	2.0	3.76
II. Antofagasta	195,544	3.1	226,841	2.9	268,032	2.8	1.68
III. Atacama-Coquimbo	362,135	5.8	448,189	5.8	533,942	5.5	1.55
IV. Valparaíso-Aconcagua	662,977	10.6	798,988	10.3	949,378	10.0	1.74
Metropolitan area	1,856,741	29.6	2,569,046	33.0	3,450,005	36.5	2.99
V. O'Higgins-Colchagua	385,243	6.2	440,549	5.6	507,265	5.4	1.42
VI. Maule (Curicó, Talca, Linares and Maule)	509,193	8.9	593,446	7.6	660,091	7.0	1.07
VII. Bío-Bío (Ñuble, Concepción, Arauco, Bío-Bío and Malleco)	1,092,817	17.3	1,325,551	17.1	1,518,668	16.1	1.37
VIII. Cautín	386,246	6.2	415,965	5.4	449,030	4.7	0.77
IX. The Lake district (Valdivia, Osorno)	376,337	6.0	425,604	5.5	463,401	4.9	0.85
X. The Fiord district (Llanquihue, Chiloé, Aysén)	272,417	4.5	321,103	4.1	384,846	4.1	1.83
XI. Magallanes	58,408	0.9	77,319	1.0	94,418	1.0	2.02
TOTAL	6,277,109	100.0	7,772,317	100.0	9,455,676	100.0	1.97

SOURCE: Planning Office (ODEPLAN), Regional Planning Department, on the basis of census data.
^a With census omissions rectified and brought forward to 30 June each year.

the total population. In other words, regional disparities measured in terms of population have increased in recent years, mainly owing to the extraordinary growth of Santiago.

The more industrialized regions—after Santiago—such as Valparaíso-Aconcagua and Bío-Bío, and the mining regions such as Antofagasta and O'Higgins had population increase rates higher than those of the basically rural areas but still not high enough to match the national average; consequently their share of the total also declined.

During the period 1960-1970, Santiago absorbed 91.5 per cent of in-migrants (324,545), Tarapacá absorbed 8.4 per cent (29,700) and Magallanes only 0.1 per cent (353). Hence Santiago is the major area receiving migrants from the rest of the country.

As a result of population increase and migratory movements, Chile has experienced a rapid process of urbanization, with the proportion of the population living in urban areas rising from 52.5 per cent in 1940 to 74.3 per cent in 1970. The population of the principal urban areas amounted to 62.8 per cent of the total urban population in 1970, with Santiago accounting for 43.4 per cent.

The urbanization process has to some extent been encouraged by the facilities offered by the major cities for more modern forms of life, for example, the supply of telephones, the number and variety of newspapers and magazines, the number of cinemas and radio stations, etc. Table 4 lists these indicators and shows that they are highly concentrated in Santiago, particularly telephones and the Press. With the other two indicators—cinema and radio—the quality and variety of programmes are the important factors, and these are better in Santiago.

(iii) *Product and income.* The growth of the gross domestic product continues to show marked regional disparities, with a trend towards concentration in the metropolitan area of Santiago. Between 1960 and 1967 the total gross domestic product grew at a cumulative annual rate of 4.9 per cent, while that of Santiago grew at a rate of 6.7 per cent. Santiago's share in the total rose from 40 per cent in 1960 to 45 per cent in 1967 (see table 5). Over the same period only three regions achieved growth rates above the national average (Tarapacá, Antofagasta and Magallanes).

Table 4
CHILE: URBAN SERVICES

Region	Inhabitants per telephone 1965	Copies of newspapers and magazines sold 1967 (thousands)	Percentage	Cinemas 1967	Percentage	Radio stations 1967	Percentage
I. Tarapacá	31.8	3,488.6	1.5	9	2.3	6	4.9
II. Antofagasta	41.2	11,294.4	4.4	18	4.6	8	6.6
III. Atacama-Coquimbo	86.0	4,972.3	1.9	31	8.0	8	6.6
IV. Valparaíso-Aconcagua	26.2	28,538.4	11.2	53	13.7	19	15.6
Metropolitan area	19.2	162,899.1	63.7	130	33.5	29	23.8
V. O'Higgins-Colchagua	89.4	3,418.9	1.3	38	9.8	5	4.1
VI. Maule (Curicó, Talca, Linares and Maule)	86.3	6,046.9	2.4	16	4.1	9	7.4
VII. Bío-Bío (Ñuble, Concepción, Arauco, Bío-Bío and Malleco)	72.6	20,373.9	8.0	51	13.2	16	13.1
VIII. Cautín	85.2	4,948.4	1.9	12	3.1	5	4.1
IX. The Lake district (Valdivia, Osorno)	100.9	4,858.3	1.9	12	3.1	7	5.7
X. The Fiord district (Llanquihue, Chiloé, Aysén)	160.5	2,604.7	1.1	9	2.3	6	4.9
XI. Magallanes	26.5	1,675.7	0.7	9	2.3	4	3.2
TOTAL	34.2	255,526.6	100.0	388	100.0	122	100.0

SOURCE: Planning Office (ODEPLAN).

Table 5
CHILE: GROSS DOMESTIC PRODUCT, BY REGION

Region	Total 1967 (thousands of E° at 1965 prices)	Percent- age of total	Per capita product 1967	Per capita produc- tivity	Growth rates 1960-1967		
					Gross domestic product		
					Total	Per capita (Annual average)	Per worker
I. Tarapacá	489,472	2.5	3,500	10,500	8.88	7.36	7.82
II. Antofagasta	1,297,251	6.6	4,980	15,200	5.55	3.18	3.56
III. Atacama-Coquimbo	998,879	5.1	1,890	6,500	4.45	2.41	2.96
IV. Valparaíso-Aconcagua	1,996,545	10.1	2,180	6,900	2.51	0.20	0.64
Metropolitan area	8,878,928	44.9	2,770	8,200	6.71	3.35	3.61
V. O'Higgins-Colchagua	1,049,694	5.3	2,190	7,300	4.04	2.93	3.34
VI. Maule (Curicó, Talca, Linares and Maule)	861,168	4.4	1,180	4,200	2.74	0.94	1.44
VII. Bío-Bío (Ñuble, Concepción, Arauco, Bío-Bío and Malleco)	2,207,147	11.1	1,430	4,800	3.09	0.82	1.25
VIII. Cautín	405,847	2.0	940	3,200	0.98	0.61	0.93
IX. The Lake district (Valdivia, Osorno)	673,266	3.4	1,410	4,500	2.72	1.07	1.34
X. The Fiord district (Llanquihue, Chiloé, Aysén)	496,886	2.5	1,390	4,500	3.89	2.37	2.45
XI. Magallanes	410,368	2.1	4,330	10,600	5.55	2.76	3.20
TOTAL	19,765,451	100.0	2,170	6,800	4.94	2.63	3.09

SOURCE: Planning Office (ODEPLAN), Regional Planning Department.

The regions of Valparaíso-Aconcagua and Bío-Bío which, under national development policy, are supposed to counterbalance the growth of Santiago together account for 25 per cent of the gross domestic product, but the growth rate is below the national average.

Per capita incomes, measured as average monthly family wages of the head of household, differ appreciably between rural and urban areas and greater Santiago. With the national average income being E° 845.5, the figure for urban areas is E° 1,037.5, for rural areas E° 536 and for greater Santiago E° 1,215.6. There are thus strong pressures on people to move to the urban centres, particularly Santiago. Taking the country as a whole, 30 per cent of income recipients earn less than the minimum basic wage (*sueldo vital*), but this figure rises to 46.6 per cent in rural areas and falls to 15.5 per cent in greater Santiago. At the other end of the scale, 2 per cent of income recipients earn more than ten times the basic minimum wage, but the figure is 0.3 per cent in rural areas and 5 per cent in greater Santiago.

The above figures show not only that there are disparities between rural and urban areas, but also that internal income is less equitably distributed in rural areas than in urban areas.

Industry is more highly concentrated than the rest of the economy. In 1967, Santiago accounted for 57.8 of the industrial product but for only 45 per cent of the gross domestic product. The figures are even further apart with respect to employment: 55.6 per cent for industrial employment and 38.5 per cent for total employment.

(iv) *Public investment and bank loans.* There is less regional inequality in the overall distribution of public investment than in the distribution of the product and the population (see table 6). In the period 1965-1968 only 34 per cent of public investment was allocated to Santiago, while this region accounted for 46 per cent of the gross domestic product and harboured 36.5 per cent of the population. In the Valparaíso-Aconcagua and Bío-Bío regions the proportion of public investment was almost exactly the same as that of

Table 6
CHILE: AVERAGE ANNUAL PUBLIC INVESTMENT BY REGION, 1965-1968
(Millions of escudos at 1965 prices)

Region	Production sectors ^a		Infrastructure and other projects ^b		Total	Percentage of total
	Absolute figures	Percentages	Absolute figures	Percentages		
I. Tarapacá	30.8	6.17	81.7	6.16	112.5	6.2
II. Antofagasta	7.9	1.58	34.2	2.58	42.1	2.3
III. Atacama-Coquimbo	30.9	6.19	50.8	3.83	21.7	4.5
IV. Valparaíso-Aconcagua	53.6	10.74	133.2	10.04	126.0	10.2
Metropolitan area	63.3	12.68	555.3	41.85	618.6	33.9
V. O'Higgins-Colchagua	33.7	6.75	44.6	3.36	78.3	4.3
VI. Maule (Curicó, Talca, Linares and Maule)	44.0	8.81	45.6	3.44	89.6	4.9
VII. Bío-Bío (Ñuble, Concepción, Arauco, Bío-Bío and Malleco)	109.7	21.98	213.5	16.09	323.2	17.7
VIII. Cautín	12.7	2.54	32.7	2.46	45.4	2.5
IX. The Lake district (Valdivia, Osorno)	14.5	2.90	57.5	4.33	72.0	3.9
X. The Fiord district (Llanquihue, Chiloé, Aysén)	20.9	4.19	61.5	4.63	82.4	4.5
IX. Magallanes	77.2	15.47	16.3	1.23	93.5	5.1
TOTAL	499.2	100.00	1,326.9	100.00	1,826.1	100.0

SOURCE: Planning Office (ODEPLAN).

^a Agriculture, mining and manufacturing.

^b Transport, housing, electricity, gas and water, education, health and internal government, etc.

the population and the product. Tarapacá was the only region in which the proportion of public investment (6.2 per cent) was higher than its share of the gross domestic product (2.7 per cent) and the population (2 per cent).

Investment in infrastructure rose substantially in Santiago, representing 42 per cent of the total. Santiago's share increased at the expense not of the Valparaíso-Aconcagua region but mainly of the rural areas. Its large share may be ascribed mostly to investment in housing, which accounted for 53.6 per cent of the national total, and in urban services such as electricity, gas and water, which comprised 46 per cent of the total.

The behaviour of financial mechanisms, particularly bank loans, has a strong influence on the process of concentration and, therefore, on regional disequilibria; 65.5 per cent of all loans are granted in Santiago, and the proportion has increased sharply in recent years. It should be noted that in order to assess this figure more accurately, consideration should be given to the place where these resources are

ultimately used, since it may so happen that credit extended in Santiago is intended for the provinces. At the same time, in other regions the rate of growth of bank credit declined or was lower than the national average, except in the extreme north (Tarapacá and Antofagasta). Deposits followed the opposite trend; although Santiago accounts for a high percentage, the growth rate was far below the average for the country in the period 1960-1968, while the rate for other regions rose more rapidly.

(v) *Social issues.* In addition to the analysis of economic variables, it is useful to note the trends of the social variables connected with the population's welfare, such as housing, health and education.

The main effort in the construction of dwellings has been concentrated in Santiago, which accounts for about 53 per cent of the total built area (see table 7). Thus, the housing deficit in Santiago and the Valparaíso-Aconcagua region declined from 36.3 to 31.5 per cent and from 10.4 to 6.7 per cent, respectively, between 1961 and 1969. In con-

Table 7

CHILE: CONSTRUCTION OF HOUSING UNITS INITIATED BY THE PUBLIC SECTOR AND PLANNED BY THE PRIVATE SECTOR, BY REGION, 1960-1969

(Percentages)

Region	Population 1970	Units built	Number of square metres built
I. Tarapacá	2.0	1.9	1.8
II. Antofagasta	2.8	2.6	2.8
III. Atacama—Coquimbo	5.5	3.5	3.1
IV. Valparaíso—Aconcagua	10.0	13.4	14.2
Metropolitan Area	36.5	51.2	53.5
V. O'Higgins—Colchagua	5.4	3.3	3.3
VI. Maule (Curicó, Talca, Linares and Maule)	7.0	3.2	2.8
VII. Bio-Bío (Ñuble, Concepción, Arauco, Bío-Bío and Malleco)	16.1	10.7	9.9
VIII. Cautín	4.7	3.0	2.5
IX. The Lake district (Valdivia, Osorno) ..	4.9	3.7	3.0
X. The Fjord district (Llanquihue, Chiloé, Aysén)	4.1	2.2	1.8
XI. Magallanes	1.0	1.3	1.3
TOTAL	100.0	100.0	100.0

SOURCE: Ministry of Housing and Urbanization, Statistical Centre.

trast, it increased sharply in the north, and on a lesser scale in the south.

As regards health, if the indicators of hospital beds and doctors per 1,000 inhabitants are analysed it may be observed that the physical installations such as hospitals mainly favour the Santiago and Valparaíso regions, the Tarapacá and Antofagasta regions in the north, and Magallanes in the extreme south. The disparities are seen to be greater where the number of doctors is calculated per inhabitant, since there is an excessive concentration in Santiago, at the expense not only of the peripheral regions but also of other great urban areas such as Valparaíso, Concepción and highly urbanized regions like Tarapacá and Antofagasta.

Education is the sector in which the least disparity exists between regions. The quantitative indicators available place the population of Santiago below the national average as regards both primary and university education (see table 8). However, a more careful evaluation should take into account the quality and range of the education provided, which favour Santiago and Valparaíso.

(vi) *General classification.* An economic classification has also been made, according to the indicators shown in table 9. This table reveals the extent of the existing regional disparities, since the regions with the two major urban centres, which might have equalized Santiago's position because of the diversified structure of their economy and their large share of the total population and gross domestic product, register low rates of economic growth that have shown no real signs of recovery during the period under review. In any case, it should be remembered that whole regions are being compared, and not urban areas, where the situation could improve since regions IV and VII comprise important agricultural and rural sectors which bring down the growth indexes for the whole region.

Moreover, the settlement regions—Tarapacá, Antofagasta and Magallanes—have fairly high indexes, in terms of both per capita product and economic growth. Each region owes its high rate of growth to a particular sector or to one or two products: Tarapacá to industry, Antofagasta to copper and Magallanes to petroleum and livestock.

Table 8
CHILE: ENROLMENTS IN PRIMARY AND UNIVERSITY EDUCATION, 1969

<i>Region</i>	<i>Number of enrolments as a percentage of the population aged 6 to 14 years</i>	<i>Number of university enrolments as a percentage of the population aged 19 to 23 years in the main city of the region</i>
I. Tarapacá	97.4	29
II. Antofagasta	86.0	29
III. Atacama—Coquimbo	84.2	59
IV. Valparaíso—Aconcagua	87.7	34
Metropolitan Area	79.3	16
V. O'Higgins—Colchagua	78.4	0
VI. Maule (Curicó, Talca, Linares and Maule)	76.8	23
VII. Bío-Bío (Ñuble, Concepción, Arauco, Bío-Bío and Malleco)	83.0	45
VIII. Cautín	92.3	37
IX. The Lake district (Valdivia, Osorno)	89.5	33
X. The Fiord district (Llanquihue, Chiloé, Aysén)	81.8	1
XI. Magallanes	93.5	8
TOTAL	82.6	—

SOURCE: Planning Office (ODEPLAN).

Two regions (III and V) are in a transitional stage. They are both situated at an intermediate level, as regards both their domestic product and growth rate. In region III, mining accounts for most of the product, but agriculture plays an important part in employment; in region V agriculture predominates, but El Teniente mine contributes a major part of the product.

Lastly, the predominantly agricultural regions, with low indexes for the per capita product or the growth rate, are VI, VIII, IX and X.

The regions with a high per capita product are those which have registered the highest growth rates in the last few years (see table 10). They are the Santiago metropolitan area and the extreme north and south of Chile. However, Santiago accounts for 36 per cent of the total population and 46 per cent of the total gross domestic product, while Tarapacá, Antofagasta and Magallanes account for only 5 per cent of the population and 12 per cent of the gross domestic product. Moreover, there is an appreciable transfer of income abroad and to the rest of the country from the last two regions.

The regions with low average indexes have grown slowly, partly because of the particular

conditions prevailing there and partly because of the transfer of income to the centre of Chile.

In conclusion, Santiago ranks first in importance among the urban centres, and is unquestionably the centre of the country's development. Next come Valparaíso-Viña del Mar and Concepción-Talcahuano, the only two sizable urban areas apart from Santiago. These are followed by Antofagasta in the north, Talca in the central agricultural region, La Serena-Coquimbo in the north central area (Norte Chico) and Punta Arenas in the extreme south. Arica is not high in the scale because the population figures are for 1960; since then the city has registered the most accelerated population growth in the country (7 per cent annually) and the structure of its economy has changed radically, which would place it ahead of Iquique and close to La Serena or Talca (see table 11).

Interesting variations are observable over the period 1960-1968: Santiago gained more ground over Valparaíso and Concepción, in spite of the growth of these two cities and the decentralization policies adopted. Concepción still occupies third place and comes closer to Valparaíso, thus constituting a development centre of national importance in the south of

Table 9
CHILE: ECONOMIC CLASSIFICATION OF REGIONS

<i>Per capita gross domestic product</i>	<i>Rate of growth</i>	<i>Diversified structure of production</i>	<i>Predominantly industrial production structure</i>	<i>Predominantly mining production structure</i>	<i>Predominantly agricultural production structure</i>
High	Rapid	Santiago metropolitan area	I. Tarapacá	II. Antofagasta	XI. Magallanes
	Average				
	Slow				
Medium	Rapid	IV. Valparaíso-Aconcagua		III. Atacama-Coquimbo ^a V. O'Higgins-Colchagua ^a	
	Average				
	Slow				
Low	Rapid	VII. Bío-Bío			X. The Fiord district VI. Maule VIII. Cautín IX. The Lake district
	Average				
	Slow				

SOURCE: Planning Office (ODEPLAN).

^a These are both mining and agricultural regions, either on account of the product or employment.

Chile. The northern centres (Antofagasta, Arica, La Serena-Coquimbo and Iquique) have gained in importance. There is a large gap between Santiago and the other two major urban centres, and between these and the remaining cities, especially in the south.

The interrelationships between the urban centres makes for the predominance of some centres over others and the establishment of systems and subsystems (see table 12). If these interrelationships are measured by con-

ventional indicators, such as movements of cargo and passengers, telephone calls, correspondence, etc., Chile would have a single national system with Santiago as the dominating centre.

(d) *The example of a country with more than one important urban centre*

(i) *Population.* In Colombia, the population and production are spread fairly evenly over four major regions. The centres of these re-

Table 10

CHILE: GROWTH OF PER CAPITA AND TOTAL GROSS DOMESTIC PRODUCT, 1960-1967
(Percentages)

			<i>Annual per capita growth rate</i>	<i>Annual growth rate</i>	
Regions with rapid growth rates	{	Region I	Tarapacá	7.36	8.9
		Metropolitan area	Metropolitan area	3.35	6.7
		Region II	Antofagasta	3.18	5.6
Regions with average growth rates	{	Region V	O'Higgins-Colchagua	2.93	4.0
		Region XI	Magallanes	2.76	5.6
		<i>Average for the country</i>			2.63	4.9
Regions with slow growth rates	{	Region III	Atacama-Coquimbo	2.41	4.5
		Region X	Llanquihue to Aysén	2.37	3.9
		Region IX	Valdivia-Osorno	1.07	2.7
		Region VI	Curicó to Linares	0.96	2.7
		Region VII	Ñuble to Malleco	0.82	3.1
		Region VIII	Cautín	0.61	1.0
		Region IV	Valparaíso-Aconcagua	0.20	2.5

SOURCE: Planning Office (ODEPLAN), Regional Planning Department.

gions are Bogotá, Medellín, Cali and Barranquilla, none of which is more than 300 kilometres by road from the most distant municipalities and villages, although the transport difficulties are well known. The capital city—Bogotá—is in the middle of the country and the urban system comprises about one hundred population centres with over 1,000 inhabitants, and 300 with over 30,000. In 1967, 22 per cent of the total population and 58 per cent of the urban population were concentrated in the four major urban centres.

Colombia has 2,900 kilometres of coast on the Atlantic and the Pacific Oceans; there are extensive lowlands, savannas and llanos in the central, northern and eastern areas; and a large part of its territory lies in the Amazon area. Virtually all the population lives in the mountainous central west and south-west areas and, to a lesser extent, on the Atlantic coast in the north and in other regions in that vicinity. Thus, 97.8 per cent of Colombia's population lives in 45 per cent of its territory. Table 13 shows that the Andean departments have a high population density: over 93 inhabitants per square kilometre in Cundinamarca, Quindío, Risaralda, Caldas and Valle, followed by Antioquia, Tolima, Santander and North Santander. In contrast, the departments of Bolívar,

Córdoba, Chocó, Guajira and Magdalena on the coast, and Meta in the llanos, are sparsely populated, with 3 to 20 inhabitants per square kilometre. If consideration is given to the urban-rural ratio, it will be noted that the proportion of population living in urban areas rose from 39.6 to 48 per cent between 1938 and 1964. There has also been a noticeable trend towards concentration in the big cities. Thus, in 1938, 22.6 per cent of the population lived in towns with over 100,000 inhabitants and 39.4 per cent in population centres with fewer than 5,000 inhabitants; in 1962, the proportions had altered to 51.2 per cent and 12.3 per cent, respectively.

Intensive migration has taken place in Colombia in the last few decades; according to the 1964 census, one-third of the inhabitants were residing in a different administrative region from that in which they had been born, and one-third of this number had migrated from one rural area to another. So intensive was this process that half of the inhabitants of Bogotá and two-fifths of the inhabitants of other urban areas were migrants at that time. Moreover, it has taken place very rapidly, since about 40 per cent of the 6.5 million migrants had moved during the five years prior to the census. In 1964, the migratory movements

Table 11
CHILE: INDEX OF IMPORTANCE OF URBAN CENTRES*

<i>Urban centre</i>	<i>Total population 1960</i>	<i>Population (25 per cent)</i>	<i>Politico-administrative importance (15 per cent)</i>	<i>Institutional importance (20 per cent)</i>	<i>Exports of services (20 per cent)</i>	<i>Exports of goods (20 per cent)</i>	<i>Index of importance</i>	<i>Order of importance</i>
Arica	43,344	1.86	1.54	1.96	0.90	1.63	1.58	12
Iquique	50,655	2.06	2.31	1.54	1.41	1.14	1.69	10
Antofagasta	87,860	2.68	2.31	2.83	1.73	1.76	2.26	4
Copiapó	30,123	1.46	2.31	1.38	—	—	1.03	18
Serena-Coquimbo	79,603	2.50	2.31	2.83	1.11	1.78	2.11	6
San Felipe-Los Andes ..	43,496	1.76	2.31	1.21	1.57	0.58	1.49	14
Quillota-La Calera	47,581	1.98	1.54	0.88	—	0.58	1.00	20
Valparaíso-Viña del Mar	422,251	4.46	2.31	2.54	3.73	3.55	3.32	2
Santiago	2,032,188	6.25	3.75	5.00	5.00	5.00	5.00	1
San Antonio	41,474	1.84	1.54	0.46	—	0.17	0.80	26
Rancagua	53,318	2.11	2.31	2.04	—	1.48	1.59	11
San Fernando	21,774	1.09	2.31	0.92	—	—	0.86	22
Curicó	32,562	1.55	2.31	0.92	—	0.76	1.11	17
Talca	68,148	2.38	2.31	2.92	1.65	1.65	2.18	5
Cauquenes	17,836	0.85	2.31	0.88	—	—	0.81	25
Linares	27,568	1.36	2.31	1.13	—	—	0.96	21
Chillán	65,112	2.34	2.31	2.38	1.35	1.57	1.99	8
Concepción-Talcahuano	269,169	3.95	2.31	3.33	2.97	2.15	2.94	3
Lota-Coronel	82,563	2.61	1.54	—	—	—	0.83	24
Los Angeles	35,511	1.64	2.31	1.17	—	—	1.02	19
Lebu	6,248	—	2.31	0.58	—	—	0.58	29
Angol	16,637	0.90	2.31	1.04	—	—	0.85	23
Temuco	72,132	2.45	2.31	2.71	0.87	1.19	1.91	9
Valdivia	61,334	2.26	2.31	2.29	1.03	—	1.58	12
Osorno	55,091	2.15	2.31	1.67	—	—	1.23	16
Puerto Montt	41,681	1.84	2.31	2.21	—	—	1.27	15
Ancud	7,390	—	2.31	1.00	—	—	0.66	27
Castro	7,001	—	1.54	0.63	—	—	0.43	31
Puerto Aysén	5,488	—	2.31	0.88	—	—	0.64	28
Coyhaique	8,782	—	1.54	1.21	—	—	0.55	30
Punta Arenas	5,488	2.03	2.31	2.75	2.46	0.83	2.08	7

SOURCE: Planning Office (ODEPLAN).

* A combination of the population, politico-administrative importance, institutional importance, exports of services and exports of goods. For a more detailed analysis, see ODEPLAN, *Planteamientos para una política de desarrollo urbano nacional, informe preliminar*, September 1970.

were almost entirely absorbed by four regions: Bogotá (36 per cent), Valle (26.7 per cent) Antioquía (17.5 per cent) and Atlántico (17.4 per cent).

(ii) *Product, income and social services.* Colombia's Administrative Planning Office estimates that three departments—Antioquía,

Bogotá and Valle—with 33.8 per cent of the total population, contributed 42.5 per cent to the gross domestic product. A second group of eight departments—Atlántico, Bolívar, Boyacá, Caldas, Cundinamarca, Magdalena, Santander and Tolima—accounted for 45.7 per cent of the population and 43 per cent of

Table 12
CHILE: ORDER OF IMPORTANCE OF DEVELOPMENT CENTRES

<i>Degree of importance</i>	<i>Index</i>	<i>Centres</i>
Centre of national importance	5	Santiago
Regional centre of national importance	2.94-4.99	Valparaíso, Concepción
Regional centre of multiregional importance	2.26-2.93	Antofagasta
Centre of regional importance ^a	1.23-2.25	Arica, Iquique, La Serena, Coquimbo, San Felipe, Los Andes, Rancagua, Talca, Chillán, Temuco, Valdivia, Osorno, Puerto Montt, Punta Arenas

SOURCE: Planning Office (ODEPLAN).

^a Arica and Punta Arenas may be considered as border development centres.

the product. The remaining eight departments, with 19.1 per cent of the population, contributed 13.5 per cent to the total product. Lastly, the share of the so-called "national territories" was 1.4 per cent of the population and 1 per cent of the product (see table 14). By way of comparison, the three most important departments—Antioquía, Valle and Bogotá—were responsible for 60 per cent of the manufacturing product, while Antioquía, Valle and Caldas accounted for 31.1 per cent of the product generated by the primary sector. Bogotá accumulated 24.3 per cent of the tertiary activities, followed by Antioquía (13.8 per cent) and Valle (12.3 per cent).

As regards the regional distribution of income, it is tentatively estimated that about 60 per cent of the population have incomes that are fairly close to the national average, 20 per cent earn more and another 20 per cent earn less.³ In particular, the per capita product in Bogotá and the department of Valle, with 20 per cent of the total population, was 44 per cent higher than the national average in 1964; in six departments—Boyacá, Cauca, Chocó, Huila, Guajira and Nariño—and the "national territories", the per capita product was much lower than the national average (about one-half in Guajira and Nariño, and one-third in Chocó) (see table 15).

The position with respect to social services was somewhat similar. In 1964, 79 per cent

³ See United Nations, Technical Assistance Programme, "*Tentativa de distribución del producto bruto interno de Colombia por secciones administrativas del país (1964)*". Report presented by Mr. Francesco Marabelli (Bogotá, December 1966).

of the enrolments in higher education and 72 per cent of the doctors in towns of over 30,000 inhabitants were concentrated in the three major regional centres: Bogotá, Medellín and Cali. In the three departments corresponding to these centres, 20 per cent of the population was illiterate, compared with 50 per cent in others such as Córdoba, Chocó and Guajira.

(iii) *Manufacturing and energy*. In 1967, 65.4 per cent of the gross value added in manufacturing was concentrated in Bogotá and the departments of Antioquía and Valle, the proportions being 21.4, 23.7 and 20.3 per cent, respectively. A second group of five departments (Atlántico, Cundinamarca, Santander, Bolívar and Boyacá) accounted for 24.6 per cent. On the whole, manufacturing activities are located mainly in the cities of Bogotá, Medellín, Cali and Barranquilla, which altogether absorbed 80 per cent of total employment in industry in 1965. In this respect, it is interesting to note that the most dynamic centre of manufacturing activities has shifted over the years. Up to 1930 there was no predominating centre, but by 1930 and 1940 Barranquilla was leading the industrial development process owing to its function as an export and import shipping port. During the 1940s, Medellín assumed first place on the basis of the capital formation that was made possible by the coffee boom, and the import substitution policy resulting from the Second World War. Throughout the 1950s, Cali was the new manufacturing centre, stimulated by the inflow of foreign capital; the main activities established there were pharmaceutical and chemical laboratories and related and

Table 13
COLOMBIA: POPULATION DENSITY, BY
POLITICO-ADMINISTRATIVE DIVISIONS

	<i>Number of inhabitants per square kilometre^a</i>		
	1961	1964	1968
<i>Departments</i>			
Antioquía	37	39	45
Atlántico	117	219	256
Bolívar	23	26	30
Boyacá	14	16	17
Caldas	105	95	107
Cauca	17	20	22
Cesar	—	11	13
Córdoba	16	23	28
Cundinamarca	90	118	139
Chocó	3	4	4
Huila	17	21	23
La Guajira	6	7	8
Magdalena	11	24	28
Meta	1	2	3
Nariño	19	23	24
Norte de Santander	21	26	28
Quindío	—	167	182
Santander	29	32	35
Bisaralda	—	115	121
Tolima	39	36	38
Valle del Cauca	85	82	93
<i>Average for departments</i>	24.5	28.2	31.9
<i>Intendencias</i>			
Arauca	1	1.0	1.2
Caquetá	1	1.2	1.5
San Andrés and Providencia	91	380.3	526.0
<i>Comisarias</i>			
Amazonas	1	0.1	0.1
Putumayo	2	2.2	2.7
Vaupés	1	0.1	0.2
Vichada	1	0.1	0.1
Guainía	—	0.5	0.6
<i>Average for national territories</i>	1.4	0.5	0.5
<i>Average for the whole country</i>	13	15.4	17.4

SOURCE: National Administrative Department of Statistics (DANE).
^a Adjusted figures.

supplementary industries (chemicals, containers, glassware, etc.), and other important industries such as foodstuffs and paper and paperboard. During the next decade, for various reasons which included political centralization—the most dynamic city was Bogotá. It is pointed out that this shifting of the major industrial centre did not weaken the previous centres in absolute terms; they merely developed more slowly. Thus, in 1965, while Bogotá accounted for 28.4 per cent of the value added

in manufacturing, Medellín still retained 24.4 per cent, Cali 16.3 per cent and Barranquilla 8.8 per cent (see table 16).

There is also a high degree of concentration with respect to electric energy. In 1967, 82 per cent of the public installed capacity was distributed among five departments, i.e., Cundinamarca and Bogotá (29 per cent), Antioquía (27.6 per cent), Valle (13.8 per cent), Atlántico (6.3 per cent) and Caldas (5.3 per cent). There was much the same concentration in

Table 14
COLOMBIA: SPATIAL DISTRIBUTION OF THE GROSS DOMESTIC PRODUCT AT FACTOR COST AND
OF THE POPULATION AND STRUCTURE OF THE SECTIONS' ECONOMIES, 1964
(Percentages)

Section	Gross domestic product at factor cost (Contribution of departments)				Population 15/7/64	Gross domestic product at factor cost (Share of departments in gross domestic product)			
	Primary a	Secondary b	Other activities	Total		Primary a	Secondary b	Other activities	Total
Antioquia	10.9	21.0	13.8	14.3	14.2	26	31	43	100
Atlántico	0.7	6.7	5.6	4.1	4.1	6	34	60	100
Bolívar	6.2	4.6	4.3	5.1	5.8	43	19	38	100
Boyacá	6.9	3.3	2.8	4.3	6.1	55	16	29	100
Caldas	10.2	3.9	7.3	7.6	8.3	46	11	43	100
Cauca	3.8	0.8	1.4	2.1	3.5	62	8	30	100
Córdoba	5.8	0.4	1.6	2.8	3.4	72	3	25	100
Cundinamarca ^c	8.5	3.8	6.1	6.4	6.4	46	13	41	100
Distrito Especial	0.7	21.0	24.3	15.5	9.7	1	29	70	100
Chocó	0.4	0.2	0.4	0.3	1.0	40	14	46	100
Huila	3.1	0.5	1.6	1.9	2.4	57	6	37	100
La Guajira	0.7	0.1	0.3	0.4	0.8	60	7	33	100
Magdalena	8.2	0.7	3.4	4.5	4.5	63	3	33	100
Meta	2.0	0.3	0.8	1.1	0.9	63	6	31	100
Nariño	3.4	0.9	1.8	2.1	4.0	54	9	36	100
Norte de Santander	2.5	3.2	2.7	2.8	3.1	32	25	43	100
Santander Sur	5.0	9.1	5.2	6.0	5.7	29	32	39	100
Tolima	9.3	1.3	3.5	5.0	4.8	64	5	31	100
Valle	10.0	18.0	12.3	12.7	9.9	27	30	43	100
Subtotal	98.3	99.8	99.2	99.0	98.6	34	22	44	100
National Territories	1.7	0.2	0.8	1.0	1.4	60	4	36	100
TOTAL	100.0	100.0	100.0	100.0	100.0	35	21	44	100

SOURCE: United Nations, Technical Assistance Programme, "Tentativa de distribución del producto bruto interno de Colombia por secciones administrativas del país (1964)". Report presented by Mr. Francesco Marabelli, Bogotá, December 1966.

^a Agriculture, hunting, fishing and forestry.

^b Mining and manufacturing.

^c Excluding Bogotá.

Table 15
COLOMBIA: EVALUATION OF PER CAPITA INCOME LEVELS BY
ADMINISTRATIVE SECTIONS, 1964

<i>Section</i>	<i>Gross domestic product at factor cost (millions of pesos)</i>	<i>Population (thousands of inhabitants)</i>	<i>Per capita gross domestic product at factor cost (pesos)</i>	<i>Average national per capita index = 100</i>
Antioquía	6,904.1	2,477.3	2,786	101
Atlántico	1,999.3	717.4	2,787	101
Bolívar	2,432.8	1,006.3	2,418	88
Boyacá	2,073.8	1,058.2	1,960	71
Caldas	3,653.6	1,455.9	2,510	91
Cauca	1,015.4	607.2	1,672	61
Córdoba	1,346.6	585.7	2,299	83
Cundinamarca ^a	3,114.5	1,120.1	2,780	101
Distrito Especial	7,460.1	1,697.3	4,395	159
Chocó	161.2	181.9	886	32
Huila	907.5	416.3	2,180	79
Guajira	209.1	147.1	1,421	52
Magdalena	2,144.9	789.4	2,717	99
Meta	541.4	165.5	3,271	119
Nariño	1,026.0	705.6	1,454	53
Norte de Santander	1,332.6	534.5	2,493	90
Santander	2,874.0	1,001.2	2,871	104
Tolima	2,430.9	841.4	2,889	105
Valle	6,123.9	1,733.1	3,533	128
<i>Subtotal</i>	<i>47,751.7</i>	<i>17,241.4</i>	<i>2,770</i>	<i>100</i>
National Territories	461.6	241.6	1,914	69
TOTAL	48,213.3	17,482.4	2,758	100

SOURCE: United Nations, Technical Assistance Programme, "Tentativa de distribución del producto bruto interno de Colombia por secciones administrativas del país (1964)". Report presented by Mr. Francesco Marabelli, Bogotá, December 1966.

^a Excluding Bogotá.

the production of energy for the public service, the total output of 83.1 per cent generated by these five departments being distributed as follows: Antioquía (28.8 per cent), Cundinamarca-Bogotá (23 per cent), Valle (16 per cent), Atlántico (8.1 per cent) and Caldas (7.2 per cent).

Moreover, in 1969, Bogotá absorbed 44.7 per cent of total foreign investment, while Medellín and Cali together received 21.3 per cent and other cities only 24 per cent.⁴ In 1969 and 1970, 49 per cent of the import licences for machinery were allocated to Bogotá. The capital city's growing predominance is also observable in small and medium-scale industry; for example, 34 per cent of the credit granted to those sectors in 1969 went to Cundinamarca, including Bogotá.⁵

⁴ See Administrative Planning Department, document VEIA-028-IP, October 1970.

⁵ See Administrative Planning Department, document VEIA-029-DI.

(iv) *Order of importance of Colombian cities.* According to the order of importance established by the National Planning Office, Bogotá is the leading city in Colombia and the only metropolis exercising a nation-wide influence. Next come the three "stabilizing metropolises", Medellín, Cali and Barranquilla; and lastly the regional and local centres. This classification was based on demographic, economic and social indicators, which include such considerations as urban population, value added in manufacturing, the value of cheques cashed directly and cleared, number of hospital beds, enrolment in higher education and enrolment in vocational training centres. Table 17 shows the results of this study for the thirty largest cities.

3. Some problems and questions

It may be concluded from the two cases examined in the previous section and from the data given in table 1 that the process of urban concentration is extremely vigorous, even

Table 16
COLOMBIA: INDUSTRIAL STRUCTURE OF CITIES, 1965

City	Urban population	Total industrial value added (thousands of pesos at 1965 prices)	Percentage industrial value added	Per capita industrial value added (pesos)	Importance of industrial employment in relation to the population		
					Urban	Active urban	
1. Bogotá DE and Soacha . . .	1,789,607	3,036,776	28.4	77.9 per cent 2,102	1,697	4.60	13.31
2. Medellín and suburban area	972,628	2,617,394	24.4		2,686	7.00	22.44
3. Cali and Yumbo	678,752	1,733,486	16.3		2,554	5.60	16.98
4. Barranquilla and Soledad . .	514,255	946,045	8.8		1,840	4.40	16.63
5. Bucaramanga and suburban area	228,899	305,165	2.9	12.7 per cent 951	1,333	3.10	9.95
6. Cartagena	228,823	302,080	2.8		1,320	2.10	7.07
7. Manizales and Villa María	200,831	163,223	1.5		813	2.50	7.80
8. Pereira and Santa Rosa . . .	189,448	191,099	1.8		1,014	3.40	8.05
9. Armenia and Calarcá	164,385	60,131	0.6		366	1.00	3.93
10. Cúcuta	155,288	77,186	0.7		497	1.30	3.89
11. Ibagué	133,071	67,549	0.6		508	1.30	3.38
12. Palmira	111,850	190,461	1.8		1,728	4.00	9.65
13. Santa Marta	95,099	42,309	0.4	9.4 per cent 937	445	1.30	3.85
14. Pasto	85,756	41,775	0.4		487	1.30	3.19
15. Neiva	80,623	31,457	0.3		390	0.80	2.40
16. Montería	76,380	11,894	0.11		156	0.50	0.92
17. Buenaventura	73,695	16,106	0.16		219	1.20	2.88
18. Girardot	69,677	79,468	0.8		1,142	1.70	4.90
19. Buga	69,030	156,530	1.5		2,268	2.20	6.21
20. Barrancabermeja	63,807	238,527	2.2		3,787	2.70	8.46
21. Popayán	61,142	42,221	0.4		691	1.00	2.31
22. Tulúa	59,395	31,520	0.3		531	1.30	3.33
23. Cartago	58,098	18,268	0.2		314	1.40	4.05
24. Ciénaga . . . . .	..	..	..		..	..	..
25. Villavicencio	48,886	18,971	0.2		388	1.10	2.49
26. Sincelejo	46,334	2,405	0.02		52	0.40	1.19
27. Valledupar	48,840	31,197	0.31	639	0.70	1.34	
28. Tunja	42,145	38,598	0.4	915	2.00	4.24	
29. Sogamoso and Nobsa	37,387	130,676	1.2	3,495	6.90	12.54	
30. Duitama	35,325	53,227	0.5	1,506	1.70	3.17	
TOTAL		10,670,744	100.0%				

SOURCE: National Planning Office, Regional and Urban Development Unit.

Table 17

COLOMBIA: ORDER OF IMPORTANCE OF CITIES, 1965-1966

City	Level			Over-all classification adopted
	Demographic	Social	Economic	
1. Bogotá DE + Soacha	VI	VI	VI	VI
2. Medellín + Mpios. Valle de Aburrá	V	V	VI	V
3. Cali + Yumbo	V	V	V	V
4. Barranquilla + Soledad	V	IV-V	V	V
5. Bucaramanga + Girón, Florida Blanca	IV	IV-V	IV	IV
6. Cartagena	IV	IV-V	IV	IV
7. Manizales + Villa María	IV	IV-V	IV	IV
8. Pereira + Santa Rosa	IV	IV	IV	IV
9. Armenia + Calarcá	IV	IV	III	IV
10. Cúcuta	IV	III-IV	III	IV
11. Ibagué	IV	III-IV	III	IV
12. Palmira	III	IV	IV	IV
13. Santa Marta	III	III-IV	III	IV
14. Pasto	III	III-IV	III	III
15. Neiva	III	III	III	III
16. Montería	III	III	III	III
17. Buenaventura	III	III	III	III
18. Girardot	III	III	III	III
19. Buga	III	III	IV	III
20. Barrancabermeja	III	III	IV	III
21. Popayán	III	III	III	III
22. Tulúa	III	III	III	III
23. Cartago	III	III	III	III
24. Ciénaga	III	II-III	II-III	II-III
25. Villavicencio	III	III	III	III
26. Sincelejo	III	II-III	II-III	II-III
27. Valledupar	III	II-III	III	III
28. Tunja	III	III	III	III
29. Sogamoso + Nobsa	III	III	IV	III
30. Duitama	III	II-III	III	III

SOURCE: National Planning Office, Regional and Urban Development Unit.

Code: VI: National metropolis.
 V: Stabilizing metropolises.
 III and IV: Regional centres.
 I and II: Local centres.

in countries such as Chile that have implemented decentralization policies. Furthermore, it would appear that even in countries that formerly possessed some degree of regional balance, such as Colombia, there is a trend towards concentration in single metropolitan area.

The social consequences of this process, especially as regards living conditions in the great metropolises, are well known, although the same is not true of all the economic issues involved. From the economic standpoint—if it is at all possible to look at economic issues in isolation—there are reasonable grounds for doubt regarding the advantages and disadvantages of the formation and growth of the major Latin American national metropolises,

particularly when they are above a certain size.

Sufficient data are not available to be able to provide a categorical answer to this point, since the necessary empirical studies and detailed breakdowns of data are lacking. Nevertheless, the present study has brought together a certain amount of information covering the maintenance of external economies, the control of urban land use, the economic and social relations between urban and rural areas and, lastly, the distribution of income within certain major cities. And it is thought that a critical appraisal of these issues, which are of course only part of the story, may be useful—and may even be a determining factor—in an over-all approach to this subject.

(a) *External economies*

Issues relating to external economies are known to have a great deal of weight in economic analysis connected with the location of activities and also play a decisive role in decisions regarding the regional distribution of investment. In examining their significance vis-à-vis the metropolitanization of the Latin American economies, a distinction must be drawn among all the various factors responsible for external economies between the factors linked most directly to specific productive units—supply of inputs, access to financial markets and subcontracting, proximity to decision-making centres and technical research and manpower training services etc.—and the factors associated with the general infrastructure, which is generally the responsibility of the State, and is necessary for the functioning of productive activity, such as roads and railways and means of communication, and also with the urban infrastructure and its ancillary services (housing, water supply, medical services, schools, etc.).

This distinction is important both in terms of the effective duration of the external economies concerned, and in terms of the role played by both types of factor in private and public decisions on the location of investment.

It may generally be assumed that the factors that are directly related to productive units constantly increase their associated external economies, without any limitation as to time. The more a given urban area grows and concentrates activities—although not necessarily within the same surface area—the greater and more varied will be the advantages that it can offer to new activities in terms of external economies. The same is not necessarily true, however, with the second type of factor, particularly those having to do with the urban infrastructure.

Ideally speaking, once a given urban centre has been consolidated, and has a reasonable supply of the appropriate public services, it should be in a position to increase its population, because new enterprises will be set up. Thus more intensive use will be made of the general installations already in existence and the cost per person added to the population will fall.

This relationship cannot be linear, however, since there will necessarily be a series of critical points when the utilization density of certain services becomes saturated and rela-

tively expensive investment is needed to expand them; this in turn will offer new possibilities for external economies until eventually the next critical point is reached. Take, for example, a city where the drinking-water or electricity services can supply a population of 100,000; once this point has been passed, it then becomes necessary to invest in water-supply facilities or to install new power stations which can supply, say, 300,000 inhabitants; and then once that point is reached, the process starts all over again.

The above demonstrates that the external economies associated with a new population settlement in a given region vary depending on each individual situation and on each point in time. Over the longer term it is important to know whether the cost of the urban infrastructure tends to rise or fall in relation to the size of the urban population. Little empirical research has been done into this, and the results of what has been done do not always agree, even for the same country. For example, a study undertaken in Italy by SVIMEZ in 1956 estimated the cost per inhabitant of fixed social investment in urban centres at 123,000 lire in cities with 30,000 inhabitants, 194,000 lire in cities with between 30,000 and 200,000 inhabitants, and 357,000 lire in cities with over 200,000 inhabitants.⁶ Another study, on the other hand, also carried out in Italy, indicates that the cost of constructing, supplying and maintaining cities is at its highest at a level of around 100,000 inhabitants, and is less in cities below that level and also above it.⁷

In Latin America, a study has attempted to measure the cost of urbanization on the basis of data from the city of Caracas.⁸ Four basic components were taken into account: land, household services, housing and communal services.

The main factors that push the value of urban land upward are zoning—i.e., the allocation of land for urban uses—and changes

⁶ See SVIMEZ, "La localizzazione industriale ed i costi sociali dell'insediamento di nuova unità lavorative", in *Informazioni SVIMEZ*, Rome, May 1957. Quoted by Alessandro Busca and Salvatore Cafiero in "Costo social del asentamiento", *Cuadernos de la Sociedad Venezolana de Planificación*, August 1966, p. 40.

⁷ See Tekno, *Ricerca sui costi di insediamento urbani ed industriali in varie città d'Italia*, Milan 1963. Quoted in Busca and Cafiero, op. cit., p. 41.

⁸ See Central University of Venezuela, Centre for Development Studies (CENDES), *Desarrollo Urbano y Desarrollo Nacional*, Caracas, March 1971, pp. 217-248.

in zoning, the installation of services, the construction of major means of access or other works, and demand. The combined effect of these variables gives the cost of the settlement, and the CENDES study mentioned above compared this cost with population density. Estimates by public agencies of the value of zoned land in Caracas were compared with population density. The results indicated that the per capita cost, at a density of 100 inhabitants per hectare, is 17,000 bolívares; as density increases, the per capita cost falls to a minimum of 8,000 bolívares, at a density of 400 inhabitants per hectare and then stabilizes, irrespective of how much density increases. This yields landowners high profits in the most highly populated areas.

The CENDES study considered data on the cost of services in certain urbanization projects in Caracas developed by the Banco Obrero and private enterprise. The cost of water supply, sewerage, electricity and service roads to the settlements were considered separately and were compared with population density. It was found, first of all, that costs fell as density increased until they reached a point at which they stabilized: around 1,000 inhabitants per hectare; above this level, costs began to rise. The study observes that these are only preliminary figures and should be taken simply as indicative of a trend.

A comparison of the relative cost of land, construction and services showed—at the lowest cost density for services, which is 1,000 inhabitants per hectare—that the per capita cost of services is about 100 bolívares, while that of construction ranges between 5,000 and 7,000 bolívares and that of land is 7,500 bolívares.

It must be borne in mind, however, that there are other factors present in many Latin American countries that may hamper or frustrate the possibility of taking advantage of the major external economies of metropolitan areas. Suffice it to recall the extremely high levels of urban concentration achieved already—high in comparison with other more developed countries and high in relation to the nature of the urban economy concerned—the rapidity of internal migration, and the marked shortfalls in social services in such areas.

The rapidity of urbanization has in many cases outstripped capacity to satisfy demand for public services, something which is easy to understand if it is remembered that the urban population of Latin America expanded by

71 per cent in the 1950s⁹ (for Europe this figure is only 18 per cent). It is common in cities that have grown rapidly for there to be a decline in the ability to provide public services efficiently, giving rise to serious problems, especially as regards transport and communications within the city itself. In some metropolitan areas, tens of thousands of people have to travel distances of 30 to 60 kilometres to their place of work; the cost of such commuting has not been measured but it probably leads to longer working hours, a reduction in wages, and a loss in individual productivity as a result of tiredness, in addition to the direct cost of the transport.

Furthermore, the shortfalls in social services are huge. It has been estimated that Latin America's urban housing deficit in 1961 was 14 million units and rising. Around 30 per cent of the urban population does not have running water. As regards education, in 1960 there were 40 million illiterate adults in the region as a whole, and the adult population had spent an average of 2.2 years at school.

In the particular case of Venezuela, taking the data from the CENDES study, in cities with more than 20,000 inhabitants the basic public services deficits are 37.8 per cent in housing, 38.9 per cent in running water, 60.9 per cent in sewerage, 16.3 per cent in electricity, 25 per cent in primary education, 51 per cent in secondary education and 25.1 per cent in medical care (general hospitals).

In the circumstances, it is doubtful whether there are opportunities to take advantage of external economies in expanding many Latin American metropolitan areas; rather the reverse, it is likely that in some cases the per capita cost of the urban infrastructure for new cities is less than the corresponding cost of expanding the infrastructure in the existing major urban centres.

All this shows how the importance of external economies and hence of criteria for the allocation of resources among regions varies, depending on whether the standpoint is that of a particular project or enterprise or that of the national economy as a whole. In the former case, providing the anticipated operating results are compared with directly productive investment, the advantages lie on the side of un-

⁹ About one-third of this increase—proportionally less in the larger countries—is attributable to the fact that more cities have more than 20,000 inhabitants; the remainder comes from population increase in existing cities.

limited expansion, and this in the final analysis is one of the main criteria on which private investment decisions are based. But calculations of productivity or economic return take no account of the sometimes substantial need for additional public investment (national or municipal) which is tantamount to an indirect subsidy to enterprises. In other words, the costs of urbanization are charged to the State while economies of scale benefit enterprises and families; and when diseconomies arise as a result of the scale of the agglomeration, these too are charged to the public sector. To put it another way, it may be asked whether it would not be more beneficial for the national economy to locate new enterprises in development centres of a smaller scale, where they would help in the process of modernization, rather than to locate them in major conglomerations where the cost of expanding the infrastructure and providing additional public services is greater. Unfortunately, no data are available to show how accurate this statement is, not even for a few metropolitan areas in Latin America. Moreover, a look at past history indicates that initially the urban centres served as a support for regional development and even national development. It appears, however, that once a certain point has been passed, particularly owing to the unchecked expansion of such centres, their operation requires public expenditure and a transfer of income from the rest of the country, which is clearly an external diseconomy. A more detailed historical analysis might well link up this process with the phenomenon of the concentration of the economy and income that appears to be a feature of the recent development of the Latin American countries with diversified and complex industries.

(b) *Controlling the use of urban land*

In addition to the advantages and problems that the process of urban concentration can bring with it as regards external economies, it has often been found that the growth of metropolises, because it is rapid and virtually always uncontrolled, has adverse social consequences. These include congested urban traffic, atmospheric pollution, insalubrious housing, and eventually have the effect of lowering the level of well-being of the population; this in turn makes it necessary to invest in new roads, green areas and even in urban renewal. But the cost of such investment in the urban space of the metropolis is very high and rising, particularly because of the large increase in the

value of urban land brought about by the urbanization process itself.

One interesting point, which in isolation might not be significant but which may indicate a general trend, emerges from a comparison of the movement of land costs in central and peripheral cities. The case of Venezuela—still on the basis of the CENDES study mentioned earlier—shows that in the cities of the metropolitan centre (Caracas, Valencia, Maracay, Maiquetía, La Guayra, Puerto Cabello and Los Teques) the cost of land has risen considerably; the rise in Caracas is well above that in the other cities, but even there the annual rate of increase has been 10 per cent. In the other cities of Venezuela the rate of increase has been much less, and in some cases there has been no movement at all.

The uncontrolled expansion of urban areas brings with it new problems as regards means of transport and basic urban services, and also as regards sewerage and drinking-water systems, health services and education. Given the limited scope of the legal instruments available in Latin America to enforce stricter social control of land use, the surface area occupied by cities tends to expand *ad infinitum* and this in turn lowers population density. This means that all the advantages of urban concentration in terms of reducing the per capita costs of means of transport and urban services and facilities are lost, and that it is virtually impossible for municipalities, even with assistance from the central authorities, to cover the investment required to maintain even a minimum degree of balance in urban living conditions. Moreover, the distances that commuters have to travel cause wear and tear that affects a significant proportion of the urban population centres. Governments have thus found themselves forced to solve the problem of commuter transport by installing systems that are generally costly in terms of investment, for example underground railways. In São Paulo and Río de Janeiro the cost per kilometre of line has been estimated at 10 million dollars.

In order to be acceptable, the further expansion of metropolitan areas must be controlled so that optimum per capita costs can be achieved for the different types of urban service; urban planning techniques may perhaps be able to neutralize some of the disadvantages of the large agglomerations and take advantage of their benefits, but there are well-known limitations in Latin America as regards urban planning controls and in achieving urban

growth in line with planned patterns. Only a very few major cities have been able to subject their growth completely to controls. The uncontrolled and haphazard growth that ensues virtually always leads to a worsening of urban living conditions, and investment becomes necessary precisely because control has been lacking. The same problems are found in the major cities of the developed countries, sometimes even more acutely. In this connexion, it is significant that the developed countries are showing a growing interest in the problems of the environment, mainly as regards preserving the ecological balance and controlling the pollution caused by industrial wastes. It may be said here that Latin America has barely had time to experience the disadvantages of industrialization, and the main factors affecting the environment in the region are the result of underdevelopment (over-use of natural resources, marginality, shortfall in basic services, the consequences of enclave economies, etc.).

(c) *Relations between the metropolitan area and other regions*

A basic issue within the problem of metropolitanization concerns relations between the urban area and other regions, especially rural regions. The point is not to look at each region in isolation but to try to see whether the process is interdependent and whether the corollary of the expansion of the metropolitan area, for example, is a transfer of income from—and consequently the impoverishment of—another region. While no research has been done to prove this argument, the following sections will consider two studies on related matters undertaken by the Federal Investment Council of Argentina and by ECLA.

(i) *Trade in goods and services.* One of the few studies that have tried to measure interregional relationships is on Argentina,¹⁰ and shows how a major economic centre—the metropolitan area—absorbs resources generated in the provinces. The transfer of income, however, is not homogeneous, nor is it of the same type in all cases: it involves a transfer of income from the richer agricultural areas to the metropolitan area, and a form of subsidy by the metropolitan area to the poorer province. Two areas are thus benefited—the metropolitan area and the poorer provinces—and one area provides the income: the highly productive agricultural provinces, and two provinces producing wool and petroleum (see

table 18). In the first case the metropolitan area, made up of the Federal capital and Greater Buenos Aires, “exports” manufactures and “imports” agricultural products, and hence the terms of this trade have an influence on the transfer of income. For example, the terms of trade improved by 21.7 per cent between 1956 and 1959 for the metropolitan area. The price index of its “imports” rose by 263.6 per cent and that of its “exports” by 342.5 per cent. Furthermore, the metropolitan area contains the services—particularly those concerned with financing, insurance and export—that are used by the other provinces.

The poorer provinces are subsidized on a scale that is small in absolute terms but significant if compared with their gross domestic product. The subsidies consist chiefly in the allocation of resources by the national government for public works or the current costs of education and health services.

The provinces from which these resources come are those which engage in modern-type agriculture on a large scale and generate around three-quarters of national crop and livestock production (the remainder of the province of Buenos Aires, Córdoba, Santa Fe, Mendoza and La Pampa), together with the two provinces producing wool and petroleum (Santa Cruz and Neuquén). In all cases these are thriving provinces with high per capita incomes that—with the exception of Neuquén—are above the national average and very close to that of the metropolitan area. There is thus a situation in which a major industrial area—the metropolitan area—absorbs economic resources from the modern agricultural areas through the payment of services and the terms of trade, and absorbs labour, mainly from the poor provinces which it is subsidizing, although to a much lesser extent.

In their turn the five rich agricultural provinces and the two wool and oil provinces heavily subsidize the metropolitan area; they generate 72 per cent of national crop output and 75 per cent of livestock output at a relatively high level of productivity. But they depend on the metropolitan area for financing, domestic marketing, exports and most of the manufactures that they need. The poorer provinces provide labour—mostly unskilled—and recover through budgetary subsidies from the national government what they lose through the payment of services and possibly through the terms of trade.

It is difficult to estimate to what extent this phenomenon occurs in other Latin American

¹⁰ See Federal Investment Council, *Bases para el desarrollo regional argentina* (Buenos Aires, 1963).

Table 18
ARGENTINA: PER CAPITA GROSS DOMESTIC PRODUCT, AND BALANCE
ON INTERPROVINCIAL TRADE, 1959

	Per capita gross domestic product (thousands of pesos at 1953 prices)	Balance on interprovincial trade (thousands of pesos at 1959 prices)	
		Total ^a	Internal ^b
Metropolitan area	7.6	-27,175	-34,477
Remainder of the province of Buenos Aires	8.1	12,750	12,322
Catamarca	2.8	-663	-633
Chaco	4.1	777	468
Chubut	9.3	-210	1,284
Córdoba	5.3	9,566	11,970
Corrientes	3.1	293	610
Entre Ríos	4.2	-492	-429
Formosa	2.9	117	-32
Jujuy	5.2	645	1,107
La Pampa	8.2	1,818	1,956
La Rioja	2.9	-238	-217
Mendoza	6.5	2,654	3,479
Misiones	2.1	-1,016	-720
Neuquén	3.8	414	551
Río Negro	6.2	727	860
Salta	4.0	-1,266	56
San Juan	5.0	679	906
San Luis	3.8	-449	-398
Santa Cruz	14.8	1,832	1,790
Santa Fe	6.4	4,095	-308
Santiago del Estero	2.3	-739	-313
Tierra del Fuego	20.5	81	128
Tucumán	4.2	-645	40
<i>Balance</i>		3,555	0

SOURCE: Federal Investment Council, *Bases para el desarrollo regional argentino*, op. cit., pages 56 and 98.

^a Including international trade.

^b Excluding international trade.

countries, especially if it is remembered that Argentina is not a particularly typical case since regional differences are less pronounced than in most of the other countries of the region, as are the pressures of population growth in the more backward regions. What is clear, however, is that, even if the Argentine experience could be extended to other countries, this would not mean that regional disparities in income and living conditions would tend to disappear of their own accord. More is required than a transfer of real income in the form of social services for the backward areas to be able to achieve more dynamic economic growth.

(ii) *One aspect of the urban-rural issue projected over the long term using an over-all model.* ECLA recently developed a numerical experimentation model for studying over-all

medium- and long-term strategies;¹¹ the model considers the following factors: demography and education, social stratification, consumption, production and investment, external trade, ownership of capital, technology, nationalization, income distribution and fiscal policy. Since the population is broken down into rural, low-income urban and high-income urban groups, the results obtained can help to identify certain characteristics of urban-rural relations. The figures used in the model, conformed to a situation similar to that of several Latin American countries and the structures, forms and features of the current growth process were projected into the future. As current trends

¹¹ See ECLA, "Un modelo para comparar estilos de desarrollo o políticas económicas optativas" (document E/CN.12/907). The equations of the model are described on pp. 43-54 of the document.

were projected over time, it was assumed that all parameters would behave as in the past. A specific evaluation was made of factors relating to population, employment, expenditure, income and deficit (see table 19).

On the basis of the assumptions adopted, and with an annual rate of population increase falling from 2.9 per cent in 1968 to 2.7 per cent in 1975 and normal migratory movements, the model indicates that the rural population should decline substantially, with a marked increase in the low-income urban population.

With respect to unemployment, three different situations were found. At the beginning of the period unemployment ranges from 6.9 per cent in the low-income urban group to 8.2 per cent in the rural group, while it is minimal in the high-income urban group. By 1975, rural unemployment is expected to have increased dramatically (to an estimated 17 per cent), while unemployment in the low-income group is expected to rise but more slowly and the high-income urban group should have a labour shortage. By the end of the 1970s,

Table 19
INDICATORS OF POPULATION, EMPLOYMENT, EXPENDITURE,
CONSUMPTION, INCOME AND DEFICIT, 1968-1980

(Projected on the basis of existing structure and past trends)

	1968	1975	1980
Structure of population (by group)			
Rural	50.1	41.8	31.6
Low-income urban	39.6	46.2	54.8
High-income urban	10.2	12.0	13.6
Unemployment (percentage of active population)			
Rural	8.2	17.0	4.3
Low-income urban	6.9	9.6	17.4
High-income urban	0.5	-1.8	-1.9
Total expenditure (in millions of monetary units)	55,046.6	95,104.0	147,135.4
Structure of expenditure by group (percentages)			
Rural	18.2	13.1	9.1
Low-income urban	37.6	39.3	41.9
High-income urban	44.3	47.6	49.0
Per capita consumption as a proportion of rural consumption			
Low-income urban (rural = 1)	2.6	2.8	2.8
High-income urban (rural = 1)	11.9	13.5	13.7
Total income (in millions of monetary units)	56,026.0	100,445.3	150,267.1
Structure of income by group (percentages)			
Rural	13.3	8.6	6.9
Low-income urban	32.4	28.6	27.6
High-income urban	54.4	62.8	65.6
Per capita income (in monetary units)			
Rural	197.7	238.1	330.6
Low-income urban	594.5	699.6	763.2
High-income urban	3,333.3	4,885.4	5,821.9
Total subsidy (millions of monetary units)	1,432.2	2,974.6	5,174.6
Deficit (millions of monetary units)			
Rural	1,585.3	2,192.4	1,060.6
Low-income urban	641.8	4,186.5	12,349.9
High-income urban	-4,638.7	-14,694.7	-21,716.7

rural unemployment is expected to decline significantly (to 4.3 per cent) mainly owing to migration to the cities, but this will make the situation unbearable in the low-income urban group (unemployment of 17.4 per cent), while the labour shortage in the high-income urban group will remain roughly the same.

The share of the rural population in expenditure is expected to decline markedly, while that of the urban population—both low-income and high-income—should continue to grow in line with past trends. Consumption by other groups is also expected to follow past trends, with the disparities existing at the beginning of the period remaining unchanged.

The income of the rural group is expected to decline in relative terms by half during the period, while that of the low-income urban group should also decline, although less rapidly; the income of the high-income group, on the other hand, is expected to rise. There should be a moderate deficit in the rural sector which should reach its peak in 1975 and then decline; the deficit of the low-income urban group is expected to increase rapidly and to reach intolerable levels by 1980, while the high-income group should produce large and growing surpluses.

In the final analysis, the basic fact that emerges from applying this over-all model—which was developed to follow the trends of the economy as a whole—is the intolerable situation of the low-income urban group by the end of the 1970s, owing both to rapidly rising unemployment and to the income deficit which is growing at a cumulative annual rate of 28 per cent and cannot be covered. It is perhaps unnecessary to add that this analysis is simply an illustration, in somewhat hypothetical terms, of how serious matters will become if nothing is done to modify existing structural trends.

(d) *Some characteristics of the distribution of household income in selected metropolitan areas*¹²

The previous paragraph dealt with the problem connected with the low-income urban population. There now follows a more detailed analysis of income distribution in metropolitan areas where, in general, although there are marked disparities, a higher absolute level is observable—even in the lowest strata—than in other regions. This is one of the basic ele-

¹² This section contains data and conclusions taken from an unpublished ECLA study comparing the distribution of income in some major Latin American cities.

ments of attraction of the great cities for the rural population and the smaller urban centres. Migration to the big cities reflects the expectation of concrete possibilities of better living conditions.

The general characteristics of household income distribution in some metropolitan areas (Rio de Janeiro, São Paulo, Santiago (Chile), San José (Costa Rica), the Federal District of Mexico and Caracas) are compared with those of national distribution patterns. The recipient categories are divided into five groups by increasing size of income: the poorest 20 per cent, the next 60 per cent split into two halves on either side of the median, the 15 per cent below the highest income group, and the top 5 per cent (see tables 20, 21 and 22).

The poorest 20 per cent of the population receives an average of 5 per cent of total income in metropolitan areas, compared with 3.1 per cent in the whole country. Translated into absolute levels of average personal income, these percentages indicate a per capita income of 130 to 300 dollars, against national averages of 50 to 110 dollars. From an overall national standpoint, in spite of the wide range of situations, 90 per cent of this segment consists of workers engaged in primitive agricultural activities, and the remainder of unskilled or illiterate workers employed in personal services and construction in rural or minor urban localities. In metropolitan areas, on the other hand, this segment is much smaller and its influence does not seem to go beyond the first decile. At the same time, the share of agriculture is not only below 4 per cent of total employment in the cities considered (except San José), but it demonstrates greater efficiency than at the national level, in view of the high value of the land and the higher standard of education of urban population groups engaged in this activity.

In addition, the information for those cities would seem to indicate that, with the exception of some households which receive pensions and of workers in personal services, a considerable proportion of this category is made up of households headed by women. Moreover, there is a significant difference between the whole group of countries and the metropolitan areas as regards the functional structure of this group. At the national level, about 80 per cent of it is composed of workers engaged primarily in agriculture and services; in contrast, the employment of this group of persons in metropolitan areas is more varied. In Caracas, for example, the workers

Table 20
LATIN AMERICA: PERSONAL INCOME DISTRIBUTION IN SELECTED METROPOLITAN AREAS
(Percentages)

Income groups	Brazil (1961-1962)				Chile (1964) Greater Santiago	Costa Rica (1961) San José	Mexico (1957) Federal District	Venezuela (1962) Caracas	Over-all average
	Rio de Janeiro	São Paulo							
10	2.0	2.3			1.5	2.0	2.2	2.2	
10	2.0	3.5			2.8	3.0	3.1	3.5	
10		5.0		5.8		4.3		5.3	5.7
10	4.0	4.2			4.1	4.0	3.9	4.6	
10	5.0	5.1			4.2	5.0	4.8	5.8	
10	6.1	5.9			6.0	5.5	5.5	6.9	
10		15.1		15.2		14.3		14.2	17.3
10	7.6	7.0			7.6	6.8	6.3	7.8	
10	9.3	8.3			9.5	8.7	8.7	9.5	
10	12.3	10.9			12.1	10.0	11.7	12.0	
10		29.2		26.2		29.2		26.7	29.3
10	15.7	14.3			17.3	17.0	16.3	16.5	
10	35.0	38.5			34.9	38.0	37.5	31.2	
	15	26.6		24.8		29.2		27.8	27.7
	5	24.1		28.0		23.0		26.0	20.0
<i>Total</i>									
100	100	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

SOURCES: Brazil: Getulio Vargas Foundation, Brazilian Institute of Economics, *Pesquisa sobre orçamentos familiares, 1961-1962*; Chile: Universidad de Chile, Institute of Economics, 1964, *Demanda de bienes durables*, Gran Santiago, June 1964 (Santiago, Chile, 1965). Costa Rica: Carlos Quintana Ruiz, *Análisis del ingreso familiar en el área metropolitana de San José* (Universidad de Costa Rica, 1962); Mexico, 1957: Statistical Office, *Ingresos y egresos de la población de México: mes de octubre de 1956* (Mexico, 1958); Venezuela: Statistics and Census Office, *Primera encuesta nacional sobre ingresos y egresos familiares*, document 5 (Caracas, 1964).

Table 21
LATIN AMERICA: ESTIMATED INCOME DISTRIBUTION IN SELECTED COUNTRIES
(Percentages of total income)

<i>Income groups</i>	<i>Brazil (1960) Earning population</i>		<i>Households^a</i>				<i>Average</i>
			<i>Chile (1965)</i>	<i>Costa Rica (1961)</i>	<i>Mexico (1963)</i>	<i>Venezuela (1962)</i>	
10	1.5		1.2	2.6	1.5	1.4	
10	2.0		2.3	3.4	2.1	1.6	
10	20	3.5	3.5	6.0	3.6	3.0	3.1
10	3.0		3.0	3.8	3.1	3.0	
10	3.5		4.1	4.0	3.8	3.7	
10	5.0		5.4	4.4	4.9	4.6	
10	30	11.5	12.5	12.2	11.8	11.3	10.3
10	6.5		6.5	5.4	6.0	6.0	
10	7.3		8.5	7.1	8.1	8.3	
10	9.7		10.7	9.3	12.0	13.4	
10	30	23.5	25.7	21.8	26.1	27.7	24.1
10	12.0		15.3	14.0	17.0	17.3	
10	49.5		43.0	46.0	41.5	40.7	
	15	22.0	27.8	25.0	29.5	31.5	29.2
	5	39.5	30.5	35.0	29.0	26.5	33.4

SOURCES: Brazil, Costa Rica, Mexico and Venezuela: ECLA, *Economic Survey of Latin America*, 1968. Chile: Production Development Corporation (CORFO), *Geografía Económica de Chile* (first appendix), Santiago, Chile, 1966.

^a Families equivalent to heads of households in housing censuses.

Table 22
LATIN AMERICA: ESTIMATED DISTRIBUTION OF AVERAGE PER CAPITA PERSONAL INCOME, BY INCOME GROUPS, 1965
(Dollars at 1960 prices)

<i>Country and region</i>	<i>Average income by groups</i>										
	<i>Personal income average per capita</i>	<i>Poorest 20 per cent</i>	<i>Lower 30 per cent</i>	<i>Upper 30 per cent</i>	<i>15 per cent below the top 5 per cent</i>	<i>Top 5 per cent</i>					
Brazil	260	45	100	200	380	2,055					
Rio de Janeiro	805	200	405	780	1,425	3,880					
São Paulo	775	225	390	675	1,280	4,340					
Chile	480	85	200	410	890	2,930					
Greater Santiago	660	140	315	640	1,285	3,035					
Costa Rica	385	115	155	280	640	2,695					
San José	500	125	240	425	965	2,600					
Mexico	475	85	185	415	935	2,755					
Federal District	1,050	280	495	935	1,940	5,460					
Venezuela	530	80	200	490	1,115	2,810					
Caracas metropolitan area ...	870	250	500	850	1,610	3,480					
Norway ^a	930	210	640	1,070	1,560	2,870					
United Kingdom ^a	1,400	360	825	1,540	2,335	5,375					

NOTE: Tentative estimates based on incomplete data.

^a The income levels for the European countries are for 1960, ECLA.

represent 60 per cent of this first 20 per cent, the remainder consisting, in almost equal proportions, of independent workers and modest workers in personal services;¹³ in other cities—São Paulo or Greater Santiago—the employees represent an even smaller proportion, since there are more retired persons with old age and other pensions.

In the next 30 per cent, the structure is seen to be appreciably different. In countries like Brazil, Costa Rica and Mexico, the agricultural population, although on a lesser scale than in the composition of the first 20 per cent, continues to exercise a virtually determining influence. A little over half of its members come from agriculture, and the rest are engaged in construction, the traditional industries—especially textiles—and services. In contrast, in the other countries considered the proportions are reversed in favour of the last mentioned sectors. The share of this 30 per cent ranges from 11 to 12.5 per cent of total income and, in terms of average absolute income, from 100 dollars (Brazil) to 200 dollars (Chile and Venezuela). In the metropolitan areas, on the other hand, this group receives a larger share of income, owing to the fact that the primitive sector has almost no influence, and that its operational structure is more diversified. Therefore, its share in metropolitan income is higher and shows greater disparities between the different cities; it ranges from 14.2 to 17.3 per cent, which means an average personal income which fluctuates around the average total for the region, i.e., between 240 and 500 dollars.

In the upper half of income distribution, at the national level, the influence of rural areas is substantially smaller, owing to the predominantly urban nature of the population. Thus, from the functional standpoint and considering the national total—with the proportions varying according to the country—this segment includes medium-scale entrepreneurs in farming and certain unspecified services: skilled workers in traditional industries and on large farms; and a high proportion of office workers and independent workers, mainly salesmen and persons engaged in similar activities. The structure is quite different in the large cities, where the basic nucleus of this category consists of medium-level public and private employees, and also skilled and organized workers in enterprises of a certain size, some medium-scale farmers (residing in

the city) and a small fraction of professionals, technicians and similar types of workers in the top third of the scale. This group's share of income varies little between the different cities concerned, fluctuating in relative terms between 25.5 and 29.3 per cent of total income, which, expressed in absolute terms, means from 400 to 900 dollars per head.

An analysis at the national level of the structure of the next 15 per cent below the top stratum shows that not more than 6 per cent of them are workers. They are skilled urban groups engaged in large-scale enterprises, particularly those controlled by the Government or foreign capital (mining, electric power, transport and communications). Most of this category (with some variations in Brazil and Costa Rica) comprises executive employees and professional staff, and some medium-scale owner-entrepreneurs in industry and services. As will be noted, this 15 per cent of the population is composed mainly of skilled groups, generally engaged in efficient activities associated or integrated with the modern sector. Therefore, their share of income depends on the scale of employment in this sector and on the degree to which it affects the remuneration of the groups near the peak of the income distribution scale.

This category's position in the income scale in the major cities is similar to that observable at the country level. The data on Caracas, for example, indicate that the workers' representation is practically nil in this group, which consists almost exclusively of medium-scale owners and managers of agricultural, industrial and tertiary activities, senior employees in important enterprises and a certain category of professionals. These are groups which possess capital and skill, both relatively scarce resources in developing regions for which compensation is generally in accordance with international standards. Their share in income in the countries reviewed ranges from 25 to 29 per cent of the total.

This pattern of the employment structure in the economic and social categories reaches its peak in the top 5 per cent of income distribution. In the countries considered, the members of this top category are essentially senior professionals, the high echelons in the public and private sector, managers and administrators of large-scale enterprises, and a small proportion of retired persons with old age and other pensions and private incomes. In addition, and by way of exception, there is an insignificant fraction (0.1 to 0.6 per cent) of

¹³ Universidad Central de Venezuela, "Estratificación social y familia", *Estudio de Caracas*, vol. IV.

highly skilled urban élite of workers engaged in important public or foreign enterprises, whose remuneration is determined essentially by institutional factors. The functional structure of this group does not vary as a whole from country to country or between one city and another, although it does vary as regards the proportion of its members. The data for the years 1964-1965 show that in Mexico this group comprised 25.4 per cent of the owners and managers, 31 per cent of the professionals and technical experts, either salaried or independent, and 1 per cent of the persons living on pensions.

As can be noted, access to this category is not exclusive. It includes high-level wage or salary earning groups or independents (senior professionals and executive employees) on the one hand, and important owner-entrepreneurs who tend to be concentrated in its highest strata.

Notwithstanding the variations in the proportion of each group in the top 5 per cent, all the members of this category belong to the modern sector of the economy in the countries and cities concerned, and their share depends on the size of this sector, so that the smaller it is the more income is concentrated in it.

In conclusion, income distribution in the major cities is generally less unequal than in the whole country. This is due, above all, to the smaller size of the primitive sector, which accounts for the lower strata's larger share of income, and to the "administrative" character of the big cities, since the concentration of employees, professionals and technicians helps to swell the middle-income strata.

4. *Some conclusions*

(a) The first—and perhaps the most important—point that should be clarified concerns the significance and, to some extent, the social cost/benefit ratio of urbanization. In this connexion, it could be hazarded, as a preliminary guess, that the concentration of resources in a metropolitan area would be both a pre-condition for the expansion and diversification of the structure of the economy, and an "optimum" allocation from the point of view of the over-all growth rate, as it would provide a means of deriving maximum benefit from external economies. Secondly, it could equally well be assumed that the growth and consolidation of the central development nucleus would transform it into a dynamic ele-

ment promoting the development of the rest of the economy. In that event, there would not properly speaking be a regional development problem requiring the adoption of specific policies designed to overcome it, but merely a lack of synchronization between the time needed to build up the metropolitan area and the time required for it to make its influence felt in the rest of the system, in a process that in time would lead spontaneously to the integration and greater unification of the national economy.

Several features of the Latin American experience appear to suggest that the first aspect is bound up with specific stages of growth, while there are serious doubts as to the validity of the second aspect.

It is true that, throughout a specific stage, a form of polarized development represents an economically justified allocation of resources and is an important step forward from the point of view of the prospects for improving the levels of living of the population, but it is no less true that these advantages will only persist given two conditions: (i) that the productive worth of the resources invested in the most advanced poles should be greater than the productivity that would accrue in new or backward areas, and (ii) that there should be a clear capacity to energize the rest of the system and to absorb a growing proportion of the population at sufficiently high income and productivity levels. Hence, the content of a regional policy cannot be defined without regard to the practical stage of development through which the region is passing, which means, in other words, that the variety of national situations that characterize the Latin American situation may call into doubt the validity of any generalization at the Latin American level.

(b) In actual fact, the urbanization process is being carried out notwithstanding measures to promote decentralization. Moreover, in countries where there is a more or less balanced set of urban centres, there is a tendency for the process to be concentrated in a large urban area of national significance. This fact appears to have been determined at the demographic level by the better living conditions offered in the metropolitan area compared with conditions prevailing in the poor rural areas (in particular, higher income levels and access to urban facilities); and at the economic level, mainly by the favourable results of profitability studies for the establishment of enterprises in those areas, owing to the possibility

of utilizing external economies and other indirect subsidies received from the State.

(c) The lack of checks on the growth of metropolitan areas has caused a decline in urban living conditions and has made huge investments necessary to permit the smooth running of activities in those areas and to remedy deficiencies provoked by the same lack of checks. At the same time, excessively high and uncontrolled land values in the metropolitan area have caused the cost of urbanization to soar to unprecedented levels.

(d) It would appear that the large urban centres absorb resources from the periphery, and this process appears to be dictated, among other things, by the effects of the terms of trade and the provision of a variety of services. In the case on which data are available, it is shown that the metropolitan area absorbs resources generated in the rich agricultural areas and, to a much smaller extent, subsidies to the poorer areas.

(e) The analysis of income distribution in certain large towns as compared with whole countries in Latin America shows that, for the same deciles, income levels are higher in the large towns than in the rest of the country. This is due mainly to the non-existence of a primitive rural sector. If account is also taken of the possibility of utilizing a large number of urban facilities, it can be seen that migration to large towns is not dictated by haphazard personal motives but is based on access to better living conditions (always compared with the underprivileged rural population strata). However, in a projection of trends until the end of the decade, it will be seen that, given the persistence of current trends—and, particularly, the high rate of migration from the countryside to the towns together with the low capacity of towns to absorb labour at acceptable productivity levels—the situation of the low-income urban population would become intolerable, owing to the excessive growth of unemployment and the enormous income deficit.

AGRICULTURAL POLICY IN THE COUNTRIES SIGNATORY TO THE ANDEAN SUBREGIONAL INTEGRATION AGREEMENT

1. *Trends in the development of agriculture in the subregion*

In varying degrees the development of agriculture in the countries signatory to the Cartagena Agreement is subject to the same constraints as were identified by ECLA in respect of Latin America as a whole.¹ Indeed, over-all production is growing more slowly than the population, particularly in the livestock sector. This has led to a decline in the levels of per capita consumption, the slow expansion of agricultural exports and a steady increase in imports of certain foodstuffs and raw materials; insufficient use of modern farming techniques in most of the countries and, consequently, little improvement in unit yields; an unsatisfactory structure of production characterized by under-diversification and, in particular, by over-concentration of ownership of land and agricultural income, with the result that the levels of living of vast numbers of the population are deplorably low; under-utilization of land and rural labour, giving rise to high unemployment and under-employment in rural areas and to the exodus of rural workers to the large towns; and lastly, lack of integrated and co-ordinated agricultural development planning.

The figures given in table 1 confirm the slow growth rate of the agricultural product (crops, livestock, forestry and fishing). In per capita terms, between 1960 and 1970, growth was positive in Colombia, stagnant in Chile and inadequate in Bolivia, Ecuador and Peru. Chile's level of per capita income is higher than the rest of the subregion, and accordingly, the share of the agricultural product is notably lower (10.8 per cent of the total domestic product); nevertheless, in Chile, too, there is inadequate agricultural development and heavy dependence on imports of agricultural products. Agriculture is of much greater importance in the economies of Colombia and Ecuador, and in both countries its share in the

gross domestic product is around 31 per cent, while in Bolivia and Peru, as in Chile, mining and manufacturing activities are of greater significance than in the other countries of the subregion. The total gross product generated by the five countries of the subregion was estimated at 4,656 million dollars in 1970, of which 52 per cent was accounted for by Colombia, 19 per cent by Peru, 13 per cent by Chile, 12 per cent by Ecuador and 4 per cent by Bolivia.

Obviously, the sluggish and uneven growth of agricultural production is one of the negative factors contributing to the very low income levels of the rural population. In the five countries as a whole, two-thirds of the rural population receives the per capita equivalent of barely 100 dollars a year, with the disastrous economic and social consequences that can be imagined.

Similarly, the agricultural labour force appears to have increased by only 926,000 workers between 1960 and 1970, that is, a cumulative annual growth rate of only 1.4 per cent, the lowest rates being recorded in Bolivia and Chile. Thus, there is a clear trend towards open unemployment among the rural population, which is estimated at 25 million. Rural unemployment and under-employment, particularly of a seasonal nature, are an important problem in all the countries of the subregion, and are particularly serious in areas of single-crop cultivation and in areas where crop cultivation and livestock breeding are not integrated or placed on a suitable complementary basis.

During the period under review, the over-all growth rate of agricultural productivity was only 1.5 per cent a year; Ecuador and Peru recorded minimum levels of improvement. Although there are some variations from country to country, in over-all terms unit yields for the subregion as a whole have been very small, and sometimes zero, as is the case for the livestock sector in many areas, where output of meat and milk per animal and per unit of area has stagnated. The fact of the matter is that

¹ See ECLA, "Second United Nations Development Decade—Agricultural development in Latin America" (E/CN.12/829).

Table 1
ANDEAN GROUP: GROSS AGRICULTURAL PRODUCT; EMPLOYMENT AND
PRODUCTIVITY OF AGRICULTURAL LABOUR

	1960	1970	Index (1970/1960)	Annual growth rate (1970/1960)
<i>Agricultural product</i>				
<i>(Millions of dollars at 1960 prices)</i>				
Bolivia	166.0	202.0	121.7	2.0
Colombia	1,683.7	2,406.4	142.9	3.6
Chile	463.4	597.7	129.0	2.6
Ecuador	415.4	544.9	131.2	2.8
Peru	756.8	904.7	119.5	1.8
<i>Andean Group</i>	<i>3,485.3</i>	<i>4,655.7</i>	<i>133.6</i>	<i>2.9</i>
<i>Employment</i>				
<i>(Thousands of persons)</i>				
Bolivia	835.0	878.0	105.1	0.5
Colombia	2,204.2	2,629.9	119.3	1.8
Chile	682.0	738.0	108.2	0.8
Ecuador	776.6	956.0	123.1	2.1
Peru	1,551.5	1,773.9	114.3	1.4
<i>Andean Group</i>	<i>6,049.3</i>	<i>6,975.8</i>	<i>115.3</i>	<i>1.4</i>
<i>Productivity</i>				
<i>(Product per person employed)</i>				
Bolivia	198.8	230.0	115.7	1.5
Colombia	763.9	915.0	119.8	1.8
Chile	679.5	810.0	119.2	1.8
Ecuador	534.9	570.0	106.6	0.7
Peru	487.8	510.0	104.6	0.5
<i>Andean Group</i>	<i>576.1</i>	<i>667.4</i>	<i>115.8</i>	<i>1.5</i>

SOURCE: ECLA and ILPES estimates.

increases in production in absolute terms have been achieved basically through expanding the area under cultivation and hardly ever as a result of technological progress. On the plateaux of Bolivia, Colombia, Ecuador and Peru, the peasant and small farmer continue to be tied to traditional forms of cultivation and animal breeding dating from colonial times, and most of the holders of latifundia are reluctant to introduce modern techniques in their crop and livestock production. A great deal of potential is being wasted for lack of advanced farming techniques.

The failure to redistribute the land and the current systems of land tenure, especially with regard to minifundia and latifundia, are the most serious obstacles to the modernization of agriculture in the subregion, particularly in areas where the main activity is subsistence farming, and where there is a lack of the ne-

cessary transport and marketing services for both agricultural inputs and products. There are clearly many obstacles to trade throughout the subregion, and these constitute veritable bottlenecks in supply and demand.

As has been pointed out time and time again, these problems can only be solved by sweeping agrarian reform which, in addition to distribution of land and income, modernization of production techniques, expansion of credit and technical assistance facilities and improved marketing practices, etc., would involve the over-all planning of the sector in the light of intersectoral relationships and, hence, within the framework of the economy of the subregion as a whole.

According to data supplied by FAO, the percentage structure of agricultural production for the countries of the Andean Group in 1970 was as follows:

<i>Sectors</i>	<i>Bolivia</i>	<i>Colombia</i>	<i>Chile</i>	<i>Ecuador</i>	<i>Peru</i>	<i>Subregion</i>
Crops	68	62	55	79	63	66
Livestock	32	38	45	21	37	34
TOTAL	100	100	100	100	100	100

It can be seen that in Bolivia, Colombia and Peru production of crops is practically double livestock production; in Chile the ratio is almost even, while in Ecuador it is three to one. Goats, sheep, pigs and poultry have assumed great significance in Chile.

To enable an appraisal to be made of the relative importance of products and groups of products, table 2 provides a list of the components of the crop and livestock sectors. Considering the subregion as a whole, cereals and fruit are the most important crops, each accounting for about one-fifth of production. The most important cereals are maize, followed by wheat and rice. Bananas are the most important fruit. Lower down the scale are starchy roots and coffee; of the former, potatoes are the principal tuber, followed by cassava. Next in importance come vegetables and sugar products, followed by fibres and, lastly, other minor crops.

Meat accounts for a relatively large share (57 per cent) of total livestock production in the subregion. Milk occupies second place, followed by eggs, wool and the remaining products of the sector.

At the national level, in Bolivia the most important crops are starchy roots, followed by cereals, vegetables and fruit. In Chile, cereals are the major crop, followed closely by fruit and further down the scale by starchy roots and vegetables. Coffee occupies the first place in Colombia, followed by cereals, fruit, sugar products, starchy roots, etc. In Ecuador, fruit is the major crop, bananas in particular. Much lower down the scale are cereals, coffee, starchy roots, cocoa and other minor crops. In Peru fibres are the most important crop, cotton in particular, followed in importance by fruit, starchy roots, cereals, vegetables, sugar products and other crops.

Table 2 shows that meat and dairy products account for more than 80 per cent of the total value of livestock production in the subregion. Eggs also occupy an important place in all the countries, while production of wool is of relatively greater significance in Bolivia, Chile and Peru than in Colombia and Ecuador. In Bolivia, production of sheep and

auchenia wool is almost as important as milk production and twice as much as egg production. In Colombia and Ecuador, on the other hand, egg production is much more significant than production of wool.

The figures in table 3 show each country's share in the subregion's production of crops and animal products. Chile is the main producer of wheat, accounting for slightly more than three-quarters of the subregional total, while Colombia occupies first place in respect of production of maize and rice, with 40 and 51 per cent of the respective totals. Chile accounts for 91 per cent of the production of oats in the subregion. Peru is the main producer of barley, accounting for about one-third of the total. In Bolivia, maize and barley, and in Ecuador, rice and barley have the highest incidence in subregional production. As regards starchy roots, Colombia produces a significant amount of cassava and sweet potato and Peru commands a high share of production of potatoes and sweet potatoes. Chile occupies first place in the production of pulses, accounting for slightly more than 60 per cent of the output of chick-peas and lentils. Peru is the major producer of broad beans, followed by Ecuador and Bolivia. The bulk of the subregion's output of peas comes from Colombia. As regards sugar products, Colombia produces more than half of the cane sugar produced in the subregion, while Chile is the only country that processes beet-sugar.

Ecuador is the most important producer of bananas, with 70 per cent of the subregional total, followed by Colombia with 20 per cent. Chile accounts for total sunflower production. Colombia produces all the sesame and most of the cotton of the subregion, followed by Peru. Ecuador accounts for three-quarters of castor seed production. Colombia stands out in the production of coffee and tobacco; Ecuador in cocoa; and Peru accounts for 100 per cent of tea cultivation.

In the livestock sector, Colombia is the main producer of beef, pork, milk and eggs. Chile has a high share of beef and wool production, followed by Peru. Bolivia produces mostly mutton and goat meat and wool, and Ecuador milk, pork and eggs.

Table 2
ANDEAN GROUP: STRUCTURE OF THE CROP AND LIVESTOCK SECTORS, 1969
(Percentage values)

	<i>Bolivia</i>	<i>Chile</i>	<i>Colombia</i>	<i>Ecuador</i>	<i>Peru</i>	<i>Subregion</i>
<i>Crops</i>						
Cereals	28.0	30.0	23.0	15.0	13.0	21.0
Starchy roots	38.0	15.0	8.0	7.0	16.0	13.0
Sugar and sugar products	4.0	2.0	10.0	5.0	8.0	7.0
Pulses	0.5	6.0	3.0	3.0	3.0	4.0
Vegetables	10.0	13.0	5.0	5.0	10.0	8.0
Fruit	10.0	28.0	14.0	45.0	18.0	20.0
Oilseeds	2.0	5.0	2.0	2.0	1.0	2.0
Coffee	2.0	—	24.0	8.0	5.0	13.0
Cocoa	1.0	—	3.0	7.0	0.2	2.0
Tobacco	0.5	0.6	1.0	3.0	0.2	0.7
Fibres and others	4.0	0.4	7.0	3.0	25.6	9.3
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
<i>Livestock</i>						
Meat and offal	64.0	53.0	57.0	64.0	57.0	57.0
Eggs	5.0	6.0	8.0	9.0	8.0	7.0
Milk	14.0	31.0	31.0	23.0	22.0	29.0
Leather and skins	3.0	2.0	3.0	2.0	3.0	3.0
Wool	12.0	7.0	0.2	0.1	8.0	3.0
Other	2.0	1.0	0.8	1.9	2.0	1.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

SOURCE: FAO, *Production Yearbook and Indicative World Plan*, various editions.

Table 4 shows the area devoted to the different groups of crops and the volume produced in each country. It thus reflects the magnitude of production and how it is divided among the different countries, all this, of course, in relation to existing resources—of cultivable land, for instance—to the size of the domestic market and to traditional exports.

Table 4 could also be taken to some extent as an indicator of the need to formulate selective production programmes that do not aggravate difficulties of competition, especially in tropical countries.

The data in table 4 confirm the prominent position of Chile in the production of wheat, oats and sunflower seed; of Colombia in respect of maize, rice, cassava, sugar-cane, cotton, sesame, coffee, tobacco, beef, milk and eggs; of Ecuador in the production of bananas, cocoa and castor seed; and of Peru in respect of potatoes, sweet potatoes, cotton and tea.

2. Traditional agricultural policies

In the five countries, the means of production have traditionally been concentrated in

private hands. For this reason, agricultural policies have been established and applied as Government instruments to guide production in the right direction and towards suitable levels. Moreover, some groups of producers have induced the State to establish special policies to protect and encourage specific lines of agricultural production. Hence, frequent reference is made to coffee, banana, wheat, livestock policy, etc. In this way, the trend towards the establishment of policies in respect of individual products or groups of products in some countries has become widespread.

Policies in respect of products cover both the technical aspects—agronomical or zootechnical—in general, and, in particular, economic aspects relating to the product, especially as regards prices, taxation, credit, supply of inputs, exchange policy, etc.

The application of these traditional agricultural policies has favoured the emergence of a dual structure of production. On the one hand, a modern, highly prosperous commercial sector has been formed and developed, based on the production of one or more articles for which markets exist with relatively stable prices. This sector handles nearly all agricul-

Table 3
ANDEAN GROUP: SHARE OF EACH COUNTRY IN THE TOTAL VOLUME
OF PRODUCTION IN THE SUBREGION, AVERAGE 1967-1969

(Percentages)

	<i>Bolivia</i>	<i>Chile</i>	<i>Colombia</i>	<i>Ecuador</i>	<i>Peru</i>	<i>Subregion</i>
CROPS						
<i>Cereals</i>						
Wheat	3.2	76.1	6.1	4.9	9.7	100.0
Maize	10.8	12.8	39.6	9.8	27.0	100.0
Rice	4.9	5.4	51.2	14.8	23.7	100.0
Barley	10.8	22.1	17.9	17.0	32.2	100.0
Oats	8.0	90.6	—	0.4	1.0	100.0
<i>Starchy roots</i>						
Potatoes	15.2	16.1	19.6	8.9	40.2	100.0
Cassava	8.6	—	48.4	15.5	27.5	100.0
Sweet potatoes	3.6	—	45.8	2.6	48.0	100.0
<i>Pulses</i>						
Beans	0.5	32.2	18.8	15.7	32.8	100.0
Peas	1.3	11.8	36.0	25.8	25.1	100.0
Broad beans	14.3	—	—	38.7	47.0	100.0
Chick-peas	—	68.1	—	—	31.9	100.0
Lentils	—	63.8	—	12.5	23.7	100.0
<i>Sugar and sugar products</i>						
Sugar cane	3.5	—	51.6	22.2	22.7	100.0
Sugar beet	—	100.0	—	—	—	100.0
<i>Vegetables</i>						
Onions	1.4	35.1	8.9	24.5	30.1	100.0
Tomatoes	—	26.5	20.1	25.7	27.7	100.0
<i>Fruit</i>						
Bananas	1.2	—	18.7	69.6	10.5	100.0
<i>Oilseeds</i>						
Cotton	—	—	55.4	2.9	41.7	100.0
Sunflower	—	100.0	—	—	—	100.0
Castor seed	—	—	—	75.0	25.0	100.0
Sesame seed	—	—	83.6	16.4	—	100.0
Coffee	1.0	—	80.4	9.5	9.1	100.0
Cocoa	1.2	—	21.1	75.5	2.2	100.0
Tea	—	—	—	—	100.0	100.0
Tobacco	1.8	14.6	72.4	3.3	7.9	100.0
LIVESTOCK						
<i>Meat</i>						
Beef and veal	6.1	22.2	55.9	5.5	10.3	100.0
Pork	7.7	19.8	39.7	11.7	21.1	100.0
Mutton and lamb	15.3	41.6	4.1	7.0	32.0	100.0
<i>Other livestock products</i>						
Eggs	4.1	17.5	51.8	13.2	13.4	100.0
Milk	3.2	23.9	50.7	12.2	10.0	100.0
Wool	8.0	54.3	2.2	3.4	32.1	100.0

Table 4
ANDEAN GROUP: AREA AND PRODUCTION OF MAIN AGRICULTURAL PRODUCTS, AVERAGE 1967-1969
(Thousands of hectares and thousands of tons)

	<i>Bolivia</i>		<i>Chile</i>		<i>Colombia</i>		<i>Ecuador</i>		<i>Peru</i>		<i>Total</i>	
	<i>Area</i>	<i>Production</i>	<i>Area</i>	<i>Production</i>	<i>Area</i>	<i>Production</i>	<i>Area</i>	<i>Production</i>	<i>Area</i>	<i>Production</i>	<i>Area</i>	<i>Production</i>
<i>Crops</i>												
Wheat	70.9	50.6	720.7	1,212.5	83.0	96.7	78.2	78.5	156.6	154.1	1,109.4	1,592.4
Maize	200.0	234.7	79.7	278.9	802.7	865.0	372.4	213.2	360.8	590.2	1,815.6	2,182.0
Rice	34.6	67.1	26.1	73.0	258.9	698.1	131.2	202.6	85.0	322.7	535.8	1,363.5
Barley	95.0	57.7	55.6	118.3	58.3	96.3	148.0	91.2	183.4	172.5	540.3	536.0
Oats	10.0	11.0	86.4	124.4	—	—	0.9	0.5	1.4	1.4	98.7	137.3
<i>Cereals</i>	<i>410.5</i>		<i>968.5</i>		<i>1,202.9</i>		<i>730.7</i>		<i>787.2</i>		<i>4,099.8</i>	
Potatoes	109.6	643.3	77.8	681.4	80.7	833.3	46.4	375.6	271.3	1,703.9	585.8	4,237.5
Cassava	10.7	156.3	—	—	148.7	883.3	36.0	282.3	41.9	502.3	237.3	1,824.2
Sweet potatoes	2.1	11.3	—	—	12.3	143.3	2.5	8.1	12.8	149.9	29.7	312.6
<i>Starchy roots</i>	<i>122.4</i>		<i>77.8</i>		<i>241.7</i>		<i>84.9</i>		<i>326.0</i>		<i>852.8</i>	
Beans	1.5	1.0	54.8	67.2	69.7	39.3	69.8	32.8	63.8	68.4	259.6	208.7
Peas	1.0	1.0	12.1	9.0	48.1	27.6	31.0	19.8	21.1	19.2	113.3	76.6
Broad beans	10.0	7.4	—	—	—	—	34.2	20.0	23.5	24.3	67.7	51.7
Chick-peas	—	—	11.4	6.4	—	—	—	—	4.6	3.0	16.0	9.4
Lentils	—	—	9.3	5.1	—	—	3.1	1.0	1.7	1.9	14.1	8.0
<i>Pulses</i>	<i>12.5</i>		<i>87.6</i>		<i>117.8</i>		<i>138.1</i>		<i>114.7</i>		<i>470.7</i>	
Sugar cane	29.7	1,181.9	—	—	342.8	17,500.0	108.0	7,514.1	51.0	7,700.0	531.5	33,896.0
Sugar beet	—	—	28.8	1,085.5	—	—	—	—	—	—	28.8	1,085.5
<i>Sugar and sugar products</i> ..	<i>29.7</i>		<i>28.8</i>		<i>342.8</i>		<i>108.8</i>		<i>51.0</i>		<i>560.3</i>	

Onions	1.4	5.9	5.0	145.0	3.3
Tomatoes .....	...	...	4.1	62.0	3.0
<i>Vegetables</i>	1.4		9.1		6.3
Bananas	4.0	50.0	—	—	58.7
<i>Fruit</i>	4.0	50.0	—	—	58.7
Cotton (seed)	—	—	—	—	195.3
Sunflower	—	—	24.7	34.8	—
Castor seed	—	—	—	—	—
Sesame	—	—	—	—	16.7
<i>Oilseeds</i>	—	—	24.7		212.0
Coffee	12.0	6.2	—	—	813.5
Cocoa .....	...	1.1	—	—	...
Tobacco	0.8	1.1	2.6	8.7	23.4
Cotton fibre	—	—	—	—	...
Tea	—	—	—	—	—
<i>Livestock</i>					
Beef and veal		46.0		166.5	
Pork		15.7		40.1	
Mutton and lamb ..		15.0		40.7	
<i>Meat</i>		76.7		247.3	
Eggs		5.9		25.6	
Milk		133.2		1,012.7	
<i>Livestock products</i>					
<i>Over-all total</i>	593.3		1,199.1		3,019.1

SOURCE: FAO, information contained in charts sent from Rome.

36.7	6.7	101.1	7.6	124.4	24.0	413.1
47.1	1.9	60.1	5.8	64.9	14.8	234.1
	8.6		13.4		38.8	
768.0	187.7	2,852.0	32.9	430.0	283.3	4,100.0
768.0	187.7	2,852.0	32.9	430.0	283.3	4,100.0
201.4	23.2	10.7	161.9	151.8	380.4	363.9
—	—	—	—	—	24.7	34.8
—	21.6	21.0	3.9	7.0	25.5	28.0
11.7	3.3	2.3	—	—	20.0	14.0
	48.1		165.8		450.6	
477.0	193.0	56.0	101.0	54.0	1,119.5	593.2
18.7	...	67.0	...	1.9	...	88.7
43.2	2.0	2.0	4.6	4.7	33.4	59.7
117.2	...	5.9	...	91.5	...	214.6
—	—	—	2.5	1.4	2.5	1.4
419.7		40.9		77.7		750.8
80.3		23.7		42.7		202.5
4.0		6.0		31.3		97.9
504.0		71.5		151.7		1,051.2
75.7		19.3		19.6		146.1
2,143.0		516.2		423.3		4,228.4
	1,501.1		1,599.1		7,911.7	

tural production for export and is chiefly responsible for the increase in domestic demand. On the other hand, there is the sector comprising a multitude of small holders who produce for the domestic market, and only in exceptional cases, for export, as they consume most of what they produce and what they sell is not of high quality.

Most of the commercial enterprises occupy highly productive agricultural land; on the other hand, the small farms (especially sub-family units) are naturally low productivity on account of the nature of their soil, uneven landscape, unfavourable climate, etc. There is an obvious contrast between the two types of agriculture and the two types of farmer. The owner of a modern farm enjoys the benefits and facilities offered by agricultural policies, whether of a general or specific nature, while the smallholder is confined to the traditional pattern of subsistence farming, and practically never, or only very occasionally, receives assistance from the State or other government agencies concerned with agricultural development. As a result of the proliferation of agricultural policies on products, a wide variety of organizations have been set up to implement them. These organizations depend on the central Government and are linked to it through a number of ministries; this has led to the creation of centralized and decentralized services, autonomous corporations, State enterprises, limited companies and private institutions that operate with State financing. These institutions not only have varying degrees of autonomy, but frequently maintain fundamental differences of policy, overlap geographically, perform the same tasks and are rarely complementary.

In the circumstances, co-ordination and unity in State management of production are difficult to achieve. Each organization tries to achieve its own objectives and to that end applies its own institutional policy, and makes no attempt to adapt itself to an harmonious national plan. Traditionally, the ministries of agriculture have been the authority responsible in theory for agricultural development, but their influence has been scanty, except as regards the regulation and application of administrative restrictions.

In recent years, national agricultural development plans have emphasized the importance of structural and administrative reforms to permit the establishment of a system of sectoral planning capable of guiding the private sector in the fulfilment of the productive pro-

cess and of channelling the activities of the different public and semi-public organizations towards common objectives.

An immediate effect of agricultural planning in the countries of the subregion has been the restructuring of the ministries of agriculture to facilitate their task of efficient implementation of national agricultural policy. Thus, Colombia restructured its agricultural sector in 1968 and the Ministry of Agriculture was made responsible for formulating and co-ordinating national agricultural policy, in accordance with national development programmes and through credit, marketing, technical assistance, research, protection of natural resources and reform of the land tenure system. To meet these different needs, the Ministry has attached to it the following specialized organizations: Instituto Colombiano Agropecuario; Instituto Colombiano de Reforma Agraria; Instituto de Desarrollo de Recursos Naturales Renovables; Instituto de Mercado Agropecuario; Servicio Colombiano de Meteorología e Hidrología; Fondo de Desarrollo y Diversificación de Zonas Cafeteras and autonomous regional corporations. Also attached to the Ministry are the Banco Cafetero and the Banco Ganadero, the Corporación Financiera de Fomento Agropecuario y de Exportaciones, etc.

In addition to the above-mentioned public and semi-public institutions, a number of private organizations concerned with agricultural development are also connected with the Ministry, such as the national federations of cotton planters, rice planters, cocoa and coffee growers, cattle breeders, African palm growers, banana growers, cultivators of cereals and poultry farmers; national associations of cane planters, barley growers, sheep farmers, potato growers, rice millers, manufacturers of concentrated animal feeds, producers of pesticides, etc.

The group of public and private sector organizations in Colombia are bound, on a co-ordinated and inter-related basis, to apply policies in respect of prices, marketing, foreign trade, agricultural taxation, irrigation, sectoral infrastructure and physical inputs.

Agricultural reform in Colombia has been mentioned by way of illustration. Similar administrative reforms have been carried out in Chile, Peru, Ecuador and Bolivia, and in each of those countries such reforms have served to regulate and simplify the implementation of agricultural development policies.

The variety of crop and livestock production in the five countries of the subregion explains the different priorities assigned by each of them to the same product or group of products. In Colombia, coffee policy is traditionally assigned maximum priority, and representatives of nearly all the economic sectors of the country have a hand in the annual adjustments of that policy, in view of the overriding importance of such changes. Though not of such great significance as coffee policy, sugar, cotton and livestock policy are also very important, as these crops constitute the basis of the economic and social life of large areas of the country, such as the Cauca valley and surrounding areas for sugar, the hot, humid valleys and Caribbean area for livestock and cotton.

In Ecuador, a similar significance attaches to banana-growing policy, which is practically the keystone of the economy, particularly as regards the trade balance and the exchange situation, apart from its implications for thousands of largely small- and medium-scale producers, who are scattered all along the country's coastal belt. Great importance is also attached to policy on coffee, cocoa, sugar and livestock, etc.

Cotton, sugar and livestock policy have the greatest influence in the economy of Peru.

In Chile, a country which imports a large part of its food consumption needs, especially meat and tropical foods, import policy has important repercussions on production; the country's sugar policy has a far-reaching social and economic impact on areas producing sugar beet; plans to replace consumption of beef with pork, mutton and poultry affect Chilean production of maize and imports of that cereal to make up for the growing deficit provoked by its use as a livestock feed.

In Bolivia, high priority is assigned to livestock policy in agriculture, with a view to achieving the aim of increasing Bolivian exports of meat to the subregion. The rice programme has been successful, but stocks have accumulated because of high production costs which prevent prices from being competitive on the international market.

These examples of country trends serve to illustrate the complexity and importance of policies aimed at developing and regulating production of specific crops.

3. *Recent trends*

In the last five years, positive advances have been achieved in the agrarian policy of some

of the countries of the Andean Group. In this connexion, the changes that are being devised or developed in agrarian reform are worthy of special mention.

The conviction is growing daily in official circles and among the public of the subregion that a reasonable economic and social growth target cannot be achieved unless sweeping changes are made in the feudal structures that still prevail in different areas of agriculture. For this reason, agrarian reform policies, as instruments of change and development, should be aimed not only at providing an equitable and well-ordered distribution of agricultural land and income, but also at achieving improved productivity, increased production, expanded markets and, of fundamental importance, the establishment of social justice among the rural population.

Each of the five countries of the Andean subregional market has established laws and regulations to govern agrarian reform, some in relatively recent times. The scale and characteristics of those reforms, and the extent to which they are applied, vary from country to country. Because of their deep significance and scope, particular mention should be made of some of the main aspects of agrarian reform in Chile and Peru.

There was a significant swing in Chilean agricultural policy in the second half of the 1960s, as recognition was given to the importance of agricultural development planning, and unprecedented progress was made in agricultural price, credit and marketing policy, in lowering the prices of inputs and in their distribution.

The outstanding feature of recent agrarian policy is the radical restructuring of the sector. A process of rapid agrarian reform is under way, affecting 1,500 agricultural holdings, with a total area of around 3.5 million hectares, which contain about one-quarter of the irrigated land and one-quarter of the cultivable land of the country. About 20,000 families used to live in this area; this figure is being raised to 31,000, and there has been a significant increase in production and income levels compared with the situation before these farms were expropriated. The present Government plans to carry out more radical, far-reaching and rapid reforms, with particular emphasis on the equitable distribution of land and redistribution of income. Moreover, much work has been done in the sphere of dissemination of culture, creation of social awareness and training, which is transforming the marginal

broad masses of the population into an influential and pugnacious class. Rural workers' organizations are being energetically promoted, to equip them as instruments of economic and social power, and at the same time, a vigorous trade union movement has sprung up, covering more than 130,000 rural workers. Co-operatives are accounting for an increasingly large share of the supply of agricultural products, and a decisive share in the case of some products, such as poultry, meat and pork.

Apart from these important changes in the sphere of agrarian reform and agricultural trade unionism, the real value of agricultural wages has gone up substantially in recent years, and there has been an increase in the quantity and value of social security contributions; all this has led to the improvement, to a large extent, of the economic and social situation of the rural population. Moreover, there has been an increase in infrastructural works designed to improve marketing services, speed up the development of technology and extend irrigation works.

These recent structural and social reforms in agriculture have caused the growth rate of production to rise much more rapidly than heretofore, despite the severe drought that affected the country between 1967 and 1969, and have led to a considerable increase in levels of agricultural employment and income.

The employment problem, however, has not been solved. Although the renewed activity of the sector, agrarian reform and reforestation have created more jobs, insufficient attention has been devoted to this aspect in policy on technology, inputs and mechanization. The owners of many large and medium-sized farms, out of fear of the effects of agrarian reform or because of labour conflicts, lay off workers, avoid labour-intensive areas of production, and mechanize production beyond economically justifiable limits.

No solution has yet been found to the problem of the holders of minifundia, either. With their low income levels, they continue to be the most backward class in rural Chilean society, despite the expansion of technical assistance and credit facilities and of efforts to organize such assistance, with a view to improving gradually the economic and cultural life of the country. These measures will ensure that, in future, the benefits of agrarian reform will reach them, too. However, the limited availability of agricultural land will prevent a solution from being found on an exclusively agricultural basis.

In the case of Peru, legislative decree 17716, promulgated by the Government at the beginning of 1969, constitutes a profound reorientation of policy. Previous policy could be described as one of agricultural modernization, with some very basic reforms in respect of land tenure and other facets of the structure of agriculture. The new policy outlined in the above-mentioned legislative decree gives priority to a reform of the agrarian structure based on the elimination of latifundia and the redistribution of land among rural workers.

The agricultural plan for 1971-1975 summarizes this policy in the following terms:

"In view of the national objective of transforming the current pattern of development, the main role of the agricultural sector shall be to incorporate the rural sector into the mainstream of economic activity, in such a way as to permit the gradual incorporation of those sectors excluded from production and those that today form the periphery of the urban centres. At the same time, rural workers shall be encouraged to take an active part in decision-making at the national level, with a view to achieving a new economic and social order.

"These two central objectives shall be related in the medium term to the aim of achieving a substantial rise in the level of rural income and intensive mobilization of labour in the rural sector. To that end, measures should be carried through designed to:

"Complete the process of agrarian reform with a view to achieving a better distribution of ownership and rural income, and the transfer of political power from the groups of land-owners to the peasants. In addition, this process would permit the removal of obstacles to the assimilation of new techniques in the countryside and would facilitate better use being made of the production resources available to the sector;

"Increase production considerably by raising the level of technology and making greater and more rational use of the water resources of cultivated land, in order to ensure the supply of agricultural foodstuffs and raw materials, substitution in respect of most current imports of agricultural goods and increased exports;

"Create a stable market guaranteeing adequate price levels for products and to eliminate faults and defects in the system of marketing;

“Reduce rural under-employment by making better and more intensive use of the country’s land and water resources;

“Promote the mobilization of rural labour so as to achieve a shift in the balance of political power and thereby to enable the rural worker to emerge as a new man in society;

“Consolidate the reform of public administration in the sector so that it may serve to promote the planned development of agriculture.

“Over the long term, the national strategy calls for the transformation of the current pattern of growth, and places emphasis on exploiting as quickly as possible the potential market represented by that part of the population currently excluded from the system. The agricultural sector shall embark upon a process of dynamic growth with a view to generating the income needed to enable the marginal rural population to be assimilated into the national economy”.²

The number of expropriations carried out during the last two years are evidence of the seriousness of the Peruvian Government’s efforts to achieve agrarian reform. At the end of December 1970, the Government had started expropriating more than 2.5 million hectares capable of accommodating more than 100,000 beneficiaries. Of this total, more than 900,000 hectares had been allocated to some 50,000 beneficiaries. These lands included the sugar plantations on the coast, which were previously the richest agricultural holdings in the country.

The aim is to allot more or less 11.5 million hectares to at least 300,000 families between 1971 and 1975. Less than 1 million hectares were expropriated between 1964 and 1968, of which only 353,000 hectares were allocated for the benefit of around 11,000 families.

The biggest difficulty facing the new Government is the magnitude of the problem of rural unemployment. Even if its objectives for the reallocation of land are fully realized, more than 500,000 poor rural families will still not have been benefited directly by agrarian reform. To meet this problem, some zonal agrarian reform projects are being prepared with the technical assistance of an FAO mission and the Inter-American Development Bank, with a view to providing employment for all the rural workers in each area. However, these are

² *Resumen del Plan Agropecuario a Mediano Plazo 1971-1975* (Ministry of Agriculture, Lima, August 1970). (Unofficial translation.)

basically experimental projects and, in order to combat the problem of under-employment, further study of agrarian reform plans as a whole will be required.

Another problem claiming the Government’s attention concerns the active participation of rural workers in the new system. Unless the number of beneficiaries is increased to include nearly all holders of minifundia, workers on co-operatives and landless labourers, those not favoured by the scheme will obviously be excluded from any kind of effective participation in it. Moreover, it would be necessary to obtain the full participation of all members of agricultural co-operatives and this would call for large-scale mobilization and training.

4. *Demand for agricultural products: trends and prospects*

In several studies carried out by the Joint ECLA/FAO Agricultural Division, it has been claimed that, as long as the levels of effective demand for agricultural products do not rise, at least among the lower-income strata of the population, the agricultural product will continue to grow very slowly in the region and per capita consumption will decline. In other words, only a significant increase in the purchasing power of the lower-income strata, through an equitable redistribution of personal income, will enable more rational use to be made of the factors of production in agriculture and will permit an improvement in the deplorable nutritional conditions that prevail in those strata.

Although the aim of the present section is to present projections of future demand for agricultural products in the countries of the Andean Group, a brief, qualitative analysis will first be made of some research results obtained by FAO in this field.

As part of the provisional regional study for South America and within the framework of the International Development Strategy, FAO made two projections of the demand for foodstuffs in 1980; one is a projection of the conventional type based on the average level of per capita consumption and on the probable growth rate of the population. In the second projection, an analysis is made of the invigorating effect of the redistribution of income on levels of consumption.

A population growth rate of 3 per cent a year is forecast for the five countries of the subregion as a whole in the period 1970-1980. The estimates are higher than 3 per cent for Colombia, Ecuador and Peru, 2.5 per cent

for Bolivia and 2.2 per cent for Chile, virtually the same as in past trends, although a slight drop in the growth rate may be expected between 1975 and 1980.

According to the first projection, the consumption of foodstuffs in the subregion as a whole would increase only slightly. Obviously, there are variations from country to country. In Bolivia, taking account of the high growth rate of consumption in the basic reference period (1965-1970), the most that can be hoped for is a continuation of that trend. The prospects for Chile would be somewhat similar, with a slightly lower annual growth rate. A slight decline is forecast for Colombia and Ecuador. A considerable increase in consumption is projected for Peru, which naturally pushes up the average rate for the subregion.

The projection of consumption based on the assumption of a redistribution of income is being revised, and for the time being only some preliminary findings are available in respect of fourteen products, demand for which is greatly influenced by income levels. According to this projection, the annual growth rate of consumption in the subregion of the fourteen products considered would be 5.5 per cent during the period 1970-1980, compared with an estimated 4.5 per cent in the projection based exclusively on population growth. In relation to the value of consumption of those fourteen products (at 1965 prices), this would represent an over-all increase of 72 per cent in the case of a redistribution of income, and of 55 per cent if there is no change in the income variable.

Logically, the redistribution of income at the national level implies its redistribution within each sector of the economy. In the agricultural sector, income levels are closely bound up with land ownership; therefore, such redistribution should be taken to mean the restructuring of the traditional system of land tenure. In other words, the minifundia and latifundia cannot continue to exist side by side, and the restrictions affecting the access to the land of vast numbers of rural workers must be abolished.

The redistribution of agricultural income would affect the rural population in different ways. The improvement of the income levels of those workers who continue as wage- and salary-earners would be achieved by increasing the real value of wages and social security contributions, the latter being taken to include such services as education, medical care, etc.

An essential condition for such an increase in real wages to be effective would be a drastic cut in the surplus unemployed agricultural population. Even if laws are introduced to protect a minimum rural wage, they will not be respected in practice so long as there is an almost unlimited supply of unskilled labour, as has been the case in many countries. Since the agricultural population will continue to grow in absolute terms, the surplus population can only be absorbed into the sector as independent operators. To that end, it is essential to provide them with land, technical and financial assistance and, of course, the possibility of marketing their products.

It is estimated that about one-half of the actively employed rural population in the subregion comprises landless wage-earners, most of them unskilled labourers; the remainder is made up of minifundia holders, medium- and large-scale farmers. It is also estimated that at least one-third of the agricultural labour force in the subregion is virtually unemployed. Much of the unemployment (both permanent and temporary) is accounted for by the holders of minifundia who cannot employ the whole of their available labour force in the operation of their diminutive holdings. The rest of the unemployed are landless labourers, many of whom move about in search of temporary work.

The implications of the traditional agrarian structure for employment, income and sectoral production are fairly well known in the five countries; for this reason, high priority is assigned to agrarian reform policy within the framework of agricultural planning. The countries are conscious of the fact that the scanty development of the sector in the past cannot be attributed to a lack of productive resources, particularly land and labour, but rather to the ineffective use made of them.

Restricted access to land is a more or less marked feature in all the countries, varying in intensity according to geographical areas. There are few remaining uncultivated areas capable of sustaining migratory settlements to relieve the pressure on land, and physical and social infrastructure works have in many cases been carried out on the best land, which is already occupied. The prospects and demands of migratory workers are changing; although thousands still continue in the role of hapless, disorganized peasants, they are nowadays the exception rather than the rule, and their way of life does not reflect the aims of most rural

workers who aspire to join some kind of well constituted settlement.

The process of agrarian reform, particularly if it is far-reaching, goes beyond the bounds of the agricultural sector and calls for decisions and action on a complementary basis, in view of the marked intersectoral relationships that characterize the economic system as a whole. The technical, financial, human and legal resources required in a process of agrarian reform are numerous and the time-limits and terms and conditions of implementation are manifold and are subject to political decisions. Only then will it be possible to obtain the desired results through direct and indirect measures parallel and supplementary to a process of agrarian reform.

5. Need to increase agricultural production

It has been observed, particularly with reference to the countries of the Andean Group, that one of the main obstacles to the growth of the agricultural product is the sluggishness and limited scope of domestic demand and, consequently, of domestic markets. However, the supply of agricultural products is determined, in addition, by the characteristics of the physical environment; the type, quality and availability of natural resources, the prevailing levels of technology and employment, etc., all factors that contribute to restricting demand. Foreign trade, through agricultural imports from the subregion, partly makes up for the lack of foodstuffs and certain raw materials on the domestic market, in so far as foreign exchange assets and programmes of self-supply allow. Exports, also within certain limits, encourage the production of articles for the external market.

In the pages that follow, a brief analysis will be made of the prospects for the five countries under consideration to increase their domestic supply of and foreign trade in agricultural products.

Agricultural production may be increased by enlarging the farming area, as new land is incorporated into the productive process, making production more intensive, that is, basing it on a substantial rise in unit yields, or by a combination of these two methods.

Table 5 shows the land resources available to all the countries in the subregion.³

³ It has not been possible to bring the figures up to date, but the author is convinced that they continue to reflect the current situation, which has not been altered significantly by changes in the last few years.

The geographical area of the five countries of the subregion is 450 million hectares, or 4.5 million square kilometres. As regards individual countries, Peru is the largest in area, followed by Colombia, Bolivia, Chile and Ecuador.

It is worthwhile to distinguish between agricultural land and non-agricultural land, the former being taken in the broadest sense of the term to include arable land, land supporting perennial crops, natural grasslands and forested areas. Non-agricultural land predominates in Chile, while the situation is reversed in Bolivia, although non-agricultural land accounts for nearly one-half of the total area of that country. This ratio is lower in Colombia and Peru (one-fifth) and in Ecuador (one-sixth). In absolute terms, Peru has the largest area of agricultural land, followed by Colombia, Bolivia, Chile and Ecuador, thus conserving the order of geographical size. The subregion as a whole has about 300 million hectares of agricultural land, exploited by an estimated 55 million inhabitants in 1970.

An examination of the current use of potential agricultural land in the subregion shows that forests cover 79 per cent of the potential agricultural area; natural grasslands 15 per cent; and perennial crops and arable land only 6 per cent.

The above figures show the predominance of natural forests, which cover much of the tropical humid land in Bolivia, Colombia, Ecuador and Peru. These forests may be exploited without detriment to their function of supplying forest products, or they may be replaced by crops or livestock breeding, as long as due regard is given to their function of protecting the soil and plant life. Land settlement, in accordance with the different patterns of enlargement of the farming area that are characteristic of it, has led to the incorporation into the productive process of fairly large areas of land that were originally covered by natural forests, and there is no doubt that this practice will continue in the future. Moreover, irrigation and drainage have enabled natural grasslands in arid or flooded zones to be brought under cultivation. Mechanization, the use of new, hardier varieties of seeds, and the improvement of the level of agricultural technology in general have enabled many areas of natural grassland to be converted into crop or pasture land. In the agricultural development plans of the countries, mention is made of the need to push forward the agricultural frontier, and these aims are translated into projects.

Table 5
ANDREAN GROUP: LAND USE IN INDIVIDUAL COUNTRIES AND FOR THE SUBREGION AS A WHOLE, 1962

Land use	Bolivia		Chile		Colombia		Ecuador		Peru		Subregion	
	Mil- lions of ha	Per- cent- age										
Total geographical area (land and inland waterways)	109.9	100	74.2	100	113.8	100	27.8	100	128.5	100	454.2	100
Area of non-agricultural land	48.5	44	38.9	52	24.7	22	4.5	16	30.1	23	146.7	33
Area of agricultural land:												
Total	61.4	56	35.3	48	89.1	78	23.3	84	98.4	77	307.5	67
Forests	47.0	43	20.7	28	69.4	61	18.2	66	87.0	68	242.3	53
Natural grasslands	11.3	10	10.1	14	14.6	13	2.2	8	8.8	7	47.0	10
Arable land and perennial crop land:												
Total	3.1	3	4.5	6	5.1	4	2.9	10	2.6	2	18.2	4
Irrigated	—	—	1.3	2	0.3	—	0.2	—	0.9	1	2.7	0.6
Not irrigated	3.1	3	3.2	4	4.8	4	2.7	10	1.7	1	15.5	3.4
Cultivated area ^a :												
Total	0.8	1	2.2	3	3.5	3	1.4	5	1.8	1	9.7	2.1
Irrigated	—	—	1.3	2	0.3	—	0.1	—	0.7	—	2.4	0.5
Not irrigated	0.8	1	0.9	1	3.2	3	1.3	5	1.1	1	7.3	1.6

SOURCE: FAO, *Indicative World Plan and Regional Study for South America*.

^a Includes irrigated pasture land.

In national terms, Peru has the largest area of forests, covering 88 per cent of the potential agricultural area; forests cover around 78 per cent of that area in Ecuador, Bolivia and Colombia, and only 58 per cent in Chile. The situation is different as regards the ratio of natural pasture land to potential agricultural land: in Chile it is 29 per cent, in Bolivia 18 per cent, in Colombia 17 per cent, in Ecuador 10 per cent and in Peru 9 per cent.

In absolute terms, the order of size of forest cover in the five countries is the same as the order of geographical size, namely, Peru, Colombia, Bolivia, Chile and Ecuador. The order changes in respect of the area covered by natural pasture land: Colombia occupies first place, with around 15 million hectares, followed by Bolivia, Chile, Peru and Ecuador. The order again changes with regard to the number of cattle per hectare of natural pasture, as the following figures show:

	<i>Natural grasslands (millions of ha)</i>	<i>Cattle inventory (millions of head)</i>	<i>Head of cattle per 100 ha</i>
Bolivia	11.3	2.8	25
Chile	10.1	2.9	28
Colombia	14.6	16.2	111
Ecuador	2.2	1.9	83
Peru	8.8	2.8	43
<i>Subregion</i>	<i>47.0</i>	<i>27.6</i>	<i>59</i>

Implicit in the figures is the proportion of cultivated or artificial grasslands to the total area of grasslands; thus, Colombia and Ecuador have the highest cattle density, as they also have a higher proportion of cultivated grasslands.

The subregion has less than 20 million hectares of arable land and land used for perennial crops, out of a total geographical area of 454 million hectares; Colombia has 5.1 million, Chile 4.5 million, Bolivia 3.1 million, Ecuador 2.9 million and Peru, the largest country of all, only 2.6 million. If a distinction is made between irrigated land and land that is not irrigated, it is observed that there are less than 3 million hectares of irrigated land in the subregion, and only two countries, Chile and Peru, have close to 1 million hectares of irrigated land.

Irrigation is one of the most important factors of production in areas where there is insufficient rainfall, or rainfall is unevenly distributed throughout the crop year. Nevertheless, only 0.6 per cent of the geographical area of the subregion is irrigated, that is, less

than 1 per cent of the potential agricultural land and barely 15 per cent of the arable land and land supporting perennial crops. The enlargement of the area under irrigation is another feasible means of enlarging the farming area in the countries of the Andean Group.

Lastly, the area under cultivation, which obviously does not include pasture land, constitutes only 2 per cent of the geographical area, 3 per cent of the potential agricultural land, and 53 per cent of arable land and land supporting perennial crops. This is because of the existence of large areas of fallow land and land used extensively for seasonal crops, the limitations inherent in the micro-topography and unfavourable micro-climates. Apart from these obstacles in the physical environment, the failure to use arable land intensively is largely due to the inadequate structure of agrarian ownership. Barely 13 per cent of the area of arable land under cultivation is irrigated, and this low figure shows that the expansion and more intensive use of such land is feasible as irrigation prospects increase.

The remarks made in connexion with table 5, together with a more or less detailed knowledge of the availability of natural resources and the productive characteristics of the soil in each country, lead to the conclusion that it is easy to increase agricultural production to satisfy increasing demand, since there is sufficient margin for the enlargement of the farming area. However, other obstacles present themselves, such as the cost of absorbing new areas of production, the need to create urban/rural development poles in them, infrastructural requirements, time-tables for execution of projects, etc. Thus, in the early stages at least, it is to be expected that much of the increase will stem from stepping up production or from technological progress, from the better utilization of resources and from an increase in unit yields.

In order to achieve an increase in agricultural productivity, together with a rise in the level of living of a large number of rural workers, in addition to the objectives that the sector is expected to fulfill within the economic system as a whole, it would be necessary to define an action strategy concerned chiefly with products and markets, with the use of resources, with the zonal distribution of production and with the manner of participation of the public and private sectors.

The countries of the subregion have agricultural development plans at varying stages of completion, and in some of them existing

plans are being revised. This means that the analyses carried out by the national agricultural planning departments have made it possible to identify the agricultural policy measures needed to change the behaviour pattern of the most important variables that determine demand and supply in agricultural and forest products. In other words, the countries have a frame of reference for long-range activities in respect of the over-all orientation to be given to transformations in the agricultural sector, and short-term measures must be made consistent with those activities.

The importance of the instruments needed to achieve the objectives of national agricultural development plans varies with time, in accordance with various factors and circumstances. The basic objectives may be summarized as the transformation of traditional agrarian structures, the modernization of the economic and social facets of the rural environment, import substitution and the expansion and diversification of exports.

With the initiation of a process of agrarian reform, it is hoped to release more idle capacity for production and to make it more flexible, especially land, labour and irrigation water, which could be better utilized and subjected to technological improvements to ensure greater productivity. Agrarian reform will require fresh investments which will be slow to bring in returns and which should therefore be initiated in the early stages of the implementation of sectoral development plans. In other words, they should be carried out with due consideration for the volume, composition and destination of production over a number of years.

Short- and medium-term measures that affect the structure of production are constantly being adopted in agricultural policy; they relate to the manipulation of agricultural prices, marketing and product control, foreign trade in agricultural products, availability and supply of physical inputs, especially agrochemical products, etc. In brief, these measures tend to improve the organization of the public and private institutions responsible for agricultural development, while at the same time expanding and strengthening economic incentives to producers and encouraging their formation into co-operatives, associations, trade unions, etc. As the different systems are transformed, increasing emphasis is placed by governments on the economic incentives that most benefit or affect producers, such as credit, prices and taxation.

Although agricultural policy measures favour the production process in general, several measures are applied in different ways, according to the extent to which it is desired to promote a specific product.

In the case of crops, yields are normally increased by improved use of the soil. The expansion of production may be accelerated with rapid-return crops, on account of the growth and elasticity of internal and external demand, and the possibility of increasing productivity as improved cultivation techniques and better genetic material are introduced, etc.

The short cycle of production of annual crops may increase their productivity over the short term, particularly if suitable use is made of research findings within the country or in other countries with similar ecological conditions.

In the case of perennial or tree crops, improved cultivation techniques lead to a small increase in yields: the characteristics of each plant or tree cannot be changed quickly owing to the longer duration of the productive cycle, and the change-over to improve varieties is a medium- to long-term process.

In the livestock sector, a rapid increase may be achieved by actively promoting the production of pork, mutton and poultry, and of eggs. These species respond rapidly to measures to encourage their development. An increase in the production of beef and milk calls for basic improvements in operating conditions, in the first place, through timely investment in the creation of artificial pastures, or at least in improved pastures, installations, equipment and materials to permit improvements in the handling, feeding and sanitary conditions of cattle.

With regard to the most desirable levels of productivity increases, the countries of the subregion devote special attention in their national agricultural development plans to unit yields, and projections of agricultural supply often demonstrate a certain amount of optimism as regards possible future levels.

There is no doubt that the developed countries have made considerable progress in the fields of science and technology over the last twenty or thirty years. New crop, livestock and forestry techniques are allowing sometimes spectacular increases to be made in unit yields and, hence, in the gross value of over-all agricultural production. Especially important advances have been made in the use of fertilizers, pesticides, improved seeds, machinery, improvements in crop types and animal species,

irrigation, etc. The onset of this "green revolution" has even been considered by some as the solution to the threat of famine posed by the population explosion in many regions of the world.

In the developing countries, technological innovations in agriculture evoke a wide variety of comments and controversies. In the case of the countries of the Andean Group, the idea is slowly taking root that the advantages or drawbacks of new technologies should be considered not only from the point of view of production, but also, and especially, from the angle of their economic and social implications for the rural population.

In this connexion, it should be recalled that not all agricultural producers and rural workers benefit equally from the transfer or application of technical innovations. Although they have yielded significant advantages to a handful of producers in respect of a few products in Latin America, it is also clear that the indiscriminate application of advanced technology has served to accentuate the problems of rural unemployment and concentration of income.

As has been pointed out recently,⁴ the brief experience of the "green revolution" in some countries shows that it is the large-scale farmers—who possess more land and financial resources and have easier access to credit and technical assistance—who are the main beneficiaries of the new technology, while small-scale producers and landless workers see a daily reduction in their opportunities of access to markets and jobs, respectively.

Generally speaking, the new technology is labour-saving, that is, it permits greater production with less labour. This is most obvious in the field of farm mechanization: tractors, seed sowers, combine harvesters, etc.; but also—albeit indirectly—in the case of fertilizers and new varieties of high-yield seeds, since the great increase in productivity obtained by their use results in a reduction in the amount of labour employed per unit produced.

On the other hand, as the incidence of wages in the cost of producing agricultural goods with a high technological content tends to be less, it might be expected that real wages per worker would rise in the same proportion as increases in productivity. But this is true only of a very small group of specialized workers who are indispensable for imple-

menting new techniques. In view of the high rate of unemployment in the subregion, unskilled workers have to accept the prevailing minimum wages because they have no other work prospects. Thus, the new technology inevitably leads to a rise in the average wages of the modernized sector and to the stagnation or decline of wages in the traditional agricultural sector. The latter trend in the traditional sector is likely to be accompanied by an increase in unemployment levels, which further accentuates the problem, in view of the fact that the rural population does not stand still, but tends to increase.

6. *Subregional trade: its limitations and prospects*

(a) *Qualitative analysis of agricultural trade in the subregion*

Owing to the lack of data on recent trends, it is not possible to estimate the current volume of value of trade in agricultural products within the subregion. By looking at the number of products traded, however, an idea can be gained of the nature, structure and coverage of intra-subregional trade.

The features that stand out in an examination of the qualitative structure of trade in crop-farming, stock-farming, fisheries and forest products among the Andean countries and with third countries are that the number of products is small; that more products are imported from outside the subregion than from within it; and that more products are exported to third countries than to Andean countries. There are, of course, marked differences between countries, as can be seen from table 6. For example, Chile, because of its special ecology and geographical location, is more diversified in its intra-subregional trade; it is the largest importer of tropical-zone products and, naturally enough, the largest exporter of temperate-zone products. Peru, because of the shortage of water in the coastal regions, is the largest over-all importer and halfway up the scale as an exporter, while Ecuador, because of its geographical location, exports a number of products to Chile and Peru.⁵

It is somewhat difficult to make an accurate assessment of the volume of intra-subregional trade in agricultural products, not only because of the lack of statistical data, but also because trade is usually discontinuous and seasonal

⁴ Solon Barraclough and Jacobo Schatan, "Política tecnológica y desarrollo agrícola", *Cuadernos de la Realidad Nacional*, No. 5, CEREN, Catholic University of Chile (Santiago, September 1970).

⁵ See *Informe sobre la situación y perspectivas del comercio agrícola de los países andinos*, report by the FAO/ECLA mission to the Board of the Cartagena Agreement, August 1970.

Table 6
ANDEAN GROUP: STRUCTURE OF INTRA-SUBREGIONAL TRADE IN
AGRICULTURAL PRODUCTS

Country	Total imports	Imports from the subregion	Total exports	Exports to the subregion
<i>Number of products or groups of products</i>				
Bolivia	29	13	19	10
Colombia	28	17	20	11
Chile	28	20	18	17
Ecuador	27	17	25	21
Peru	32	24	21	14
Subregion	38	33	34	33

SOURCE: FAO/ECLA, *Informe sobre la situación y perspectivas del comercio agrícola de los países andinos*, report to the Board of the Cartagena Agreement.

and because there is a large amount of border trade, much of which is not officially recorded.

In order to provide a clearer picture of the short-term prospects of intra-subregional trade, products have been grouped into four categories: (a) deficit products with little prospects for subregional trade; (b) deficit products with better prospects; (c) products that do not form part of traditional trade flows; and (d) products traded across borders.

Group (a) comprises, on the one hand, commodities not produced or produced in insufficient quantities in the subregion, either because the immediate productive capacity is lacking or because of limited natural resources, such as wheat and wheat flour, some qualities of long-fibres cotton, spices, cattle feed and blond tobacco in the leaf; and on the other those products which for reasons of quality, price or trade agreements are imported from outside the subregion, even though some Andean countries may export them, for example, coffee beans, raw cocoa, walnuts and almonds from Brazil; oilseeds, mostly from the United States under Public Law 480; high-quality bottled wines from Europe; some grades of fine wool, essential oils and tea from Argentina; beef cattle on the hoof and carcass meat (imported by Chile and Peru from Argentina).

The products in group (b) are generally traded in relatively small volumes, although they do form part of regular and traditional trade flows between two or more of the countries of the subregion. They include brewer's barley, fish oil, castor oil, copra, certain qualities of medium and long fibre cotton, greasy wool and llama skins, temperate-zone fruit, bananas, pineapples and other tropical fruit,

dried pulses, fresh vegetables, high-quality coffee, cocoa and tea, some types of black tobacco, wines, beef, hides, fish, shellfish, sawn-wood and sawnwood products. It is expected that trade in these products will expand, in some cases as a result of increased trade with third countries, and in others as a result of a rise in intra-subregional demand. Without restricting current trade flows with third countries, it is clear that an increase in the volume of imports could be met out of subregional supply, i.e., that the two trade flows can coexist. There may also be a marked expansion in intra-subregional trade as the quality of products, marketing channels and transport facilities are improved and production costs fall.

The products in group (c), which are not part of traditional trade flows, include maize, rice, potatoes, oats, citrus fruit, some tropical fruit (mangos, papayas, etc.), ground-nuts, sesame seed, hard fibres, tomatoes and other fresh vegetables, table grapes, pyrethrum and protein concentrates for animal feed. Most of the Andean countries are self-sufficient in these products, although occasionally they have temporary shortages or surpluses. Over the short term, their needs could be met out of subregional production, while over the long term specialization within the region could lead to a regular flow of trade in such products. Encouragement might also be given to trade in seasonal products that are harvested at different times in each country.

The products in group (d) are either regularly or occasionally part of border trade which, as noted earlier, is not officially recorded and can therefore not be quantified. These products include wheat and wheat flour, maize for

human consumption, animal feed and brewers' barley, greasy wool, citrus fruit, drupes and pomes, tropical fruit, dried pulses, vegetables, unprocessed cocoa, tea, bananas, round and sawnwood, and also cattle, sheep, pigs, poultry, eggs, dried milk, butter, cheese and hides.

Over the longer term, the prospects for expanding intra-subregional trade in agricultural products might well improve considerably. Projections of the growth of internal demand for foodstuffs and other agricultural products indicate that the total agricultural consumption of the subregion will double in about twenty years, with the increase probably being greater for some products with a comparatively higher income-elasticity of demand. These projections may be considered conservative, for they do not take account of the policies the Andean countries must adopt to ensure a more equitable distribution of economic and social benefits among the different strata of the population, which will necessarily have repercussions on future demand for agricultural products.

If these projections are to become fact, the subregion will have to eliminate the barriers to intra-subregional trade in agricultural products. Quite apart from the social conditions prevailing in agriculture, health and quality problems and the lack of proper statistical and economic data, disparities in domestic price levels and inadequate marketing systems are serious obstacles to the early establishment of a generalized and properly organized system for trade in agricultural products.

Added to the lack or incompleteness of the data and the wide range of weights and measures used in each country, there are the problems raised by subsidies for certain products and distorted exchange rates, all of which makes it difficult to draw up a meaningful international price comparison. A survey of wholesale price levels and marketing systems in the Andean countries, which was undertaken simply with the aim of providing an illustration of the wide range of price levels, leads to the conclusion, with all the appropriate caveats, that with certain exceptions there are marked divergencies in the domestic price levels for a number of agricultural products. These may be due to the fact that prevailing exchange rates are under- or over-valued, to differences in ecological, technical or structural factors, or to inefficiencies in marketing.

The price structure of agricultural products in the subregion in a certain sense reflects the

wide variety in marketing services and systems. The inefficiency of marketing is attributable to a number of factors, including imbalances between production and demand during the year, or from one year to the next, as a result of weather conditions; the fact that production may be concentrated in a particular season; a lack of capacity for storing and preserving products; an inadequate physical and transport infrastructure; the high margin added on by intermediaries; and also the instability of prices.

Given the difficulty of projecting demand for agricultural products over the long term in order to show the prospects for intra-subregional trade with a reasonable degree of accuracy, the only other possibility is to work out rough estimates of internal demand in fifteen years' time. For this purpose, some estimates have been developed for the subregion on the basis of average apparent consumption in the period 1962-1966. The results are as follows: wheat consumption would rise from 2.8 to 4.7 million tons; maize consumption from 2 to 5.8 million tons; prepared rice consumption from 0.8 to close to 2 million tons; cocoa consumption from 44,000 to 101,000 tons; bean consumption from 192,000 to 418,000 tons; sugar consumption from 1.2 to 2.5 million tons; and cotton consumption from 120,000 to 376,000 tons; while the total apparent consumption of bananas and beef is expected to double.

(b) *Trade possibilities for a number of products*

(i) *Products of vegetable origin.*

For certain products the intra-subregional trade prospects are quite clear, namely those products which for ecological reasons can only be grown in particular areas. For many other products, the situation is rather more complex. All, or virtually all, the Andean countries are in a position to step up production and the trend of their development plans is towards self-sufficiency and the generation of exportable surpluses. As table 7 shows in outline form, the trend is towards self-sufficiency or expanding exports for many products, while in only a relatively few cases does the need appear to maintain or increase imports, for it does not seem very likely that subregional deficits can be covered out of subregional exports (for example, wheat, and cattle feed).

Table 8 is based on material collected on the situation and prospects of trade in agricultural products among the Andean countries and foreign trade projections to 1985 prepared by

Table 7
CHILE, ECUADOR, PERU AND COLOMBIA: TRENDS OF SELECTED PRODUCTS
IN NATIONAL AGRICULTURAL DEVELOPMENT PLANS

<i>Product</i>	<i>Chile</i>	<i>Ecuador</i>	<i>Peru</i>	<i>Colombia</i>
Wheat	Import	Import	Import	Import
Maize	Self-sufficiency	Self-sufficiency	Self-sufficiency; possible export- able surplus	Import
Rice	Self-sufficiency	Increase exportable surplus	Decrease imports	Increase exportable surplus
Dried pulses	Increase exportable surplus	Self-sufficiency	...	...
Sugar	Decrease imports	Maintain level of exports (United States quota)	Maintain level of exports (United States quota)	...
Bananas	Import	Maintain level of exports	...	Maintain level of exports
Cotton	Import	Decrease imports	Export	Maintain level of exports
Beef	Import	Export	Import	Maintain level of exports

FAO, and indicates the projected level of consumption and imports or exports around 1985 for selected products. These projections may well contain a considerable margin of error, given the changes that are likely to occur in all the complex factors involved—particularly population increase which affects demand—over a period of twenty years. They are valid, however, as a rough order of magnitude of the domestic needs and total trade of the trade of the Andean countries. The following paragraphs consider the intra-subregional trade prospects of selected products.

Cereals

Wheat. Officially, the subregion does not export wheat, but there is a small amount of border trade in it. Small quantities of wheat move from Ecuador to Colombia and from Peru to Bolivia owing to favourable prices and domestic distribution problems. The subregion will continue to import wheat from third countries to satisfy its domestic needs.

Maize. Bolivia, Colombia and Ecuador are self-sufficient, and there is a complementary unofficial seasonal border trade in maize between Bolivia and Chile, Ecuador and Colombia, and Peru and Bolivia. Bolivia has a large maize potential and expects to continue and even increase its border trade with the north of Chile and the south of Peru. Chile's agricultural development plan provides for

self-sufficiency in maize over the long run but until that point is reached it will have to continue importing at a rate consonant with the growth of its livestock industry. Colombia has a programme to expand the planting of hybrid varieties in the coastal valley and is applying a price policy designed to stimulate production with a view to reducing the volume of its unofficial imports from Ecuador. Ecuador itself has long been self-sufficient in maize and its occasional surpluses will help to swell its habitual border trade with Peru and Colombia.

Rice. Trade in rice within the subregion is not very sizable and mostly consists in border trade. Small quantities of rice move across the border either legally or illegally between Colombia and Ecuador, in both directions; from Ecuador to Peru, and from Bolivia to Peru and the north of Chile.

As the process of subregional integration proceeds, trade in rice may become more important. The Peruvian authorities consider that over the medium term Peru will become self-sufficient, and that the annual deficit could be covered through negotiations between individual Governments of the subregion, assuming that questions of quality and price were not a factor. With the construction of the Digua reservoir, Chile expects to bring new land under irrigation and by 1985 to have 50,000 hectares sown to rice. This, together with the use of improved varieties and fertilizers, should even-

Table 8

ANDEAN GROUP: APPARENT CONSUMPTION OF AND TRADE IN SELECTED PRODUCTS,
1962-1966 AND PROJECTIONS TO 1985

(Thousands of tons)

	Apparent consumption		Imports		Exports	
	1962-1966	1985	1962-1966	1985	1962-1966	1985
<i>Wheat</i>						
Bolivia	220	435	151	315	—	—
Colombia	293	613	164	399	—	—
Chile	1,566	2,175	343	425	—	—
Ecuador	116	285	47	173	—	—
Peru	631	1,200	484	969	—	—
TOTAL	2,826	4,708	1,189	2,281	—	—
<i>Maize</i>						
Bolivia	247	501	—	—	—	—
Colombia	859	2,400	14	—	—	—
Chile	213	948	17	—	—	—
Ecuador	163	610	3	—	5	—
Peru	540	1,380	18	—	1	—
TOTAL	2,022	5,839	52	—	6	—
<i>Processed rice</i>						
Bolivia	28	70	2	—	—	—
Colombia	386	910	1	—	2	20
Chile	63	125	1	—	5	—
Ecuador	102	300	14	—	14	50
Peru	262	640	1	100	—	—
TOTAL	841	2,045	42	100	21	70
<i>Beans</i>						
Bolivia	2	3	—	—	—	—
Colombia	42	98	0.7	—	—	—
Chile	74	137	0.4	—	15	47
Ecuador	28	67	0.1	—	—	—
Peru	48	113	0.2	—	1	—
TOTAL	194	418	1.4	—	16	47
<i>Sugar</i>						
Bolivia	84	166	—	—	4	—
Colombia	390	830	—	—	80	80
Chile	295	523	163	336	—	—
Ecuador	101	229	—	—	56	85
Peru	336	720	—	—	416	512
TOTAL	1,206	2,468	163	336	556	677
<i>Cotton</i>						
Bolivia	2	4	2	—	—	—
Colombia	60	227	4	—	15	—
Chile	28	60	28	60	—	—
Ecuador	8	20	3	4	—	—
Peru	22	65	—	—	116	125
TOTAL	120	376	37	64	131	125
<i>Bananas</i>						
Bolivia	90	200	—	—	—	—
Colombia	383	887	—	—	223	400
Chile	32	75	32	75	—	—
Ecuador	1,496	2,600	—	—	1,258	1,400
Peru	418	940	7	7	1	—
TOTAL	2,419	4,702	39	82	1,482	1,800

Table 8 (continued)
(Thousands of tons)

	Apparent consumption		Imports		Exports	
	1962-1966	1985	1962-1966	1985	1962-1966	1985
<i>Coffee</i>						
Bolivia	2	4	—	—	2	1
Colombia	106	246	—	—	364	550
Chile	8	17	8	17	—	—
Ecuador	22	50	—	—	36	44
Peru	12	31	1	—	38	35
TOTAL	150	348	9	17	440	630
<i>Cocoa</i>						
Bolivia	2	4	—	—	—	—
Colombia	28	63	11	2	—	—
Chile	2	5	2	5	—	—
Ecuador	9	21	—	—	35	60
Peru	3	8	1	—	—	—
TOTAL	44	101	14	7	35	60
<i>Tobacco</i>						
Bolivia	1	3	—	—	—	—
Colombia	29	60	—	—	12	20
Chile	8	11	1	1	—	—
Ecuador	2	4	1	—	—	2
Peru	3	5	—	—	—	—
TOTAL	43	83	2	1	12	22
<i>Beef</i>						
Bolivia	34	67	1	—	1	8
Colombia	391	883	—	—	5	100
Chile	176	297	41	28	—	—
Ecuador	42	98	—	—	4	7
Peru	83	201	24	75	—	—
TOTAL	726	1,546	66	103	10	115

SOURCE: ECLA and FAO.

tually enable it to become self-sufficient. Meanwhile, it will have to import a certain amount of rice to meet its domestic needs.

In Colombia, domestic consumption in the 1970s should be met out of domestic production; however, if Colombia wishes to compete in the subregional market without subsidizing its producers it will have to lower its production costs. Over the medium term, Ecuador may become a regular exporter of rice to the subregion, provided it changes its antiquated cultivation systems and improves the quality of its product.

The above would indicate that only Chile and Peru will continue to be importers and that eventually they too will become self-sufficient.

They currently import from third countries for reasons of quality and price, but it is to be hoped that intra-subregional trade in rice will be stepped up in line with the provisions of the Cartagena Agreement.

Barley. Feed grains are not traded among the countries of the subregion, although there is some unofficial border trade between Ecuador and Colombia; Ecuador and Peru; and Bolivia and southern Peru. Chile exports brewer's barley in the form of malt to Bolivia, Colombia, Ecuador and Peru. These imports are shrinking, however, owing to the development of local production in recent years. Given its level of specialization, Chile is likely to continue offering its surpluses to the other Andean countries.

Oilseeds, oils and fats. With respect to these products, the subregion is a net importer of light oils and animal fats from third countries, and a large-scale exporter of fish and special-purposes oils to them. Intra-subregional trade in oilseeds and oils in general is not on a very large scale, except for Peru's exports of fish oil to Colombia, which amount to over 4 million dollars in value. Chile imports small quantities of castor oil from Ecuador and coconut oil from Peru. All the Andean countries plan to expand their domestic production of light oils with a view to reducing their dependence on third countries or reaching a level of self-sufficiency at which they will generate surpluses.

Fruit

There are good trade prospects for such fruit as citrus fruit, fresh and dried grapes, apples and pears, bananas, pineapples and certain tropical fruits.

Citrus fruit. Trade in citrus fruit among the Andean countries, particularly between bordering countries, has been on a very small scale in recent years. It is expected that as income expands the consumption of citrus fruit will also expand and seasonal trade among the Andean countries will increase, given that production in each country reaches its height at different times of the year.

Apples and pears. The subregion is a large market for Chile's exports of apples and pears, Peru being the main importer, absorbing two-thirds of Chile's exports of apples and one-sixth of its exports of pears to the subregion. In absolute terms, Ecuador and Colombia do not import a great deal of Chilean apples and pears. According to projections prepared by the Agricultural Planning Office (ODEPA), over the medium term Chile will be in a position to sell 10,000 tons of pears to Peru annually. It may also sell more to Ecuador and Colombia, provided purchasing power increases and there are improvements in marketing conditions and facilities for refrigeration, transport and storage.

Bananas. The subregion is the major exporting area in the world for bananas. The two largest exporters being Ecuador and Colombia. As regards trade in bananas within the subregion, Ecuador's exports to Chile stand at an annual volume of 6,000 to 7,000 tons, for a value of over 8 million dollars. Chile also imports from Bolivia and Peru, but in smaller amounts. Ecuador also exports bananas to Peru and there is also some unofficial trade in bananas between Ecuador and Peru.

Chile is the only country that does not produce bananas, and is therefore the main market for the producer countries. As Chile's annual per capita banana consumption has now reached the same level as in the United States, its imports are likely to grow slowly over the short term, while in the long term their growth will depend solely on population increases.

There are prospects that in the future Ecuador may develop trade in banana by-products for both human consumption and animal feed.

Vegetables

There is a small amount of trade in vegetables among the Andean countries. Peru imports onions from Chile in small quantities, but also exports up to one thousand tons of onions in certain years to Bolivia and Ecuador. Chile and Colombia do not export garlic to the subregion, while Peru exports a small amount and Ecuador is virtually self-sufficient. All the countries are self-sufficient with respect to tomatoes, and even export small quantities of fresh tomatoes to third countries. Since the Andean countries will remain self-sufficient as regards onions, garlic and tomatoes, it is not likely that there will be any increase in trade among them in such products. It might be worth while, however, developing a seasonal liberalization programme for onions and fresh garlic since the peak periods for these products are different in Chile and Colombia, Ecuador and Peru. The tomato processing industry may be able to develop under the protection of the external tariff and lead to greater subregional trade in tomato products.

Sugar

Most of the trade in sugar in the subregion is from Peru to Chile in the form of raw sugar for refining, and takes places at world market prices. Chile's total sugar imports have been shrinking in recent years, falling from a value of 26 million dollars in 1964 to their current level around 2.5 million. The subregion accounts for only 700,000 dollars of this total. Chile also occasionally imports small quantities from Colombia, and is the subregion's only net importer of sugar. All the other Andean countries export to the free market under the provisions of the International Sugar Agreement, or to the United States market under its quota system.

Chile, however, has plans to achieve self-sufficiency by expanding sugar-beet production with a twofold objective: import substitution

and the use of by-products as fodder for livestock. There are, however, some aspects of Chile's sugar policy that lead to the conclusion that Chile will have to continue importing a certain amount of sugar, apart from the rise in demand resulting from population increase and rising incomes. It should be noted that sugar is sold in Chile at prices fixed by DIRINCO for all stages of marketing and that, since the costs of domestically produced sugar are higher than those of imported sugar, domestic production has to be subsidized, part of the subsidy being financed out of funds derived from imports. Consequently, if imports cease, this may eliminate a source of the resources used to support the domestic sugar industry. Chile might possibly reserve part of its import market for subregional exporters, at preferential prices, but this seems somewhat doubtful since it would require radical changes in Chile's sugar policy.

Given the above, the problems of sugar are among the most difficult within plans to liberalize subregional trade in agricultural products.

Coffee and cocoa

With the exception of Chile, all the Andean countries produce coffee and cocoa; and the subregion is the second largest exporter of coffee in the world. Chile imports only a few hundred tons of coffee from the other Andean countries, and buys virtually all the coffee it requires from Brazil. Since the consumer price of coffee is regulated and kept at a low level, Chile's demand is mostly for lower cost coffees than the "mild Arabicas" produced in Colombia, Ecuador and Peru. Freeing trade in unprocessed coffee (beans, green) should not lead to a major shift of demand towards imported coffee. There will not be competition within the subregional market among the different coffees for export; but there might be undesirable price competition among coffees for domestic consumption entering intra-subregional trade. As diversification programmes are due to be initiated in 1972-1973, it is recommended that the parties concerned should hold meetings with a view to avoiding conflicting decisions as regards substitute crops.

As regards *cocoa*, Colombia is the major market in the subregion for Ecuadorian cocoa which is imported both legally and illegally. Peru and Chile occasionally import from Ecuador, while Chile also imports small quantities from Colombia. Bolivia is virtually self-sufficient as regards cocoa. Liberalization

of trade in cocoa, which is already in effect, may generate an increase in Ecuador's exports of cocoa beans and other primary cocoa products to the other Andean countries, especially to Colombia and Chile whose markets are expanding owing to the fact that their annual per capita consumption of cocoa is comparatively low (less than 750 grammes).

While there are good prospects for expanding trade in cocoa among the Andean countries, principally for Ecuador, there is the possibility that conflicts may occur if production increases in both Ecuador and Colombia.

Wines

Chile exports wine to the other Andean countries in bottles and other types of container. The main importer of bottled wine is Colombia, which purchased 200,000 dollars worth of Chilean wine in 1969. Ecuador, however, is the main importer of Chilean wine in casks and other containers, for a value of some 15,000 dollars per year. The subregion's wine imports from Chile, however, represent only a small proportion of its total wine imports from third countries.

There are good prospects for increasing subregional trade in wine. Chile is the only supplier, and this places it in a very special position since under the Cartagena Agreement it can increase its intra-subregional trade in wine given that the five Andean countries apply high import duties and other restrictive measures to wine.

Cotton

Two countries in the subregion, Colombia and Peru, are net exporters of cotton, while the other three are importers. Chile imports over 3,000 tons of cotton (9/10 Pima cotton and 1/10 Tanguis). Ecuador imports 600 tons from Peru of the two types in roughly the same proportions, while Colombia imports 600 tons of Pima and 250 of Tanguis. Colombia's cotton exports to the subregion are valued at 1.7 million dollars.

Only one-quarter of Chile's imports from the subregion, a total value of 20 million dollars per year, come from the subregion. Liberalization of trade in cotton may mean that Chile will supply itself exclusively from the subregion, but over the long run this might lead to difficulties given that the importer countries—excluding Chile which is not a producer—currently producing different types of cotton are considering developing a long-fibre

cotton crop and competing in the international market.

Over the short run, these plans will not affect intra-subregional trade, but in the long run the Andean countries will have to develop a joint plan for cotton production at the subregional level in order to avoid problems.

Tobacco

The subregion imports processed tobacco from third countries and intra-subregional trade in non-processed tobacco is very small. Peru exports some 210 tons to Ecuador, and Colombia exports leaf tobacco to Peru and Ecuador, for a value of 68,000 and 136,000 dollars respectively. Chile imports small amounts from Ecuador.

At first sight, it would appear that liberalizing trade in tobacco in the subregion would not create problems over the short and medium term: all the Andean countries are producers of tobacco and import Burley and Virginia tobaccos from outside the subregion. In the long run, however, they might be able to produce tobacco of the kind they now import and thus save foreign exchange, if they decide to develop a joint plan.

Wood products

The subregion is a net exporter of wood products. Chile exports parana pine, pine and veneers to Peru and pulp to Colombia and Peru. Peru also imports sawn hardwood from Bolivia, sawn deodar and round balsa wood from Ecuador; veneers and boards from Colombia and Ecuador. Part of Colombia's imports of pulp and Bolivia's imports of newsprint come from Chile. Within the subregion, Chile is in the best position to expand its forest industries based on softwoods and to export wood products to the other Andean countries; but the high cost of transport is a disincentive to exports. Peru, however, considers that part of its imports of wood products from third countries could be replaced with subregional products, with Chile as the preferred supplier. As Peru is also moving towards self-sufficiency in kraft and many other papers, it also hopes to export medium-weight corrugated paper and banana boxes to Ecuador. It will remain an importer, however, of special-purpose papers.

(ii) *Products of animal origin*

Cattle and beef

Colombia is the major exporter of the subregion, its total exports, including its exports

of beef on the hoof to Venezuela, ranging between 75,000 and 80,000 tons of carcass meat. Most of its exports of beef on the hoof go to Peru, amounting to some 84,000 head in 1970 for a value of approximately 16 million dollars. Colombia's exports to Ecuador run at an annual volume of 20,000 head, which are not legally marketed. Colombia's exports of carcass meat go partly to Peru but mostly to the Caribbean and Europe. Between 20,000 and 30,000 head of cattle are exported unofficially by Ecuador to Peru; while Bolivia also exports smaller quantities, also unofficially, to Peru and Brazil. Owing to the growing volume of regular imports of cattle and beef by Peru and Chile, the subregion is a major importer, the annual volume of imports in the period 1962-1966 standing at 66,000 tons. Chile imports cattle and beef mainly from Argentina, and smaller quantities from Bolivia, Paraguay, and Uruguay. Peru imports cattle and beef from Argentina and also from Colombia and Ecuador, and in smaller quantities from Bolivia, Brazil, Paraguay and Uruguay.

Milk products

The subregion is a net importer of milk products, mainly powdered and condensed milk, butter and cheese. Powdered milk imports in 1967 amounted to 30,000 tons from the United States, Europe, Australia and New Zealand. Peru is the major importer of milk products, imports accounting for one-third of its consumption of milk. Ecuador's imports of powdered milk obtained on the open market and on special terms were recently the equivalent of some 33 million litres of reconstituted milk. Chile also imports sizable quantities of milk products. Ecuador imports a small amount of cheese and butter as part of unofficial border trade with Colombia and Peru.

Sheep, wool, pigs and poultry

The Andean countries import only to improve breeds, and both breeding stock and eggs for incubation and industrial purposes come exclusively from third countries.

As regards *wool*, the subregion is an exporter of greasy sheep wool and fine alpaca and vicuña hair. Chile mainly exports greasy wool, as does Peru which, together with Bolivia, exports hair of the llama species (*auchenia*). There is virtually no trade in wool within the subregion, and import and export trade is carried on with third countries.

Imports consist mainly of fine wools, with Colombia being the main importer, followed much lower down the scale by Chile and Peru.

Skins and hides

Bolivia, Colombia and Peru export hides and skins for a total value of 5 million dollars, most of the exports consisting of special products such as skins of reptiles, wild cats and other wild animals. The subregion imports ordinary skins and hides, especially cattle hide from Argentina and tanned hide from third countries.

Fisheries products

The subregion is a net exporter of fisheries products and imports only small quantities. Peru and Chile have developed a very advanced fishing industry, accounting for 20 per cent of the total world catch. Intra-subregional trade in fish, however, is on only a small scale. Chile exports fresh and frozen fish to Bolivia by air and fish meal by rail; while Peru does not export fish meal to the other Andean countries. Ecuador exports tunny to Colombia and shrimps to Bolivia and Chile. The subregion imports very little from third countries, and imported products are confined to the high-income group market. Hence, the question is not so much of import substitution, but rather of expanding domestic markets.

Consideration is being given to the establishment of a mixed Chilean and Ecuadorian enterprises to fish Ecuadorian tunny and a mixed Chilean and Peruvian enterprise to fish bonito, so that fishing can take place during a greater number of months in the year. In general, the countries of the Pacific seaboard are tending to co-ordinate their fishing activities as a subregion and under the terms of the Cartagena Agreement with a view to achieving complementarity and making a joint stand vis-à-vis the external market.

(iii) *Limitations of and prospects for intra-subregional trade*

The above illustrates that for many products, such as rice, maize, legumes, vegetables and various oil-bearing plants, all the Andean countries possess sufficient natural resources to increase production, achieve self-sufficiency and even generate exportable surpluses. In theory, however, it would be advisable for each to concentrate its efforts on those products where it has the greatest advantage, and thus

satisfy the needs of the less favoured areas. In practice, however, this would cause serious social problems since it would intensify the already chronic unemployment and under-employment prevailing in the region. If, instead of concentrating all the production effort in the countries with the greatest advantages, such countries were to be assigned only the major proportion of anticipated increases in production, leaving the remainder to domestic efforts and taking the necessary measures to improve quality and achieve competitive prices, it then might become possible gradually to reserve a growing share of the market for such countries.

Similar questions arise with respect to differences in the seasons when these comparative advantages occur, and thus it should be possible to engage in trade on the basis of seasonal complementarity in, for example, fresh fruit, pulses and green vegetables. Once this kind of arrangement is extended to a large number of products, it is possible that a certain degree of natural complementarity will arise among the Andean countries and will iron out any excessive imbalances in agricultural trade. Such arrangements will of course require lengthy and detailed studies on the location and potential of natural resources and the production costs under alternative technologies, and also a gradual rearrangement of the productive efficiency of farming units.

Over the short term, there are no clear prospects for a substantial increase in intra-subregional trade in forest products. It is difficult to evaluate the real potential of forest resources because there are no systematic and comprehensive forest inventories of large areas in the Andean countries and because of the problems of logging and transport. There is a trend in the subregion, however, towards replacing roundwood exports with wood products containing a certain degree of processing. There are clearly favourable conditions for establishing various forest industries based on both natural and man-made forests with a view to expanding the output of wood products over the long term. As regards animal products, there are no technical limitations that prevent a sizable expansion of production; rather the reverse, the subregion has very large livestock potential sufficient to satisfy not only its growing internal consumption needs but also, as in the case of meat, to generate surpluses for export to other countries of the subregion with a meat deficit and to third countries.

Table 9 gives production, consumption and trade estimates for beef in the subregion in 1985.

Intra-subregional trade in cattle and beef may be limited over the long-term if national plans for achieving self-sufficiency are successful. Chile and Peru, for example, are endeavouring to replace imports while Bolivia, Colombia and Ecuador are promoting exports. This means that the main direction of the meat trade will have to be towards third countries. Other problems may have some impact as a result of the low level of productivity in stock-farming in the subregion and the relatively high cost price of cattle and beef, together with serious marketing problems that may place the subregion, as an exporter, at a disadvantage vis-à-vis third countries in which stock-farming is more developed. Be that as it may, a great deal can be expected from the integration of stock production and complementarity arrangements in livestock production and trade within the Andean countries. Everything turns on how they direct and harmonize their production, consumption and trade policies.

With respect to milk and milk products, the prospects for intra-subregional trade are quite uncertain even over the long term; first, because any increases in production will have to be used to raise the low per capita consumption levels in the subregion, and, secondly, because the low level of productivity in herds and the poor quality of products can only be raised over a long period to a level at which it will be possible to compete with third countries at a reasonable advantage, especially in this type of production.

The fact that there are large surpluses of milk products on the world market at very low prices may be another factor hampering intra-subregional trade. The subregion has areas that are very suitable for sheep farming and in all five countries wool production could be substantially expanded as well as improved in quality. This would enable the subregion to expand its exports of fine wool to third countries and also expand intra-subregional trade, thus stemming a sizable drain of foreign exchange.

The prospects for increasing trade in fisheries products are encouraging as regards exports outside the subregion, owing to the high fishing potential of the Andean countries and technological improvements in boat construction and methods of fishing, and also the

modernization of installations, equipment and plant. The domestic market for fisheries products, however, is small, owing to dietary habits, and little has been done to promote their consumption; the situation has been made worse by shortcomings in means of communication and a lack of facilities for refrigerating and storing fish.

The subregion also imports very few fisheries products from third countries and so it is less a question of import substitution and rather more a question of expanding the domestic market.

(c) *Expanding exports to third countries*

The five Andean countries have surpluses of many products that are cultivated mainly for export to the developed countries. They do not produce enough of certain foodstuffs, however, to satisfy domestic consumption and hence have to import either regularly or occasionally. National development plans, in particular those sections relating to the agricultural sector, ascribe great importance to trade policy for agricultural products. Owing to the fact that the Cartagena Agreement came into effect only recently, subregional agricultural integration has only just begun to be made a part of national agricultural planning, and this partly explains why the subregion's exports to third countries account for roughly four-fifths of its total trade in agricultural products.

The main aspects of integration relate to trade policies, participation in the regional (ALALC) and subregional integration processes, and equipping the institutions required to implement integration policies. It is recognized that achieving a better level of living will depend, *inter alia*, on developing more advanced and complex plans for production and trade policy as a means of raising the level of agricultural activity. The slow growth of agricultural exports in Colombia and Ecuador, chiefly, and to a lesser extent in Peru, Bolivia and Chile, coupled with the unfavourable terms of trade, has been a key obstacle to the over-all development of the Andean countries. Balance-of-payments difficulties and the problem of creating new employment opportunities can be alleviated if efforts are made to increase foreign exchange revenue by expanding and diversifying exports^o and replacing imports.

In line with these objectives, the Andean countries have drawn up programmes to stimulate exports through exchange measures, export subsidies, price stabilization, export credit, etc.

Table 9
ANDEAN GROUP: BEEF PRODUCTION, TRADE AND CONSUMPTION, 1962-1966 AND PROJECTIONS TO 1985
(Thousands of tons of carcass meat)

Country	Production			Imports			Exports			Apparent consumption					
	1962-1966	1985	Annual rate of increase	1962-1966	1985	Annual rate of increase	1962-1966	1985	Annual rate of increase	Total		Per capita (kg. per year)			
										1962-1966	1985	Annual rate of increase	1962-1966	1985	Annual rate of increase
Bolivia	34	75	3.8	1	—	—	1	8	10.4	34	67	3.3	8.4	10.0	0.5
Colombia	396	983	4.4	—	—	—	5	100	15.3	391	883	4.0	22.3	23.9	0.3
Chile	135	269	3.4	41	28	-1.8	—	—	—	176	297	2.5	20.5	24.2	0.8
Ecuador	46	105	4.0	—	—	—	4	7	2.7	42	98	4.1	8.4	9.8	0.7
Peru	59	126	3.7	24	75	5.6	—	—	—	83	201	4.3	7.3	9.3	1.2
TOTAL	670	1,558	4.1	66	103	2.1	10	115	12.3	726	1,546	3.7	15.5	17.4	0.6

SOURCE: Joint ECLA/FAO Agriculture Division, *Situación actual, problemas y perspectivas del comercio de la carne bovina en los países de la ALALC.*

Agricultural development plans give an idea of the volume of products that countries expect to export or to replace as imports. As regards import substitution, there has been some success in defining the level at which foodstuffs and agricultural products should be considered essential and therefore eligible for special treatment. The idea is also gaining ground that imports should be at a level consonant with the quantity needed to cover shortfalls in domestic supply and should therefore be handled through official marketing channels such as the Chilean Agricultural Trade Enterprise (ECA), the Colombia Agricultural Marketing Institute (IDEMA) and the Peruvian Agricultural Services Enterprise (EPSA). The products handled by ECA, IDEMA and EPSA are, with some exceptions, those imports on which the subregion is highly dependent, and usually come from third countries and from other Andean countries, such as cattle, beef and rice.

Hence, the official marketing organizations for agricultural products in Colombia, Chile and Peru, and those which are expected to be set up shortly in Ecuador and Bolivia, can play an important role in promoting the sub-regional integration of the agricultural sector. Since they control trade in a number of imported products, they can take decisions and

measures that will redirect trade in favour of the subregion and make trade policy an integral part of over-all development policy.

The State marketing bodies can also play a very important role in developing a joint strategy for trade in agricultural products with third countries, since, with respect to certain products, markets outside the subregion will continue to be of key importance to the Andean countries for some time. Harmonizing bargaining positions and working out a common front in order to improve the terms on which products are exported or imported would have undeniable advantages for the subregion as a whole and each country, individually.

If the official marketing bodies are to follow *this kind of policy*, they must gradually adapt and harmonize their operations and functional structure. At present, although they are very similar in many respects, they differ in some important aspects, including one of their objectives namely, the search for imports at optimum conditions of price and quality, which may curb increases in intra-subregional trade. Moreover, many of the products marketed by these official bodies are mass consumption items and hence politically sensitive. This means that Governments will have to consider, discuss and even negotiate trade in them in advance.



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