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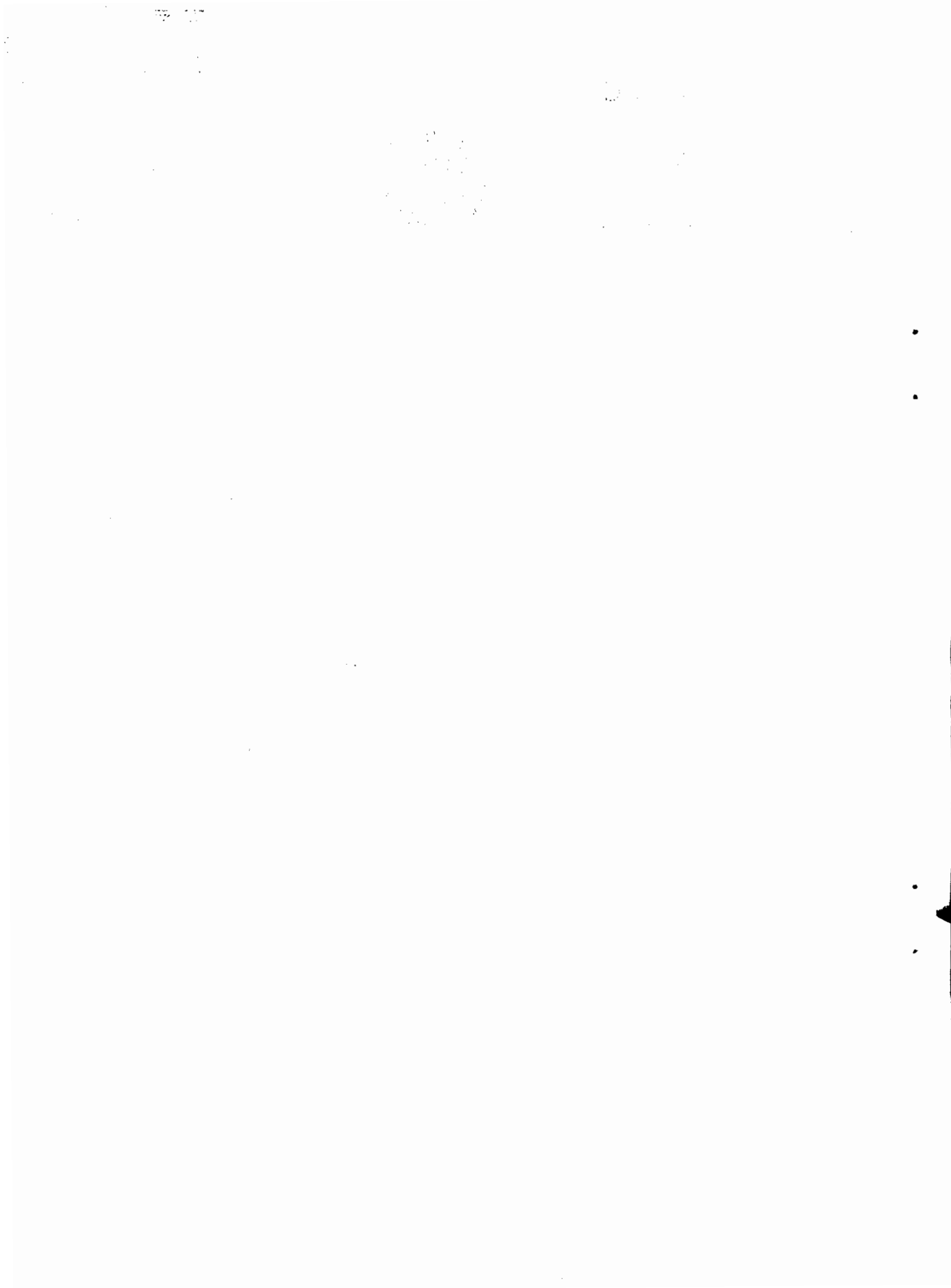
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ECONOMIC SURVEY OF LATIN AMERICA, 1967

PART ONE

GENERAL FEATURES OF RECENT DEVELOPMENT



CONTENTS

PART ONE

GENERAL FEATURES OF RECENT DEVELOPMENT

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NOTES AND EXPLANATION OF SYMBOLS

The following symbols have been used throughout this Survey:

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 (--) indicates a deficit or decrease.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or fiscal year, e.g., 1966/67.

Use of a hyphen (-) between dates representing years, e.g., 1960-65, normally signifies an annual average for the calendar years involved, including the beginning and the end years.

References to "tons" indicates metric tons, and to "dollars" United States dollars, unless otherwise stated.

The term "billion" signifies a thousand million.

Details and percentages in tables do not necessarily add to totals, because of rounding.

In order to bring the English text into line with the original Spanish, countries are given in the Spanish alphabetical order throughout (text and tables).

CONTENTS

The first part of the present Economic Survey reviews the broad lines of recent economic development in the Latin American economies, paying special attention to the changes that took place in 1967.

Chapter I is concerned with the major economic trends, and makes an over-all evaluation of the growth rate and the internal and external factors that helped to determine it. It includes special analysis of Latin America's position in the world economy in the light of the data collected on recent trends. An examination is made of the repercussion of those trends (and of certain persistent long-term factors) on world market conditions for Latin America's staple exports.

In addition, recent changes in world economic policy are outlined with particular reference to the results of the second session of the United Nations Conference on Trade and Development and to the possible impact on Latin America of the proposed measures for dealing with the difficulties of the international monetary system and the United States balance-of-payments problems. A third section reports on recent developments in inter-Latin American trade, and the progress made, specially in institutional matters, towards the economic integration of the region.

Chapter II contains an analysis of the main social trends, and assesses the effectiveness of social welfare policy, particularly in education, housing and public health.

Recent changes in foreign trade and the balance-of-payments situation are examined from a technical stand point in chapter III. A separate analysis is made of each of the principal items on the current and capital accounts of the balance of payments, including direct investment and foreign loans.

Lastly, in chapter IV an attempt is made to evaluate the results of certain changes in the tax system, in the light of the data available on a group of Latin American countries - comprising Argentina, Brazil, Chile, Guatemala, Mexico and Venezuela - with different structures, characteristics and growth rates.

As in previous years, Part Two is devoted to a consideration of the salient developments in each of the Latin American countries (chapter I), and the main features of the trends observable in the major sectors of economic activity (chapter II).

PART ONE

GENERAL FEATURES OF RECENT DEVELOPMENT

Chapter I

MAJOR ECONOMIC TRENDS

1. The rate of growth and its determinants

(a) Over-all evaluation

In 1967 the economic development of Latin America as a whole was unsatisfactory, resulting in a per capita growth rate of the product of only 1.5 per cent. So slight an increase, superimposed on the minimal expansion achieved in 1966, wiped out the relatively considerable progress made in 1964 and 1965, and, as a result, in the nineteen-sixties so far the average annual increase in the per capita product has barely reached 1.6 per cent (see table I-1 and figure I-1).

Table I-1

LATIN AMERICA: ANNUAL GROWTH RATES OF PER CAPITA GROSS PRODUCT

(Percentages)

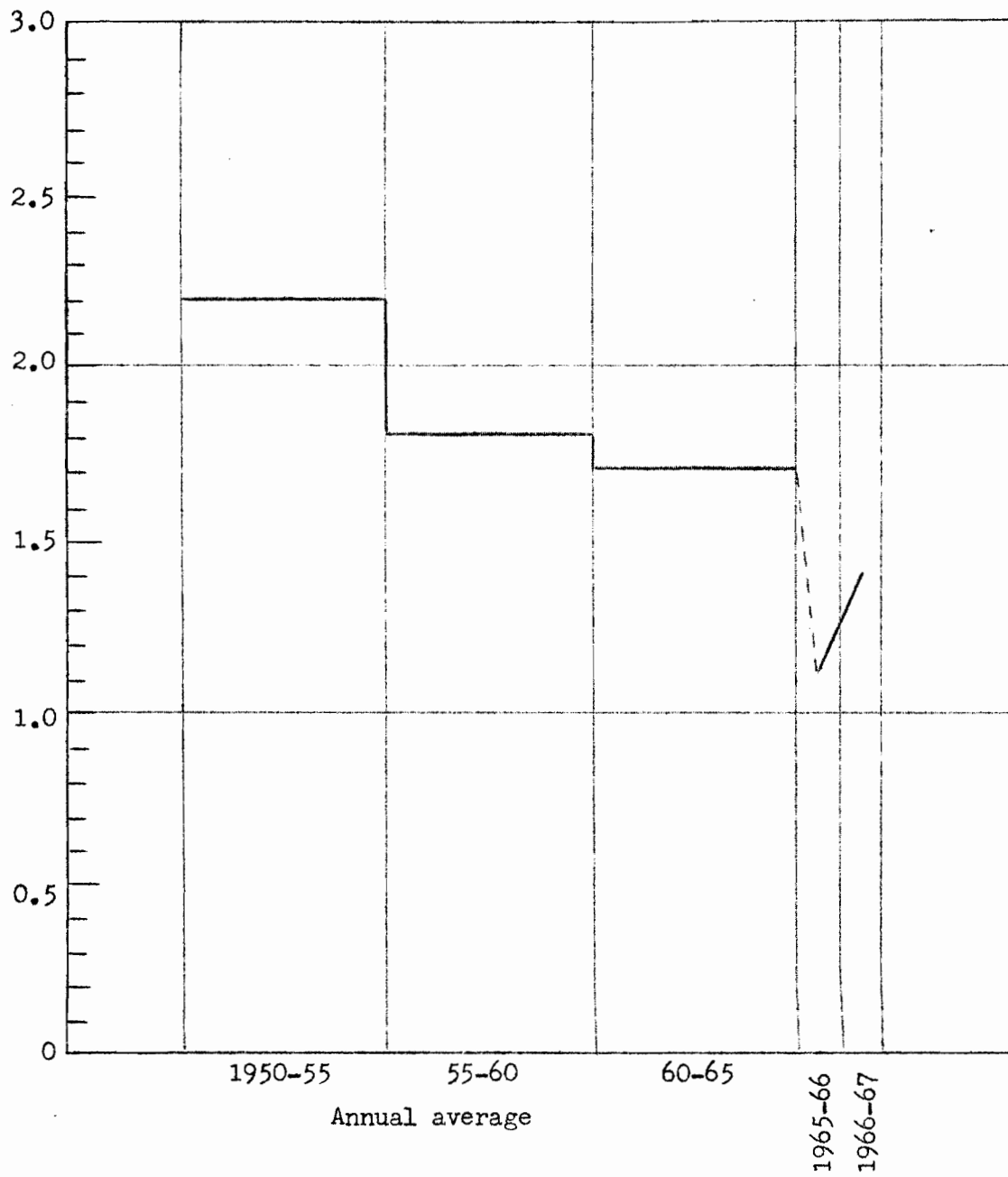
Period	Annual growth rate
1950-55	2.2
1955-60	1.8
1960-65	1.7
1961	2.4
1962	0.8
1963	-0.5
1964	3.3
1965	2.4
1966	1.1
1967	1.5

Source: ECLA, on the basis of official statistics.

/Figure I-1

Figure I-1
LATIN AMERICA : ANNUAL GROWTH RATES OF PER
CAPITA GROSS PRODUCT

Natural scale



A number of factors were responsible for the pattern of economic growth in 1967. Although they will be discussed more carefully in later sections, the following may be mentioned as being among those which had the strongest impact:

(i) There was a fall in the world market prices of most of the commodities that constitute the bulk of Latin America's exports. Apart from its direct effect on the capacity to import, this further deterioration in the terms of trade meant that the slight increase in the domestic product represented an even smaller rise in real income;

(ii) The current value of exports of goods and services remained stationary at the level of the preceding year; thus there was a break in the upward trend that had been followed since 1960. In view of the unfavourable evolution of prices, the maintenance of export values implied an increase in the volume of exports;

(iii) Notwithstanding these developments, imports continued to rise, exceeding their 1966 level by 4 per cent. This expansion of external purchases despite the stagnation of current export earnings resulted in a balance-of-payments deficit on current account of about 1,600 million dollars, the largest on record in the present decade;

(iv) Latin America was more seriously affected than some other regions by the repercussions of the slower growth rate of the world economy and the slackening of international trade, and it lost further ground in world markets.

On the other hand, progress was made in establishing institutional channels for Latin America's economic integration movement, including sub-regional agreements. In addition, intra-regional trade continued to expand.

As regards internal factors, the control of inflationary pressures has been one of the key objectives of economic policy in recent years. It was pursued in 1967 with varying degrees of success. Some countries made further headway, while others experienced grave setbacks.

From the standpoint of sectoral development, two main trends are discernible in 1967: a considerable increase in agricultural activity and a marked loss of dynamism in the manufacturing sector. Both agriculture

/and mining

and mining - including the extraction of petroleum - grew at an average annual rate of a little more than 4 per cent in 1960-65, levelled off in 1966 and picked up again in 1967, when their growth rates were 5.5 and 8.5 per cent, respectively. In industry, on the other hand, this trend was reversed: the average annual growth rate of 5.7 per cent recorded in 1960-65 rose to 6.4 per cent in 1966 and - mainly because of the evolution of this sector in Argentina and Brazil - dropped to 3.6 per cent in 1967. In construction, the rate of 6.6 per cent achieved in 1967, although lower than the 7.7 per cent reached in 1966, compares favourably with the average annual rate of 2.4 per cent in 1960-65. In services, where the rate of expansion was 4.6 per cent, there were no significant changes in relation to the previous five-year period (see table I-2).

Although several of the component features of this over-all picture differ from the characteristics of economic development in 1966, if a broader view is taken the same basic facts are still in evidence. In the last analysis, they are reflected in the lack of drive behind the Latin American economy's efforts to increase employment and productivity. This weakness is imputable both to internal factors and to the rigid pattern of the region's external trade and financial relationships.

The internal factors include the region's failure to make real progress in increasing the rate of capital formation. Few changes took place in the proportion of the domestic product earmarked for the expansion of production capacity, and it remained at levels too low to promote more rapid growth. During the current decade, the shares of the public and private sector in total investment have altered significantly, generally in the direction of a somewhat bigger increase in public investment; and the composition of investment financing by domestic saving and foreign capital has also undergone modification. Generally speaking, up to 1965 at least, net external financing tended to move downward from the relatively high levels at which it had stood in 1961-63. But the effect of these variations has been mainly compensatory, resulting in changes in the composition of investment (according to whether it is channelled through the public sector or the private sectors) and in its financing (by domestic saving or external co-operation), rather than in real increases in the over-all investment coefficient (see table I-3).

Table I-2

LATIN AMERICA: ANNUAL GROWTH RATES OF GROSS DOMESTIC PRODUCT,
BY SECTOR OF ECONOMIC ACTIVITY

(Percentages)

Sector	1965/60	1966/65	1967/66 a/	Percentage composition	
				1960	1967 a/
1. Agriculture, forestry and fisheries	4.2	0.5	5.6	22.0	21.1
2. Mining and quarrying	4.3	0.3	5.4	5.1	4.9
3. Manufacturing	5.7	6.3	3.2	21.7	23.1
4. Construction	2.4	9.5	6.4	3.4	3.3
5. Public utilities (electricity, gas and water)	8.9	10.4	7.3	1.4	1.9
<u>Total for services</u>	<u>4.3</u>	<u>4.4</u>	<u>4.2</u>	<u>46.4</u>	<u>45.7</u>
6. Transport and communications	5.2	4.1	3.0	6.4	6.5
7. Trade and finance	4.7	4.8	4.9	18.0	18.3
8. Public administration and defense	3.0	3.1	2.8	7.1	6.4
9. Other services	4.0	4.6	4.4	14.8	14.4
<u>Total</u>	<u>4.6</u>	<u>4.1</u>	<u>4.4</u>	<u>100.0</u>	<u>100.0</u>

Source: ECLA, on the basis of official statistics.

a/ Provisional figures.

Table I-3

LATIN AMERICA: EVOLUTION OF INVESTMENT COEFFICIENTS AND FINANCING

Year	Over-all investment coefficient <u>a/</u>	Composition of investment <u>b/</u>		Composition of saving	
		Public	Private	Domestic	Foreign
(Percentages)					
1960	18.1	31.7	68.3	91.9	8.1
1961	18.6	29.2	70.8	91.7	8.3
1962	17.7	29.7	70.3	91.8	8.2
1963	16.6	30.6	69.4	97.5	2.5
1964	17.3	34.1	65.9	95.6	4.4
1965	16.8	36.2	63.8	97.5	2.5
1966	16.9	35.2	64.8	94.0	6.0
1967	17.2	34.8	65.2	91.7	8.3

Source: ECLA, on the basis of official statistics.

a/ Gross domestic investment as a percentage of total product.

b/ Gross fixed investment.

Before the influence of some of these factors is discussed in greater detail, it should be pointed out that the foregoing general features of recent development stem from a wide variety of situations in the individual countries. These will be reviewed separately in part two of the present Survey; but it seems useful to mention some of the most important data in advance in order to facilitate an over-all evaluation.

(b) Economic growth by countries

The growth rates of the total product by countries in 1966 and 1967 are presented in table I-4.

/Table I-4

Table I-4

LATIN AMERICA: ESTIMATED, GROWTH RATES OF AGGREGATE GROSS
DOMESTIC PRODUCT, 1966 AND 1967

(Percentages)

Country	1966	1967
Argentina	-0.5	2.0
Barbados	3.3	1.3
Bolivia	6.4	5.6
Brazil	4.4	5.0
Chile	6.6	2.8
Colombia	5.3	4.2
Costa Rica	6.5	8.3
Ecuador	5.6	6.0
El Salvador	5.7	3.4
Guatemala	4.5	3.4
Guyana	7.4	3.7
Haiti	-2.6	0.0
Honduras	4.7	3.5
Jamaica	5.6	3.0
Mexico	7.1	6.3
Nicaragua	3.8	3.8
Panama	9.3	8.5
Paraguay	1.7	5.3
Peru	5.6	5.3
Dominican Republic	12.2	2.9
Trinidad and Tobago	2.9	3.3
Uruguay	2.6	-5.0
Venezuela	3.4	6.0

Source: ECLA, on the basis of official statistics.

/In the

In the case of Argentina, the gross domestic product, after remaining stationary in 1966, increased by 2 per cent in 1967. The chief determining factors were the increases in gross domestic investment (5.2 per cent) and in agricultural production (5.3 per cent); the relative stagnation of manufacturing output; a moderate expansion of over-all consumption; and a rise of 27 per cent in the cost-of-living index. Exports of goods contracted by 6.7 per cent, and imports remained at levels comparable to those of 1966, with the result that the trade balance worked out at about 365 million dollars (as against 469 million in 1966) and the balance on current account rose to 180.8 million dollars; in addition, international reserves were considerably strengthened, reaching 754 million dollars by the end of 1967. Public-sector trends were distinguished by an increase of 23 per cent (in real terms) in the tax revenue accruing to the Government, and a 40 per cent reduction of the public-sector deficit. In the course of the year, a reorientation of economic policy led to the adoption of exchange, tax and tariff measures; among others, the currency was devaluated by 40 per cent, a tax on traditional exports was levied, and import duties were reduced.

The domestic product of Barbados, measured at current prices, increased by 5 per cent (about 1.3 per cent in real terms). Sugar exports, which represent about half the total, rose again as a result of an increase of some 200,000 tons in the volume of production. However, imports grew even more rapidly, and this accentuated the trade deficit, which is covered mainly by receipts from tourism and remittances of emigrants.

In Bolivia, the annual economic growth rate of 5 to 6 per cent maintained since the beginning of the decade continued in 1967. Its significance in terms of real income, however, was less than in previous years, owing to the decline in tin prices. Sectoral developments show a contraction of agricultural output, due to adverse weather conditions, an expansion in manufacturing industry and, an even greater increase in construction. In the external sector, the drop in tin prices was more than offset by the upsurge of petroleum exports. Although imports rose more slowly, the balance-of-payments deficit on current account was larger than in the

/previous year

previous year owing to remittances of profits by foreign firms. The deficit was covered by means of larger inflows of foreign capital, official transfer payments and drawings on international reserves.

The economic growth rate in Brazil was about 5 per cent, mainly based on a substantial increase in agricultural output and relative stagnation in industry. There was also a sharp reduction in the rate of price increases - the cost-of-living index rose 17.5 per cent as against 30.8 per cent in 1966 -, a deficit on current account and a deterioration in the financial situation of the public sector. The economic policy adopted involved a somewhat new approach to anti-inflationary strategy, combined with a more expansionist monetary policy and greater emphasis on the need to boost economic activity. Exports dropped 6.4 per cent, with the result that current external transactions showed a deficit of 310 million dollars.

The over-all growth rate of the Central American economy was 4.3 per cent. This represents a reduction for the second year running in the rate that prevailed during the first five years of the decade. Moreover, if Costa Rica is excluded, where the growth rate was 8.3 per cent, the level drops to 3.5 per cent in the other four countries. The decline in output of cotton and coffee in the 1966/67 crop year and the fall in coffee prices resulted in a reduction of more than 6 per cent in the value of Central American sales outside the area. Costa Rica was the only Central American country to enjoy good weather conditions, and this brought about an increase in agricultural production for the third successive year. Intra-area trade maintained a high rate of growth, thus helping to attenuate the depressive effects of the general weakening in the external sector. Manufacturing in Central America as a whole grew 8 per cent under the stimulus of a rise in demand and import substitution, while agricultural production increased by 6 per cent. Gross investment expanded by nearly 6 per cent, compared with 7.5 per cent in 1966 and 10 per cent in 1965. This reflects the contraction in building activities in some countries and the reduction of investment in the cotton sector. Public investment also declined in El Salvador and Nicaragua.

In Colombia, the gross domestic product increased nearly 4 per cent, side by side with the reduction of foreign trade imbalances, the improvement of public finances and the containment of inflationary pressures. Current

/income from

income from exports of goods and services was nearly 10 per cent higher than in 1966, owing to the increase in the volume of coffee exports which, while offsetting the drop in coffee prices, was not sufficient to bring their level up to those of 1964 and 1965. At the same time there was a 25 per cent reduction in imports. A new exchange law was promulgated, which established two types of markets - one for exchange certificates and one for capital - in an attempt to avoid an abrupt devaluation. The tax reform helped to boost public revenue by 15 per cent, and public expenditure increased by the same amount, with a marked shift in favour of investment outlays. Prices rose by 7 per cent as against 14 per cent in the previous year.

The Chilean economy grew at an over-all rate of 2.8 per cent, with 2 per cent for manufacturing and 3.1 per cent for agriculture. The weakening in the growth rate of industrial output indicates a loss of buoyancy in domestic demand, which was accentuated by earlier stockpiling and the repercussions of protracted labour disputes. Exports remained at much the same level as before. Domestic demand brought about a further expansion of imports, although on a smaller scale than in previous years. This, combined with larger remittances of profits by foreign firms, resulted in a deficit on current account, which had to be covered by drawing on the international reserves as the inflow of autonomous and compensatory capital was not sufficient to balance the account. Moreover, the cost-of-living index, which had risen 17 per cent in 1966, climbed by 21.9 per cent in 1967.

The reactivation of the external sector and the expansion of public-sector activities were salient features of Ecuador's economic development. The gross domestic product increased by approximately 6 per cent, and industry, which had recovered from its relative setback in 1966, did so at an ever higher rate. Agriculture and mining also showed positive results. Current income from exports of goods and services rose from 205 to 230 million dollars, while imports, encouraged by the relaxation of restrictions, rose even more, thereby producing a deficit on current account. However, capital inflows not only wiped this out, but also augmented Ecuador's foreign exchange reserves. There was also a significant improvement in public finances which, coupled with increased use of external credits, raised the level of public investment by 14 per cent.

The economy of Guyana grew at a moderate pace in 1967, which in some degree reflected the end of the process of recovery that had taken place in preceding years. During that period the gross product increased by about 6.5 per cent, as a result of the expansion in the public sector and construction and the simultaneous increase in production of bauxite, manganese, sugar and rice - Guyana's four export staples.

In 1967, the Haitian economy continued the downward trend that it had taken for some years, with the result that the over-all product was lower than it had been for the past five years. Output of sugar-cane and maize declined, and a contraction took place in mining and industry. Government revenue, which is mainly from customs duties, dropped by 4 per cent owing to the reduction of imports and stagnation of exports, whereas public expenditure increased by 15 per cent. The deficit on current account led to a further decline in international reserves, in spite of a compensatory loan from the International Monetary Fund.

The growth rate of the Jamaican economy was about 3 per cent, i.e., lower than in the previous three-year period. The reduction was caused by the decrease in agricultural output for export, and the completion of projects to increase bauxite and alumina production capacity. With their termination, there was a decline in private foreign investment, coupled with a contraction in domestic saving, which was reflected in a drop in construction activities, a reduction in the area under sugar-cane and an interruption in the mechanization of farming. In the external sector exports of goods fell off, while imports continued to increase, but part of the deficit on current account was covered by receipts from tourism. However, the inflow of capital proved insufficient to offset the remainder and international reserves had to be drawn upon as well.

In 1967, the Mexican economy grew at a rate of over 6 per cent. Domestic investment, both public and private, played a leading part in its development, together with increased capital formation in the decentralized agencies and a high rate of construction for the tourist trade, commerce and manufacturing. The agricultural sector expanded by just under 3 per cent, while industry increased at the rate of 8 per cent. The growth of investment made it necessary to step up imports of machinery and equipment

/considerably. This

considerably. This raised the total value of imports by 9 per cent, whereas export earnings increased hardly at all. A marked increase in the inflow of both private and official external capital made it possible to cover the deficit on current account, service the external debt and strengthen gross international reserves.

The economy of Panama grew by 8.1 per cent, thereby maintaining the high growth rate that has characterized it during the nineteen-sixties. External sector trends were again a contributory factor, since exports of goods and services expanded by 9 per cent and imports by 6 per cent. Agriculture and industry also made good progress, with growth rates of 9 and 11 per cent respectively, while public investment virtually doubled.

The Paraguayan economy recovered the moderate rate of growth it had achieved in earlier years, thanks to the improvement in the adverse weather conditions that had reduced agricultural production in 1966. It was also aided by the 8 per cent increment in industrial and mining production under the stimulus of new lines of activity, such as petroleum refining and food canning. Exports fell short of their 1965 level for the second year in succession, while imports continued to rise. The deficit of 20 million dollars on current account was mainly covered by external credits, and in particular the loans given to finance the Acaray hydroelectric plant. There was a heavy fiscal deficit in contrast to the surplus of the preceding year.

The economy of Peru expanded at a rate of about 5 per cent, and was characterized by satisfactory development in the main sectors of domestic activity contrasted with highly adverse external sector trends. Exports failed to improve over the previous year owing to the drop in world market prices for certain products. Meanwhile, there was a heavier demand for imports, spurred on by the maintenance of the exchange rate at the same level for eight years. This led to a 45 per cent devaluation, which helped to check the rise in imports. Remittances of profits and interest were substantial and the net inflow of autonomous capital dwindled. Consequently it became necessary to draw nearly 50 million dollars from international reserves.

/After its

After its decline in 1965 and recovery in the following year, the economy of the Dominican Republic resumed a slow rate of growth in 1967, reaching an absolute level comparable to that of 1964. The gross domestic product increased by about 3 per cent, with agricultural output remaining static while industry expanded appreciably. There was a 12 per cent expansion in exports (mainly sugar and cocoa) despite the decline in coffee sales. Imports rose 6 per cent only as suppliers' credit was tightened up and new taxes were levied on imports of certain food products.

The economic growth rate in Trinidad and Tobago was just over 3 per cent, thus maintaining the same moderate tempo as in past years, despite the relatively unfavourable evolution of the external sector. Exports of goods and services increased as little as 2 per cent, with decreases in cane-sugar and cocoa, offset by larger sales of coffee and petrochemical products. Imports declined, mainly because of a reduction in purchases of crude petroleum for refining. Domestic production made good progress, with an increase of 13 per cent in petroleum extraction and a particularly substantial increment in agricultural output for the home market. Manufacturing also expanded considerably thanks to the vigorous development of the petrochemical and certain light industries.

The economy of Uruguay, which had tended to be static for many years, took a turn for the worse in 1967, with the sharp decline in agricultural production and exports, the reduction in the real income of the bulk of the population and the deficit in public sector financing. The result was a decrease of about 5 per cent in the gross domestic product and a rise of 136 per cent in prices. Particularly bad weather conditions reduced crop production by 24 per cent and livestock production by 13 per cent. This affected export income, which dropped 12 per cent, in spite of the increase in receipts from tourism. Imports were slightly higher than in 1966, but fell short of their 1964 level and were not sufficient to make up for the shortage of domestic supplies. The Central Government deficit was 23 per cent of total expenditure. Moreover, a series of devaluations took place during the year, which raised the value of the dollar from 76.20 pesos in March to 200 pesos by the end of the year.

/In Venezuela,

In Venezuela, the domestic product increased by 6 per cent, as a result of the expansion of petroleum, agricultural and industrial production. Petroleum output rose 5 per cent, and agricultural output by nearly 7 per cent. The growth rate of industry, although fairly high (6.7 per cent), was lower than in previous years. In the external sector, exports climbed by 5 per cent and imports by 6 per cent. International reserves also rose, reaching 870 million dollars by the end of the year.

(c) Economic growth and internal disequilibria

A country-by-country study of recent trends shows that over and above their endeavours to speed up the growth of the domestic economy and cope with the vicissitudes of foreign trade, several countries of the region had to make renewed efforts to curb inflationary pressures. The strength of these pressures, measured in terms of changes in cost-of-living indexes, varied widely from one country to another, as did the degree of success with which anti-inflationary policies were applied (see table I-5 and figure I-2).

Once again the highest indexes were shown by Argentina, Brazil, Chile and Uruguay, but their significance is different in each case if they are viewed in the light of previous trends. In Argentina, prices increased at a lower rate than in the previous year (27 per cent, as against 30 per cent in 1966); these indexes were higher than the average for 1960-65 (23 per cent), but lower than the 1955-60 average (37 per cent). In Brazil, the progress implied by the 26 per cent rise in 1967, over and above the 46 per cent achieved in the preceding year, was striking and still more so in comparison with the situation in 1960-65.

Figure I-2

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LATIN AMERICA : ANNUAL PERCENTAGE VARIATION
IN DOMESTIC PRICES IN SELECTED COUNTRIES

Page I-15

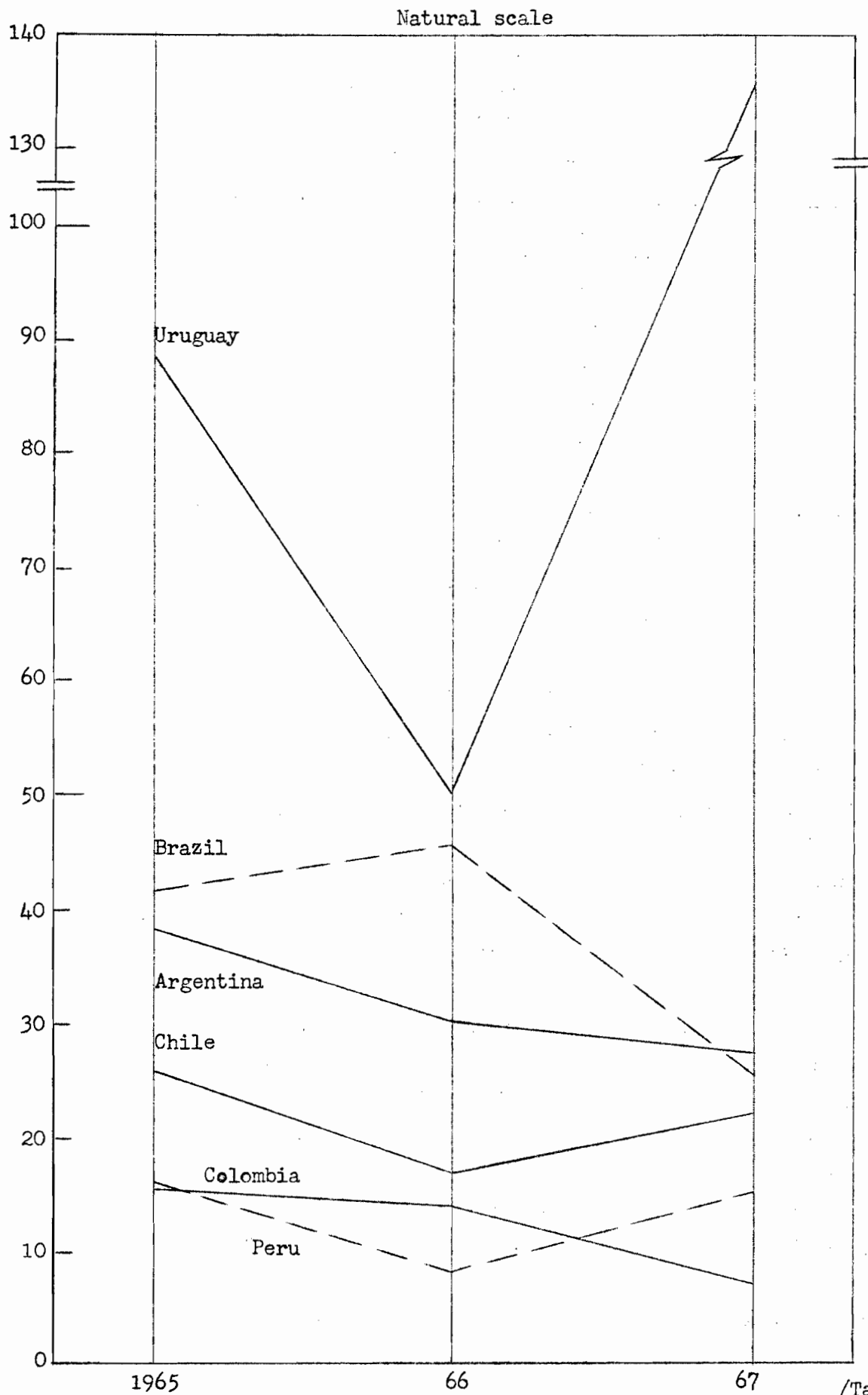


Table I-5
LATIN AMERICA: EVOLUTION OF DOMESTIC PRICES IN
SELECTED COUNTRIES, 1965-67

(Annual percentage variations)

Country	1965	1966	1967
Argentina	38.3	30	27
Brazil	41.1	46	26
Colombia	15.1	14	7
Chile	25.8	17	22
Peru	15.9	8	15
Uruguay	88.0	50	136

Source: ECLA, on the basis of official statistics.

In contrast, Chile experienced a setback, since the consumer price index rose by 22 per cent as against 17 per cent in 1966, despite the fact that several increases were deferred until January 1968, when they pushed up the index by 5.6 per cent. These figures still represent a measure of headway in relation to earlier periods (1960-65 and 1955-60, when the average annual increases were 27 per cent and 32 per cent, respectively). In Uruguay, the rate of inflation had been gathering speed for several years, and had reached its maximum in 1965. It dropped in 1966, when it was about 50 per cent, but subsequently the inflationary pressures were intensified to such a pitch that in 1967 the increase in internal price levels reached the unprecedented figure of 136 per cent (estimated on the basis of the December-to-December index variations in each case).

The group of countries where the inflationary process is or in recent years has been less rapid - which includes Bolivia, Colombia, Paraguay and Peru - showed varying results in 1967. In Bolivia prices increased slightly faster (by 8 per cent, as against 7 per cent in 1966). Colombia succeeded in appreciably reducing the rate of inflation, which fell from 14 per cent in 1966 to 7 per cent in 1967. Prices in Paraguay remained almost stationary in 1967; in Peru, on the other hand, the inflationary process quickened its pace, since the price increase was about 15 per cent, whereas it had fluctuated between 8 and 9 per cent in previous periods.

/Other countries

Other countries maintained the virtual price stability by which they are characterized. Thus, in Costa Rica, Ecuador, Honduras, Nicaragua and Mexico, rates of increase still fluctuated between 2 and 4 per cent, and stability was practically restored in the Dominican Republic after the significant price upswing (8 per cent) recorded in 1966.

Within this over-all picture, attention should be drawn to the special cases of Argentina, Brazil, Chile and Uruguay, where the persistent rapidity of the rate of inflation constitutes one of the curious and even paradoxical features of Latin America's development process in recent years.

This is a group of countries in which conditions are highly favourable for the consolidation and acceleration of their development. Their previous evolution, their relative income levels, the wealth and diversity of their basic resources, the size and characteristics of their domestic market, and their institutional and administrative organization are all factors which, separately or in the aggregate, afford good grounds for this assumption. Nevertheless, in a greater or a lesser degree, they have all found it very difficult to achieve satisfactory growth rates, while at the same time they have suffered relatively acute inflationary disequilibria.

If the period 1960-66 is considered, for example, it will be seen that while the gross product of the region increased at an annual rate of 4.3 per cent, not one of the countries in question attained this rate of growth. Only Chile approached it, with an average rate of 4 per cent, and this was due to the pace of development in 1955-66, which slackened in 1967. In the other countries, the corresponding growth rates were 3.8 per cent in Brazil, 2.6 per cent in Argentina and 1.2 per cent in Uruguay. In 1967, Brazil alone succeeded in outstripping the average rate; Chile, on the other hand, lagged behind the region as a whole, and so did Argentina. A serious recession in Uruguay reduced its gross product.

/Inflation in

Inflation in these countries, on the other hand, was far more serious than in the other Latin American countries. In 1960-66, the four countries recorded the highest rates of inflation in the region, and the position was the same in 1967, with the individual variations indicated above.

All this points to the existence of a vicious circle formed by the stagnation of development and the acceleration of the inflationary process, although it would be difficult to define the causal relationship between the two things. In other words, it seems just as reasonable to contend that the inadequacy of the growth rates is one of the determinants of more intensive inflation as to maintain the opposite. A point which must not be overlooked, however, is that both phenomena are also partly imputable to other circumstances, so that a fairly rapid rate of economic development has sometimes been combined with a stepping-up of inflationary pressures, or, again, relative stability has been maintained despite a sluggish growth rate.

(d) Internal growth and trends in foreign trade

The development of Latin America continues to encounter structural obstacles in the external sector, and one of the points brought to light in a country-by-country analysis of recent growth is the powerful short-term influence exerted by external-sector trends, and the marked extent to which it is responsible for variations in the behaviour pattern of the national economies from one year to another.

In 1967, for the first time in the present decade, the current value of exports of goods showed a slight decrease in relation to the previous year, reaching about 10,660 million dollars. As, in general, the volume of sales increased, this result was determined by the adverse evolution of prices, particularly of coffee, metals, wool and fish meal. If Venezuela is excluded, the value of exports from the region will be seen to have decreased by nearly 2.6 per cent, mainly because of the deterioration of sales by Argentina, Brazil and Mexico. Exports also declined in Guatemala and Uruguay, and remained at the same level in Honduras, Nicaragua, Paraguay and Peru, while they rose in Bolivia, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador and Panama, in addition to Venezuela, and on a somewhat lesser scale in El Salvador and Haiti. In at least four of these countries, however, the increase in exports represented merely a recovery of former levels which had declined in 1966 (see table I-6).

Table I-6

LATIN AMERICA: EXTERNAL-SECTOR TRENDS, 1966 AND 1967

(Millions of dollars at current prices)

Country	Exports of goods and services		Imports of goods and services	
	1966	1967	1966	1967
Argentina	1 784.0	1 695.0	1 376.0	1 376.0
Barbados	57.2	...	77.1	...
Bolivia	142.0	159.3	174.2	190.1
Brazil	1 875.0	1 775.0	1 703.0	1 830.0
Colombia	662.0	694.0	852.6	675.0
Costa Rica	165.9	178.2	200.2	212.1
Chile	987.5	1 000.0	890.9	955.7
Ecuador	204.8	231.5	200.4	226.2
El Salvador	209.7	214.3	252.6	266.3
Guatemala	257.9	230.4	262.6	285.6
Guyana	126.3	136.2	140.2	153.2
Haiti	42.4	42.8	60.5	60.4
Honduras	158.8	161.2	164.6	167.1
Jamaica	383.9	381.2	435.2	460.5
Mexico	2 142.0	2 204.0	2 121.0	2 331.0
Nicaragua	170.9	171.8	211.4	232.0
Panama	256.5	279.5	271.9	289.3
Paraguay	63.4	65.4	74.5	84.0
Dominican Republic	160.4	180.0	216.1	229.3
Peru	891.6	896.5	964.2	967.4
Trinidad-Tobago	503.5	499.7	489.3	457.8
Uruguay	246.1	216.7	190.3	193.6
Venezuela	2 441.0	2 563.0	1 715.0	1 824.0

Source: ECLA, on the basis of official statistics.

In contrast with the evolution of exports, Latin America's imports of goods (in f.o.b. terms) rose by about 4 per cent in 1967, reaching a value of 9,300 million dollars. This increase occurred in all the countries except Colombia, where purchases declined, and Argentina, Haiti and Peru, where there was no change. Colombia had made heavy purchases in 1966, before imposing the stringent controls that accompanied its currency devaluation.

Although due weight must be attached to these largely unfavourable foreign trade trends in 1967, it is important to note that in the recent period as a whole the external sector's contribution to the Latin American

/economy has

economy has been satisfactory in the main. In several countries, external transactions have regained levels comparable or close to the highest reached in earlier periods, and in others, current income from exports has soared to unprecedented figures.

In the light of this experience, it seems appropriate to look into the nature of the present relationship between the growth rate of the domestic product and the vicissitudes of foreign trade. This is a subject, however, which lends itself less than others to the formulation of general statements applicable to Latin America as a whole, and which can best be dealt with on the basis of the hypothesis that the relationship in question will be different for at least two groups of countries whose situations differ.

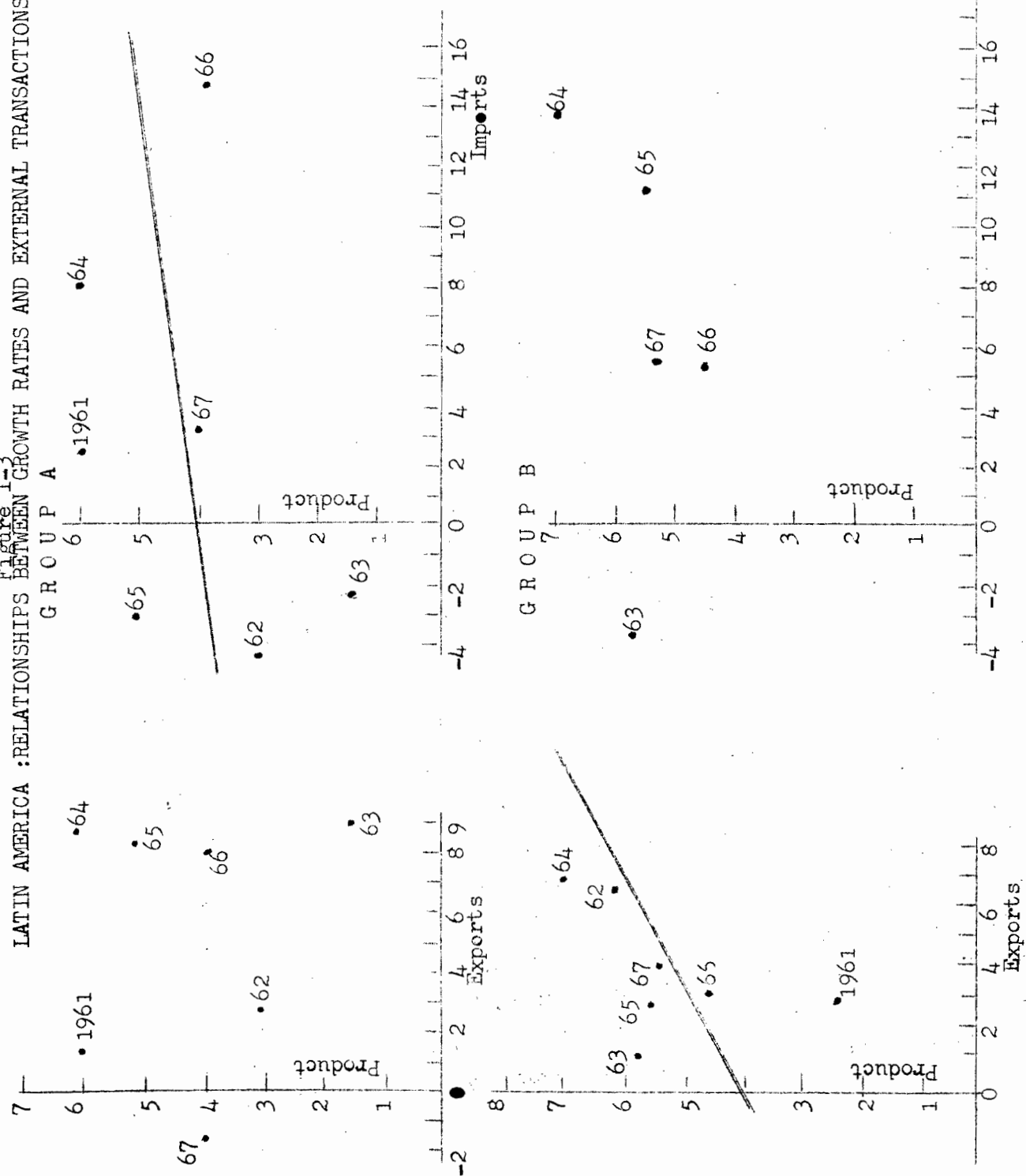
In countries whose exports are mainly agricultural, whose agricultural sector accounts for a very substantial share of the domestic product, and whose external sector is large in proportion to the domestic economy as a whole, there is a manifest correlation between the growth rate of their product and the sharpness of the fluctuations in their export trade. Broadly speaking, these are the countries at a relatively less advanced stage of economic development. Most of them, in addition, show steady increases in the current value of their external sales.

The position is different in other countries, where foreign trade carries less relative weight in the domestic economy, and where export fluctuations have a much less direct impact on levels of economic activity. In these cases the correlation between growth rates and exports is usually slight, but it is closer in the case of changes in imports, upon which the domestic economy is usually dependent for supplies of inputs essential to its operation (most capital goods, and in some instances goods of great importance for the satisfaction of consumer demand).

In general, the data presented in figure I-3 seem to bear out these assumptions. In other words, they imply that in the study of external circumstances a distinction should be drawn between those relating to the influence and evolution of exports as a component of aggregate demand, and those linked to the significance of imports as a part of aggregate supply and, specifically, as the sources of the foreign adjuncts required to complement the domestic economy.

/Figure I-3

Figure I-3
LATIN AMERICA : RELATIONSHIPS BETWEEN GROWTH RATES AND EXTERNAL TRANSACTIONS



1/ GROUP A: Argentina, Brazil, Colombia, Chile, Mexico and Uruguay.- GROUP B: Latin America excluding: Argentina, Brazil, Colombia, Chile, Mexico and Uruguay.

In economies where the greater relative significance attaches to import problems, export trends are only one factor, in view of the decisive role that may be played by other determinants of the real capacity to import, such as the commitments deriving from external indebtedness and remittances of profits of foreign enterprises, or, in other words, the net contributions of external credit and financial capital.

Accordingly, further reference to the economies of the southern zone of South America seems opportune here. As far as they are concerned, it may be justifiable to assume that exports are of relatively secondary importance as a mainspring of aggregate demand. To put it simply, a smaller percentage of total production is exported, and in consequence increases or decreases in exports have no decisive effect on the dynamics of development. In Argentina and Brazil, for example, the proportions of the domestic product represented by exports are 12 and 7 per cent, respectively; in Chile and Uruguay, which are smaller countries with a lesser degree of structural diversification, the corresponding proportions are approximately 13 and 20 per cent.

At all events, in this context a brief reminder should be given of the role played by exports as a factor in aggregate demand during the period under review. Generally speaking, the balance was as follows. In Argentina, exports developed favourably between 1961 and 1966, but contracted slightly in 1967; the same trend is observable in Brazil, where, however, it was more marked. In Chile and Uruguay, on the other hand, the reverse was the case. Thanks to the boom in copper, the value of Chile's exports soared between 1963 and 1966, and remained at a high level in 1967. In Uruguay's case, a moderate growth rate between 1962 and 1963 was superseded by a sharp downward trend from the latter year onwards.

The situation looks very different when the role of the external sector is evaluated on the import side. Although in this case too, for the group of countries as a whole, the proportion of total available goods and services represented by those of foreign origin is relatively low, they are of strategic importance inasmuch as the expansion of the economic system and the satisfaction of certain consumer needs may be strictly dependent upon

/these imported

these imported components of supply. In quantitative terms, specific foreign goods may be of little significance; but from the qualitative standpoint they may constitute key factors in the expansion prospects of the national economy or of domestic consumption.

Import trends in Argentina and Uruguay were unfavourable on the whole. The same was true of Brazil up to 1965, and the subsequent recovery did no more than bring imports up to their 1960 level, i.e., in any event their importance in relation to the domestic product and the population diminished. The sole exception to the rule was Chile, which steadily increased its imports as from 1962, raising them to levels unheard of since the world depression.

From another angle, the experience of Chile - as well as that of several other Latin American countries - may be thought to suggest that frequently too little advantage has been taken of a relatively favourable external-sector situation to adopt supplementary measures capable of amplifying and consolidating the impetus or support given by external circumstances.

This last reflection is also borne out by the fact that recent experience, at least in some cases and over the short term, reveals a relatively broad field of manoeuvre for the adaptation of import levels to the needs of the domestic economy. Through the increase or reduction of external indebtedness, the expansion or utilization of international reserves, and other devices of foreign trade policy, very different changes are often seen to take place in the annual growth pattern of exports on the one hand and imports on the other.

(e) Some important features of balance-of-payments trends

Just as the stagnation of exports was a salient feature of the evolution of the economy in 1967, so were certain changes in the balance of payments, which produced a radically different situation from that of the immediately preceding years.

These changes originated in the disparity between export and import trends, which considerably reduced the surplus on merchandise account. In 1963-65, this surplus had, on the contrary, been progressively increased, with the result that various countries had been able to meet their external debt commitments and improve the position of their gross international reserves.

/Apart from

Apart from the reduction in the surplus in 1967, higher payments of profits and interest on foreign capital had to be made abroad. Added to the net payments for services (transport, insurance, travel, etc.), these brought the deficit on current account up to about 1,600 million dollars, which is considerably higher than the total of 1,100 million for 1966 and the annual average of 500 million for 1963-65.

The counterpart to the increase in the deficit on current account, which, moreover, occurred for the second year running, was an increase in net external financing. Together with a larger inflow of autonomous capital, this was sufficient not only to cover the deficit but to produce surplus of around 500 million dollars before compensatory financing thus improving the net position of the monetary authorities. Net inflows of external autonomous and compensatory capital in 1967 probably amounted to more than 2,000 million dollars, which is the highest level reached since 1957.

The additional inflow was made up almost entirely of autonomous capital, since compensatory capital continued to show a net negative, as a result of the policy applied by the monetary authorities of certain countries to improve their position. Mention should be made of the increase in non-compensatory loans and direct foreign investment, which formed part of the autonomous capital inflow, and was also higher than at any other time in the last ten years.

Regarded as a whole, the net inflow of foreign capital exceeded payments of profits and interest on the capital up to 1962, thereby helping to expand the capacity to import; but from 1963 onwards, with the sole exception of 1964, external payments outstripped the net inflow of funds in every year, and external purchasing power was reduced to some 820 million dollars by 1965. With the revival of the net inflow of foreign capital in the last few years, the balance dropped to approximately 350 million dollars in 1966 and was probably either wiped out or reduced to a mere fraction in 1967.

Because of its influence on recent external-sector trends, and, above all its predictable effects over the next few years, mention should be made of the rapid increase in service payments on the external public debt. The

/increase is

increase is mainly attributable to the excessive medium-term borrowing to which the Latin American economies have had to resort, and the steady rise in rates of interest and other loan costs.

The first of these factors has a good deal to do with the composition of the external public debt by creditors. At the end of 1966, the debt to the external private sector represented only 38 per cent of the total (excluding disbursements payable), but it accounted for 73 per cent of service payments. Hence Latin America's efforts to reduce its debts of this type and obtain instead longer-term loans such as are usually offered by official external sources.

The second determinant of heavier service payments was the steadily increasing cost of foreign loans, whether from the private or from the public sector. Since 1965, basic rates of interest on the international private capital market have been subject to pressures which have pushed them sharply upwards. Whereas in 1960 the real rate of interest on loans obtained by Latin America from the external banking sector was 6.5 per cent, in more recent operations it has reached 8 per cent.

In the case of the International Bank for Reconstruction and Development (IBRD), the rate of interest on credits to Latin America was 5.75 per cent between 1960 and 1962, and it decreased to 5.5 per cent in 1963-65; thereafter, the higher rates of interest which IBRD had to pay on its own bonds forced it to raise the interest on loans to 6 per cent in 1966 and to 6.5 per cent in 1967. Similar fluctuations took place in the rate of interest charged by the Inter-American Development Bank (IDB), which in 1967 increased to 7.75 per cent on loans to the Latin American private sector (including the Bank's commission).

As regards official loans from the United States Government, the rate charged by the Agency for International Development (AID) dropped from 5.5 per cent in 1960 to 3/4 per cent in 1963, but thenceforward it climbed again to 1 per cent for the grace period and to 2.5 per cent for the amortization period. While the Export-Import Bank (EXIMBANK) has not altered its rate of interest to the same extent as the foregoing institutions, its interest rate has increased by 0.5 per cent since 1966.

/The bulk

The bulk of the interest payments made in 1966 and 1967 corresponded to credits obtained some years earlier, when the rates referred to above stood at low levels or had actually declined. Accordingly, from the standpoint of the incidence of external debt servicing on the balance of payments and on the capacity to import, the impact of the rise in rates will be more widely felt during the next two or three years, when interest starts to be payable on loans contracted since 1965.

2. Latin America and the world economy

(a) Recent world economic trends

The foregoing considerations illustrate the effects that the stagnation of export earnings has had on the region's rate of economic growth. This stagnation was largely determined by the loss of momentum in the world economy and, in particular, by the downturn in the indexes of industrial production, disregarding for the time being industry in the centrally planned economies. As a result, the rate of growth of world trade also declined and was only 7 per cent in the first half of 1967, compared with 11 per cent for the same period in 1966.

In the United States, the first half of the year marked a distinct slackening in the growth of the domestic product, and the results for the whole of 1967 represented a proportionately slower expansion than in earlier periods. The main determinant of this weakening was the behaviour of investment, which reverted practically to the 1965 levels, while the rise in personal consumption and government purchases, especially of military equipment, continued. These trends affected foreign trade, so that imports in the first three quarters of 1967 remained at the same level as in the last quarter of 1966. Moreover, the balance-of-payments deficit rose sharply in the second half of the year, and provisional estimates put it at 3,500 million dollars for the whole of 1967, or almost three times the figure for the two previous years.

A less vigorous growth of industrial production and foreign trade was also observable in other countries which represent important markets for Latin America, particularly the members of the European Economic Community (EEC) - except Italy - and Canada and the United Kingdom.

/In Canada,

In Canada, the slackening in the economic growth rate did not affect imports to the same extent as in the United States; but even so the rate was lower than in the previous year. In Western Europe, industrial output remained static during the first half of the year, and in the second quarter this caused a slight contraction in the total volume of imports. At first, the decline was more pronounced in the EEC countries, but later it spread to the members of the European Free Trade Association (EFTA), except the United Kingdom, in which country the purchases which had been deferred until the import tax was removed at the end of 1966 had a countervailing effect. In addition, there was a further drop, sharper than before, in Latin America's share of Western Europe's imports.

In contrast, Japan maintained its rates of economic growth and expansion of imports, while there was no great change in Latin America's share of its external purchases.

The socialist countries in Europe also maintained their high rates of expansion in industry and trade. During 1967 new opportunities were created for trade between Latin America and this group of countries, through agreements concluded by Brazil and Chile with the USSR, under which the latter has undertaken to deliver machinery against repayment in local products (manufactures and semi-manufactures). On the other hand, there was a reduction in sales of other products which in the previous year had represented appreciable values for some countries of the region; consequently, Latin America's total exports to the socialist area diminished in 1967.

(b) World market conditions for commodity exports

Together with the loss of momentum in the world economy, in 1967 there was an accentuation of long-standing problems in world trade that have been affecting Latin America's major commodity exports.

During that year, adverse price trends were the main difficulty (see figure I-4). World market prices dropped, on the average, about 6 per cent for products of special importance to Latin America, such as coffee, beef, wool, fish meal, copper, tin, lead and zinc, and petroleum prices continued to deteriorate, although at a slower rate (see tables I-7 and I-8).

/Figure I-4

Figure I-4
LATIN AMERICA : PRICES OF STAPLES
EXPORT PRODUCTS

(Indexes : 1964 = 100)

Natural scale

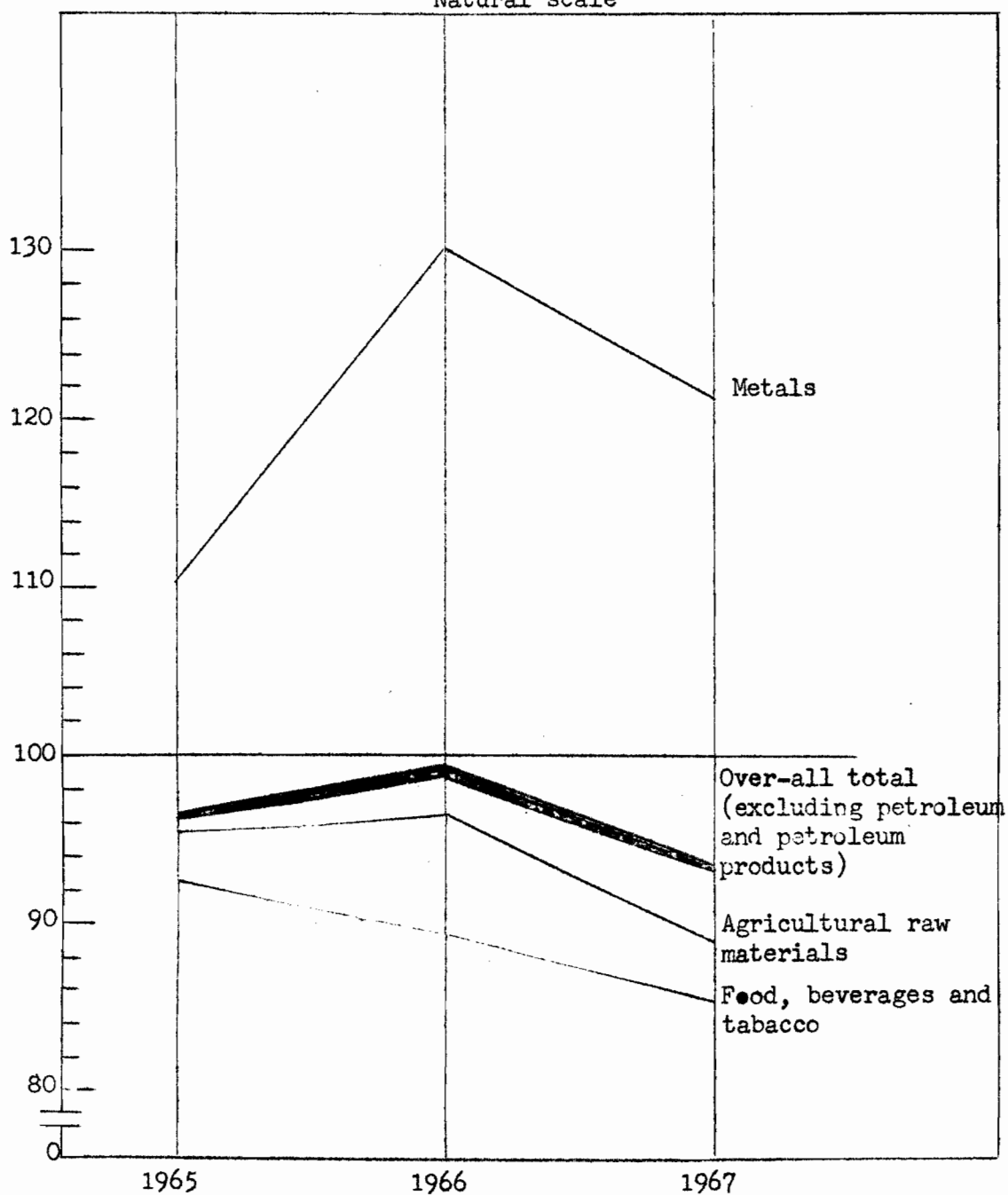


Table I-7

LATIN AMERICA: PRICES OF SOME OF THE MAJOR EXPORT PRODUCTS, 1963-67

Product	Unit	1963	1964	1965	1966	1967
I. Food, beverages and tobacco						
a) Tropical-zone products						
Sugar (free market)	US\$ cents/lb.	8.50	5.89	2.12	1.86	2.08
(United States market)	US\$ cents/lb.	8.18	6.90	6.75	6.99	7.29
Bananas	DM/1 000 kg	589	531	568	542	564
Cocoa (Bahia)	US\$ cents/lb.	26.5	23.1	16.9	23.0	26.1 a/
Coffee (Santos 4)	US\$ cents/lb.	34.1	46.7	44.7	40.8	37.8
(Manizales)	US\$ cents/lb.	39.6	48.8	48.5	47.4	42.0
b) Temperate-zone products						
Beef	Pence/lb.	27.6	32.8	36.0	33.7	32.6
Wheat (Argentina)	£/ton	26.2 b/	27.0 b/	25.3	26.2 b/	27.1
II. Agricultural raw materials						
Cotton (Matamoros S.M.I.)	US\$ cents/lb.	29.3	29.5	28.8	28.2 b/	30.4 c/
Wool (Montevideo Super)	US\$ cents/lb.	110	123	92	104	92
(Buenos Aires 40/36)	US\$ cents/lb.	81	89	73	68	45
III. Metals						
Copper (Chile)	US\$ cents/lb.	29.2	34.4	39.7	54.2	49.6
Tin	£/ton	910	1 237	1 412	1 299	1 223
Lead	£/ton	63.4	101.0	115.1	95.2	83.8
Zinc	£/ton	76.8	117.9	113.0	102.0	100.6
IV. Petroleum and petroleum products						
	US\$/barrel	2.08	2.00	1.92	1.89	1.88

Source: ECLA, on the basis of official statistics.

a/ Average for January to November.

b/ Average for less than twelve months.

c/ Estimate.

Table I-8
LATIN AMERICA: PRICE INDEXES FOR SOME OF THE
MAJOR EXPORT PRODUCTS, 1964-67
(1963=100)

	1964	1965	1966	1967
I. <u>Food, beverages and tobacco</u>	<u>107.4</u>	<u>99.3</u>	<u>96.2</u>	<u>91.9 a/</u>
a) <u>Tropical-zone products</u>	<u>107.0</u>	<u>96.6</u>	<u>93.3</u>	<u>88.7 a/</u>
Sugar (free market)	69.3	24.9	21.9	24.4
(United States market)	84.4	82.5	85.4	89.1
Bananas	90.2	96.4	92.0	95.8 a/
Cocoa (Bahia)	87.2	63.8	86.8	98.4 a/
Coffee (Santos 4)	137.0	131.1	119.6	110.9
(Manizales)	123.2	122.5	119.7	106.1
b) <u>Temperate-zone products</u>	<u>109.6</u>	<u>114.9</u>	<u>112.3</u>	<u>109.2 a/</u>
Beef	118.8	130.4	122.1	118.1
Wheat (Argentina)	103.1	95.5	100.0	103.4
II. <u>Agricultural raw material</u>	<u>105.5</u>	<u>100.7</u>	<u>102.2</u>	<u>94.4 a/</u>
Cotton (Matamoros S.M.I.)	100.7	98.3	96.2	103.8 a/
Wool (Montevideo Super)	111.8	83.6	94.5	83.6
(Buenos Aires 40/36)	109.9	90.1	84.0	55.6
III. <u>Metals</u>	<u>116.7</u>	<u>128.6</u>	<u>151.7</u>	<u>141.5</u>
Copper (Chile)	117.8	136.0	105.6	169.9
Tin	135.9	155.2	142.7	134.4
Lead	159.3	181.5	150.2	132.2
Zinc	153.5	147.1	132.8	131.0
IV. <u>Petroleum and petroleum products</u>	<u>94.2</u>	<u>92.3</u>	<u>90.9</u>	<u>90.4</u>
<u>Total (excluding petroleum and petroleum products)</u>	<u>108.8</u>	<u>105.1</u>	<u>108.0</u>	<u>101.8</u>
<u>General total</u>	<u>103.9</u>	<u>100.8</u>	<u>101.3</u>	<u>97.1</u>

Source: ECLA, Statistical Bulletin for Latin America.

a/ Estimate.

/The fall

The fall in coffee prices was partly due to the persistence of the wide gap between supply and demand, which the International Coffee Agreement failed to bridge. Moreover, Latin America's share of the world coffee trade was heavily reduced in terms of volume (from 73 per cent in 1963 to 64 per cent in 1966), owing to the increasing production of African robustas and the preference of importers for poorer-quality but cheaper coffee for use in manufacturing soluble coffee. The situation was further complicated by restrictions on the demand side, such as the high taxes levied on coffee by some of the chief importing countries, particularly the EEC countries and the United Kingdom.

The international sugar market continued to worsen steadily, owing, among other things, to the glut of sugar since 1964 and the lack of an international agreement. Nevertheless, there has been a slight recovery in prices since the second quarter of 1967. Marketing continues to be characterized by preferential treatment for certain suppliers in the main markets.

Banana prices recovered slightly in 1967, but Latin America still has to deal with a market under the sway of restrictions and discriminatory policies imposed by some of the major importing countries.

As regards cocoa, the difficulties of negotiating an agreement prevented the United Nations Cocoa Conference, which took place at the end of 1967, from dealing with more than three of the sixteen items on its agenda.

Cotton prices shaded upwards, whereas wool prices dropped even lower. The reduction in stockpiles and the United States' new cotton policy helped to improve cotton trends, but did not, however, lessen the competition from man-made fibres. Moreover, the long-term agreement on cotton goods, which has been extended to 1970, allows the importing countries to impose quantitative restrictions on their purchases abroad in certain circumstances. This has an adverse effect on world consumption of cotton, particularly as there is no equivalent treatment for products manufactured from artificial fibre. As a result of the widespread system of auctioning wool, the variations in the relationship between supply and demand were immediately reflected in price changes.

/Wheat prices

Wheat prices were a little better than in 1966 and progress was made in regulating the market. The International Wheat Conference, held shortly after the middle of the year, approved a new agreement which, once it is ratified by the signatories of the Kennedy Round and the countries participating in the Conference, will replace the old one that has been in force since 1962. The new agreement raises the floor and ceiling prices for transactions between participating countries by about 12 per cent, and fixes quotas for their imports and exports. It was also decided to set up an international food fund, to provide 4.5 million tons of grain a year for human consumption.

Beef prices were lower than in 1966, although they rose slightly in the last few months of the year. They continued to be affected by the protectionist practices of several importing countries and the lack of a satisfactory international agreement. The agreement on frozen beef which was negotiated between Argentina and the European Economic Community during the Kennedy Round has not been ratified, because the amendments introduced by the Community were not accepted by Argentina.

Prices of fish meal have fallen steadily owing to the increase in world production followed by stockpiling, and the relatively low prices of substitute products.

Metal prices also dropped considerably in 1967. The United States copper strike brought 90 per cent of copper-refining to a halt and compelled the Government to draw on its strategic reserves. By the end of the year these had sunk to about 225,000 tons, or slightly over 10 per cent of the country's annual consumption. As a result, the price of copper on the United States market rose to 38.7 cents per pound in the third quarter, as against 36 cents during the same period of 1966. The prices on the London market were however, lower than in the previous year.

The Inter-Governmental Council of Copper-Exporting Countries - composed of Chile, the Democratic Republic of the Congo, Peru and Zambia - was set up with a view to maintaining favourable market conditions for copper. On the other hand, the expectations of increasing the proportion of refined and processed copper exports, which it was hoped that the Kennedy Round would facilitate, were not realized, since the taxes levied by the United States and Japan on semi-processed copper and by the other industrialized countries on copper products were maintained.

/After a

After a period of production shortages in lead and zinc, fears of a surplus arose, and brought prices down in 1966 and 1967 after two years of relative stability. Tin prices also fell below the high level they had reached in 1965. The third International Tin Agreement has been in force since 1966. This was concluded for a five-year period, and has been mainly concerned with raising the price levels at which the buffer stock, which is the chief device for preventing excessive price fluctuations, will enter into operation.

(c) Recent changes in international economic policy

Owing to the persistence of restrictive factors that have a highly adverse effect on Latin America's exports, certain international events in 1967 and the first few months of 1968 have assumed special importance for the region.

(i) One such event was the negotiations of the Kennedy Round. In general, the Latin American countries which took part in those negotiations failed to obtain satisfaction as regards their requests for the full liberalization of trade in tropical products, the reduction of tariff barriers to temperate-zone agricultural products and manufactures, and the elimination of the special preferences granted by the European Economic Community and the United Kingdom to particular groups of countries. Thus the results of those negotiations mainly benefited the developed countries themselves since the bulk of the tariff reductions were granted to technically advanced and highly capital-intensive products with which the developing countries are unable to compete on export markets.

(ii) During the Kennedy Round and in other aspects of its trade and financial policies, EEC continued with its programme of liberalizing internal trade, which is to culminate on 1 July 1968 with the abolition of all customs duties on intra-regional trade and the introduction of the common tariff on imports from third countries. It is also attempting to bring about self-sufficiency in temperate-zone agricultural products and to establish guarantees for exports of agricultural surpluses. The adoption of this policy led to a breakdown in the ratification of the agreement on frozen beef which EEC and Argentina had reached during the Kennedy Round; it was later amended in such a way as to become unacceptable to Argentina. In November 1967, the EEC Council

/of Ministers

of Ministers decided to raise the domestic price of all agricultural products, save wheat, in 1968. This led to a similar increase in the compensatory movable duty on imports from the rest of the world, the revenue from which will be used to maintain domestic prices and finance the EEC's exports. In certain cases, those exports compete directly with exports from the developing countries in third markets.

The discriminatory preferences for coffee, cocoa and bananas granted by EEC to the African Associated States continue to be a source of concern to the Latin American countries, particularly in view of the tendency to extend them to other African countries (Kenya, Maghreb, Nigeria, Tanzania and Uganda).

(iii) The United States, for its part, in signing the Declaration of American Presidents, reaffirmed its former pledge to reduce as much as possible or eliminate the customs duties and other barriers that impede the access of the Latin American countries to world markets. It also accepted the further commitment of supporting the establishment of a general non-reciprocal system of preferential treatment for exports of manufactures and semi-manufactures from the developing countries. This position was subsequently endorsed by the member countries of the Organization for European Co-operation and Development (OECD), but was not translated into a specific resolution at the second session of the United Nations Conference on Trade and Development (UNCTAD).

This hopeful outlook was clouded by certain trade and financial policy decisions and recommendations in the course of the year, such as the opposition to an increase in Brazil's exports of soluble coffee, and the numerous protectionist measures that were put before the United States Senate in the last quarter of 1967. Although these proposals did not have the support of the United States Government, they caused serious disquiet because of the restrictive attitude that they reflected. The United States economic programme for reducing its external disequilibrium included measures for cutting down foreign investment and reinvestment, restricting external loans, repatriating the profits of United States firms operating in foreign countries, promoting exports and controlling imports, all of which are liable to have a sharply adverse effect on its trade and financial relations with Latin America.

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On the other hand, a highly positive proposal was made to allocate more funds to the Alliance for Progress, for which the budget appropriation in 1969 was expected to be 650 million dollars, and other supplementary measures were taken to mitigate the effects of a possible cutback in investment.

(iv) The devaluation of sterling does not seem to have had very pronounced or widespread effects on the Latin American economies so far, with the possible exception of exports of Argentine and Uruguayan meat and wool to the United Kingdom market in view of New Zealand's decision to follow the United Kingdom's lead in devaluing its own currency. However, the introduction of domestic and external austerity programmes in countries that play an important part in the developing countries' trade may have far-reaching indirect effects. The United Kingdom programme, for instance, apart from clamping down on foreign aid, provides for a reduction in public expenditure by 1,700 million dollars in 1968-70 and a greater effort towards self-sufficiency in agricultural commodities, to the detriment of the country's demand for imports.

(v) At its twenty-second meeting, held at Rio de Janeiro from 25 to 29 September 1967, the Board of Governors of the International Monetary Fund agreed to create "special drawing rights" (SDR) in order to remedy or reduce the lack of international liquidity. The plan approved by the Ministers and Governors of the Group of Ten on 26 August 1967, and by the Council of Executive Directors of the Fund on 6 September 1967, was considered at the meeting. The plan provides for the establishment of special drawing rights in the form of a special account in the Fund, which would be backed by a gold guarantee and bear a moderate rate of interest. It is hoped that countries will make use of these facilities only when they have balance-of-payments problems. Each country will have an SDR quota, in proportion to its ordinary quotas in the Fund, which will be granted without a previous review of domestic policy. During the base period, which will cover the first five years, decisions on the time, amount and proportion of the SDR to be allocated will require an 85 per cent majority vote of the Board of Governors upon proposals made by the Managing Director with the approval of the Council of Executive Directors. The countries using the SDR will be

/expected to

expected to re-establish their position in accordance with a formula to be applied during the first five years. (In particular, each participant will be entitled to a net average use not exceeding 70 per cent of their SDR quota.) The resolution adopted at Rio de Janeiro by the Board of Governors requests the Executive Directors to submit to the Board, before 31 May 1968, a report setting forth the proposed modifications to the constitutive agreement and regulations of the Fund for the purpose of establishing the special drawing rights, as outlined in the plan approved at the same meeting.

As far as Latin America is concerned, the amount by which the payments capacity of the whole region will be annually increased under this formula will not be more than 87 to 125 million dollars, which is a tiny sum in comparison with its 10,000 million dollars' worth of imports and its 3,000 million dollars' worth of gold and foreign exchange reserves. Hence, the plan will be of indirect benefit only to the less developed countries to the extent that they hope to prevent the industrialized countries from being driven into adopting restrictive policies in trade and international aid for want of a margin for manoeuvre in their balances of payments. The plan was therefore accepted by the Board of Governors after discussion as a means of improving the current lack of liquidity, with the basic proviso that it was on no account to be regarded as a solution to a fundamental development problem. Even so, an opportunity is probably being lost: that of making this machinery - by changing the distribution of the rights - a means of contributing to the financing of the developing countries and, at the same time, alleviating the liquidity problems of the developed countries.

(vi) Another of the main events in the sphere of economic policy was unquestionably the second session of the United Nations Conference on Trade and Development, held early in 1968. This is too recent for its results to be assessed, and all that will be done here is to give a brief summary of its main conclusions.

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The Latin American countries had discussed the major problems before that session, first at Bogotá, and then, together with the other developing countries, at Algiers. The outcome of the Bogotá meeting was the Charter of Tequendama, which stressed the need to improve the terms of access to the markets of the developed countries for the primary commodities of the developing countries. The measures proposed are the maintenance of the standstill (to prevent new restrictions from being applied); tariff and non-tariff liberalization; the abolition of subsidies granted by the developed countries to uneconomic products competing with products of the developing countries; the guarantee of a minimum share for the products of the developing countries in the markets of the industrialized countries; and the establishment of consultative machinery for putting those measures into effect.

Subsequently, the Charter of Algiers, after examining the trends of world trade after the first UNCTAD session and the extent to which the commitments entered into on that occasion had been fulfilled, set forth a number of objectives which served as pointers in working out the common stand to be taken by the developing countries at the second UNCTAD session. The most important were commodity agreements, the formation and financing of buffer stocks, and diversification programmes and price policies for primary commodities. In particular, a programme for trade liberalization was drawn up and the basic principles laid down for a general system of tariff preferences aimed at the expansion of exports of manufactures and semi-manufactures from the developing countries. As regards development financing, consideration was given to the volume and terms of the external aid given by the industrialized countries, the question of external indebtedness and the mobilization of financial resources, with particular reference to the basic principles of the supplementary financing scheme prepared by the International Bank for Reconstruction and Development and the report by the Inter-Governmental Group on Supplementary Financing. Other resolutions related to the problems created in the developing countries by the incidence of maritime freight charges, the practices of the shipping conferences, insurance and reinsurance, and tourism.

/A position

A position was adopted with respect to trade relations among countries with different economic and social systems; trade with the socialist countries, special measures that should be taken in favour of the economically relatively less developed countries; the world food problem; the transfer of technical know-how; and the expansion of trade and the promotion of economic integration among developing countries.

The fifth session of the Trade and Development Board has identified two groups of problems on which attention was expected to be focused at the second session of UNCTAD. On some of these questions, the second session reached the stage of negotiation or of establishing negotiating machinery, and while it did not make as much progress on others, it was considered that UNCTAD could continue to elucidate them and lay down bases for their eventual solution. Thirty-three resolutions were adopted. With regard to international commodity agreements, the urgent need for resuming negotiations on sugar and cocoa without delay was again stressed, and a list was drawn up of products with respect to which appropriate international action should be considered. Stress was also laid on the need to continue exploring the possibilities of negotiating a general commodity agreement, with UNCTAD in the role of co-ordinating organ. A desire was expressed for international financing organizations to play a bigger part in solving commodity trade problems, and due importance was given to the study requested at the IMF and IBRD meeting at Rio de Janeiro (September 1967), to determine the role that these agencies would play in any machinery for stabilizing commodity prices. It was also recommended that studies should be prepared defining a minimum price policy for agricultural commodities. No firm decisions were taken on such subjects as access to markets, the financing of buffer stocks and the scope and nature of a programme for liberalizing commodity trade. On others, such as special preferences, there was no searching discussion and no further progress was made with the commitments already entered into at the first UNCTAD session.

As regards the expansion and diversification of exports of manufactures and semi-manufactures from the developing countries, hopes were placed on the concession of preferences for these exports, through the establishment of a general system of non-reciprocal and non-discriminatory preferences.

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In this respect, a resolution was adopted in which UNCTAD took cognizance of the position of the developing countries, as expressed in the Charter of Algiers and in the proposal presented by those countries on basic principles and procedures for an agreement on a general system of preferences, and of the report of the Special Group of the Organization for Economic Co-operation and Development; there was recognition of the progress made since the first session (as shown, in particular, in the OECD report), and of the general consensus in favour of the establishment of such a system in the near future. It was considered, however, that not enough headway had been made on certain key points, and it was therefore agreed that a Special Committee on Preferences should be set up, as a subsidiary organ of the Trade and Development Board, to enable all the countries concerned to take part in the consultations. This Committee should hold its first meeting in November 1968, and its second in the first half of 1969, before submitting its final report to the Board. The details of the preferential agreement should be finalized in the course of 1969, so as to obtain the requisite legislative authorization and the GATT waiver in time to bring it into force early in 1970.

With respect to the liberalization and expansion of the developing countries' trade in manufactures and semi-manufactures, it was recommended that a study should be made of the restrictive practices adopted by private firms which affect the trade of the developing countries.

In relation to trade promotion, it was agreed to draw up a programme for expanding exports of manufactures and semi-manufactures from the developing countries, with the purpose of putting into practice the proposals of the Secretary-General of UNCTAD and the Director-General of GATT for establishing a United Nations trade promotion programme.

In matters of development financing, the joint declaration adopted at the end of the second regular session of the UNCTAD Committee on Invisibles and Financing Related to Trade set forth a number of objectives, as a guide for the discussions at the second UNCTAD session, which reflected the views regarding the relationship between domestic resources and external assistance, and provided certain guiding principles for the transfer of

/financial resources

financial resources to developing countries. It was unanimously agreed to aim at a volume of aid equivalent to 1 per cent of the gross national product of the industrialized countries (instead of 1 per cent of their national income, as had been recommended at the first UNCTAD session); however, the weak feature of the commitment was that some countries said they would be ready to comply with it in 1972, others in 1975, and the remainder were unwilling to accept a fixed date of implementation. It was recognized that the terms on which development aid was given were still very inelastic, and the developed countries were requested to increase the proportion of donations within the total sum provided.

As to means of increasing the flow of private capital, several suggestions were made in relation to foreign investment which would be useful to both developed and developing countries; it was recommended that those suggestions should be taken into account by the Secretary-General of the United Nations in carrying out the studies and consultations which had been asked to undertake on the procedures, conditions, costs and effects in respect of the enterprise-to-enterprise transfer of technology by foreign firms to developing countries.

Supplementary financing was one of the subjects on which most progress had been anticipated at New Delhi. The report submitted by the Inter-Governmental Group on the proposals of the IBRD secretariat had been expected to lead to the approval of the broad lines of a project or projects, establishing the principles of supplementary financing, its mode of application and its co-ordination with other sources of financing. It proved impossible, however, to reach agreement on this point, and the relevant resolution did not do more than provide for maintaining the Inter-Governmental Group in operation and requesting it to consider the main points of divergence and ultimately to work out supplementary financing measures.

In relation to compensatory financing, the attention of the member countries of IMF was drawn to a number of earlier suggestions for improving and extending the supplementary financing facilities available to the developing countries.

/As to

As to the reform of the international monetary system, the decisions adopted do nothing to change the tendency to exclude the developing countries from these discussions. On the other hand, the view was expressed that in establishing special drawing rights, particular consideration should be given to requests for increased quotas submitted by developing countries.

Seven draft resolutions on financing were submitted and were transmitted to the Trade and Development Board for subsequent consideration. They relate to the flow of financial resources from the developed countries, expansion of the operations of the IBRD group of organizations, increasing the flow of international public and private capital, and other measures relating to development financing and technical assistance.

The main resolutions adopted on shipping questions relate to the establishment of a system of consultations; the freight rates and practices of the shipping conferences; the promotion of the merchant fleets of the developing countries; and international shipping regulations. In the resolution on freight rates and practices of the shipping conferences it was recommended that the Governments of the developed maritime countries should urge the shipping conferences to review and adjust the shipping freights which users or other interested parties in the developing countries considered too high; to establish special freight rates for other than traditional exports from these countries; and to admit the shipping companies of developing countries as full members of the conferences. In the same resolution, the secretariat of UNCTAD is invited to continue its programme of work on freight rates and practices of the shipping conferences, and to carry out further studies on the freight rates applied to staple primary commodities.

In addition, a joint declaration was adopted on the expansion of trade and economic co-operation and integration among developing countries, which defined the aims of the developing countries and the supporting measures to be taken by the developed countries, both the market economies and the socialist countries of Eastern Europe, and laid down the future work programme and institutional measures.

/In discussing

In discussing the world food problem, it was stressed that food aid from the developed countries should not be allowed to affect the productivity of the recipient countries. Such aid should be extended in accordance with the principles evolved by the Food and Agriculture Organization of the United Nations (FAO) for the sale of surpluses, and with international agreements which do not affect the production capacity of the developing countries.

Other resolutions adopted at the second UNCTAD session relate to special measures in favour of the economically relatively less developed countries, the position of the land-locked countries, trade relations between countries with different economic and social systems, and measures to facilitate fuller agreement on the principles which should govern international economic relations and trade policies aimed at development.

(vii) In this account of the principal world economic events, some reference must be made, even if a very general one, to the crisis in the international monetary system, whose immediate cause, was the disequilibrium in the balance of payments of the United States and the United Kingdom, which, in conjunction with the devaluation of sterling, led to speculation on gold. This, as is well known, caused the adoption of certain short-term measures and brought forward the application of other previously-agreed measures to modify the international monetary system. The most important of the short-term measures were the establishment of a two-tier pricing system for gold and the adoption by the United States of measures designed to reduce its balance-of-payments deficit.

It is these latter measures which, from Latin America's point of view, need to be examined more closely, in view of their potential impact on the region's economies. The main concern is that, in so far as the actual measures applied are defined in terms of the United States position vis-à-vis the rest of the world as a whole, the trade and financial relationships between Latin America and the United States are of such a special nature that it would be difficult to justify the application of general measures or that the impact of those measures would be proportionately much more severe in Latin America than in other regions.

In the first place, it should be pointed out that Latin America has played, and still plays, but an insignificant role in the United States

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balance-of-payments deficit. In fact, in comparison with the average annual deficit of 2,380 million dollars run by the United States between 1960 and 1966, the average deficit with Latin America was less than 200 million dollars, i.e., only 8 per cent of the total. In addition, with regard to the factor most directly related to the present crisis, while the United States lost gold at an average annual rate of almost 900 million dollars between 1960 and 1967, the average annual transfer of gold to Latin America amounted to only 5 million dollars, which is a very small amount in both absolute and relative terms. Moreover, the incidence of the Latin American monetary reserves in the cumulative total of short-term liabilities - excluding gold - was only 12.7 per cent in 1967, which represents a slight reduction in relation to the 15.2 per cent recorded in 1958.

It is clear, therefore, that the trade and financial relationships with Latin America are not a factor of great significance in the balance-of-payments problems of the United States. In contrast, the effects of certain measures taken to overcome those problems could be extremely unfavourable. One example is the United States programme for voluntary restraint on private investment abroad, which was first proposed in 1965 and was made obligatory from 1 January 1968. The new provisions require enterprises investing capital in developing countries to limit their investments to a maximum of 110 per cent of the amount invested in 1965-66; for investment in petroleum producing countries and certain industrialized countries this proportion is reduced to 65 per cent; and for the remaining countries to 35 per cent. In addition, any profits exceeding the amounts indicated must be repatriated. Finally, parent companies must guarantee loans obtained by their subsidiary enterprises, whether these loans are obtained locally or in the world capital market. Investors in general and commercial banks must cut back their net short-term financial assets abroad to the 1965-66 level and continue to impose voluntary restrictions on the granting of long; and medium-term loans.

The strict application of these provisions would place a ceiling of 250 million dollars a year on net United States private investment in Latin America. That figure cannot compare with the total profits already

/being generated

being generated by past United States investment in Latin America, which now amounts to about 1,000 million dollars a year. In fact, United States investment in the region has for some time been financed merely by reinvesting profits, with the result that from this standpoint there is no net inflow of capital.

Given this situation, an increase in the amount of profits remitted to the United States, or greater use by United States enterprises of national bank financing guaranteed by their parent companies, would have a very serious impact on Latin America's balance of payments. It would be premature to attempt a precise and complete evaluation of the possible effects of the measures referred to, but illustrations like the above point clearly to the need to examine them carefully, given the special position of the Latin American economies in their economic and financial relationships with the United States.

3. Advances in Latin American integration

In 1967 the expansion of the Latin American countries' reciprocal trade once again somewhat mitigated the adverse effect on the region's exports of certain factors which caused a further reduction of its share in world trade flows. Yet the signs of a less vigorous expansion of intra-regional trade should not be overlooked (see figure I-5).

On the export side, the rate of increase of inter-Latin American trade exceeded 12 per cent in 1962 and 1963, and rose to nearly 30 per cent in 1964; from that year onwards, it dwindled to about 14 per cent in 1965, just under 7 per cent in 1966 and less than 2 per cent in 1967 (see table I-9). Although a study of import data gives a slightly different impression,^{1/} it does reveal a similar although less marked trend, representing a progressive loss of dynamism in the past three years (see table I-10).

^{1/} Discrepancies between export and import figures are due not only to the fact that they are evaluated on different bases (the former in f.o.b. and the latter in c.i.f. terms), but also to differences in the dates on which they are recorded.

Figure I-5

TRENDS IN INTRA-REGIONAL TRADE
(Millions of dollars at current prices)
Natural scale

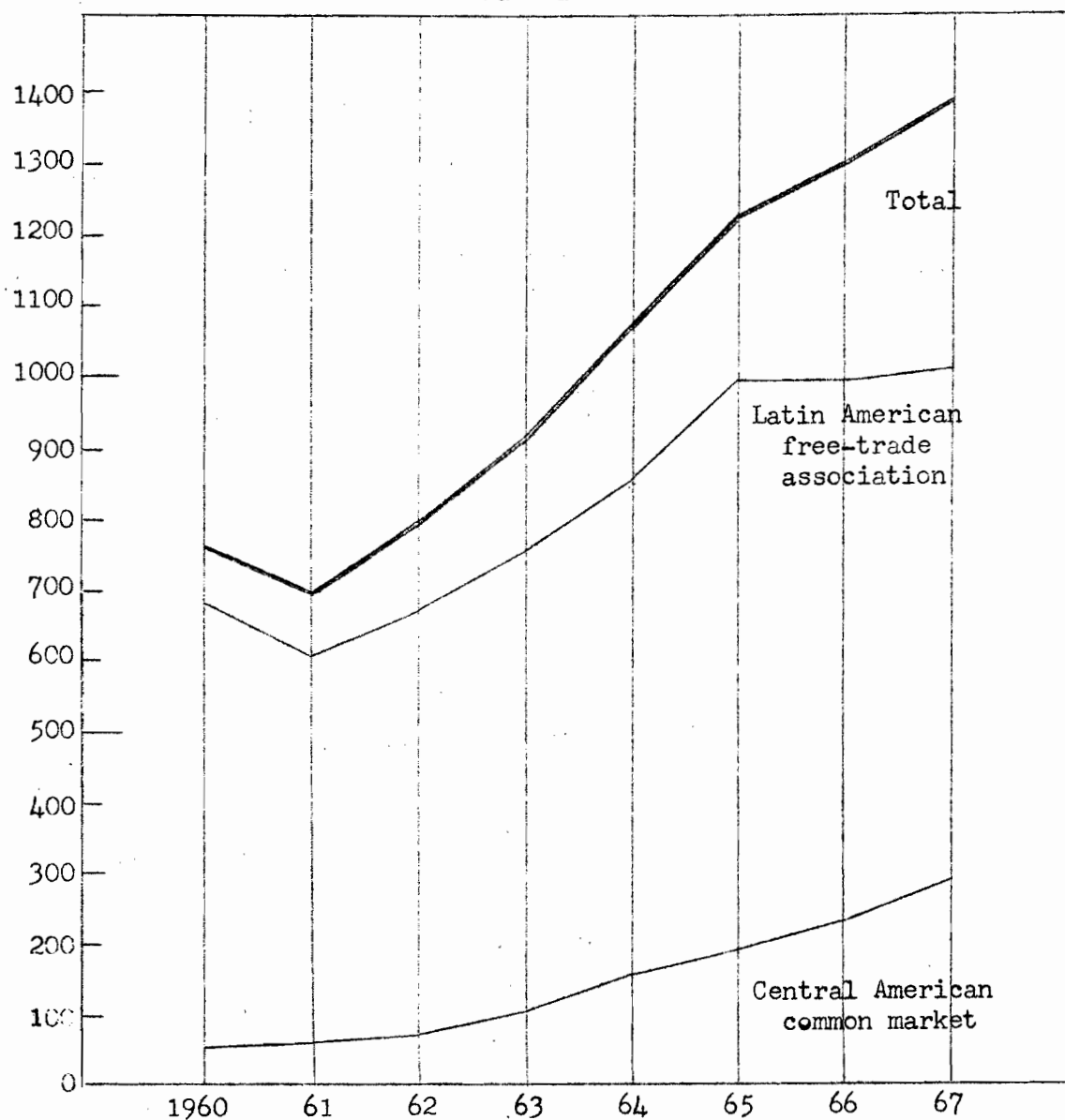


Table I-9

LATIN AMERICA: EXPORT TRENDS IN INTRA-REGIONAL TRADE, 1960-67

(F.o.b. values in millions of dollars)

	1960	1961	1962	1963	1964	1965	1966	1967 a/
Latin American Free-Trade Association	397.0	357.8	416.2	491.3	641.9	723.3	762.1	724.8
Percentage of total intra-regional trade	58.0	60.8	63.2	66.1	67.0	66.4	65.5	61.2
Central America (excluding Panama)	40.4	44.0	45.6	71.5	107.6	138.3	178.4	229.1
Percentage of total intra-regional trade	5.9	7.5	6.9	9.6	11.2	12.7	15.3	19.4
Venezuela	231.8	167.4	185.4	166.9	200.8	216.6	219.0	224.8
Percentage of total intra-regional trade	33.9	28.4	28.1	22.4	20.9	19.9	18.8	19.0
Other Latin American countries	14.8	19.3	11.9	14.0	8.4	11.5	4.9	4.6
Percentage of total intra-regional trade	2.2	3.3	1.8	1.9	0.9	1.1	0.4	0.4
<u>Total intra-regional trade</u>	<u>684.0</u>	<u>588.5</u>	<u>659.1</u>	<u>743.7</u>	<u>958.7</u>	<u>1 089.7</u>	<u>1 164.4</u>	<u>1 183.3</u>
Percentage	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECLA, on the basis of official statistics.

a/ Estimates.

Table I-10

LATIN AMERICA: IMPORT TRENDS IN INTRA-REGIONAL TRADE, 1960-67

(C.i.f. values in millions of dollars)

	1960	1961	1962	1963	1964	1965	1966	1967 a/
Latin America Free-Trade Association	661.0	585.8	642.8	726.5	821.1	955.5	983.3	964.4
Percentage of total intra-regional trade	86.4	84.6	80.6	78.6	76.2	77.2	74.5	70.0
Central America (excluding Panama)	55.6	57.6	72.9	105.1	154.6	189.7	233.4	299.4
Percentage of total intra-regional trade	7.2	8.3	9.1	11.4	14.3	15.3	17.7	21.7
Venezuela	26.6	23.5	29.2	29.2	30.4	39.8	38.9	47.5
Percentage of total intra-regional trade	3.5	3.4	3.7	3.1	2.8	3.2	3.0	3.4
Other Latin American countries	22.0	25.9	51.8	64.0	71.7	53.0	63.9	68.7
Percentage of total intra-regional trade	2.9	3.7	6.5	6.9	6.7	4.3	4.8	4.9
<u>Total intra-regional trade</u>	<u>765.2</u>	<u>692.8</u>	<u>796.7</u>	<u>924.8</u>	<u>1 077.8</u>	<u>1 238.0</u>	<u>1 319.5</u>	<u>1 380.0</u>
Percentage	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: ECLA, on the basis of official statistics.

a/ Estimates.

/These changes

These changes are mainly attributable to the growth pattern of the Latin American Free Trade Area (LAFTA)'s intra-area trade (see tables I-11 and I-12). In the case of the Central American Common Market (CACM), the incomplete data available indicate that the member countries' reciprocal trade again expanded in 1967, by about 25 per cent in terms of imports (c.i.f.), whose absolute value amounted to more than 220 million dollars (see table I-13).

As in previous years, Central America's intra-area trade was essentially based on import substitution in respect of manufactured goods, especially chemical products, textiles, building materials and processed foods. Among the new industries which went into production in 1967 mention may be made of the caustic soda and chlorine plant in Nicaragua, which also manufactures toxaphene, and the rubber tyre factory in Costa Rica. Major projects in other Central American countries relate to the installation of petroleum refineries, pulp and paper mills, and plants to manufacture plywood, metal and glass containers, and tubes and light shapes.

According to the data available for the first half of 1967, the intra-area exports of most of the Central American countries maintained their rapid upward trend, with the exception of those of Honduras, whose trade with other Central American countries comprises mainly agricultural products. In the last two years its intra-area exports failed to increase, chiefly as a result of the drop in sales of maize.^{2/} Since on the other hand its imports from the rest of the area continued to expand at high rates, Honduras is likely to witness an increase in its trade deficit with the area in 1967. In the case of Nicaragua, too, the imbalance in its trade with the area persisted, since the growth rate of its imports outstripped that of its intra-area exports. In contrast, Costa Rica's intra-area trade balance showed a marked trend towards stabilization (see table I-14).

^{2/} In 1967, Honduras' exports of maize made a partial recovery, reaching a total value of 3.6 million dollars, which was a good deal below the peak figure of 5.7 million dollars attained in 1965.

Table I-11

LAFTA: INTRA-AREA EXPORTS, 1961 AND 1965-67

(F.o.b. values in millions of dollars)

Exporter countries	1961		1965		1966		1967 a/	
	Nine countries	Eleven countries	Nine countries	Eleven countries	Nine countries	Eleven countries	Nine countries	Eleven countries
Argentina	100.0	112.2	231.1	246.6	242.7	254.5	271.4	283.7 b/
Brazil	95.2	97.3	197.4	201.8	181.5	187.7	160.5	164.9
Colombia	6.1	7.4	16.7	19.5	29.1	31.8	15.3	20.4
Chile	34.8	37.8	53.2	56.3	53.7	60.1	60.3	66.8
Ecuador	7.5	7.9	13.3	13.5	12.5	12.5	19.4	19.4
Mexico	7.9	11.0	36.3	43.7	56.7	63.9	46.7	54.3
Paraguay	9.9	9.9	17.5	17.5	20.0	20.0	15.6	15.6 b/
Peru	31.5	33.7	54.0	62.2	52.3	60.5	34.6	40.1
Uruguay	5.8	5.9	15.6	15.7	26.8	26.9	17.0	17.1 b/
Bolivia	-	6.5	-	3.5	-	7.7	-	14.3
Venezuela	-	160.1	-	154.6	-	149.4	-	150.0
<u>Total intra-LAFTA trade</u>	<u>298.7</u>	<u>489.7</u>	<u>635.1</u>	<u>834.9</u>	<u>675.3</u>	<u>875.0</u>	<u>640.8</u>	<u>846.6</u>

Sources: LAFTA, Síntesis mensual; IMF, Direction of Trade, 1961-1965.

a/ Estimates.

b/ Annual figures.

Table I-12

LAFTA: INTRA-AREA IMPORTS, 1961 AND 1965-67

(C.i.f. values in millions of dollars)

Importer countries	1961		1965		1966		1967 a/	
	Nine countries	Eleven countries	Nine countries	Eleven countries	Nine countries	Eleven countries	Nine countries	Eleven countries
Argentina	126.0	196.4	255.7	289.4	226.7	252.3	212.0	253.6 b/
Brazil	45.2	145.5	190.4	272.8	167.0	238.0	177.8	232.3
Colombia	10.2	12.1	38.4	39.4	56.0	57.9	33.2	38.4
Chile	94.5	101.9	121.6	137.0	140.9	171.6	160.6	192.4
Ecuador	4.1	5.2	9.0	17.9	8.3	18.7	14.7	28.7
Mexico	4.1	4.5	29.7	29.9	33.7	34.6	35.5	36.0
Paraguay	9.8	9.8	11.4	11.4	14.3	15.1	16.5	17.2 b/
Peru	31.8	34.9	80.9	88.0	91.5	100.2	99.4	107.4
Uruguay	34.5	46.5	32.1	45.1	46.0	57.3	44.1	47.0 b/
Bolivia	-	13.5	-	13.3	-	15.2	-	18.0
Venezuela	-	17.2	-	36.7	-	35.0	-	42.7
<u>Total intra-LAFTA trade</u>	<u>360.2</u>	<u>587.5</u>	<u>769.2</u>	<u>980.9</u>	<u>784.4</u>	<u>995.9</u>	<u>793.8</u>	<u>1 013.7</u>

Sources: LAFTA, Síntesis mensual; IMF, Direction of Trade, 1961-1965.

a/ Estimates.

b/ Annual figures.

Table I-13
CENTRAL AMERICA: INTRA-AREA IMPORTS, BY NAUCA GROUPS
(C.i.f. values in millions of dollars)

NAUCA Group	1963	1964	1965	1966	1967 <u>a/</u>
<u>Total</u>	<u>66.2 b/</u>	<u>105.4 b/</u>	<u>136.0</u>	<u>176.3</u>	<u>220.8</u>
0. Food products	21.6	29.4	36.2	39.7	45.3
1. Beverages and tobacco	1.1	1.4	1.9	2.5	2.6
2. Non-edible raw materials	3.3	3.9	4.6	6.3	7.0
3. Fuels and lubricants	3.7	5.0	3.5	1.9	3.2
4. Oils and fats	1.6	1.6	2.4	5.2	5.9
5. Chemical products	7.8	18.9	21.1	26.4	36.7
6. Manufactured goods, classified by materials	16.3	26.3	37.1	51.4	67.8
7. Machinery and transport equipment	1.6	3.0	5.0	7.6	7.8
8. Miscellaneous manufactures	8.9	15.4	23.9	34.6	43.9
9. Miscellaneous transactions	0.3	0.5	0.3	0.7	0.6

Source: SIECA, "Cartas informativas", statistical annexes Nos. 3, 25, 35, 51, 66 and 69.

a/ ECLA estimates based on data for January to June.

b/ Unrevised figures. They do not agree with the figures given in table I-14.

Table I-14

CENTRAL AMERICA: INTER-COUNTRY TRADE BALANCES, 1963-67

(C.i.f. values in millions of dollars)

	Total for Central America	Guatemala	El Salvador	Honduras	Nicaragua	Costa Rica
<u>Exports</u>						
1963	72.1	20.8	28.7	13.9	4.2	4.5
1964	106.4	30.0	35.3	18.5	6.9	15.7
1965	136.0	38.9	46.1	22.1	10.1	18.8
1966	176.3	55.9	57.5	21.5	15.3	26.1
1966 <u>a/</u>	72.8	23.7	23.0	10.6	5.9	9.6
1967 <u>a/</u>	93.5	29.1	32.1	10.8	8.5	13.0
<u>Imports</u>						
1963	72.1	19.7	27.9	13.3	7.4	3.8
1964	106.4	26.4	39.2	18.0	14.5	8.3
1965	136.0	31.5	42.4	26.3	21.1	14.7
1966	176.3	34.2	52.0	35.2	31.7	23.2
1966 <u>a/</u>	72.8	14.0	24.5	14.9	12.1	7.3
1967 <u>a/</u>	93.5	15.9	25.6	19.2	17.9	14.9
<u>Trade balance</u>						
1963	-	1.1	0.8	0.6	-3.2	0.7
1964	-	3.6	-3.9	0.5	-7.6	7.4
1965	-	7.4	3.7	-4.2	-11.0	4.1
1966	-	21.7	5.5	-13.7	-16.4	2.9
1966 <u>a/</u>	-	9.7	-1.5	-4.3	-6.2	2.3
1967 <u>a/</u>	-	13.2	6.5	-8.4	-9.4	-1.9

Source: SIECA, "Cartas informativas", statistical annexes Nos. 25, 35, 51, 66 and 69.

a/ January to June.

/Despite the

Despite the steady headway made by trade within the Central American Common Market, the weakening of Latin America's total intra-regional trade undoubtedly makes it all the more urgent to intensify efforts to achieve the economic integration of the region. In this respect, there were a number of outstanding developments in 1967, particularly on the institutional plane.

(i) Meeting of American Chiefs of State

At this Meeting, which was held in Uruguay in April 1967, concerted positions were established with respect to matters of basic importance for the economic development of Latin America, and an action programme was formulated, pivoting upon the regional economic integration process. The Presidents agreed to take joint action to create progressively, beginning in 1970, a Latin American common market, which should be substantially in operation within a period of not more than fifteen years, and would be based on the improvement and convergence of the Latin American Free-Trade Association and of the Central American Common Market, and on the incorporation into these two systems of countries that had not yet joined them. To that end, the Action Programme adopted lays down the measures that should be applied both by the two integration systems and by the Latin American countries in common.

It was agreed that LAFTA should accelerate the process of its conversion into a common market, and that, with that end in view, it would put into effect a system of programmed elimination of all duties and restrictions and would progressively establish a common external tariff. It was likewise agreed that concurrently with the integration process economic policies and instruments should be progressively co-ordinated and national laws should be harmonized to the extent required for integration. In addition, it was decided to promote the conclusion of sectoral agreements on industrial complementarity, endeavouring to obtain the participation of the relatively economically less developed countries, and also of temporary sub-regional agreements, with provision for reducing tariffs and harmonizing treatments accorded to third nations more rapidly than under the general agreements. These sub-regional tariff reductions would

/not be

not be extended to countries that were not parties to the sub-regional agreement, nor would they create special obligations for such countries. Lastly, the aim of achieving the balanced development of the region was reaffirmed, and in that connexion it was decided to promote immediate action to facilitate free access of products of the LAFTA member countries of relatively less economic development to the market of the other LAFTA countries, and to promote the installation and financing in the less developed countries of industries designed to produce for the enlarged market.

For the Central American Common Market an action programme was proposed which included, inter alia, measures relating to improvement of the customs union; the establishment of a Central American monetary union; the completion of the area's infrastructural network; the improvement of the common market for agricultural products; acceleration of the process of free movement of manpower and capital within the area; implementation of a joint and co-ordinated industrial policy; and promotion of a common foreign trade policy. It was further agreed to foster increasingly closer ties between Panama and the Central American Common Market, and also rapid expansion of trade and investment relations with neighbouring countries of the Central American and Caribbean region, and to promote the conclusion of sub-regional and industrial complementarity agreements between Central America and other Latin American countries.

With respect to measures for adoption by the Latin American countries in common, the Presidents committed themselves not to impose new restrictions on trade among Latin American countries, and to establish, by means of a tariff cut or other equivalent measures, a margin of preference for all Latin American products, taking into account the different degrees of development of the countries of the region. They also decided to promote acceleration of the studies already initiated regarding preferences that LAFTA countries might grant to imports from Latin American countries non-members of the Association, and of others on the possibility of concluding industrial complementarity agreements in which all Latin American countries might participate, besides temporary sub-regional economic integration agreements between the Central American Common Market and countries members of LAFTA.

/In order

In order to co-ordinate the implementation of these measures, it was decided to set up a committee composed of the executive organs of LAFTA and of the Central American Common Market, to promote meetings at the ministerial level, and to negotiate in due course a general treaty or the necessary protocols for the establishment of a Latin American common market.

(ii) Convergence of LAFTA and the Central American Common Market

From 1 to 2 September 1967 the first Meeting of Ministers of Foreign Affairs of the countries members of LAFTA and of the Central American Common Market was held at Asunción, Paraguay, in order to implement the decisions emanating from the Meeting of American Chiefs of State with respect to the convergence of the two economic integration movements. To that end, the LAFTA/CACM Co-ordinating Committee was set up, and it was decided that this Committee should hold its first meeting during the second quarter of 1968. In addition, an order of priority was established for the Committee's future work. The Committee is composed of the executive organs of the two integration systems, and its main function is to recommend to the organs of LAFTA and the Central American Common Market the measures it considers appropriate to promote the process of convergence.

(iii) Principal events in the Latin American Free Trade Association

On 31 January 1967, the Government of Bolivia deposited its instrument of accession to the Montevideo Treaty, and thirty days later Bolivia became the eleventh Contracting Party of LAFTA.

The principal activities in 1967 included special meetings, mainly connected with the decisions adopted at the Meeting of American Chiefs of State, regular meetings of the standing organs of the Association, and other meetings connected with specific programmes or new projects.

The Council of Ministers of Foreign Affairs of LAFTA met from 28 August to 2 September 1967, during the sixth special session of the Conference, to consider various proposals relating mainly to the application of the decisions adopted in the Declaration of the Presidents of America.

At that meeting, the Council decided that the technical studies on various questions must be proceeded with before any resolutions were adopted, and requested the Standing Executive Committee to undertake a number of

/studies. First,

studies. First, it requested the Committee to proceed with the studies relating to the liberalization of reciprocal trade (system of phased tariff reductions, consolidation of tariffs and restrictions, the lifting of tariffs on products included in the Common Schedule and the establishment of an Area margin of preference), the tariff harmonization programme for the establishment of a common external tariff, and the common front to be adopted by the LAFTA countries vis-à-vis third countries and international agencies. The Committee was also requested to submit to the Council, after the necessary supplementary studies had been made, proposals regarding the Association's policy on the granting of non-reciprocal tariff preferences by LAFTA to Central America and Panama, with extension only to the economically relatively less developed countries. Similarly, it was requested to prepare specific formulas for promoting the conclusion of sectoral industrial complementarity agreements designed to secure the participation of the economically relatively less developed countries; and to draw up a programme of meetings of experts to propose solutions for facilitating the progressive co-ordination of economic policies and instruments and for bringing national legislations into line with one another to the extent and with the speed required by the process of integration. In this way, and for various reasons, different decisions have been reached on the basic topics of the Action Programme established in the Declaration of the Presidents of America in so far as they relate to the process of economic integration within the LAFTA framework. However, general principles for concluding sub-regional integration agreements between LAFTA countries were approved, as were the bases for a sub-regional agreement between the countries known as the Andean Group.

In relation to the economically relatively less developed countries, the Executive Secretary was requested to establish a technical operational unit which would co-operate with those countries in studying and identifying the possibilities open to them in the Area market; measures were taken regarding the consideration of the specific problems of Bolivia; and it was declared that Uruguay could invoke the provisions of the Montevideo Treaty relating to special treatment for economically relatively less developed

/countries. Lastly,

countries. Lastly, approval was given to a list of the matters over which the arbitration tribunal, established in the protocol on the settlement of disputes, will have compulsory jurisdiction without the need for a special agreement.

During the seventh regular session of the Conference, which was held between 23 October and 18 December 1967, a round of the annual negotiations referred to in article 4 of the Montevideo Treaty was held, with the participation of Bolivia as a signatory State. Venezuela concluded its negotiations with Argentina and Brazil, but those with Ecuador were postponed until the next session.

Concessions were granted for a total of 939 products, of which 832 were included for the first time on the respective National Schedules, further reductions being granted on the remaining 107, which had already been included in the liberalization programme during previous rounds of negotiations. Of the 832 new products, 120 had been suggested at sectoral meetings held during 1967 and mainly related to the pharmaceutical chemicals industry and, to a lesser extent, the plastics and office machinery and equipment industries. Most of the remaining 712 concessions related to chemicals and allied products, machinery, electrical equipment and appliances and machine-tools in general.

Moreover, under the provisions of article 32 (a) of the Montevideo Treaty regarding the economically relatively less developed countries, the Contracting Parties accorded concessions not open to third parties for 532 products, 372 for Bolivia and 160 for Uruguay.

The Contracting Parties also held negotiations on the products to be included in the Common Schedule referred to in article 4 of the Treaty, but no agreement was reached because of differences of opinion regarding wheat and petroleum. It was therefore decided to continue the negotiations at a special session which would start on 16 July 1968.

Bolivia, Ecuador and Paraguay were authorized to eliminate, within a period of not more than twelve years, as established in article 2 of the Treaty, the duties, charges and other restrictions in respect of products on the Common Schedule which, individually or collectively, are of basic importance for their economic development or fiscal revenue.

/In addition

In addition, regulations were adopted for applying the provisions on saving clauses contained in chapter VI of the Treaty; norms were approved for sub-regional agreements; a complementarity agreement on chemical products was negotiated and signed; and negotiations proceeded for restoring the margins of preference affected by the restructuring of tariffs of the various Contracting Parties.

The Standing Executive Committee established new methods of work for the study groups that are subordinate organs of the Advisory Committee on Industrial Development (CADI) and are concerned with steelmaking, the petrochemical and pulp and paper industries, and the situation of the group of economically relatively less developed countries. It was decided that the study group on steelmaking should be placed on a permanent footing and prepare specific integration formulas, while the petrochemicals group should be set up at the government level and be responsible for drawing up a draft complementarity agreement. In addition, a working methodology was approved for the study group on pulp and paper. Lastly, in view of Bolivia's admission, it was decided to form a study group to prepare a report on Bolivia on the same lines as those carried out on a similar occasion for Ecuador and Paraguay. Once this has been done, Bolivia will become a member of the permanent study group on the economically relatively less developed countries.

As regards complementarity agreements, an addition protocol was signed to reduce the schedules of exceptions listed in the agreement on electronic valves, and other protocols were drafted and forwarded to the Contracting Parties with respect to the products of the electronics and electrical communication industries, electricity generating, transmitting and distributing equipment, spare parts for motor-vehicles, and the products of the chemical and gramophone industries.

In the field of trade policy, the study group on the common external tariff began its work by considering methodological aspects and some basic definitions. In addition, the secretariat submitted to the Contracting Parties a preliminary draft of the common tariff nomenclature, which was forwarded to the Governments for their comments through the medium of LAFTA's technical organs.

/(iv) Sub-regional

(iv) Sub-regional Andean integration

The Joint Commission, composed of the group of countries that had signed the Declaration of Bogotá and were later joined by Bolivia, held several meetings with a view to working out ways and means of achieving the objectives laid down in the Declaration. Approval was given to the bases for the formulation of a sub-regional agreement, a minimum common external tariff, requirements to be met with respect to the origin of goods, rules of competition, the co-ordination of economic policy and the administration of the agreement. The draft agreement was prepared by an inter-governmental expert committee in the course of meetings held at Bogotá between 8 January and 30 April 1968. It was also agreed to set up the Andean Development Corporation (Corporación Andina de Fomento), which will be responsible for directly promoting projects of common interest to the countries concerned and providing them with technical assistance. A draft constitution was drawn up for that purpose and will be submitted to a special group of legal and financial experts for examination. In the meantime a draft treaty was prepared on the basis of the constitution, and signed on 7 February 1968 by representatives of the six countries, during the fifth meeting of the Joint Commission at Bogotá.

A time-table of meetings was fixed to consider the formulation of complementarity agreements for different sectors of industry, and the first steps were taken towards framing such an agreement for the petrochemical industry. It is proposed that this agreement should comprise the schedule of products which are to be freed from all duties and restrictions by 31 December 1973. In addition, specific commitments were established as regards the co-ordination of investment in the petrochemical industry, the programme of external tariff harmonization, the use of escape clauses and the rules on the origin of goods, and trade competition.

Chapter II

SOCIAL TRENDS ^{1/}

1. Introduction

The purpose of the present chapter is to complement the analysis of recent economic trends with a little information on the process of social change which is accompanying them.^{2/} Special attention will be devoted to structural changes in which social and economic causes and effects are interwoven in a single process, so that none of them can be understood in isolation; and to trends in the main sectors of public social action. Both these categories of changes find concrete expression in the general direction given to Latin American development policy, of which the following are the salient features: (a) the reform and modernization of key institutions - the public administration, the fiscal systems, the systems of land tenure - in order to make them more compatible with dynamic growth and mobilization of resources, and (b) the expansion and more equitable distribution of public action - in particular, in the policy areas of education, health, housing and social security - in an endeavour to raise levels of living, increase the productivity of human resources and ensure social stability.

^{1/} Most of the present chapter is taken from the text prepared by the ECLA secretariat for the United Nations Report on the World Social Situation.

^{2/} The difficulties of reporting on social questions on the basis of statistics covering periods comparable to those commonly used for the analysis of strictly economic questions are all too well known. Most of the data needed for quantification of social changes, either by their very nature or because of their present low degree of accuracy and comparability, do not lend themselves to annual assessment of trends. Some of the most important social trends have not been or cannot be quantified, so that their interpretation is extremely controversial and often they can be brought into the picture only in the form of tentative descriptions and hypotheses. In other cases, it is not enough to ascertain trends; their effects on ideologies and on the diagnoses of development requirements must also be taken into account.

When these objectives were formally defined at the beginning of the present decade, uniform quantitative targets were established for the whole region in respect of social services, but these targets did not form an integrated whole.

Furthermore, the uniformity of the commitments assumed by the whole region in the fields of development and social justice is inconsistent with the marked disparities in the capacity of the Latin American countries to meet the commitments in question, since they differ in all the following respects: size of population and rate of demographic growth; levels of urban and industrial development and modernization; natural resources, and degrees and patterns of dependence on the world centres of industrial development and finance. Nevertheless, they have certain basic features in common, such as the highly uneven and insecure character of their development, the intractability of employment and agrarian reform problems and the continuing or widening disparities between internal regions, urban and rural areas, and social classes, in respect of income distribution, access to social services and ability to influence the national decision-making process.

Table I-15 indicates the relative position of the countries according to a number of social, economic and demographic indicators. The comparability of the national figures under most headings is not very satisfactory, but they serve to illustrate the scale of the inter-country disparities.

These indicators should be kept in mind in relation to the applicability of subsequent generalizations to specific countries, since it would be impossible to include within the scope of the present chapter all the exceptions and qualifications that should be made to almost any statement concerning Latin America.

Table I-15

LATIN AMERICA: DEMOGRAPHIC, SOCIAL AND ECONOMIC INDICATORS

Country	Popu- lation Mid- year 1965 esti- mates (in thou- sands)	Population density		Population age distribution (in percentages at most recent census			Population in centres 20 000 and over at most recent census	Population rates of change			Expectation of life at birth (years)	Education		Annual growth rate of gross product 1960- 1965	Central govern- ment tax revenue as a per- centage of GDP (1965)	Percentage of total central government ex- penditure for		Gross agricul- tural product as per- centage of gross domestic product 1963- 1965 average	Index of food produc- tion per ca- pita 1964- 1966 average (1957- 59=100)	Cost of living, annual rate of increase 1960- 1965	
				0-14	15-64	65 and over		Total	Rural f/	Urban g/		Total enrol- ment as percent age of popula- tion (1965)	Annual rate of in- crease 1956- 1965			Percent age of enrol- ment at middle and high educa- tion levels (1965)	Educa- tion (1965)				Health (1965)
		(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)		(9)	(10)			(11)	(12)				(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)
Argentina	22 352	8	46	29.0 b/	62.1 d/	8.9 d/	57.5 (1960)	1.8	0.3	3.2	67 (1960-65)	19.8	2.9	28.7	2.8	5.3	17.2	4.4	16.5	100	23.2
Bolivia	3 697	3	-	39.6	56.1	4.3	19.6 (1950)	-	-	-	44 (1960-65)	17.8	9.4	15.8	4.7	8.6	27.5 k/	2.8 n/	28.2	97	5.1
Brazil	81 301	10	335	42.7	52.4 a/	4.9 d/	28.1 (1960)	3.1	2.1	6.5	56 (1960-65)	14.7	8.0	18.9	4.9	9.7	7.3 l/	4.7 o/	29.0	110	62.5
Colombia	17 787	16	443	42.6	54.3	3.1	36.4 (1964)	3.2	1.9	7.2	60 (1964)	17.9	9.5	17.3	4.5	7.1	9.9	4.7	32.6	100	12.4
Costa Rica	1 433	28	632	47.8	49.0	3.2	24.0 (1963)	4.0	3.8	4.5	66 (1963-68)	22.7	9.0	15.7	4.4	10.2	24.4	8.4	30.5	88	2.5
Cuba	7 631	66	-	36.4	59.4	4.2	42.8 (1963)	2.5	1.2	4.4	66 (1963-68)	20.8	8.2	15.2	-	-	-	-	-	-	-
Chile	8 567	12	216	39.6	56.1	4.3	54.7 (1960)	2.8	-0.2	5.9	59 (1960-65)	19.9	4.4	19.9	3.7	15.3	10.6	10.9	11.1	92	27.0
Ecuador	5 884	18	620	45.1	51.6	3.3	26.9 (1962)	3.0	2.0	6.6	54 (1965)	17.2	6.4	13.2	4.2	10.7	15.4	5.9	36.7	94	3.8
El Salvador	2 929	139	1 673	44.8	52.0	3.2	17.7 (1961)	2.8	2.3	5.8	52 (1961-66)	15.8	7.6	13.2	7.2	10.6	22.9	10.3	29.8	102	0.2
Guatemala	4 438	41	1 442	48.8	48.6	2.6	15.5 (1964)	3.1	2.7	5.6	47 (1960-65)	10.5	9.2	11.8	6.0	7.8	14.3	8.8	31.2	113	0.2
Haiti	4 660	166	-	42.2	55.0	2.8	5.1 (1950)	-	-	-	45 (1960-65)	6.5	3.7	9.8	1.8	-	11.6 m/	12.4 p/	49.2	76	2.9
Honduras	2 284	20	410	47.8	49.7	2.5	11.6 (1961)	3.0	2.5	8.1	49 (1960-65)	14.5	12.0	8.4	6.4	9.5	19.7	6.8	51.1	110	2.9
Mexico	40 913	21	185	44.4	52.2	3.4	29.6 (1960)	3.1	2.3	5.2	60 (1960-65)	19.4	8.6	12.7	6.0	7.2 j/	23.4	14.9	16.1	111	1.8
Nicaragua	1 655	12	558	48.3	48.8	2.9	23.0 (1963)	2.6	1.9	5.9	49 (1964)	15.4	9.9	11.0	8.9	10.6	16.6	7.4	38.7	99	1.6
Panama	1 246	16	489	43.5	53.0	3.5	33.1 (1960)	2.9	2.0	5.1	61 (1960-65)	20.7	5.6	23.8	8.0	11.3 j/	23.7	13.1	22.0	103	1.0
Paraguay	2 030	5	118	45.5	50.6	3.9	16.8 (1962)	2.6	2.6	2.8	58 (1960-65)	20.5	3.8	10.8	4.3	9.9	16.3	4.1	38.4	93	5.3
Peru	11 650	9	314	43.3	52.9	3.8	28.9 (1961)	2.2	1.3	5.7	54 (1960-65)	18.8	8.1	18.4	6.3	14.9 j/	27.1	16.2	23.0	103	9.2
Dominican Rep.	3 619	74	1 480	44.6	52.5	2.9	18.7 (1960)	3.5	2.6	9.0	52 (1960-65)	16.1	2.7	9.9	3.4	14.7 j/	13.3	6.8	-	82	2.8
Uruguay	2 715	15	47	28.0	64.2	7.8	61.3 (1963)	-	-	-	71 (1963-68)	18.6	2.9	26.9	0.3	15.3	26.5	-	21.4	115	28.1
Venezuela	8 722	10	153	44.8	52.4	2.8	47.2 (1961)	4.0	1.4	8.1	60 (1961-68)	19.7	14.9	18.5	5.4	12.3	11.9	8.6	7.6	128	-
Barbados	245	568		38.3	55.3	6.4					65 (1959-61)										
Guyana	647	3		46.2	50.4	3.4					61 (1959-61)										
Jamaica	1 779	162		41.3	54.4	4.3	24.8 (1960)	1.5	0.9	4.0	65 (1959-61)	18.6	4.3	8.9							
Trinidad and Tobago	975	190		42.4	53.5	4.1					64 (1959-61)		3.5	9.5							

Col. (1) Source: Statistical Bulletin for Latin America, III, 2, table 2.

Col. (2) Source: Statistical Bulletin for Latin America, III, 2, table 2.

Col. (3) Source: Socio-Economic Progress in Latin America, Inter-American Development Bank, Social Progress Trust Fund, Sixth Annual Report, 1966. a/ Number of rural inhabitants per 1 000 hectares in crops and pastures.

Cols. (4)-(5)-(6) Source: Statistical Bulletin for Latin America, III, 2, table 7. b/ 0-13; c/ 13-59; d/ 60 and over; e/ 15-59.

Col. (7) Source: ECLA calculations from census data.

Cols. (8)-(9)-(10) Source: ECLA estimates based on census data. f/ Population of centres under 20 000 g/ Population of centres 20 000 and over.

Col. (11) Statistical Bulletin for Latin America IV.1, table 16.

Cols. (12)-(13)-(14) Source: UNESCO/MINED/6.

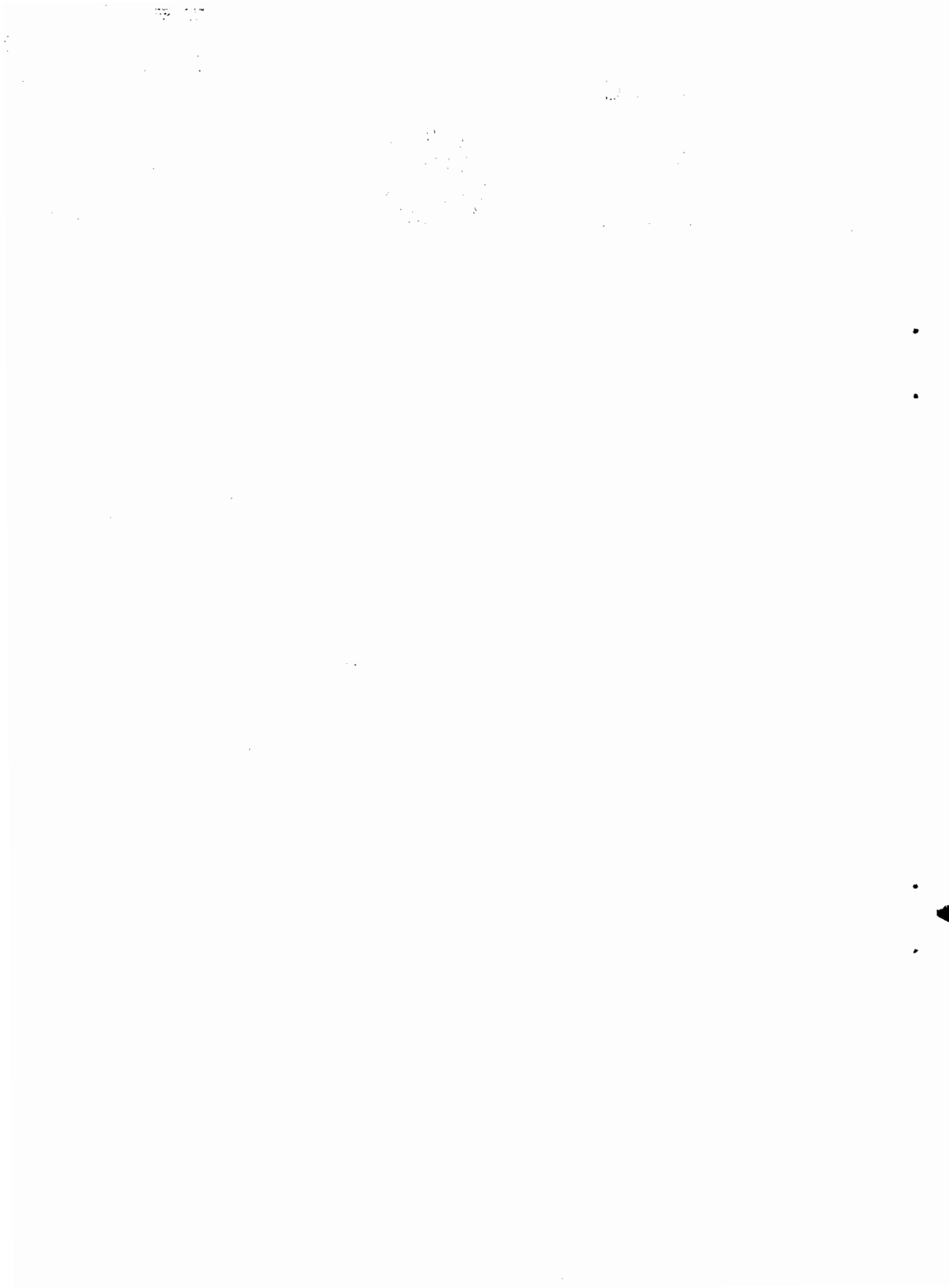
Col. (15) Source: Economic Survey of Latin America, 1965, table 6.

Cols. (16)-(17)-(18): j/ 1964. j/ Percentage of G.D.P. k/ 1966. l/ 1964. m/ 1966/67. n/ 1966. o/ 1964. p/ 1966/67.

Col. (19) Source: Economic Survey of Latin America, 1966, table IV-15.

Col. (20) Source: Evolución reciente de la economía de América Latina (CIES/1138) cuadro I-4.

Col. (21) Source: Economic Survey of Latin America, 1965, table 15.



It should also be borne in mind that internal regional disparities within individual countries are as marked as the differences between the high and the low countries in the table. Moreover, while real year-to-year changes in most demographic and social indicators are small, annual fluctuations in the economic indicators can be very wide. The data to hand - and possibly the trends themselves - are sufficiently ambiguous to lend themselves to contradictory assessments of the future of Latin America, ranging from qualified optimism to unqualified pessimism.

The passing of new legislation, the gaining of experience in the working of new planning and administrative machinery, and the initiation of "pilot" projects to test new approaches in all the sectors of public social action have created conditions which are more favourable to planned progress in the future than those existing five years ago. It may be that present conflicts and inequities are no worse than might be expected and that the failure of reality to adjust itself to orderly schemes for social progress does not necessarily preclude a gradual improvement in the welfare of the greater part of the Latin American population. Nevertheless, a generalized atmosphere of dissatisfaction with what has been achieved since 1961 and of uneasiness concerning the future is evident. On the part of the Governments, this has led to a continuing search for means of increasing the effectiveness of organized regional co-operation and channelling external aid on more efficacious lines; on the part of social scientists and planners, it is bringing about re-thinking of the means of development and its prerequisites.

According to the interpretations that are emerging, "development" should constitute an objective quite different from the kind of economic growth now taking place, which is seen as inherently self-limiting and inequitable. "True" development should be, inter alia, a process of social change involving far-reaching shifts in the roles and power relationships of different groups in a given society. Naturally, such a process is bound to be impelled by some groups and resisted by others.

/On the

On the one hand, this interpretation has given rise to a number of studies of actual and potential élites - political leaders, entrepreneurs, administrators, labour leaders, etc. - which sometimes suggest a rather manipulative view of development strategy.

On the other hand, it is helping to focus attention on what have been labelled the "marginal" strata of the population - the unorganized and impoverished masses, very numerous in many of the countries, that have benefited not at all from the kind of economic growth that is taking place and whose relationships to the occupational structure are increasingly precarious. It is argued that true development will require the enlistment of these strata in active and organized participation, and that the pursuit of such an objective cannot be limited to promotional campaigns calling for national unity, competitive social promises by political parties, and the stimulation of popular efforts at the local level to reach targets established from above. There should be an interplay between public institutions and organized popular demand, in which the content of programmes affecting the people, and the development objectives and models, will undergo changes that cannot now be foreseen in detail.

What is actually happening, according to several recent analyses, is very far from such a process of dynamic social change. Groups concerned with the promotion of particularistic interests are increasing in variety and organized strength with the advance of urbanization, while the political process shows hardly any increase in ability to "aggregate" these interests or direct them into channels conducive to development. The protection of privileged occupational status and the earmarking of shares of public resources are conspicuous cases in point. The strivings of the marginal strata are inevitably distorted by the system of closed compartments they are trying to enter and by the consumption aspirations encouraged among them by populist leaders and mass communication media. It is asserted that in countries at the stages of development typical of Latin America, political systems based on "compromise" as opposed to systems based on "mobilization" are bound to be characterized by evasion or postponement of the key policy decisions needed for high rates of development. The broadening of political, social and economic participation

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to include strata previously voiceless is undoubtedly posing painful questions even in high-income societies in which such strata constitute relatively small minorities. Various social scientists find reason to fear that the Latin American élites which participated in the previous systems of compromise, unable to face the dangers unavoidably involved in the transition to a social order in which popular participation might be effective as well as economically viable, are becoming increasingly inclined to seek shelter behind régimes of armed force.^{3/}

Some analysts are going beyond interpretations to a more fundamental and controversial criticism of the kinds of economic growth and social change that are taking place. It is argued that such growth, even if it manages to attain for a time satisfactory rates of increase in per capita income, is inherently bound up with widening inequalities within the region as a whole and between Latin America and the regions previously industrialized; between the great cities, the smaller urban centres and the countryside; and between social strata in one and the same country. Increasing dependence on the world market and foreign investment, and the growing pervasiveness of cultural and consumption influences channelled from abroad through the great cities are associated with "partial development", "internal colonialism" and "concentration of technical progress". The present world system of economic relationships generates "development" at one pole and "under-development" at the other, not as a remediable

3/ Several of the studies assembled in Seymour Martin Lipset and Aldo Solari, ed., Elites in Latin America (New York, Oxford University Press, 1967) and in Claudio Véliz, ed., Obstacles to Change in Latin America (issued under the auspices of the Royal Institute of International Affairs by Oxford University Press, 1965) bear on the questions discussed here. See also Jorge Graciarena, "Presiones internas, estabilidad política y desarrollo económico en América Latina", in Revista Mexicana de Sociología, XXVIII, 2, April/June 1966; Luis Mercier Vega, Mecanismos del poder en América Latina (Buenos Aires, Editorial Sur, 1967); and Martin C. Needler, "Political Development and Military Intervention in Latin America". In The American Political Science Review, LX, 3, September 1966.

shortcoming but by its very nature. The theory that Latin American countries are characterized by "dual societies" - implying that development policy should envisage the expansion of a "modern sector" until it can absorb the population subsisting in an unprogressive low-income "traditional sector" - has been superseded by the assertion that the kind of "modern sector" now evolving requires the maintenance of other sectors in continuing or increasing poverty, however rapidly these latter sectors may be losing their "traditional" traits. The picture of a growing middle class as a source of dynamism and political stability is replaced by an image of the middle classes as beneficiaries and defenders of existing structural rigidities and as thus putting up a barrier to the effective incorporation of marginal strata into national societies.^{4/}

The correspondence of these latter theses to present trends in the individual countries is only just beginning to be tested by research. The more categorical rejections of the possibility that present lines of growth can eventually lead to a wider diffusion of progress and its benefits seem premature, and can hardly be substantiated with the data now to hand. Moreover, they offer cold comfort to the planners and administrators who must struggle to increase the efficiency and equity of programmes now under way, while they can exert only limited and piecemeal influence in the direction of changing social structures and hardly any influence at all on their country's dependence on the world centres of finance, commerce and technology.

It is significant, however, that the planning agencies themselves are beginning to prepare analyses of social as well as economic structures as a basis for assessment of the practicability of policies and the definition of strategies for their implementation, and that such analyses are reflected

^{4/} For presentations of these arguments, see Andrew Gunder Frank, Capitalism and Under-Development in Latin America, (New York, Monthly Review Press, 1967); and Rodolfo Stavenhagen, "Siete tesis equivocadas sobre América Latina". In Desarrollo, Colombia, vol. I, No. 4, 1966.

in some recent statements by political leaders.^{5/} These moves derive largely from a continuing dialogue between planning officials, with their growing practical experience of the limitations involved in planning decisions confined to the attainment of quantitative objectives, and the academic analysts, with their increasingly searching criticisms of the structures within which planning is a recent insertion. Planning itself, as a continuing process of rationalization of decision-making, has as yet only superficially penetrated the existing administrative and political machinery, and it is too early to expect practical results from the even more recent quest for means whereby planning can at the same time give impetus to and receive impetus from specific changes in the social structure.

In this quest, several broad problem areas - all of which were already prominent in 1961 - are manifesting themselves with increasing clarity as facets of a single problem. These are (1) rapid and concentrated urbanization; (2) rural crises associated with stagnation of incomes and production combined with partial disintegration of the previous systems of power relationships; (3) incapacity of the economies to offer productive employment to a labour force with high rates of growth and low levels of qualification; (4) emergence and rapid growth of new kinds of "marginal" population strata with increasingly insecure and frustrating relationships to the national structures of production, consumption and political participation. It is evident that the dimensions of these problems since 1961 have been affected very little by development policies and plans, whether or not one needs to conclude that the policies are inherently incapable of resolving them. It does not follow that the more specific characteristics of the problem have been unaffected by the policies. The following pages will first present these underlying problems in more detail and will then discuss the evolution of social policies and programmes under the conditions set by the unresolved problems.

^{5/} See, for example, Análisis de la realidad social del Perú, issued in May 1966 by the Peruvian Planning Institute (Instituto Nacional de Planificación), and the statement made by the Minister of Finance of Chile to the CIAP Sub-Committee on Chile (Informe Final del Subcomité del CIAP sobre Chile, CIAP/47, 15 November 1966).

2. Structural changes

(a) Urbanization

In the abundant literature on urbanization in Latin America the ecological-demographic aspects and the "social consequences" are most prominent. The rapidity of concentration of population in a few large centres has been viewed with apprehension as the source of a complex of problems that seem almost insoluble. At any rate, the available techniques for urban planning, administration, and provision of social services seem to offer no promise of their solution, while a continuation of present trends in population growth and redistribution would make their dimensions ever more unmanageable. Earlier aspirations to plan the growth of various of the great cities according to schemes drawn up by world authorities on city planning seem to have been tacitly abandoned.

Concentration of population in large centres, however, seems to be only in a very limited sense a "problem" in itself, susceptible to direct measures of control. It is the most conspicuous manifestation of phenomena nationwide and regionwide in scope, affecting the whole population in different degrees and in different ways, with predominant traits differing according to the national population size and rate of growth, the level of industrialization, and the cultural homogeneity or heterogeneity of the national population. "Urbanization" in the wider sense is simultaneously a process of concentration of population, of transformation or "modernization" of pre-existing urban patterns - which in Latin America have a long history; and of the diffusion of "modern" urban patterns - with whatever limitations and distortions - to the whole population, including the most isolated rural groups.^{6/}

^{6/} This formulation, along with many of the ideas presented below, derives from a study of urbanization now under way in the ECLA Social Affairs Division. See Aníbal Quijano, "Urbanización y tendencias de cambio en la sociedad rural en Latinoamérica", presented to the Seminar on Urbanization as a Field of Investigation in Social Sciences, Comité Interdisciplinario de Desarrollo Urbano, Universidad Católica de Chile, April 1967; and "La urbanización de la sociedad en América Latina", presented at the VIII Latin American Congress of Sociology, San Salvador, September 1967.

In Latin America at present this triple transformation is most rapid in the relatively large countries that are characterized at the same time by some measure of progress in industrial development, high demographic growth rates, sizeable reservoirs of rural population, and sharp contrasts between internal regions - Brazil, Colombia, Mexico and Peru - and also in Venezuela, which has shifted with exceptional rapidity to a predominance of concentrated urbanization. In Argentina and Uruguay, urban predominance has reached a level at which the future contribution of the rural population to urbanization will be relatively minor, and Chile is close behind them. Most of the other countries are at earlier stages of the triple transition, and face the probability of a speeding-up, limited only by their relatively small population and capacity to support urban economies.

Cuba, which in 1960 would have ranked between Argentina and Chile in a scale of urban concentration and modernization, is undergoing a transformation of urban-rural relationships quite different from the kind of urban predominance toward which the other countries are moving. The urban upper and middle strata, that are the mainsprings of the processes to be described below have lost all their importance through emigration and socialization of commerce, industry and professional practice. A two-way flow of population between city and countryside is systematically encouraged, particularly through urban study by rural youth and rural harvest-work and social activities by urban youth, while development policy - after some vicissitudes - has favoured large-scale "industrialized" agriculture over urban industry.^{7/} In these as in many other respects Cuba is moving towards a social organization fundamentally different from that implicit in trends in the rest of Latin America.

^{7/} The Cuban decision to concentrate developmental efforts on agriculture relies on the potential market for tropical products offered by the USSR and other countries of the Socialist group, and is now envisaged as a precondition for a renewed concentration of resources on industry in the mid-1970's, by which time it is expected that agricultural growth will be self-sustaining and rural living conditions and opportunities equalized with urban. The present policy stresses not only investment in mechanization, irrigation and fertilizer production, but also the concentration of a high proportion of middle-level education and training on specialties needed in agriculture (See El financiamiento y otros problemas del desarrollo agropecuario, Informe del Ministro Dr. Carlos Rafael Rodríguez, Presidente de la Delegación de Cuba a la Novena Conferencia Regional de la FAO para América Latina, Punta del Este, 1966; and La situación económica de Cuba 1965-1966, Informe de la Delegación de Cuba al XII período de Sesiones de la CEPAL, Caracas, 1967).

techniques and communication media have been introduced wholesale from the same sources. Television now powerfully reinforces the stimuli to standardized consumption and cultural borrowing already provided by the cinema and radio. In this kind of "modernization" the example of the traditionally lavish consumption standards of the landowning upper class seems to have reinforced and merged with the consumption stimuli from abroad to determine the standards of the widening middle strata.

As the cities expand, increasingly sharp physical contrasts symbolize the differential capacity of the population to respond to the new appeals. Extensive suburbs are indistinguishable from those of North American cities - except for their fringes of shacks inhabited by the families of watchmen, domestic servants, gardeners and laundresses; and except for the inadequacies of their urban infrastructure. Larger districts are inhabited by elements of the middle strata trying to stretch their incomes to cover the consumer goods, domestic service and private education for their children that they consider essential to the maintenance of their status.

Still larger urban zones, including both slums near the urban centres and newer peripheral settlements, are inhabited by strata whose incomes give them no hope of attaining more than a few items from the range of consumer goods in the market. Demands for goods within the purchasing power of the majority of the urban population are often poorly satisfied, partly through a precarious parallel growth of technologically backward small-scale industries within the urban low-income zones. The "modern" forms of commercialization also reach these zones last, so that they depend on market vendors and small shops with limited turnover and high markups. Next to employment, housing is the most difficult single problem of the urban low-income strata. Here too the patterns of urban transformation tend to exclude them: construction industries oriented to the upper-income housing market, inflated land prices, building regulations modelled on the norms of high-income countries, drive them into notoriously unsatisfactory expedients in their struggle for shelter.

To varying degrees in different countries the growth and transformation seems to have been accompanied by the evolution of a popular sub-culture - and possibly a sub-economy - among the masses excluded from full participation

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in the "modern" urban consumption and residential patterns. Such a sub-culture is clearly visible in certain cities characterized by a remarkable net work of associations based on migrants' localities or origin and exceptionally pronounced patterns or organized land seizure and settlement by low-income families.

The forms taken by urban growth and transformation are bringing about important changes in the political process and in the kinds of demands made through political channels upon public resources. In addition to the pre-existing conventional forms of urban voluntary organization in political party branches, business associations, trade unions, women's clubs, sports clubs, charitable bodies, etc., enormous numbers of strictly local associations have sprung up to defend the interests of settlers in the newer urban zones and to obtain for each locality a larger share of municipal resources. The need for such organization is felt as strongly in the "modern" middle-income suburbs as in the low-income settlements, although the demands differ in emphasis. The former zones aspire to the provision of modern urban infrastructure and public services, including garbage collection, landscaping, police protection, etc. The latter want the same things on a more modest scale, but are more immediately concerned with easing of the terms on which families have obtained houses or lots, control of food prices and better public transport to their jobs. In the demands of both groups, improved services and strengthening of consuming power are inevitably prominent, with relatively reluctant attention to local self-help; meanwhile, the public authorities, trying to meet the most insistent demands in at least a token way, have little change of fixing systematic priorities.

The previously unorganized masses have in recent years been making their weight felt in two quite different ways. The formation of local organizations is a newer and probably less generalized trend than the reliance on voting power thrown behind populist political movements. The latter phenomenon has commonly fostered a competitive escalation of social

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promises that cannot afterwards be redeemed, because of the limitation of public resources and also because of the veto power inherent in the existing economic and social structures.^{8/}

The appearance of new forms of solidarity and of heightened sensitivity in their potential political weight among the strata least able to participate in modern urban consumption and economic activities means some differentiation between their interests and those of the workers in the larger industries and in other occupations already well-organized and able to extract advantages from existing rigidities in employment, incomes and distribution of social services.^{9/} The one group, for example, can rely on organized wage demands to offset increases in the cost of living; the other is more interested in price stability that seems to be threatened by wage increases in which it will not share.

Present lines of urban modernization raise formidable difficulties for any effort to mobilize the population for development through restriction of consumption and raising of productivity. The groups that have attained "modern" urban consumption standards tend to look on these as a right and to blame the insufficiencies of national development on the lack of initiative and inordinate demands of the poor. Their models and sources of

8/ See Celso Furtado, Dialéctica del Desarrollo (México, Fondo de Cultura Económica, 1965), pp. 19-20 and 82-85, for a discussion of the consequences of this phenomenon in a setting in which the masses are unorganized and have only the vote through which to make their aspirations known. "The masses, precisely because they are amorphous, have no opportunity whatever of taking part in the political process, except when the time comes to use their vote as a means of bargaining for election pledges. And when the masses in question live in a state of under-employment, and are subject on the one hand to the unremitting scourge of under-consumption, and on the other to the irritant effects of the conspicuous consumption patterns prevalent among the higher and middle income groups, it is easy to understand what their demand will be at the crucial moment of bargaining their vote."

9/ The middle position in the social structure now enjoyed by the better-organized workers has often been commented upon. Results of recent inquiries showing the rather restricted aspirations of the leaders and members of these groups (sometimes in contradiction with formal allegiance to revolutionary political doctrines) are presented by Henry Landsberger, "The labour élite: is it revolutionary?", in Elites in Latin America, op.cit.

security are increasingly sought abroad. Both the flow of investment funds, largely illegally, from Latin America to Europe and North America and the increasing out-migration of graduate professionals are symptoms of this. Even among the numerous intellectuals who deliberately reject such a model of modernization, its influence brings about obvious contradictions between ideology and behaviour.

In the majority of countries, efforts have been made to raise the rate and increase the progressiveness of direct taxes on incomes and property, to ensure more effective enforcement, and to close loopholes by levies on presumed income rated according to visible evidence of living conditions.

At the same time, the costs of the symbols of wealth have risen sharply in the countries that have advanced farthest along the paths of urbanization and import-substitute industrialization: the cost of houses because of inefficient construction industries and speculative land prices; the costs of automobiles and other durable consumer goods because of import restrictions, internal taxes and relatively low levels of productivity, imputable up to a point, to competition among a large number of enterprises producing on a small scale for narrow domestic markets; the costs of foreign travel because of currency depreciation and restrictions on purchases of foreign currency; and the costs of domestic service because of the widening of job opportunities for women and because of social security charges.

The size of the strata aspiring to these symbols has meanwhile grown with the awareness that most of them are standard attributes of middle-income families in the countries that are models for the urban transformation. In practice, the fiscal reforms have probably not as yet substantially offset the trends toward continuing concentration of income except in a few countries, but everywhere the prospect is feared and resented by those likely to suffer, and expedients are sought to evade redistributive measures and maintain consumption standards.

At the other end of the urban social spectrum, some Governments have initiated programmes intended to involve the low-income strata in an organized striving for development. The results thus far are inconclusive. Under circumstances of intense political competition for the allegiance of

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the urban masses, such an approach from official quarters inevitably stimulates counter-movements to prevent the Government from strengthening its political base and to outbid it in social benefits. Governments representing coalitions or lacking freedom to implement a programme for want of a parliamentary majority have been particularly handicapped in trying to enlist popular participation for development. The interplay of political forces intensified a misunderstanding between the governmental policy-makers and the local popular organizations that would be unavoidable at best: the former look on the new programmes as a means of stimulating local initiative and thus relieving the public sector of part of the burden of providing services, while the popular organizations look on the same programmes mainly as a means of exerting influence to obtain larger public resources to meet local needs. Moreover, even the Governments that are most determined to enlist popular participation must depend in large part on the existing bureaucracy - in its majority unsympathetic to new approaches - and on their own partisans - drawn largely from the urban middle strata, predisposed toward paternalistic relationships with the low-income strata, and themselves powerfully affected by the pressures toward higher consumption standards.

(b) Rural social change

In the Latin American development policy outlined at the beginning of the current decade, stress was laid on the need to metamorphose rural economic and social structures by means of radical land reforms. Since then most of the countries have enacted new legislation and set up administrative machinery for agrarian reform. With the qualified exception of Chile, however, no country has as yet been added to the small groups - Bolivia, Cuba, Mexico and Venezuela - that had even prior to 1961 embarked on reforms directly affecting the bulk of the rural population,

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and trends even in the countries that have made appreciable progress fail to reveal the type of planned, internally consistent rural development that was envisaged as a complement to tenure reforms.^{10/} The newer laws have in general retained the traits attributed to Latin American agrarian reform legislation prior to 1961 - complexity, internal inconsistency, provisions facilitating legal delaying actions by landowners - that reflects the balance of power in the national legislative bodies, and the tactics of the groups seeking insurance against implementation. In some cases incipient agrarian reform programmes have been among the first victims of budgetary retrenchments.

This does not mean that the rural situation has remained static or that regional concern over agrarian reform has been ineffectual. The spectre of massive agrarian reform and the piecemeal rural programmes that have been undertaken have interacted with other influences, mainly of urban origin, to change the rural scene in many ways. The changes naturally differ by country and internal region; they point in different directions in relation to the probable future character of the rural societies; and local investigations remain much too scarce to support generalizations on what is happening below the surface. It is clear, at least, that the increasing complexity of rural social structures is making a simple dichotomy between "landlord" and "peasant" less and less satisfactory as a framework for interpretation, as the following facts suggest:

(1) The slow increases in over-all agricultural production conceal shifts in the relative importance of different agricultural zones and different crops. In general, these shifts mean a decline in the older,

^{10/} In Chile (as well as Venezuela) orderly progress in agrarian reform under the direction of public agencies is presumably made easier by the fact that the rural population is already a minority; the landowners are not predominant economically or politically; and the potential implications of changes in rural power relationships are not so formidable as in the countries with rural majorities. Nevertheless, enactment of an agrarian reform law corresponding to the programme of the executive power has taken more than two years in Chile, and the spread of unionization of rural workers, focussed on wage demands and enforcement of legal rights to social benefits, has probably thus far been a more significant element in rural change than the expropriation and distribution of large holdings.

more densely populated agricultural zones that are the traditional centres of the latifundio-minifundio complex in favour of other zones, mainly in coastal areas or in previously unoccupied parts of the interior. Traditional staple food crops may at the same time decline in relation to other foods (e.g. fruits), industrial raw materials and some export crops, although in this respect trends are too diverse for generalization.^{11/}

The immediate consequences of these shifts include: (a) declining levels of living and necessity of seeking new means of livelihood for large numbers of small cultivators and workers on the traditional haciendas; (b) the organization of new large estates, some of which represent adaptations of the previous labour-executive low-investment techniques to new zones, while others constitute highly rationalized and mechanized agricultural enterprises; (c) population transfer from the zones of traditional agriculture to pioneering zones and zones of modern "industrialized" agriculture, with consequent transformations of labour relations and community organization. (Permanent transfers of this kind, however, remain on a much smaller scale than migration to the cities, and probably are less important than temporary migration to seek wage employment in the new zones.)

(2) Within the older agricultural areas, the chronic threat of tenure reforms and rural unrest combines with the declining profitability of haciendas worked by the traditional methods, shifts in the price relationships of different crops, and other influences to stimulate, alternatively: (a) voluntary parcelization (through division among family members or sale to small holders); (b) replacement of the traditional large resident labour force by small skilled permanent staffs combined with seasonal unskilled labour from outside the estate, through mechanization and shifts to crops requiring less labour; (c) reduction of investment to a minimum and "mining" of the soil, in the expectation of eventual expropriation.

^{11/} It is probable that in some countries the growing ability of the urban masses to hold down prices of staple foods in inflationary situations combines with the general inefficiency of the productive systems and the very wide price gap between producer and consumer caused by expensive and wasteful distributive systems as disincentives to the production of such foods in relation to other agricultural products. Also, in spite of the over-all inadequacy of food production the domestic markets are quite rigid in the face of increases in the supply of any one product. An unusually good crop is likely to result in unsaleable surpluses.

(3) The wealthiest landowning families, which historically have had many links with commercial and more recently industrial interests, are becoming more dependent on these non-agricultural sources of income and more "urban" in their interests. The medium-large landowners that in the past have constituted the resident upper classes of the provincial cities and small towns are increasingly moving to the large cities, often relinquishing their land to the upward-moving elements to be mentioned below. The attraction of the "modern" urban way of life, particularly to the youth of this class, seems to be the main influence, but in some areas has been reinforced by fear of the increasing militancy of peasant groups. This exodus might be expected to contribute to at least a temporary weakening of the local power structures that have in the past kept peasant pressures under control, although (for reasons indicated below) the end result might be a reinvigoration of these structures.

(4) The rural population and that of the small towns are becoming more dependent on consumer goods and even foods supplied through the national market rather than produced locally. This trend derives partly from the increasingly pervasive influence of urban consumption standards, which in a good many zones is accompanied by a weakening of the local productive base. In its present form the process is often self-contradictory, since greater dependence on the national market and stronger felt needs for manufactured goods are likely to be associated with stagnation or deterioration of purchasing power. In some zones the rural economy may by now be subsidized to an important extent by remittances from family members working in the cities. At the same time, the importance of non-agricultural roles in the rural areas and small towns is increasing. More families try to maintain themselves by petty commerce, selling foods and beverages, and some artisanal activities, such as repair of appliances and buildings. For the majority this is hardly more than a form of disguised unemployment, but for the more aggressive and better-educated it can mean the beginning of accumulation of capital and entry into a class of semi-rural intermediaries who are stepping into the places of the traditional local upper class. Present assessments of this "new class" are contradictory and evidence is scanty. On the one hand, the intermediaries can be seen as a potentially dynamic force for rural change with potential entrepreneurial talents hampered and

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distorted by the environment. An important part of the leadership for peasant moves toward unionization and political action in at least a few countries seem to come from individuals whose shops or taverns give them economic independence in relation to the landowners, and constitute gathering places for the rural workers. On the other hand, it is argued that the intermediaries are not a new phenomenon and that now as in the past their only interest is in consolidation of exploitative advantages in the system of "internal colonialism"; that they have "not the slightest interest in a real national integration."^{12/}

(5) Rural workers and small cultivators are becoming increasingly exposed to organizational and political appeals of urban origin at the same time as the paternalistic local political leadership becomes weaker. These appeals have stimulated a widening awareness among the rural population of official commitments to agrarian reform and of the existence of minimum wage laws and other labour protective regulations. Enforcement of such provisions - only very recently extended to rural workers - varies from partial in some countries to non-existent in others, but they have undoubtedly contributed to a consciousness of possessing "rights" in relation to the employer and local public officials. The growth of peasant organizations has in some countries been officially favoured or tolerated, while in others such movements have been driven underground, but familiarity with the weapons of strikes and land seizures and with the possibility of influencing national policy through political action is now present in many zones where such ideas were unheard of a decade or two ago. In a few countries, the organized peasants are already able to trade their votes and capacity for mass action for specific concessions, as the organized urban workers have done for some time, and have become essential elements in governing coalitions.

^{12/} "Siete tesis equivocadas sobre América Latina", op.cit. In relation to Mexico, where agriculture is more dynamic than in most of Latin America, Stavenhagen points to the importance of capital formation by the small-town commercial and servicing sector, but argues that only a small part of this capital is invested in agriculture or in local industries; the greater part probably is channelled into urban commerce and real estate. (Rodolfo Stavenhagen, "Social Aspects of Agrarian Structure in Mexico". In Social Research, vol. 33, N° 3, Autumn 1966.) Elsewhere, there is some evidence that the intermediaries devote their commercial profits to the building up of local land holdings.

The more important "peasant" movements have a heterogeneous membership. Most of the 550,000 members of the Federación Campesina Venezolana, for example, "combine land-squatting family farming with seasonal wage labour", but the Federation includes also "tenant farmers, sharecroppers, and small-holders of agrarian reform plots".^{13/} The immediate interests of the groups differ according to their relationships to the land, and the very awareness of the possibility of organized action to obtain rights is likely to bring into the open divergencies that will widen with the application of tenure reforms.

The studies carried out by the Inter-American Committee for Agricultural Development (CIDA) ^{14/} indicate the impracticability of making the whole rural population direct beneficiaries of land redistribution. The targets suggested as feasible would favour about half the families of landless workers and cultivators with precarious tenure during the next decade, and assume a continuation of present high rates of movement of labour force out of agriculture.^{15/}

Competition for land between minifundio cultivators and resident hacienda workers has already led to conflicts in some zones. Wage workers in modern large-scale agriculture may be more inclined to struggle for guaranteed employment, higher wages and social security than for independent land ownership. The landless seasonal workers - least organizable and least

^{13/} John Powell, "Venezuela: the role of peasant organizations in agrarian reform". In newsletter, Land Tenure Centre, University of Wisconsin, N° 24, (August-October 1966).

^{14/} Studies of seven countries (Argentina, Brazil, Chile, Colombia, Ecuador, Guatemala and Peru) have been made by the Inter-American Committee for Agricultural Development, which is now following them up by studies of three countries with major agrarian reforms (Bolivia, Mexico and Venezuela). The CIDA findings are summarized in Solon L. Barraclough and Arthur L. Demike, "Agrarian Structure in Seven Latin American Countries", Land Economics, 1966. A more recent analysis of the situation drawings upon the CIDA studies and emphasizing the benefits to be expected from well-planned agrarian reforms in terms of employment, income distribution and expansion of internal markets, is presented in part IV of the Economic Survey of Latin America 1966 (E/CN.12/767/Add.3).

^{15/} See Economic Survey of Latin America 1966, part IV, chapter II, 3.

qualified for management of an independent holding - are likely to find their situation increasingly desperate, whatever gains are made by the other groups.^{16/}

(6) The rural stratum mentioned last, of seasonal wage workers: unemployed during much of the year and unattached to any specific plot of land, is increasing in relative importance and in geographical mobility. Another stratum almost as badly off, consisting of cultivators whose holdings are insufficient for subsistence unless eked out by seasonal wage labour, is also increasing, as the small-holdings are divided by inheritance and as they lose their fertility through overuse and erosion. In some countries this latter stratum is being enlarged through the acquisition by workers on the large estates of effective ownership of the plots of land they have cultivated as part compensation for their labour, whether under the terms of agrarian reforms laws (Ecuador and Peru) or extra-legally. In general, opportunities for the seasonal wage labour required by these two strata do not seem to be increasing.^{17/}

(7) The establishment of agrarian reform and community development agencies, along with the continuing expansion of rural school networks and to a lesser extent of health services has meant the appearance in the countryside of urban public employees unidentified with the local power structures and responding (however ambivalently) to an intention at the level of national policy to change these structures and integrate the rural population into the national society. These new technical and promotional public employees are thinly scattered and inevitably affected by urban and bureaucratic biases,

^{16/} Análisis de la realidad social del Perú, op. cit. contains one of the first attempts at a systematic presentation of the tensions and conflicts within a rural society as they are affected by present national trends. Andrew Pearse, in "The Problem of the National Incorporation of the Smallholder" (Paper presented to the VIII Latin American Congress of Sociology, San Salvador, September 1967), discusses the signs of sharpening differentiation within zones where smallholders already predominate, as minorities (usually men possessing special advantages of work-experience outside the locality) take advantage of new market opportunities, "patches of commercial agriculture spread out within the communities, and a new marginality engulfs the unregenerate sector",

^{17/} Stavenhagen, in Siete tesis equivocadas ..., op. cit, asserts that workers in this plight constitute more than half the active population in agriculture in Mexico, and emphasizes their lack of capacity for organization and their limited access to state-provided social benefits and protective legislation.

but in some instances they are in advance of national policy in their support of rural popular organization.^{18/} To an increasing extent, elements within religious bodies are assuming similar roles, while university student brigades recruited for rural community work are reinforcing the innovative influences.

(8) In many zones near the large cities are possessing special scenic or climatic attractions land is being bought by urban families interested only secondarily or not at all in agricultural production. In these instances, the countryside becomes a recreational annex of the city and the rural workers are directly exposed to the newer urban consumption patterns, as well as to new occupational opportunities, which may include a revival of traditional handicrafts for an urban middle-class market.

Several of the trends summarized above, taken by themselves within the rural setting, might be stages in cyclical processes leading back to over-all rural social situations not very different from the past in the concentration of wealth and power and in systems of control over the labour force. In particular, the decline of the traditional haciendas and the flight to the cities of the older small-town upper class might be followed by a re-consolidation in the hands of the small-town commercial intermediaries and political bosses. There is historical evidence that this has occurred in the past in parts of the region. Or the decline of the hacienda system in the older agricultural zones might be more than offset by the strengthening of large holdings in other zones. This too has happened before. The CIDA reports suggest that in Brazil the predominant trend, for the country as a

^{18/} "Alongside industrial development and trade, the State is the major subversive element in the Andean society, both in the indigenous communities and on the haciendas, for it inculcates new ideas and gradually sets up standards far above existing living conditions, which in many cases, far from remaining at the traditional levels, actually fall short of them. In other words, agencies subsidiary to various Ministries are gradually undermining the foundations of a traditional society which used to be - and to a great extent still is - heedless of the explicit legal principles that govern urban society." (Análisis de la realidad social del Perú, op.cit., p.34.) At the same time, the innovative influence of the new public agencies is presumably limited by the fact that many of them are directed and staffed mainly by members of landowning families. A survey among employees of one agrarian reform agency found that over three-fourths of the professional and technical personnel were from this class. (Solon Barraclough, "Agricultural Policy and Land Reform", paper presented to Conference on Key Problems of Economic Policy in Latin America, The University of Chicago, November 1966.)

whole, is toward the consolidation of new large holdings, while in some of the Pacific coastal countries this process is less significant than the weakening of the traditional haciendas.

The trend that seems really to be irreversible, however, is in the direction of increasingly direct dependency - economic, demographic, political and cultural - of the rural areas and the local semi-urban centres upon the cities, accompanied by widening of the influence of the kind of continuing urban transformation that has been described. Under these circumstances, stabilization of rural social relationships seems unlikely, and it is probable that the potentialities as well as the needs for agrarian reform will change more rapidly than might be thought from the terms in which the debate over such reform is still being conducted.

The ability of the landed interests to resist change has declined while the ability of the State to plan for and control such change has not increased correspondingly. Until more effective rural development policies are found and applied, a confused combination of the following processes can be expected: (a) increase in the ability of some strata of peasants and rural workers to exert effective pressure for land distribution, legal protection and social benefits from the State; (b) increase in numbers and decrease in productive capacity of minifundios; (c) increase in landless semi-rural population subsisting through various expedients in conditions of extreme under-employment; (d) speeding up of out-migration of the rural population of working age; (e) expansion of commercial agriculture offering only limited employment opportunities at relatively good wages and oriented away from the domestic market for staple foods. Much of this commercial agriculture would be continually in search of new lands because of changing market demands, soil exhaustion, and the diseases to which export crops are subject. Domestic food production would continue to lag behind the rate of urban population growth, with consequent damage both to nutritional levels and to the balance of payments, as the urban population would exert irresistible pressure for food imports.

Most of the elements for rural-development policies integrated with over-all development policies are already at hand, however difficult it may seem to apply them in default of sound political backing and with limited financial and technical resources. One very important residual problem, while often referred to, does not seem to have been faced squarely as yet. It is assumed that a well-planned agrarian reform will increase considerably the ability of the rural economy to use labour productively, but even so there is little likelihood that the demand for agricultural labour will increase much faster than the present rate of increase of rural population - around 1.5 per cent annually for the region as a whole,^{19/} - or that the demand will absorb the whole of the present under-employed stratum of seasonal workers. The redistribution of income associated with agrarian reform can be expected to stimulate a rising demand for inexpensive consumer goods and thus promote the growth of industries that can be relatively small-scale, located close to rural markets and using a higher ratio of labour to capital than the present industries oriented to upper-income urban demands. Rural demands for a wide variety of services can also be expected to increase. Even under the most favourable circumstances, however, it is probable that rural population growth will continue to contribute to the expansion of the "marginal" strata to be discussed below, while the employment opportunities of unskilled and illiterate workers will become ever more precarious.

(c) Employment

While Latin American statistics on levels of employment and unemployment and on the distribution of incomes and productivity within the different occupational categories are notoriously insufficient,

^{19/} The net rate of increase represents about half the natural rate of increase, the remainder being accounted for by out-migration.

available data support general estimates that the proportion of the economically active population in agriculture has been declining steadily in recent years (from 54.1 per cent in 1950 to 46.1 per cent in 1965) while in most countries continuing to grow in absolute numbers (from 28.1 millions in 1950 to 35.2 millions in 1965). Meanwhile, the proportion of the economically active population in manufacturing has declined slightly (from 14.2 per cent to 13.8 per cent) and the percentages in construction and basic services have increased moderately (from 7.8 to 9.1). The remainder of the economically active population - rising in numbers by around three per cent annually - has had to be absorbed in other services and in "unspecified activities", which have together increased from 22.8 per cent of the total to 30.3 per cent, and in absolute terms from 11.9 millions to 22.9 millions.^{20/} Estimates of the participation of manufacturing in non-agricultural employment bring out still more sharply the failure of this sector to absorb the labour force moving into urban centres. In 1925, 35.4 per cent of the non-agricultural labour force are estimated to have been engaged in manufacturing; as urbanization advanced the percentage fell to 33.9 in 1930, 32.6 in 1940, 30.8 in 1950 and 27.1 in 1960.^{21/} It is statistically evident that the heterogeneous services or "tertiary" sector has been the most important refuge for the surplus labour force, but this does not mean that the problems of low-productivity employment and under-employment are coterminous with this sector. In fact, the process of urban "modernization" under the influences described above is bringing about within each of the major sectors of economic activity, at widely differing rates and proportions, rather similar trends toward the parallel growth of technologically advanced and productive activities

^{20/} Economic Survey of Latin America 1966, part I, chapter II, 10. These trends were previously analysed in more detail in "Structural changes in employment within the context of Latin America's economic development" in Economic Bulletin for Latin America, vol. X N° 2, (October 1965).

^{21/} Table I-14 in the Statistical annex to "The Process of Industrialization in Latin America" (E/CN.12/716/Add.2).

offering only limited employment and other activities that must try to absorb the bulk of the labour force increase through low-wage, low-productivity, intermittent employment.^{22/} This kind of differentiation has already been noted in relation to agriculture.

Manufacturing includes artisanal production as well as factory industry. Although decreases in the percentage of economically active population in the first of these sub-categories (from 7.4 in 1950 to 6.3 in 1965) have more than offset percentage gains in factory employment (up from 6.8 to 7.5), the absolute numbers in artisan activities have continued to rise, according to the source cited above, from 3.8 million in 1950 to 4.5 millions in 1960 and 4.8 millions in 1965. Within the artisanal sub-category it can be assumed that employment in traditional crafts has declined while employment in the small-scale production of cheap "modern" consumer goods - plastic articles, household utensils, toys, furniture, etc. - in unregulated petty enterprises has increased. It is probable, that part of the "factory" industry has a similar character, with larger numbers of workers per enterprise.^{23/}

^{22/} As it now seems to be evolving, this differentiation is quite different from the "dual economies" that have been offered in the past as conceptual schemes for the interpretation of Latin American realities, and a more detailed study would have to distinguish a wide range of technological level within each economic sector. It has recently been suggested that a tripartite differentiation would provide a more adequate analytical framework. "In almost all of the countries three broad compartments should be distinguished: the 'modern', the 'intermediate' and the 'primitive', differentiated essentially by their levels of productivity and, more basically, by that which determines these levels, that is, the degree of absorption of technical progress and the patterns of predominant social relationships. Each of these compartments would include segments of all of the sectors of economic activity." ("Esbozos sobre la distribución del ingreso en América Latina", E/CN.12/770/Add.1, 21 April 1967.)

^{23/} In comparing the technologically modern industries with the more labour-intensive enterprises, however, it cannot be taken for granted that the degree of technological modernization corresponds to real gains in productivity and costs. Advanced labour-saving techniques have been introduced directly from the countries offering models for modernization, often through the setting up of subsidiaries of enterprises from the latter countries, usually without comparative cost-benefit analyses, let alone an assessment of their correspondence with development priorities of countries with large surpluses of poorly qualified labour. The same generalization applies to agriculture and other economic sectors. In all of these sectors, of course, relative immediate costs may not be the main reason of employers for preferring to increase mechanization and reduce the size of their labour force.

/In mining

In mining and fisheries, the juxtaposition of large-scale highly productive enterprises with activities that provide a bare subsistence is particularly striking, with high proportions of self-employed in the latter group. In construction, the most modern techniques for road-building and erection of urban edifices with heavy equipment co-exist with construction by unskilled casual labour, including minifundio cultivators seeking wage labour outside their crop season. In the employment figures for basic services, capital intensive and technologically ultra-modern airlines and electrical power systems are combined with overstaffed and deteriorating railroads, while urban transport is typically left to many small enterprises that offset low fares by low wages and a minimum of investment. In retail commerce, casual observation indicates that the appearance of supermarkets and self-service enterprises has not prevented continuing proliferation of petty shops and street vendors. In this sector, questions as yet unanswered have been raised concerning the relative importance of occupational preferences and lack of other alternatives; it is probable that for much of the urban low-income population the two influences coincide. Self-employment with freedom of choice as to working hours is preferred to wage labour, particularly when the latter would be hard to find and poorly rewarded.

Lastly, in the governmental services, reasonably efficient branches, often modelled on the advice of organization and methods experts, co-exist uneasily with branches whose main objective is to provide as many modest but undemanding sources of income as possible.

In all the sectors of employment, the range between high and low per capita incomes and productivity is probably widening. According to one illustrative hypothesis less than 5 per cent of the population employed in agriculture should be allocated to a "high-productivity" category; less than 40 per cent is of medium productivity; while the remainder is of low productivity. In manufactures, construction and basic services the proportions would be 20, 60 and 20; in other services, 15, 50 and 35. Altogether, 11 per cent of the active population, accounting for about 40 per cent of the regional product, would be at productivity levels typical of Western Europe. At the other extreme, 40 per cent of the population would be at

/the productivity

the productivity levels of the poorest countries of Asia.^{24/} Recent studies of income distribution in Mexico, where steady increases in per capita levels have been accompanied by some decrease in unevenness of distribution affecting the majority of the population, suggest that the poorest 20 per cent of families have lost ground absolutely as well as relatively.^{25/}

It might be expected that the capacity of the low-productivity occupations to provide subsistence for the population flowing into the larger urban centres would eventually become saturated and that open unemployment would then rise to crisis levels. Thus far, measurement of urban unemployment has been limited to a few of the more urbanized and less typical countries of the region and to a few small countries with special problems. In Argentina, surveys found 6.5 per cent of the economically active population unemployed in April 1966 in Greater Buenos Aires and four other large cities. In Uruguay, unemployment was recently estimated at 8.5 per cent. In Chile, sample surveys carried out quarterly in Greater Santiago between 1961 and 1966 indicated unemployment rates fluctuating between 4.3 per cent and 7.6 per cent. In December 1966, 5.4 per cent of the economically active population were unemployed, but 19.3 per cent of the inactive population 14 years of age and over also indicated a desire to obtain employment. In Venezuela, where unskilled rural-urban migrants constitute a much larger part of the problem than in the three countries named above, previously high levels of urban unemployment seem to have decreased, largely as a result of governmental stimulation of construction activity; in Caracas unemployment fell from 93,000 at the beginning of 1963

^{24/} "Structural changes in employment within the context of Latin America's economic development", op.cit.

^{25/} "Estudios sobre la distribución del ingreso en América Latina", op.cit.

to 66,000 at the end of 1964. The highest unemployment rates have been registered in the Dominican Republic (17.8 per cent of the economically active population unemployed in 1965) and Panama (between 12 and 17 per cent of the labour force in 1966-67).^{26/}

Elsewhere, the absorptive capacity of the various makeshift means of livelihood seems to have continued high enough so that the dimensions of the problem can only be guessed at.^{27/} In Brazil, for example, a recent survey quotes an estimate of a temporary unemployment rate of 15 per cent of the labour force in São Paulo in August 1965, but concludes for the country as a whole that since there was little or no increase in industrial employment in 1965-1966, "nearly all increases in the urban labour force - which in two years would have amounted to 1.5-2.0 million persons - have probably been forced into the urban services sectors that are characterized by low productivity and incomes and high levels of hidden unemployment or under-employment."^{28/}

The general and speculative character of such references to the service occupations in relation to concealed unemployment indicates the scarcity of specific information as to how the more marginal strata of the labour force manage to subsist without showing more pronounced symptoms of destitution

^{26/} The above estimates are all taken from the 1966 and 1967 country reports of the CIAP Secretariat with the exception of that for Chile. Chile is the only country in the region in which systematic sample surveys of employment and unemployment have been carried out in the larger centres over a period of several years, although some of the other countries have made *ad hoc* surveys. Periodic reports of the findings of these surveys are published by the Universidad de Chile, Instituto de Economía, under the title *Ocupación y desocupación, Gran Santiago...*

^{27/} "The measurement of unemployment is notoriously difficult in Latin America for a multiplicity of reasons: conceptual (are reluctant shoeshine boys unemployed?), definitional (is two days a week "unemployment"?), administrative, political. Few who know the area put any confidence in published estimates, and, in fact, few countries even bother to publish estimates. Persons familiar with the area would probably think of 15 to 20 per cent of the urban labour force as being unemployed or under-employed..." ("The labour *élite*: is it revolutionary?" *op.cit.*, p. 289.)

^{28/} "Domestic Efforts and the Needs for External Financing for the Economic Development of Brazil", CIAP/76, Rev., 7 October 1966.

/and desperation

and desperation than up to the present. The expedients that are open to them can easily be listed but the relative importance of these expedients is unknown. There seem to have been no studies, for example, of the circumstances under which the large numbers of individuals engaged in street vending enter this occupation and of the kind of livelihood it offers them. High rates of burglaries and robberies have stimulated pervasive fears - affecting the poorer settlements as well as the upper-income suburbs - in a good many of the cities, but the generally assumed relationships of this phenomenon with unemployment remain to be demonstrated. There are only a few local fragments of information on the extent to which family and neighbourhood solidarity assumes the burden of supporting the unemployed and their dependents. A study of localities within a new industrial city, Ciudad Guayana in Venezuela, in which high-wage employment co-exists with extensive unemployment of unskilled migrants, indicates that this latter means of unemployment relief can retain remarkable effectiveness even in a setting of rapid urbanization and disruption of previous local ties, as long, at least, as the regularly employed working class is of recent formation and lives in the same neighbourhoods as the unemployed.^{29/}

In the large cities, however, increasing residential differentiation between the regularly employed workers and the marginal strata seem bound to coincide with increasing saturation of the absorptive capacity of the makeshift occupations and rising consumption aspirations among the marginal strata. In view of the relatively high capacity of the urban masses for organized political action this faces the public authorities with the alternatives of incorporating into their development policies a really effective and comprehensive strategy for full employment, or of providing unemployment relief, consumption subsidies and welfare services on a scale far exceeding their capacity to mobilize resources.

^{29/} "... Income from the employed sector of the population percolated into the unemployed sector through an intricate mesh of social relationships in which complex family ties were of vital importance.. Hence the logical deduction is that time is better spent in being sociable than in looking for work or acquiring technical qualifications." (Lisa Peattie, "La movilidad social". In Desarrollo Económico, vol. 2, N° 3, 1965.)

Feasible full-employment policies would require prompt decisions on the major structural reforms to which the countries are already committed, in particular on agrarian reforms that would specify the expected capacity of agriculture to absorb labour and set forth alternatives for the surplus rural labour force. Such policies would also require an examination of the absorptive capacity of all the other occupational sectors, not so much in global terms as in relation to the relative advantages of creating jobs in large cities at the expense of strengthening the present centripetal forces of economic concentration or of strengthening the economies and job-absorptive capacities of smaller urban centres and of the internal regions now least able to provide a livelihood for their populations. Regional planning initiatives in several countries have accumulated experience in several alternative approaches - ranging from concentration of resources on internal regions with exceptionally favourable resource endowment and scanty populations to concentration on regions outstanding for their poverty - but efforts to integrate these initiatives into national development planning have not yet been demonstrably effective.

A re-thinking is also needed of the technological levels of industry and construction that are most appropriate in relation to the qualifications of the labour force to be absorbed, and of the practicability of giving systematic support to labour-intensive small industries.^{30/} The versatility, readiness for mobility, and youthfulness of the "marginal" labour force must be drawn upon to offset its low formal qualifications. At the same time, the character of the present market for industrial goods and buildings; the developmental requisites of higher productivity, lower costs and mass production; and the increasingly pervasive managerial and financial control of national industries by companies operating internationally place formidable obstacles in the way of a strategy for labour-intensive

^{30/} The shortcomings of present lines of industrial growth have been analysed in a number of ECLA studies. See, in particular, The process of industrialization in Latin America (United Nations Publication: Sales No: 66.II.G.4). A Seminar on Small Industry in Latin America, held in Quito in November-December 1966 under the auspices of ECLA and other United Nations organs, provides voluminous recent information on the situation and potentialities of small industry in the different countries.

industry on a scale that could significantly alter employment trends. Finally, educational services, social security and welfare systems and labour protective legislation would have to be subjected to reforms - difficult because of the interest vested in their present lines of growth - that would enable them to promote rather than hinder the absorption of marginal labour. These social programmes will be discussed in the final section of the present chapter. First, however, it will be worthwhile to take a closer look at the phenomenon of "marginality" of which the problem of under-employment is a component.

(d) Marginality and marginalization

The term "marginality" has been invested with various meanings by sociologists in the past. In its recent popularization in Latin America has acquired new connotations associated with differing interpretations of the social reality; it may be in some danger of becoming no more than a pretentious synonym for "poverty". Semantic divergences thus need to be distinguished from hypotheses concerning a real phenomenon deserving a specific name. The hypotheses that seem most useful for present purposes start from the premise that rising proportions of the Latin American population are entering into relationships with socio-economic change that are marginal in ways differing from the disadvantages suffered by the masses of the population in the past. In this sense, the rural workers dominated by the hacienda system were not marginal, however poor they might be and however excluded from participation in the wider society, nor were self-sufficient subsistence cultivators and tribesmen. Neither are urban workers marginal, to the extent that they have access to regular employment and are able to advance their interests through their own organizations. The preceding pages have pointed to the growth of strata in close contact with the national economies and societies, under multiple stimuli to participate in them but able to do so only "marginally". Traditional occupations are decreasingly able to afford them a livelihood, urban communication media urge them to take up more varied consumption patterns, political movements and the State itself inform them of rights to a more adequate level of living. Increasing poverty - whether absolute or in terms

of the widening gap between felt needs and incomes; increasing insecurity - of employment, community and family ties, shelter, ability to cope with problems; and increasing geographical and occupational mobility go together. The last of these trends means that the differences between the phenomenon of marginality in rural and urban settings, while still important, are bound to become increasingly blurred. The social groups that are being shaped by the contradictory pressures and stimuli are undoubtedly too diverse to be summed up by such a simplified interpretation and it can be assumed that the majority do not see their own plight in the grim terms in which it has just been presented. The first generation of migrants from rural areas and small towns, in particular, seem to feel that they have improved their lot by gaining a foothold in the modern urban society and are prepared to put up with privation while seeking means to establish themselves more securely. Considerable resilience and ingenuity are visible in the findings of sources of livelihood, the obtaining of shelter, and the beginnings of new forms of social organization.

The most conspicuous evidence of the growth of urban marginality has appeared in the physical environment of the cities, in the rapid expansion of settlements uncontrolled by modern urban building norms. Estimates of the population living in such settlements vary according to definition, but it is probable that at least 25 per cent of the population of the cities for the region as a whole is now living in such settlements, and that this population is growing considerably faster than the rest of the urban population, at rates between 10 and 15 per cent annually. If these trends continue the irregular settlements will before many years hold a majority of the urban population. The emphasis in discussions of this phenomenon has changed considerably as it has been studied more closely. It is now evident that the settlements are of various types, that many of them are occupied by families of relatively well-off workers who can afford to invest in building materials and meet transport costs between a peripheral location and their place of employment, while more precariously situated families and recent migrants are as likely to be found in more central urban slums. Moreover, the growth of the uncontrolled settlements is no longer looked

on as an unrelieved disaster in itself. On the one hand, it is a symptom of the "marginalization" of strata of the urban low-income population wider than the acutely marginal groups, by patterns of urban administration and housing markets that exclude them. On the other, it indicates a resilience in adaptation and a striving to invest in family security that could be of incalculable value within urban development policies capable of channelling and aiding it.^{31/}

The apprehension among social scientists and specialists in social policy that present trends point to a continuing increase in the proportion of population that is marginal in the newer sense and to a widening of the gap between marginal strata and other population groups has not yet brought forth clear-cut policy conclusions, but several approaches can be distinguished that stem from differing interpretations of the central features of marginality.

One approach sees marginality as a condition making the marginal population inherently incapable of overcoming their handicaps, of taking advantages of opportunities and services theoretically open to them, without a planned effort by the State and by other organized groups in the society to strengthen their capacity for mutual aid and organization, up-grade their educational qualifications and adapt to their special needs and limitations the whole range of public social services. This point of view is represented in various community development, adult education and social welfare programmes.

^{31/} Recent contributions to the discussion of urban settlement patterns and their relation to marginality include: John F.C. Turner, "Uncontrolled urban settlement: problems and policies", Working Paper for the interregional Seminar on Development Policies and Planning in Relation to Urbanization, Pittsburgh, October-November 1966 (published in Spanish in Cuadernos de la Sociedad venezolana de Planificación, N° 35, November 1966); Ruben D. Utria, "Structural Factors of Development and the Problem of Housing in Latin America". In Economic Bulletin for Latin America, XI, 2, 1966; and William Manjui, "Latin American squatters settlements: a problem and a solution". In Latin America Research Review, vol.II, N° 3, 1967. Another recent paper concludes that the population of the settlements "has taken the place of the public sector as regards production of essential infrastructural facilities for a large sector of the population, and has established an institutional framework sui generis which does duty for much of the economic and social machinery of the integrated sector". (Banco Interamericano de Desarrollo, Vivienda y desarrollo urbano integrado: perspectivas en América Latina, septiembre de 1966.)

/Another approach,

Another approach, while not denying the potential utility of the above measures, sees marginality as in reality a process of "marginalization" deriving from the character of the economic growth and urban modernization now under way, with its central feature the inability of the more dynamic sectors of the economies to offer sufficient employment opportunities and to enable the whole population to participate fully in the market.^{32/} Under such a conception it would be unrealistic to expect social measures by themselves to overcome marginality except for small minorities within the marginal strata. It would also be unrealistic to expect the main stimulus for effective organization of the marginal population to come from outside, from structures responsible for their marginalization. The central need would then be for changes in the wider economic and social structures reversing the process of marginalization. The very increase in the marginal strata can be seen as strengthening the pressures for structural reforms and far-reaching revisions of development strategies. At the same time, reasons can be found in present adaptive processes within the marginal strata for hopes that marginality is not equivalent to a self-perpetuating vicious circle of poverty, that the marginal strata can become constructive participants in the evolution of new societies. In the narrower context of urban development policy, the very size of the marginal strata means that they cannot realistically be viewed as anomalies to be somehow adjusted to pre-established urban norms. They will necessarily be active in an evolution toward different norms.

^{32/} Several recent analyses have distinguished between the evolution of the working class in the 19th century, which included phenomena of intensified poverty and unemployment, from present Latin American marginality. It is argued that the processes of change in the earlier period helped - and in part were deliberately designed - to create a labour force needed by industry and that the presence of a fluctuating "reserve army" of unemployed constituted an essential part of the labour force in an industrial system concerned to keep down wages and speed up capital accumulation. In the Latin American economic systems, however, with their dependence on external capital, markets and advanced technology, supply of labour has become divorced from demand. Industries do not need a marginal labour force of present dimensions are hindered from its absorption by the gap between present technology and its low levels of education and skills, and are hindered from using it to depress wages by the organized strength of the industrial workers and the State's enforcement of minimum wages.

3. The evolution of social programmes

The regional agreements of 1961 and subsequent years coupled general commitments to institutional reform and income redistribution with more specific targets calling for expansion in several of the sectors of public social action. Programmes in all of these sectors could present strong cases for their indispensability to the cause of development itself, under the conception of "human resource development", and they also responded to strong popular demands. Objectives could be formulated in simple and politically appealing terms and expansion of social programmes has not met with the kinds of tenacious resistance encountered by agrarian reform and income redistribution measures. It thus might be expected that the former would advance more rapidly and smoothly than the latter.

Actual trends since 1961 seem to be quite irregular, both between countries and between sectors of social action. A few countries have raised their public social expenditures to a level that can be maintained only with great difficulty.^{33/} Others, including countries with creditable rates of increase in per capita incomes, have, according to the most recent CIAP reports, kept social allocations at levels well below their capabilities. Efforts to incorporate the social sector into over-all development planning, or even to subject their growth to sectoral programming, have scored only limited achievements, and the present situation represents the resultant of diverse pressures from within the societies clashing with limited and unstable budgetary resources.^{34/} For

^{33/} For example, in a statement to the CIAP Sub-Committee on Costa Rica in 1967, the Minister of Planning emphasized the difficulty of financing development projects or reducing budgetary deficits when about half the budget has come to be devoted to educational, public health and other social services whose incomes are fixed by law. (CIAP/14, Rev., 4 January 1967.) "A lower priority should be accorded to income redistribution and social welfare policy... The expansion of social expenditure, especially when it does not imply an expansion of services, but increases in the salaries or wages and facilities assigned to the relatively well-paid staff already existing, should be very carefully weighed against the long-term growth of the economy" (CIAP/153, 3 October 1967, p. 11.)

^{34/} See "Social development and social planning: a survey of conceptual and practical problems in Latin America. In Economic Bulletin for Latin America, vol. XI, No. 1, (April 1966).

the region as a whole and the social programmes as a group, the struggle seems to have left the latter barely maintaining their position in relation to other forms of public and private expenditure. The ratio of public consumption, from which the social programmes are financed, to private consumption appears to have remained relatively stable.^{35/}

It cannot be assumed that the main problems of expansion of the social programmes have been problems of financial support. The previous interpretation of present processes of economic and social change suggest that the demands that are shaping the lines of growth of these programmes in default of effective planning may diverge rather widely in their aggregate effect from the publicly endorsed objectives of social justice and development of human resources. The sources of these demands can be classified as follows:

(1) From the growing bodies of professionals and specialized public employees in the different social sectors and from private enterprises that depend on the sectoral programmes for markets (the latter source of pressure being particularly important in the relation of the construction industry to housing programmes). Each sector has its own internal momentum and aspirations towards a larger share of public resources. School teachers and in some countries public health and medical personnel now constitute important components of organized labour able to enforce their claims to more adequate salaries through union action. At the same time, the rapid expansion of secondary and higher education and the limited capacity of the private sector to absorb this educational output have brought about intensified pressures for expansion of public employment and a hypertrophy of the administrative staffs of many social institutions. In a wide range of social programmes complaints are heard that inflexible personnel costs leave very little for other requisites demanded by the

^{35/} Economic Survey of Latin America 1966, part I, chapter II, 8. Many factors hinder the making of accurate and comparable estimates of trends in public expenditures in the different social sectors. Actual expenditures rarely coincide with budgeted expenditures, and both are likely to differ from the State's total legal responsibility for support of social institutions.

direct purposes of the programmes, although, paradoxically personnel holding the qualifications most needed and actually giving specialized services usually remain in very short supply. Capital investments needed for future expansion tend to be postponed, and the existing stock of buildings and other capital equipment deteriorates for want of maintenance funds.

(2) From the social strata constituting the principal clienteles of the educational, housing, health, social security and social welfare services up to the present.^{36/} These strata have been almost entirely urban, made up of employees and workers belonging to the "modern" parts of the economies and with incomes enabling them to meet some part of the costs of the services (through social security contributions, medical fees, housing amortization payments, maintenance of children during prolonged schooling and purchase of school supplies). While the characteristics of these strata vary according to the rate and stage of urbanization and industrialization, they are probably growing not only in absolute numbers but also in proportion of total population in all except a few of the smaller countries with relatively stagnant economies. Their aspirations, under the influences described above and the influence on their own rising levels of education, are increasing faster than their abilities to satisfy them; a trend supported by their concentration in the larger and more modern cities. Their capacity to absorb assistance from the public sector in meeting their social needs, particularly in education and housing, is practically unlimited.

^{36/} It might be expected that the social welfare services would concentrate upon the most needy strata of the urban population. To a large extent, however, these services have evolved within social security systems, housing programmes, modern industrial enterprises and special programmes for public employees, the armed forces, etc. They have thus dealt mainly with groups having relatively secure incomes and jobs rather than with the marginal population. Even in the programmes aimed at the latter, limited resources have made selectivity among potential beneficiaries unavoidable, and the better-educated and more socially integrated potential beneficiaries have had a natural advantage in learning about and claiming the benefits.

(3) From the much larger rural and urban strata that have previously received only token benefits from public social action - mainly in the forms of a year or two of elementary schooling and some protection against communicable diseases. Urbanization, it has already been noted, coincides with the partial breakdown of traditional sources of minimal security and traditional systems of control, and with the spread into rural areas of organizational forms and political appeals originating in the cities. These trends are changing the meaning of "deficits" in education, social security, social welfare, housing and health. As long as the cities were small and the rural majorities were controlled and isolated by the hacienda or their own community systems, the obvious quantitative deficits did not amount to real demands exerting pressure on the public sector. The demands are still not effective in terms of private or public purchasing power and the present ability of the more marginal strata to relate them to their most immediate needs is limited. In political terms, however, the demands are real and potentially overwhelming. The governmental commitments to universalize and equalize the social services, however far from realization, have contributed to a widening consciousness of social rights. For important groups, this new consciousness of social rights claimable from the State has apparently coincided with a real deterioration in levels of living and employment security.

The State thus confronts pressures from the previous beneficiaries for more and from the potential beneficiaries for universalization. The former groups in general show small readiness to moderate their demands in the name of social solidarity and justice, partly, no doubt, because they are not convinced that resources diverted from their own needs would really be used for these objectives. Under these circumstances, all of the sectors of public social action show unresolved problems of costs, content, participation, and relationships to over-all development policy. While the problems show many similarities from sector to sector, the character of the needs at which the programmes are aimed and the evolution of the programmes up to the present vary so widely that their present crises and the expedients by which the public authorities are responding to the crises demand separate discussion.

/The impetus

The impetus given to the social programmes by their overt purposes in combination with the pressures described above naturally differ according to the circumstances of each country. In a general survey such as the present it has been possible to refer to these differences only incidentally, and to give some quantitative indication of their extent in table I. At this point, however, before entering into the problems of the separate social sectors, it will be useful to relate the national differences directly to the prospects for the social programmes through a rough typology. Four national patterns can be distinguished, in which different economic levels and rates of growth and differing processes of social change, among which urbanization in a broad sense now seems to have a dominant role, imply differing opportunities and limitations for these programmes. It would, of course, be futile to try to identify each country closely with one of the four types. The types, as they are set forth in table I-16, are abstractions to which some countries of the region correspond fairly closely, while others present intermediate situations or anomalies deriving from special political or economic circumstances. In one country, Cuba, the deliberate adoption of economic and social patterns fundamentally different from those dominant in the rest of the region has altered the growth, distribution and content of the social programmes to an extent making most criteria used in the typology inapplicable to Cuba.

Type I is made up of countries with levels of production per capita that are well above the regional average, but with low rates of economic growth over the past decade. The urban population is in the majority, and the middle strata constitute relatively high proportions of this population. Population growth has slowed down, the urban marginal strata are relatively small, and the rural-agricultural population no longer constitutes a disproportionately large reservoir of potential cityward migrants. Educational, public health and social security programmes reach most of the population, however unevenly they may be distributed. These sectors of public social action already absorb high proportions of the national product and their internal momentum for further expansion is strong. Since the low rates of economic growth limit the growth of public revenues and the latter are subject to claims from many sectors,

Table I-16

TYPOLOGY OF NATIONAL SITUATIONS IN RELATION TO LINES OF GROWTH OF
SOCIAL PROGRAMMES

("Low", "medium", and "high" refer to the Latin American
average, not to international norms)

	I	II	III	IV
Level of product per capita	High	Medium	Low	Low
Rate of growth of product per capita	Low	Medium-high	Medium-high	Low
Rate of population growth	Medium-low	High	High	Medium
Degree of industrialization and economic diversification	Medium-high	Medium-high	Low	Low
Level of urbanization and size of urban middle strata	High	Medium	Low	Low
Rate of urbanization and growth of urban middle strata	Medium-low	High	Medium	Low
Importance of marginal strata within urban population	Medium-low	High	Medium-high	Medium-high
Percentage of population in agriculture	Low	Medium	High	High
Proportion of population able to participate in the political process through votes and organized demands	High	Medium	Low	Low
Degree of developmental and income inequality between internal regions	Medium	High	Medium	Low
Absorptive capacity for professions and specialized skills	Low	High	Medium	Low
Coverage of educational and other social services and proportion of national product allocated to such services	High	Medium	Low	Low
Rate of growth of coverage of such services	Medium-low	Medium-high	Medium-high	Low
Internal pressures for growth of services along present lines	High	Medium-high	Medium	Low
Pressures for reform and equalization of services	Medium-low	High	Medium-low	Low
Technical capacity for planning and reform of services	High	Medium	Low	Low
Ability of public sector to increase allocations to social services	Low	Medium	Medium-high	Low

/the satisfaction

the satisfaction of social sectoral claims becomes increasingly difficult. The need for planning and reform of the social programmes is admitted by national policy-makers, and the technical capacity of the public administration to carry out such reforms is adequate, but these needs do not generate pressures strong enough to offset the momentum making for expansion within traditional channels. The results of this contradiction are particularly striking in the educational sector. The pressure for more education, particularly at the middle and higher levels, is irresistible, but the occupational demand for the output of the educational system is weak. The private sector can absorb only a fraction of the graduates and the public sector can do so only at the price of budget deficits and expansion of an already excessive body of public employees. In such countries the emigration of professionals and technicians can be expected to reach important proportions. In varying degrees, the countries of the southern cone of South America conform to type I.

Type II is made up of countries with medium per capita income levels and fairly high rates of growth in relation to the regional average, with national figures concealing particularly wide internal disparities, with urbanization and the size of the middle strata rising steadily but still some distance below the levels characteristic of type I, with urban marginal strata large and susceptible to incalculated further recruitment from the rural population and the backward internal regions. The social programmes are expanding with some rapidity from previously low levels of coverage, but their resources are concentrated disproportionately upon the larger cities and the middle strata within them. These countries have reached stages of industrialization and economic diversification at which shortages of professionals, technicians, and literate, stable, healthy workers readily absorbable by industry appear as obvious bottlenecks in capacity for further development. At the same time, public institutions experience real needs for qualified administrators, economists, social specialists, etc., that cannot be satisfied by the existing educational systems. Here national capacity for allocating increased resources to social programmes is good, though

/far from

far from unlimited. The internal momentum for expansion is strong but confused, with the urban marginal strata and the rural population making increasingly insistent demands for a fairer allocation of services. The external (occupational) demand for reform and diversification of educational and other social programmes so as to bring them into closer correspondence with developmental requirements is also strong. The technical capacity of the public sector, with its existing human resources, to carry out general reforms under conditions of rapid expansion of the programmes, is relatively limited. The result is likely to be the appearance, under both public and private auspices, of a wide variety of new and unco-ordinated social initiatives intended to meet urgent needs. In particular, new educational and training mechanisms are set up to meet immediate demands for specialized skills in the public sector as well as in industry, while the remainder of the educational system continues to grow in some disorder and with considerable internal conflict. Most of the larger countries of Latin America approximate to varying degrees to type II.

Per capita incomes in the countries of type III are in the same range as those of type II, and are also growing at fairly high rates, but industrialization and economic diversification are more limited, and the growth is more dependent on exports of a few raw materials. Urbanization and the size of the middle strata are growing at roughly the same rates as in the countries of type II, but from lower previous levels. The predominance of rural population remains higher than in Group II and the urban marginal population is less prominent. The coverage of the social programmes is also expanding at rates similar to those of the type II countries, but from much lower levels in the recent past, so that their scope and their share of the product are still low. Here the apparent requirements for larger social allocations are very high, if assessed by international norms, but both the internal momentum for expansion and the external or occupational demands for the potential contribution of such programmes to human resource development are only moderate. The specialized character of economic growth and the limited functions of the public sector do not generate a strong demand for highly-qualified human resources. The technical capacity of the public sector

/to reform

to reform and direct the expansion of social programmes is low. While the low percentages of national product devoted to social programmes indicate a good capacity for expansion, the ability of the public sector to capture a larger share of the product for the financing of such programmes is likely to be weak. Under these circumstances, the most vigorous urgings toward expansion and reform of the social programmes are likely to come from international bodies comparing existing levels with developmental requirements and the capacity of the economies to support larger social allocations. The annual reports of the CIAP secretariat indicate that several of the smaller countries of Latin America conform to type III.

A country in type IV has a low per capita product and little or no economic growth. Urbanization is limited, the urban middle strata are small, and their rates of growth are low. The population is overwhelmingly rural, and rural poverty has not yet generated an important expansion of urban marginal strata. Coverage of the social services, allocations to them, and their rate of expansion are all very low. Ineffective pressures for such services from the different social strata, weak demands from the occupational sectors for better-qualified human resources, inability of the public sector to obtain resources to support social programmes, and low technical capacity to direct such programmes coincide. In terms of ideal developmental requirements, the educational and other social needs of a country of this type are enormous, but the capacity to meet the needs and the capacity to absorb improved human resources are equally puny. Such a country thus paradoxically shares with the countries of type I particularly high rates of loss through emigration of the few professionals and technicians it does produce. At present, only one or two of the smaller countries of Latin America approximate closely to type IV, but many of the traits have emerged in other small countries during periods of political upheaval or of depressed export markets. In the absence of effective Latin American integration, the possibility of becoming trapped in this kind of low-level stagnation seems particularly threatening for small countries with specialized economies.

/The following

The following summary concentrates on the four sectors that make the largest claims on public resources and that are in the centre of debates over social policy throughout the region. Several other sectors of social action could be mentioned, each with its own problems of reconciling overt objectives with real demands. In practice, these sectors have either been limited to a token scale of activity - as in the case of many social welfare programmes - or have been particularly vulnerable to drastic curtailments of their budgets, owing to their relative newness in the administrative structures, lack of precedents for substantial annual allocations, and political suspicion of their purposes, as in the case of the programmes commonly labelled "community development".

The problems of the form of public action that do not make a substantial direct claim on resources, particularly the wide range of protective and standard-setting legislation, deserve a separate discussion. As might be expected, the piecemeal growth of such legislation in response to internal pressures and the acceptance of international norms has produced unintended side-effects. One important consequence has been a widening of the gap between the enterprises and activities in which the regulations are enforceable and the remainder. The importance of this gap does not lie solely in the resulting lack of protection for a sizable part of the population. Inability to cope with regulative entanglements combined with good possibilities to evade or ignore them tend to stunt or distort the growth of small industry and retail commerce, bar them from access to the conventional sources of credit and technical advice, and in general accentuate their marginal traits. The influence on urban development of regulative plans and construction norms that are enforceable only in the commercial centres and the upper-income residential zones are rather similar; the uncontrolled zones and activities continue to grow in any case, but with shortcomings intensified by inability to subject themselves to workable controls and to claim relevant forms of assistance. Other unintended consequences derive from the lines of growth of regulations applying to trade unions, now beginning to be duplicated in relation to the new forms of local organization of the low-income strata. Such

/regulations have

regulations have typically derived from mixed motives of support and control on the part of the national authorities and the political groups active in their framing. In many instances, changes in the character of the organizations, and in the relative political strength of different social forces have left the rigid framework of the regulations less and less capable of governing organizational behaviour. Thus rural workers and public employees, when legally barred from organizing or striking, do both, with the likelihood of sanctions depending on the national authorities' assessment of the strength of the movement and the degree of danger its demands represent for immediate economic and budgetary objectives. Among workers in general, the complicated procedures for obtaining legal sanction for strikes are commonly ignored, and the differential ability to do so successfully affects the distribution of income between the more influential wage-earning groups and the remainder.

Education. In education, upward trends that were in evidence long before 1961 have attained a momentum making the educational systems key factors within present processes of social change, both as objects of pressures from within the societies and as sources of pressures upon the societies. Between 1956 and 1965, for the region as a whole, the percentage of total population enrolled in schools of some kind rose from 13.3 to 17.1. This gain required an average annual rate of increase of 7.2 per cent, about twice the regional rate of population increase. During the decade, enrolments at the primary level rose by 57.6 per cent, enrolments at the middle level by 110.6 per cent and enrolments at the higher level by 92.3 per cent. These differential rates of increase brought about a reduction in the share of primary enrolments in total enrolment from 86.0 per cent in 1957 to 82.2 per cent in 1965, while middle enrolment rose from 12.4 per cent to 15.8 per cent and higher enrolment from 1.6 per cent to 2.0 per cent. The rates of increase of the individual countries naturally vary, with relatively low rates characterizing some countries whose enrolment ratios were high at the beginning of the period and also some countries starting with very low enrolment ratios. With one exception however, (the Dominican Republic) every country shares in

/the upward

the upward trend.^{37/} The share of public expenditures on education in total public expenditures and in national incomes also increased, in some countries quite rapidly, although these increases do not seem to be so general as the increases in enrolment, and the national differences in financing of education combine with other factors to make comparison risky. By 1964, Costa Rica, Peru and Venezuela, and probably a few other countries were devoting five per cent or more of their gross domestic product to education, more than twice the percentages of some of the other countries.^{38/}

Meanwhile, the internal efficiency of the school systems, assessed by their ability to hold their students until the completion of a course, improved hardly at all. In 1957, for the region as a whole, 41 per cent of primary enrolment was concentrated in the first grade, while only 7 per cent was in the highest primary grade. In 1965, the percentages were 38 and 8.^{39/} In eleven out of seventeen countries providing separate information on rural enrolment the percentage reaching the final primary grade in rural schools was less than half the corresponding percentage for urban schools. In secondary and higher education - in which enrolments increased much more rapidly than in primary - there is some evidence that rates of retention have fallen. Some universities, with considerably increased enrolments, are turning out no more graduates than before.^{40/}

^{37/} These data are taken from "Evolution of the educational situation of Latin America" (UNESCO/MINEDECAL/6). Document prepared by the UNESCO secretariat for the Conference of Ministers of Education and Ministers Responsible for Economic Planning in the Countries of Latin America and the Caribbean, held at Buenos Aires, in June 1966. This document also presents detailed national statistics.

^{38/} See "The financing of education in Latin America" (UNESCO/SS/Ed.INV/7) and other documents prepared for a UNESCO-sponsored Regional Technical Assistance Seminar on Investment in Education in Latin America, held at Santiago, Chile, in December 1966.

^{39/} "Evolution of the educational situation of Latin America", op. cit., table 8.

^{40/} The low yield of Latin American universities in terms of the ratio of graduates to enrolment is discussed in a study by the ECLA Social Affairs Division of "The university in Latin America and the problems of development" to be published later.

These trends are bringing the countries in which educational expansion has been most rapid to a point at which a difficult problem must be faced. Public allocations for education, where these have reached four or five per cent of national income, cannot be raised much higher.^{41/} External aid, while it may bring important support to specific lines of higher education and technical training has inherent limitations that will prevent it from alleviating the over-all burden very much.^{42/} Meanwhile, educational expansion at the primary and middle levels

^{41/} According to a rough estimate, present public expenditures on education in the region amount to about US \$3,000 millions annually, or a little more than 3.5 per cent of the gross domestic product. A continuation of present upward trends would call for an annual expenditure of US \$11,000 millions by 1980, or about 5.5 per cent of the GDP, on the rather optimistic assumption that the GDP will double during the period. This projection allows for probable increases in costs per pupil at all levels, for the continuing increase in relative importance of middle and higher education, with their much higher unit costs, and for a shift within the middle level in the direction of more technical-vocational training, which has higher unit costs than academic secondary education. ("El financiamiento de la educación y la capacitación de los recursos humanos en América Latina", (ECLA/Ed.Inv./6.G), document presented by the ECLA secretariat to the Regional Technical Assistance Seminar on Investment in Education in Latin America.)

^{42/} In a statement applicable to other social programmes as well as education Benjamin Higgins has argued that the specific allocation of external resources to such programmes is illusory when considered as a supplement to the domestic resources that are available, except to the extent that the programmes require imports of materials or personnel. "It is clear enough from some of the statements concerning external financing of education that what those interested in expanding educational programmes ... really have in mind is increased allocations in domestic currency, to acquire human and physical resources domestically available while the foreign exchange is utilized for other projects ... Certainly, in so far as expansion of the education programme requires the attraction of human and physical resources from other fields of activity, thus reducing the output of other goods and services and adding to inflationary pressure, increased foreign exchange may be used to import raw materials and equipment for other projects, or even to import final consumer goods, thus offsetting inflationary pressure. In this way any harmful effects of expanding the educational programme may be offset. However, it should be noted that in this event there is absolutely no significance in first attaching the foreign assistance to educational programmes. The ultimate result is exactly the same if the external assistance is provided against the economic and social programme as a whole, and in that event there is less likelihood of misallocation of the actual foreign exchange provided." (Benjamin Higgins, "Investment in education in Latin America", (SS/Ed.Inv.6.A), document presented to the Regional Technical Assistance Seminar on Education in Latin America.)

creates irresistible pressures for expansion at the next higher levels. To the extent that better planning and improvements in internal efficiency raise the retentative capacities of the schools, permitting more students to complete the primary and middle courses, these pressures will become ever stronger.

For several reasons, educational costs can be expected to rise faster than enrolments. The educational levels of the teachers themselves are rising and the growing numbers of teachers are able to make increasingly potent demands for incomes corresponding to their educational qualifications. Their strength is indicated by the fact that in many countries the educational sector is by now "the next largest 'industry' to agriculture in terms of employment".^{43/} Effective primary education for the children of low-income families will require considerable increases in the very meagre sums that have been allocated to school supplies, school meals, and school welfare services. Even more important, the differential expansion of middle and higher education will bring disproportionate cost increases. The present annual cost per primary pupil has been calculated at US \$42; for a general secondary student the cost rises to 155 dollars; for a vocational or normal student to 210 dollars, and for a university student to 700 dollars.^{44/} The higher unit costs for vocational education deserve emphasis, as this factor is commonly disregarded in proposals for rapid transformation of middle-level education. The so-called "opportunity cost" represented by the incomes foregone by students of working age might be added. In societies burdened by extensive concealed unemployment, however, it is arguable that this cost affects only the family of the student and not the cost to the national economy.

^{43/} "The financing of education in Latin America", op. cit.

^{44/} "El financiamiento de la educación y la capacitación de los recursos humanos en América Latina", op. cit. In spite of the rapid growth of enrolment at middle and higher levels noted above, the percentages of the relevant age groups enrolled at these levels in most of the countries remain small, with a correspondingly huge potential for future expansion.

The educational systems are being criticized for not making their full potential contribution to the increases in production needed to support their own rising claims, through an output of graduates corresponding more closely to priority developmental needs. Aside from the obvious waste represented by students who drop out without completing a course, it is evident that increasing numbers of students are left stranded at the end of university-preparatory secondary courses by inability to enter a university, and that high proportions of students who do complete a specialized education do not find employment making use of it, or go abroad to seek such employment. The out-flow of technicians and professionals to high-income countries, particularly the United States, seems to mean that a significant part of Latin American educational investment goes to support the economic growth and social programmes of other regions. The inability of the educational systems to distribute their enrolments in closer correspondence with developmental needs, however, derives in large part from the fact that these needs are not reflected in well-defined demands within the occupational structures, accompanied by differentials in salaries and working conditions. This lack of correspondence is reflected most glaringly in agricultural education, in which the need for an output many times the present size is a commonplace of international recommendations, but with job opportunities of the present small output generally insufficient and unattractive. In the absence of such demands the strivings of youth seeking upward mobility through education inevitably concentrate on the traditional channels leading to careers that are already relatively well-supplied and which, in any case, most of the aspirants cannot reach because of lack of qualifications or lack of resources for protracted periods of study.

Present tensions in the educational sector between inflexibility or instability of resources, pressures for expansion, and demands for a larger contribution to human resources development seem to be having positive as well as negative consequences. On the one hand, a continuing downward pressure on quality is evident, as the numbers pressing into the schools are accommodated through larger classes, multiple shifts, under-investment in equipment and books (often paradoxically accompanied by diversion of

/resources into

resources into showplace buildings). On the other hand, education is in the lead among the social sectors in critical examination of its own purposes and methods, in a serious striving for great internal efficiency and for means of tapping new resources, and in the formation of links between educational planning and the initiatives - still at a very rudimentary stage - for manpower planning. Insistence on better use of the resources already at hand has begun to replace the previous insistence on ever larger resources among educational planners and in regional conferences although it is probable that this outlook has not yet penetrated very deeply into the teaching profession and the administrative machinery. Reforms of the secondary school system aiming at diversification and elimination of the predominance of the university-preparatory channel are beginning to make headway against manifold sources of resistance from within the societies, as the non-viability of present systems become more obvious. In the universities, the combination of ideological ferment and organizational paralysis that has resulted from the contradictory pressures on them shows signs here and there of giving way to new structures capable of responding to present developmental requirements.^{45/}

Health. The 1961 Punta del Este Charter specifies health targets for the decade in terms of five-year increases in life expectancies and reductions by one-half in mortality rates for children under five years of age. The nature of life expectancy statistics (calculated from decennial censuses) and the incompleteness of regional vital statistics hinder any

^{45/} For discussions of educational reform and planning in the context of over-all development policy and planning see: "Human resource training in the economic and social development of Latin America". In Economic Bulletin for Latin America, vol. XI, No. 2, (October 1966); Marshall Wolfe, "Educación, estructuras sociales y desarrollo en América Latina". In América Latina, (Rio de Janeiro, 1967); Simón Romero Lozano and others, El planeamiento de la educación: aspectos conceptuales y metodológicos (to be published by the Latin American Institute for Economic and Social Planning); and Luis Ratinoff. "La expansión de la escolarización". In Cuadernos de la Sociedad Venezolana de Planificación, No. 37-38, (Febrero 1967).

general assessment of the extent to which present trends are responding to these targets. It is probable that previous upward trends in life expectancies and downward trends in mortality are continuing, but that rates of change are slowing down as the easier gains associated with control of communicable diseases through quarantines, vaccinations and control of insect vectors have been realized, while widening coverage by public health services encounters the limitations imposed by low - even deteriorating - nutritional and environmental levels.

The provision of potable water and environmental sanitation to urban low-income zones, small towns and villages constitutes an important and relatively expensive further stage in the struggle against diseases whose impact on mortality and life expectancies can be reduced irrespective of trends in general living conditions. Together, the diseases spread by polluted water are now the leading causes of death in many Latin American countries and are important in practically all. Water supply and environmental sanitation programmes have been stimulated by loans amounting to nearly one-third of the external resources allocated to Latin America through the Social Progress Trust Fund of the Inter-American Development Bank between 1961 and 1966. The IDB estimates that completion of present programmes will mean new water supply and sanitation systems for 20 million persons, while 17.6 million more will benefit from improvements in existing systems.^{46/} This would amount to about one-sixth of the regional population, presumably leaving most of the smaller rural nuclei still unprotected.

^{46/} During the 1961-1966 period, IDB approved loans totalling about 353 million dollars, 75.6 per cent of the total international financing received by Latin America for this purpose. During the same period domestic allocations totalled about 356.5 million dollars. The ratio of external to domestic financing seems to be higher than in any other important area of social action except food supply, probably because of the relatively high component of imported equipment required. (Socio-economic progress in Latin America, Social Progress Trust Fund Sixth Annual Report, 1966. Washington, D.C., Inter-American Development Bank, 1967.) This report also contains the most recent available statistical indicators on health and nutrition.

As table I-15 indicates, public health services now absorb sizable percentages of central Government expenditure in most countries. The very size and internal momentum of these services, as in the case of education, gives them a certain amount of protection against budgetary instability, but actual expansion of their resources seems to have been relatively limited. The aggregate effect of the three sources of demand mentioned above manifests itself in the continuing concentration of hospitals and physicians in the larger cities, in the persistent problems of duplication between general public health services and services provided through social security funds, and in the lag in organization and staffing of small-scale clinics to bring services to rural areas and urban marginal zones.

The remarkable increases in life expectancies over the past two or three decades - in Mexico up from about 50 years in 1950 to 66 years in 1965, with several other countries showing increases of eight years or more - have influenced age distribution appreciably, because of continuing high fertility. However, the fact that larger numbers of persons of all ages are now surviving under conditions unfavourable to their levels of health and in urban settings that make them aware of the existence of modern medical services means that pressures for a wide range of such services, from the pediatric to the geriatric, are bound to rise rapidly. The incapacity of present services to satisfy such pressures is already evident in the gap between the medical care to which the urban lower-income strata are legally entitled and the long waits and perfunctory treatment they are likely to encounter when trying to make use of their entitlement.

Food consumption is a basic determinant of the level of health, and the agricultural trends previously mentioned indicate that the consumption levels of the majority of the population cannot have improved very much, while the consumption of low-income strata in a good many countries must have declined. Nutrition, however, has not yet become a sector of public social action comparable in importance to the sectors concerned with other components of the level of living. Public policy

/has not

has not been able to resolve the contradiction between pressures to raise agricultural prices and pressures to keep food prices low. A solution to this apparent impasse might well be sought in the marketing systems, with their typical very wide price gaps between producer and consumer and their wastefulness in terms of the high proportions of food spoiled before reaching the consumer. The enormous cities of the region depend on systems for the transport, storage and sending of perishable foods that have evolved haphazardly and insufficiently from the systems appropriate to small centres where needs could be met by produce brought from the immediate hinterland by the producers themselves. A few countries have set up agencies for direct purchases of food crops and direct sales to consumers, and more initiatives of this kind, along with more vigorous support of producers' and consumers' cooperatives may be expected in the course of agrarian reform programmes. Resistances from the present marketing interests have naturally been strong, and administrative weaknesses have brought some of the new agencies under severe criticism. The allocations of domestic resources for support of nutritional levels through direct food distribution to low-income families or school children has been small. In this area external aid has attained considerable dimensions and the prospect of increasing dependence of good grants from abroad is causing uneasiness, although such dependence is much less marked than in the more densely populated low-income regions of the world.

Housing. The processes of social change, uneven economic growth and geographical redistribution of population have combined with the special characteristics of housing considered as a sector of social policy to make trends in this sector deviate more conspicuously than in any other from objectives of orderly progress. The more overt elements of the problem have been often described: the rate of residential construction in all countries has lagged far behind the rate of growth of the cities, and the uneven distribution of income has excluded a majority of the urban population from the market for the new dwellings that have been built. This majority has faced the alternatives of increased overcrowding in the older slums and the houses abandoned by upper-income families moving to the suburbs, or of improvising its own

/shelter wherever

shelter wherever vacant land could be found. Increasingly it turned to the latter solution; in a good many countries the rate of "uncontrolled" or "clandestine" construction by now exceeds the rate of legally sanctioned construction. Meanwhile, the increasingly precarious over-all situation of a large part of the rural population justifies the supposition that previously low rural housing standards have deteriorated.

At the beginning of the current decade, the obvious solution seemed to be a planned speeding-up of low-cost housing construction to keep the deficit of regular dwellings from growing, and then to begin to reduce the deficit. A general pledge along these lines was included in the Punta del Este Charter, and the demands of the urban masses gave a strong political appeal to national housing programmes expressed in quantitative targets. The results have been almost universally disappointing.

In conventional housing programmes, unlike education and health programmes, the major costs are not costs of continuing services (although administrative costs swelled by the pressures on public employment have in practice absorbed significant shares of the resources of a good many housing programmes). A heavy initial investment is needed that can be amortized only slowly. The few countries that have tried to make such investments on a scale matching urban needs have been able to maintain the effort for only a few years at a time. Rates of public construction have fluctuated very widely according to the state of public revenues and the strength of competing demands on them, with consequent adverse effects on efficiency and employment in the construction industries and frustration for thousands of families on the waiting lists for housing. No country has attained a steady construction rate matching its own estimates of annual increases in the housing deficit. For reasons suggested above (see footnote 42) external aid has had only a limited applicability in relation to costs that represent inputs of local material resources and manpower. The difficulties of the housing programmes, moreover, have had deeper roots in the social and economic structures. In general, the urban population strata most acutely in need of housing has incomes too low and precarious for them to meet amortization costs for the kinds of "low-cost" houses that have been built without excessive sacrifices in other areas of consumption. In the smaller-scale public programmes this meant that the houses were in practice occupied by

lower-middle income families, with high proportions of public employees. In the larger-scale programmes, to the extent that they incorporated low-income families, collection of payments proved difficult or impossible, particularly when maintenance of the real level of such payments required periodic readjustments to compensate for inflation. The expectation that the initial programmes would build up revolving funds that would support further building were thus usually disappointed. Savings and Loan Associations, co-operatives and other mechanisms intended to channel private savings into housing have also proved unable to cross the barriers between middle-income housing norms and saving capacity and the very different capacity and priority needs of the low-income masses.

These difficulties along with others are forcing a serious reappraisal of housing policy that includes increasing respect for the achievements and the potential role of the millions of families that have been trying to meet their own needs within the limits of their resources, not only unaided but also hindered by existing regulations and public policies.^{47/}

Social security. The social security systems differ from the other areas of public social action in their high degree of administrative autonomy and in the apparent independence of the greater part of their financing from the competition for public resources. In their earlier stages, in fact, they normally make a net contribution to public sector funds. It may be for these reasons that social security has up to the present received less attention than any of the other major social sectors from the proponents of comprehensive development planning, in spite of the enormous sums now channelled through the systems and their multilateral influences on the labour force.^{48/} The evolution of the social security systems in the region has taken two main forms:

^{47/} Several of the 1966 CIAP country reports (notably those for Brazil, Chile and Mexico) as well as the sources cited in footnote 36 indicate that this reappraisal is beginning to follow similar lines in a number of regional as well as national institutions.

^{48/} In Chile and Uruguay, social security income is equivalent to 12 per cent or more of the gross national product. In many other countries, it is in the same range (2-5 per cent) as education, the social sector making the largest direct claim on public resources.

(1) The establishment of separate funds for specific categories of employees and workers, each with its own legally defined sources of income, conditions of entitlement, range of benefits, and administrative apparatus. The proliferation of these funds has generally been followed but not replaced by the establishment of a broader institution covering most wage-earners except the categories covered by existing funds. (2) The establishment of general social security institutions under legislation providing for gradual expansion of coverage in regard to occupations, geographical areas and forms of protection. In general, the former type is found in the countries that first undertook to provide social security, while the latter characterizes countries that took the first steps in the 1930's and later.

In very simplified terms, it appears that in recent years the systems of the first type - older, larger and at stages in their evolution in which they can no longer depend upon increases in number of contributors to provide surpluses - are suffering from particularly severe crises of financing, administrative hypertrophy, inability to meet commitments for benefits, and inequities in the benefits received by different categories of insured. Rigid dividing lines between salaried employees and wage workers are particularly characteristic of these systems, reflecting wide gaps in income levels and influence between the two groups. In Chile, for example, an official commission for research on social security (Comisión de Estudios de Seguridad Social) calculated that in 1959 a million and a half workers affiliated to the largest social security fund received 33 per cent of the total social security benefits provided by the country, while 550,000 employees affiliated to other funds received 59 per cent; there is no reason to believe that the proportions have since altered significantly. In the second type of system, problems of inability to follow the original objective of gradual universalization of coverage by steps are more prominent; expansion of coverage in most countries since 1961 seems to have been slow. As long as coverage remains limited, this type of system is particularly subject to criticism for redistributing income away from the low-income strata. Industries and commercial enterprises are normally able to pass on social security costs to the consumers, including the unprotected strata, and the latter also contribute to social security costs through taxes.

The scale of benefits granted to the insured under piecemeal legislation; the very low returns on investments made by the social security institutions; excessive administrative costs; and widespread evasion or delays in payment of contributions due from the State have combined to plunge most of the systems into increasingly acute financial difficulties.^{49/} Increases in contribution rates - which in a few countries have reached levels equivalent to nearly half the size of the wage bill - only raise the incentives to evasion. The State is further tempted to draw upon social security reserves to meet its own deficits, by inducing the funds to purchase government bonds, while inflation is allowed to reduce the real burden of payments to beneficiaries; the typical long delays in processing of pension applications serve the same purpose. The countries with extensive social security coverage are, in general, also countries with severe and chronic inflation, and the continual struggles over readjustment of benefits, with pensions practically never recovering their initial value except for certain privileged categories of pensioners, are among the most conspicuous social consequences of inflation. The systems are thus disfinanced at a period in which they are under pressure to assume wider responsibilities for protection of urban and rural marginal groups that cannot contribute significantly to the cost of such protection.

Social security benefits - including health and social welfare services provided through social security as well as pensions - are by now extremely important elements in the expectations of urban employees and workers, and in a few countries of rural wage workers as well. Reductions in existing entitlements would be almost unthinkable politically, and pressures upon

^{49/} In a good many countries the State is in arrears in three kinds of payments: its direct obligations under the tripartite systems of financing, and its obligations as an employer to contribute sums related to the salaries of public employees and also sums withheld from these salaries. Private employers, by delaying payment to the social security fund of their own contributions and those withheld from workers are sometimes able to add significantly to their working capital without payment of interest on these "loans". In other instances, employers and workers are in tacit agreement to evade contributions.

the legislative bodies to vote new benefits are strong. In practice, the benefits are brought down to the level of resources of the systems by administrative delays, evasions, and dilution of the quality of services. The consequent frustration among the beneficiaries is reflected in attacks on the "Kafkaesque" traits of the systems, in media that represent the most varied sectors of public opinion.

A number of countries have already undertaken studies leading to comprehensive reform proposals, and international organizations concerned with social security are now documenting the deficiencies and insisting on the urgency of such reforms.^{50/} The technical requirements for better-functioning social security systems are hard to formulate, in view of the generally agreed-upon necessity of extension to population strata with very low and precarious incomes. The more intractable difficulty, however, is that the social security systems are embedded in the social structures that have been described above, and that a particularly wide range of interests are barricaded behind the autonomy of the institutions and the elaborate legislation that has been enacted. While public awareness of the unavailability of reform is now widespread, readiness to relinquish special advantages for the sake of such reform is not prominent. Under these circumstances progress will require firm political decisions combined with the convincing of majority sectors that the reforms will actually work to their eventual advantage.

^{50/} See, in particular, "Papel de la seguridad social y del mejoramiento de las condiciones de vida y de trabajo en el progreso social y económico", report presented by the International Labour Organisation to its Eighth Congress of American Member States, Ottawa, September 1966. This document, which surveys the history of social security in Latin America and analyses the present crises, demonstrates the remarkably fragmentary and tardy nature of the data obtainable from institutions that by their very nature might be expected to give a good deal of attention to statistics, record-keeping and cost accounting. In spite of efforts over several years to collect data on costs of social security, the ILO concludes that the difficulties of obtaining comprehensive information appear to remain insuperable (p. 84). There is also no evidence that any of the social security systems have utilized demographic projections to estimate the future costs of given types and levels of benefits.

Chapter III

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

I. FOREIGN TRADE

1. World export trends

The year 1967 witnessed a decline in the high rates of expansion shown by world exports during the previous four years. According to incomplete data, the increase in world exports in the first half of 1967 was the smallest in the past five-year period - 7.1 per cent -, exceeding only the 1962 figure, and comparing very unfavourably with that of 11 per cent recorded in the first six months of 1966 (see table I-17). This situation seems to be closely related to a fall in the growth rate of the world economy, and in particular to the slower rise in industrial production indexes in the developed countries.

These trends had unfavourable repercussions on the exports of the developing countries, which increased by a mere 2.3 per cent in the first half of 1967 (as against 9.3 per cent in the corresponding period of the preceding year). The rate probably dropped even lower during the rest of the year, owing to the consequences of the hostilities in the Middle East in June; to the stagnation of exports from Latin America, and possibly too from Africa, where Nigeria's internal difficulties and the problems of Zambia and Rhodesia remained unsettled; and to the impact of the devaluation of the pound sterling.

Thus the gap between export growth rates in the developed and in the developing countries widened still further in 1967, reflecting not only the influence of the stagnation of industrial production in the developed countries on demand for primary products with its elements of rigidity, but also the difficulties of access to the leading markets, which particularly affected the Latin American countries.

Table I-17
VARIATIONS IN CURRENT VALUE OF WORLD EXPORTS
(Cumulative annual rates)

	<u>1962</u> 1961	<u>1963</u> 1962	<u>1964</u> 1963	<u>1965</u> 1964	<u>1966</u> 1965	<u>First half 1966</u> First half 1965	<u>First half 1967</u> First half 1966
World total	5.6	8.5	12.6	8.2	9.1	11.0 a/	7.1 a/
Developed countries	5.1	9.1	13.7	9.2	10.4	11.3	8.5
Developing countries	4.7	7.8	11.1	5.3	6.1	9.3	2.3
Countries with centrally planned economies b/	10.4	7.4	8.6	7.1	6.2	14.1 a/	7.2 a/
United States	3.0	7.5	14.4	3.5	10.4	13.7	6.9
Latin America	5.7	4.8	10.4	4.3	4.6	9.9	0.8
Western Europe	5.6	9.2	12.5	11.0	9.3	10.1	8.1
European Economic Community c/	5.8	9.8	13.3	12.5	10.0	10.8	8.1
European Free Trade Association d/	4.9	8.6	10.6	8.5	7.3	7.7	7.7
Other countries of Western Europe	7.5	6.5	15.4	9.6	13.4	15.6	9.6
Japan	16.0	10.8	22.4	26.7	15.7	13.0	8.8
Eastern Europe	11.7	7.4	8.6	7.1	6.0	13.3 a/	7.3 a/
Mainland China	-0.6	6.8	8.7	7.0	8.0	17.5 a/ e/	6.8 a/ e/

Source: United Nations, Monthly Bulletin of Statistics, June 1964, December 1966, June and December 1967.

- a/ Excluding trade among countries with centrally planned economies.
b/ USSR and other countries of Eastern Europe, mainland China, Mongolia, North Korea, and North Viet-Nam.
c/ Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands.
d/ Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.
e/ Estimates.

/As can

As can be seen from table I-17, export growth rates slackened almost everywhere; the only exceptions to the rule were the countries of the European Free Trade Association (EFTA), which kept up the same rate as in the first half of the preceding year (7.7 per cent). The reason for this is to be found in the special situation of the United Kingdom, whose market is the largest in the EFTA group. At the end of 1966, the United Kingdom lifted its temporary import duties, and its external purchases regained their briskness - mainly in consequence of pent-up demand - with the ensuing benefits for the EFTA countries' trade during the first half of 1967. It seems likely, however, that in line with the over-all trend of world trade, the rate of increase of EFTA exports also slowed down in the rest of the year, as a result of the devaluation of the pound and the restrictive measures adopted by the United Kingdom.

The rate of expansion of United States exports, which had been 13.7 per cent in the first half of 1966, decreased substantially in the first six months of 1967, dropping to 6.9 per cent, i.e., below the world average.

The position was somewhat similar in the countries of the European Economic Community (EEC), where the rate fell from 10.8 per cent in the first half of 1966 to 8.1 per cent in the corresponding period in 1967; this level was above the world average, however.

It was the other countries of Western Europe, together with Japan, that showed the highest export growth rates in the first half of 1967 (9.6 and 8.8 per cent, respectively), considerably outstripping the world average; but they also registered the most marked decreases in relation to the corresponding period in 1966.

Latin America was much worse off. Its exports had been showing smaller annual increases than those of the other developing regions since 1963, but in the first half of 1967 their rate of expansion sank abruptly to barely 0.8 per cent, as against 9.9 per cent in the first six months of 1966. Thus, the developing countries' share in world exports fell from 20.6 per cent to under 19 per cent between 1962 and 1967, and the downward trend was relatively sharper in the case of Latin America, whose contribution shrank from 6.5 per cent to less than 5.5 per cent over the same period (see table I-18).

Table I-18
SHARE OF VARIOUS REGIONS IN WORLD EXPORTS
(Percentages)

	1962	1963	1964	1965	1966	First half 1967
World total	100.0	100.0	100.0	100.0	100.0	100.0
Developed countries	67.0	67.2	68.1	68.7	69.6	70.5
Developing countries	20.6	20.6	20.1	19.6	19.1	18.2
Countries with centrally planned economies a/	12.4	12.2	11.8	11.7	11.3	11.3
United States	15.2	15.0	15.3	14.6	14.8	14.7
Latin America	6.5	6.3	6.2	5.9	5.7	5.3
Western Europe	41.2	41.4	41.4	42.4	42.6	43.0
European Economic Community b/	24.3	24.6	24.7	25.7	26.0	26.2
European Free Trade Association c/	14.3	14.2	14.0	14.0	13.8	13.9
Other countries of Western Europe	2.6	2.6	2.7	2.7	2.8	2.9
Japan	3.5	3.6	3.9	4.5	4.8	4.9
Eastern Europe	12.2	11.1	10.7	10.6	10.3	10.4
Mainland China	1.1	1.1	1.1	1.1	1.1	1.1

Source: United Nations, Monthly Bulletin of Statistics, June 1964, June and December 1967.

a/ USSR and other countries of Eastern Europe, mainland China, Mongolia, North Korea, and North Viet-Nam.

b/ Belgium, the Federal Republic of Germany, France, Italy, Luxembourg, and the Netherlands.

c/ Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom.

/If variations

If variations in export volumes and prices are analysed separately, Latin America is seen to be at an even greater disadvantage, for the 0.8 per cent increase in the value of exports during the first half of 1967 meant that their volume had to be expanded by 2.8 per cent, because of the fall in unit prices (see tables I-19 and I-20).

For the developed countries, on the other hand, as well as for the developing regions as a whole, unit prices of exports remained at the preceding year's level, which would suggest that the slower rate of increase of the current value of exports was due entirely to changes in the rate of expansion of export volumes.

2. Share of Latin America in major markets

According to the fragmentary data available for 1967, Latin America once again lost ground in the markets of Canada, Japan and the United States, but retained its position in those of Western Europe, while the relative importance of inter-Latin American trade increased (see table I-21).

As in previous years, Latin America's contribution to supplies for the United States market continued to decrease in the first half of 1967, falling to only 15 per cent, a good deal below the corresponding figure for 1962 (20.8 per cent). Between 1962 and 1967, the United States increased its total imports by 63 per cent, whereas its purchases from Latin America expanded by only 17 per cent. What is more, in 1967 as a whole the value of Latin America's total sales to the United States was probably the same as in 1966 (about 4,000 million dollars), which would imply a complete standstill after four years of steady though moderate growth.

In the Canadian market, the share of supplies from Latin America contracted from 4.0 per cent in the first half of 1966 to 3.2 per cent in the corresponding period of 1967. This downward trend had been in evidence since 1964, and in absolute terms, moreover, the value of sales in 1965-67 failed to regain the 1964 peak level of 390 million dollars, despite the fact that Canada's total imports increased by 45 per cent between 1964 and 1967.

Table I-19
VARIATIONS IN VOLUME OF WORLD EXPORTS, 1962-67
(Annual rates)

Year	World <u>a/</u>	Developed countries	Developing countries	Latin America	Latin America excluding Cuba <u>b/</u>
1962	5.6	4.8	7.6	9.8	9.3
1963	7.6	8.3	5.5	1.6	3.5
1964	10.6	11.9	6.7	3.2	2.3
1965	7.1	8.1	5.6	3.9	5.5
1966	7.8	8.1	4.6	3.7	3.2
1967	5.7 <u>c/</u>	7.1 <u>c/</u>	1.5 <u>c/</u>	2.8 <u>d/</u>	1.6 <u>e/</u>

Source: United Nations, Monthly Bulletin of Statistics, January 1968.

- a/ Excluding countries with centrally planned economies.
b/ ECLA, on the basis of official statistics.
c/ January to September.
d/ January to June.
e/ Provisional figures.

Table I-20
INDEXES OF WORLD EXPORT PRICES, 1962-67
(Base: 1960 = 100)

Year	World <u>a/</u>	Developed countries	Developing countries	Latin America	Latin America excluding Cuba <u>b/</u>
1962	99	101	95	96	96.3
1963	100	102	97	99	97.8
1964	102	103	99	106	103.0
1965	103	104	99	106	102.3
1966	105	106	101	108	104.6
1967 <u>e/</u>	104 <u>c/</u>	106 <u>c/</u>	101 <u>c/</u>	106 <u>d/</u>	102.1 <u>e/</u>

Source: United Nations, Monthly Bulletin of Statistics, January 1968.

- a/ Excluding countries with centrally planned economies.
b/ ECLA, on the basis of official statistics.
c/ January to September.
d/ January to June.
e/ Provisional figures.

Table I-21
LATIN AMERICA ^{a/} SHARE IN WORLD TRADE FLOWS
(Percentages)

	1962	1963	1964	1965	1966	January - June	
						1966	1967
World total ^{b/}	7.6	7.3	6.9	6.7	6.4	6.3	6.0
United States ^{c/}	20.8	20.3	19.0	17.3	15.6	16.3	15.0
Canada ^{c/}	5.5	5.7	5.6	4.7	3.6	4.0	3.2
Japan	7.7	7.9	7.6	8.1	7.7	7.9	7.0
Western Europe	5.4	5.0	4.8	4.7	4.6	4.6	4.6
European Economic Community ^{d/}	5.9	5.4	5.3	5.2	4.9	5.0	5.0
European Free Trade Association ^{e/}	5.1	4.7	4.4	4.2	4.0	4.1	4.1
Other countries of Western Europe	3.6	4.2	3.7	4.1	4.5	4.3	4.6
Latin America	9.7	11.5	12.6	14.1	13.5	10.6	11.0
Rest of world	4.6	4.3	3.9	3.6	...	...	...

Source: IMF, Direction of Trade, annual data 1960 to 1966, and quarterly data for 1967.

- ^{a/} Excluding Cuba.
- ^{b/} Excluding countries with centrally planned economies.
- ^{c/} On the basis of f.o.b. figures.
- ^{d/} Belgium, the Federal Republic of Germany, France, Italy and the Netherlands.
- ^{e/} Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom.

In trade with Japan, Latin America's share underwent a reduction for the second year running, after having risen to a maximum of 8.1 per cent in 1965. Nevertheless, as Japan doubled its total imports in the past five years, in terms of absolute values Latin America's sales to the Japanese market increased over the same period by about 80 per cent.

/The region's

The region's sales to EEC and EFTA represented the same proportions of total supplies in the first half of 1967 as in the corresponding period in 1966, i.e., 5.0 and 4.1 per cent, respectively. Hence the continuing downward trend of their share in these markets seems to have been halted. The most dynamic of Latin America's markets is constituted by the EEC countries, whose total imports increased by 50 per cent between 1962 and 1966, while their imports from Latin America did so by 26 per cent. The total imports of the EFTA countries expanded by 38 per cent in the same five-year period, but their purchases from Latin America rose by barely 9 per cent.

Latin America's share in trade with the other countries of Western Europe increased for the third year running, mainly by virtue of its larger sales to Spain.

The explanation of Latin America's persistent loss of ground in the major world markets lies in the continued application of restrictive measures and discriminatory policies in respect of commodity trade; in competition from substitutes, and from lines of production encouraged in developed areas; in imbalances between supply and demand; and in the existing barriers to the access of its manufactures. Hence it may well be feared that as long as these conditions prevail, Latin America's relative position in the leading markets will continue to deteriorate, especially if the growth rate of the world economy goes on declining and the measures recently adopted by the United Kingdom and the United States to improve their balance-of-payments position are strengthened. The pursuit of this latter aim involves the adoption of a body of internal and external restrictions which are bound to affect Latin America's exports, and may make its trade prospects gloomier than ever, reducing not only its relative participation but also the absolute value of its sales.

Within this over-all picture, special significance attaches to the changes in Latin America's share in total United States imports. It should be noted in this context that the downward trend referred to affects not only the region as a whole but also most of the individual Latin American countries (see table I-22).

Table I-22
LATIN AMERICA: SHARE OF SELECTED COUNTRIES IN UNITED STATES TOTAL IMPORTS
(Per mil.)

Year	Latin America	Argentina	Uruguay and Paraguay	Brazil	Colombia	Ecuador	Central America	Chile	Bolivia	Peru	Venezuela	Mexico
1962	207.7	6.4	1.9	32.9	16.8	4.3	12.7	11.8	0.8	12.5	59.4	36.0
1963	203.1	9.5	2.0	32.6	14.4	4.1	12.9	11.0	1.1	13.5	54.3	35.5
1964	189.8	6.0	1.3	28.5	15.0	4.7	12.7	11.8	1.7	12.1	51.0	34.9
1965	173.0	5.7	2.3	23.9	12.9	4.9	13.2	9.9	1.6	11.8	47.6	30.2
1966	156.3	5.8	1.7	23.3	9.6	3.7	12.0	9.1	1.2	12.7	39.1	29.7
1966a/	158.7	5.9	2.0	22.9	10.5	3.7	12.1	9.3	1.3	12.8	40.4	29.8
1967a/	147.0	5.3	0.9	20.9	9.4	3.9	11.8	7.2	1.6	11.5	37.0	28.6

Source: IMF, Direction of Trade, 1962-66 and November 1967:
a/ January to September.

Geographical distribution of Latin America's exports

The trends described above have given rise to considerable changes in the geographical distribution of Latin America's exports (see table I-23). The most clearly marked of these is the steady decline in the proportion shipped to the United States. A fall from 41.8 per cent in 1960 to 32 per cent in 1965 was followed by a slight recovery in 1966, and then a further drop in the first half of 1967 to its lowest level (31.7 per cent). On the other hand, Western Europe's share in Latin America's exports, under the influence of trade with the EEC countries and with Spain, followed a moderate upward trend, interrupted in some years, but reaching a peak in the first half of 1967, when it exceeded the proportion of exports to the United States. In addition, the dynamic vigour shown by export flows to Japan and in intra-regional trade was intensified in the first six months of 1967. Lastly, exports to Eastern Europe in 1967 dropped far below the high percentages attained in 1965 and 1966 (see table I-23).

An analysis of sales by individual Latin American countries to EEC during the first half of 1967 shows that the rise in the value of the region's exports to this market was attributable to Argentina and in even greater measure to Chile. Although exports from Brazil, Colombia, Cuba and some of the Central American countries also increased slightly, those of Ecuador, Mexico, Peru, Uruguay and Venezuela decreased. (Venezuela's position probably altered in the second half of the year as a result of the hostilities in the Middle East.) Argentina and Brazil continued to absorb the largest share of the region's export trade with EEC (45 per cent of the total), although attention should be drawn to the progress made in the last few years by Chile, Ecuador and Mexico, and to a lesser extent by Colombia and some of the Central American countries, which more than offset the reductions in Cuba's and Venezuela's sales.

Table I-23
 LATIN AMERICA ^{a/} DESTINATION OF EXPORTS
 (Percentages)

Area of destination	1960	1961	1962	1963	1964	1965	1966	First half 1966	First half 1967
North America	45.5	39.5	39.1	37.8	35.1	34.9	35.7	34.7	33.9
United States	41.8	37.7	36.0	34.5	32.2	32.1	33.2	32.3	31.7
Canada	1.7	1.8	3.1	3.3	2.9	2.9	2.5	2.4	2.2
Western Europe	31.6	31.8	32.9	34.1	33.7	32.7	32.3	32.5	34.9
European Economic Community ^{b/}	18.4	18.5	20.0	21.0	20.8	19.9	19.7	19.4	21.1
European Free Trade Association ^{c/}	11.7	11.3	10.9	10.8	10.2	9.6	9.1	9.4	10.1
Other countries of Western Europe	1.5	2.0	2.0	2.3	2.7	3.2	3.5	3.7	3.7
Japan	2.8	3.9	3.7	4.3	4.7	4.3	4.7	4.9	5.3
Latin America	7.9	6.7	7.2	7.7	9.2	9.8	9.8	9.0	9.8
Eastern Europe	3.1	5.8	5.4	4.8	5.0	6.6	6.4	7.3	5.4
Rest of world	11.1	12.3	11.7	11.3	12.3	11.7	11.1	11.6	10.7

Source: United Nations, Yearbook of International Trade Statistics, 1964, and Monthly Bulletin of Statistics, June and December 1965, June and December 1966, June and December 1967.

^{a/} Including Cuba.

^{b/} Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands.

^{c/} Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

/With regard

With regard to Latin America's exports to EFTA in the first half of 1967, developments similar to those occurring in the EEC market are observable. Argentina and Chile, in particular the latter, were responsible for the increase in exports to EFTA in terms of value. The sales effected by Colombia, Ecuador and certain Central American countries were also slightly bigger, while the exports of the rest declined. Argentina, Brazil and Venezuela together accounted for about 55 per cent of exports to this market, and the position of the other countries (with the exception of Chile) underwent no significant change, perhaps because the increase in the total value of their exports during the four-year period 1964-67 was modest, obviously partly as a result of the preferences granted to Commonwealth countries.

Exports to Japan continued to grow, expanding by over 80 per cent between 1963 and 1967. During those five years, Chile and Peru, respectively, almost trebled and more than doubled the value of their exports to this market. These two countries, in conjunction with Mexico, at present absorb 60 per cent of the region's trade with Japan. Besides Chile and Peru, the following countries expanded their exports in the first half of 1967: Argentina, Brazil, Colombia, Cuba, Ecuador and Venezuela. Those of the remainder contracted slightly.

4. Export trends, by countries

For Latin American exports, 1967 marked the first setback to the process of expansion which has been under way since the beginning of the decade. In 1966 the value of exports amounted to some 10,770 million dollars, but in 1967 it dropped to about 10,670 million,^{1/} a decline of 1 per cent. There was an increase of 1.5 per cent in volume, but this only partly offset the drop of 2.4 per cent in the unit prices of exports (see tables I-24 and I-25).

^{1/} According to customs values, which do not always coincide with balance-of-payments values.

Table I-24

LATIN AMERICA: VALUE OF EXPORTS (f.o.b.), 1960-67

(Millions of dollars at current prices)

Country	1960	1961	1962	1963	1964	1965	1966	1967 a/
Latin America, excluding Cuba	7 908.8	8 122.8	8 595.8	9 028.3	9 655.4	10 109.3	10 767.8	10 665.6
Latin America, excluding Cuba and Venezuela	5 524.9	5 678.5	6 052.4	6 563.0	7 174.2	7 649.6	8 363.8	8 143.6
Argentina	1 079.2	964.1	1 216.0	1 365.1	1 410.4	1 492.8	1 593.2	1 485.0
Bolivia	51.3	58.0	58.9	65.7	93.3	109.5	126.2	147.8
Brazil	1 268.8	1 403.0	1 214.2	1 406.5	1 429.8	1 595.5	1 741.4	1 630.0
Colombia	464.6	434.5	463.3	446.1	548.1	539.1	507.6	500.0
Costa Rica	81.9	81.7	92.0	95.0	112.7	110.7	138.2	149.0
Chile	490.0	508.1	532.1	542.0	625.8	687.9	880.8	898.0
Ecuador	147.6	126.9	142.8	148.7	161.4	174.4	192.2	215.0
El Salvador	116.8	119.1	136.3	153.8	178.1	188.7	188.9	210.0
Guatemala	116.6	112.7	117.7	154.1	166.8	186.9	227.8	200.0
Haiti	33.1	32.2	42.4	41.4	40.4	36.1	33.8	35.0
Honduras	61.9	72.3	79.8	81.9	91.8	126.0	141.5	142.5
Mexico	762.6	825.7	929.3	984.2	1 053.3	1 145.2	1 228.1	1 185.0
Nicaragua	56.0	60.6	82.4	99.7	118.3	143.5	137.7	137.0
Panama	26.0	28.2	46.1	59.2	70.3	76.9	88.3	94.0
Paraguay	27.0	30.7	33.5	40.2	49.8	57.2	49.4	49.0
Peru	432.4	495.9	539.8	541.0	666.7	666.2	765.4	757.0
Dominican Republic	179.7	142.1	172.4	173.2	178.3	121.8	137.5	155.0
Uruguay	129.4	174.7	153.4	165.2	173.9	191.2	185.8	154.3
Venezuela	2 383.9	2 452.3	2 543.4	2 465.3	2 481.2	2 459.7	2 404.0	2 522.0

Source: ECLA, on the basis of customs figures, which in certain countries do not include balance-of-payments adjustments.

a/ Provisional figures.

Table I-25

LATIN AMERICA: VARIATIONS IN THE CURRENT VALUE OF EXPORTS, 1960-67

(Cumulative annual rates)

Country	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67
Latin America, excluding Cuba	2.7	5.8	5.0	6.9	4.7	6.5	-1.0
Latin America, excluding Cuba and Venezuela	2.6	6.7	8.4	9.3	6.6	9.3	-2.6
Argentina	-10.7	26.1	12.3	3.3	5.8	6.7	-6.8
Bolivia	13.1	1.6	11.5	42.0	17.4	15.3	17.1
Brazil	10.6	-13.5	15.8	1.7	11.6	9.1	-6.4
Colombia	-6.5	6.6	-3.7	22.9	-1.6	-5.8	-1.5
Costa Rica	-0.2	12.6	3.3	18.6	-1.8	34.6	7.8
Chile	3.7	4.7	1.9	15.5	9.9	28.0	2.0
Ecuador	-14.0	12.5	4.1	8.5	8.1	10.2	11.9
El Salvador	2.0	14.4	12.8	15.8	6.0	0.1	11.2
Guatemala	-3.3	4.4	30.9	8.2	12.1	21.9	-12.2
Haiti	-3.6	32.3	-1.9	-2.4	-10.6	-6.4	3.6
Honduras	16.8	10.4	2.6	12.1	37.2	12.3	0.7
Mexico	8.3	12.5	5.9	7.0	8.7	7.2	-3.5
Nicaragua	8.2	36.0	21.0	18.7	21.3	-4.0	-0.5
Panama	8.5	63.5	28.4	18.8	9.4	14.8	6.5
Paraguay	13.7	9.1	20.0	23.9	14.9	-13.6	-0.8
Peru	14.7	8.9	0.2	23.2	-0.1	14.9	-1.1
Dominican Republic	-20.9	21.3	0.5	2.9	-31.7	12.9	12.7
Uruguay	35.0	-12.2	7.7	8.3	6.9	-2.8	-17.0
Venezuela	2.9	3.3	1.5	0.6	-0.9	-2.3	4.9

Source: Table I-24.

/This contraction

This contraction was determined by sharp declines in the three large countries - Argentina, Brazil and Mexico - and in Guatemala and Uruguay, and to a lesser extent in Colombia and Peru, and to the slight downturns in Nicaragua and Paraguay. In these countries as a whole, exports contracted by about 340 million dollars, 65 per cent of which corresponded to Argentina and Brazil. The remaining ten countries recorded an aggregate increase of about 240 million dollars, of which Venezuela accounted for 50 per cent. Special mention should be made of the relative increase, in relation to 1966, in the exports of Bolivia (17 per cent); Ecuador, the Dominican Republic and El Salvador (more than 10 per cent); and Costa Rica, Panama and Venezuela (more than 5 per cent); and the slight increases in Haiti, Chile and Honduras.

The drop in exports in Argentina, Brazil, Guatemala, Mexico and Uruguay was due to a reduction in volume - particularly in the last two countries - and in unit prices, except in Mexico. The volume of exports in the rest of the countries increased by between 0.5 and 2 per cent, except in Nicaragua, where they remained stationary. The unit prices of exports showed a slight improvement only in Mexico, Chile,^{2/} Ecuador and the Dominican Republic, remaining at about the same level as in 1966 in Panama, Nicaragua and Honduras, and deteriorating between 1 and 6 per cent in the twelve remaining countries.

During the decade there have been some changes in the relative share of the different countries in Latin America's total exports. The nature of these changes can best be seen if the countries are grouped according to size and a comparison is made between their relative share

^{2/} In 1967 Chile sold its copper at the London market prices, whereas in 1966 some copper was sold at the United States domestic market price, with the result that the average prices in 1966 were lower than in 1967, despite the drop in copper prices on the London market during the latter year.

of the Latin American total in 1966 and 1967 (see table I-26). In so doing, the position of Venezuela should be considered separately, because of the considerable influence it has on the aggregate regional figures and because of the extent of the changes recorded. Venezuela's share dropped from 30.1 per cent in 1960 to 23.6 per cent in 1967, its exports increasing at an annual rate of barely 0.8 per cent, in comparison with a growth rate of 4.3 per cent for the region as a whole. The present inelasticity of Venezuela's exports contrasts with their rapid growth in the previous decade. The consistent drop in petroleum prices from 1958 onwards, and the downward shift in demand in recent years, have had a restrictive effect on export prospects.

In group 1, which includes the largest countries, it can be seen that there was a reduction in Brazil's share, relative stability in Argentina's, and greater dynamism in Mexican exports, which also determined an increase in the share of the group as a whole. In the case of Brazil, the downturn was occasioned by the deterioration in coffee prices and the scant likelihood of Brazil being able to increase its share of the world coffee market, factors which more than outweighed the efforts made in recent years to promote the export of manufactures.

In group 2, the most striking feature is the decline in Colombia's share and the strong growth of exports in Chile and Peru. As in the case of Brazil, Colombia's exports were affected by the drop in prices and the downward shift in demand for coffee.

The greatest improvement is found in group 3, which consists mainly of the economically relatively less developed countries. Particularly noteworthy is the increase in the share of Bolivia, Panama and Central America and, to a lesser extent, of Paraguay and Ecuador. On the other hand, the share of Haiti, the Dominican Republic and Uruguay diminished; in Uruguay, because of problems of domestic supply, and in the Dominican Republic, because of the political events which affected the country in 1965.

In short, the sluggish growth of exports in Latin America mainly reflects the trends followed by exports in Venezuela, Brazil, Colombia and, to a lesser extent, in Uruguay. In the first three countries, the causes are to be found in the downward shift in demand and in prices, while in Uruguay exports were also affected by the domestic supply situation.

Table I-26

LATIN AMERICA:^{a/} PERCENTAGE SHARE OF TOTAL EXPORTS, BY COUNTRY, 1960 AND 1967

(Percentages)

Country	1960	1967
<u>Group 1</u>	<u>39.3</u>	<u>40.3</u>
Argentina	13.7	13.9
Brazil	16.0	15.3
Mexico	9.6	11.1
<u>Group 2</u>	<u>17.6</u>	<u>20.2</u>
Colombia	5.9	4.7
Chile	6.2	8.4
Peru	5.5	7.1
<u>Group 3</u>	<u>13.0</u>	<u>15.9</u>
Central America	5.5	7.9
Haiti	0.4	0.3
Dominican Republic	2.3	1.5
Panama	0.3	0.9
Bolivia	0.7	1.4
Ecuador	1.9	2.0
Paraguay	0.3	0.5
Uruguay	1.6	1.4
<u>Venezuela</u>	<u>30.1</u>	<u>23.6</u>

Source: Table I-24.

a/ Excluding Cuba.

/The smaller

The smaller countries, because their share in the world market - except for Bolivian tin - is slight, seem to have had better prospects of increasing their traditional exports and of gaining a foothold in the market for other products, thus offsetting the drop in prices.

Finally, those countries - including Venezuela - which already have a sizable share in the world market are faced with fairly obvious difficulties in attempting to boost their traditional exports. Incentives tend to be short-lived and to be the result of particular circumstances, such as production shortfalls in other regions, armed conflicts, etc. This emphasizes once more the need to intensify measures designed to promote the export of manufactures, including efforts to facilitate access for those products to the markets of the industrialized countries.

5. Import trends by countries

Despite the stagnation of exports, Latin America was able to increase its imports by about 4 per cent in 1967. This rate, although far below that reached in 1966, is equal to the cumulative average annual rate for the last seven years. The c.i.f. value of imports was 10,140 million dollars, compared with 9,762 million in 1966. This additional increase, coinciding as it did with unfavourable export trends, was made possible by the exceptionally large inflow of capital, which is comparable only with that recorded in 1957. The volume of imports increased by 3 per cent, and unit prices rose slightly (see tables I-27 and I-28).

Imports expanded in all countries except Colombia, where they dropped sharply, Uruguay, Argentina, Haiti and Peru; in the last two countries they remained at the same level, although Peru had shown striking increases nearly every previous year in the present decade.

Table I-27

LATIN AMERICA: IMPORTS (c.i.f.), 1955 AND 1960-67

(Millions of dollars at current prices)

	1955	1960	1961	1962	1963	1964	1965	1966	1967 ^{a/}
Latin America, excluding Cuba	6 874.1	7 690.3	7 962.9	8 036.3	7 787.1	8 587.5	8 869.3	9 762.4	10 140.0
Argentina	1 172.6	1 249.3	1 460.4	1 356.5	981.0	1 077.2	1 198.6	1 124.0	1 120.0
Bolivia	82.4	71.5	77.7	97.7	103.3	102.7	133.8	138.4	152.0
Brazil	1 303.8	1 461.6	1 459.1	1 475.0	1 486.8	1 262.6	1 035.7	1 496.2	1 610.0
Colombia	669.3	518.6	557.1	540.4	505.0	586.3	453.4	674.3	510.0
Costa Rica	87.5	110.4	107.2	113.3	123.8	138.6	178.2	178.6	190.0
Chile	376.3	499.7	590.5	511.6	557.5	607.2	604.2	755.3	800.0
Ecuador	108.0	115.0	106.4	96.2	128.8	151.9	166.2	172.0	200.0
El Salvador	91.9	122.4	108.7	124.8	151.7	191.1	201.8	221.0	232.0
Guatemala	103.5	137.9	133.6	132.9	171.1	202.1	229.3	206.9	240.0
Haiti	39.6	36.1	41.9	45.9	38.9	41.4	36.3	36.3	36.3
Honduras	62.0	71.8	72.0	79.8	95.1	101.6	122.0	149.1	150.7
Mexico	883.7	1 186.5	1 130.6	1 143.0	1 239.8	1 432.9	1 560.7	1 605.2	1 750.0
Nicaragua	69.6	71.7	74.4	97.4	110.4	136.0	160.7	182.0	200.0
Panama	86.1	128.2	147.0	173.3	192.0	198.3	213.4	253.6	268.4
Paraguay	33.6	33.4	40.9	43.2	38.7	39.8	51.7	56.8	63.0
Peru	299.5	372.8	468.1	534.3	553.2	570.9	718.6	816.9	818.9
Dominican Republic	113.2	100.0	80.0	143.0	184.0	220.0	135.0	180.6	213.7
Uruguay	236.7	215.9	207.5	228.6	175.0	197.9	150.7	184.2	170.0
Venezuela	1 054.8	1 187.5	1 091.8	1 096.4	950.0	1 269.0	1 453.0	1 331.0	1 415.0

Source: ECLA, on the basis of customs figures, which in certain countries do not include balance-of-payments adjustments.

^{a/} Provisional figures.

Table I-28.

LATIN AMERICA: VARIATIONS IN THE CURRENT VALUE OF IMPORTS, 1960-67

(Cumulative annual rates)

Country	1955-60	1960-61	1961-62	1962-63	1963-64	1964-65	1965-66	1966-67
Latin America, excluding Cuba	2.3	3.5	0.9	-3.1	10.3	3.3	10.1	3.9
Argentina	1.3	16.9	-7.1	-27.7	9.8	11.3	-6.2	-0.4
Bolivia	-2.7	8.7	25.7	5.7	-0.6	30.3	3.4	9.8
Brazil	2.3	-0.2	1.1	0.8	-15.1	-13.2	36.6	7.6
Colombia	-5.0	7.4	-3.0	-6.4	15.9	-22.7	48.7	-24.4
Costa Rica	4.8	-2.9	5.7	9.3	12.0	28.6	0.2	6.4
Chile	5.8	18.2	-13.4	9.0	8.9	-0.5	25.0	5.9
Ecuador	1.3	-7.5	-9.6	33.9	17.9	9.4	3.5	16.3
El Salvador	5.9	-11.2	14.8	21.6	26.0	5.6	9.5	5.0
Guatemala	5.9	-3.1	-0.5	28.7	18.1	13.5	-9.8	16.0
Haiti	-1.9	16.1	9.5	-15.3	6.4	-12.3	0.0	0.0
Honduras	3.0	0.3	10.8	17.2	6.8	20.1	22.2	1.1
Mexico	6.1	-4.0	0.4	8.5	20.4	4.5	2.9	9.2
Nicaragua	0.6	3.8	30.9	13.3	23.2	18.2	13.3	9.9
Panama	8.3	14.7	17.9	10.8	3.3	10.6	15.6	5.8
Paraguay	-0.1	22.5	0.7	-6.1	2.8	29.9	9.9	10.9
Peru	4.5	25.6	14.1	3.5	3.2	25.9	13.7	0.2
Dominican Republic	-2.4	-20.0	85.0	24.3	19.6	-38.6	33.8	18.3
Uruguay	1.4	-3.9	10.2	-23.4	13.1	-23.9	22.2	-7.7
Venezuela	2.4	-8.1	0.4	-13.4	33.6	14.5	-8.4	6.3

Source: Table II-26.

/Imports increased

Imports increased in the Dominican Republic, Ecuador and Guatemala by 16 to 18 per cent, in Paraguay, Nicaragua, Bolivia and Mexico by 9 to 11 per cent, in Brazil, Costa Rica, Venezuela and Chile by 6 to 8 per cent and in Panama, El Salvador and Honduras by 1 to nearly 6 per cent. In Bolivia, Central America, Chile, Ecuador, Mexico and Panama, the steady upward trend derived from the expansion of exports and growing inflow of foreign capital. Similar factors, and the fact that they had previously been able to build up their international reserves, enabled Brazil and the Dominican Republic to step up their purchases abroad for the second consecutive year and Paraguay for the third year running; they also helped Venezuela to expand its imports in 1967.

Argentina's imports were low for the fifth year in succession, as its balance of payments was burdened by external debt servicing, which made it necessary to build up large current surpluses. Although movements of autonomous capital were favourable to Argentina for the first time in four years, import restrictions again produced a current surplus, and the entire capital inflow was used to swell international reserves, which are now only a little less than those of Venezuela.

Colombia's imports, which had been fairly substantial in 1966, were severely reduced by the exchange controls applied at the end of that year. As a result, it had difficulty in meeting its external commitments, and the position of its international reserves deteriorated severely.

6. Geographical origin of Latin America's imports and regional trade balances

Incomplete data for the first half of 1967 indicate that Latin America relied for its supplies more on Western Europe and other areas than on the United States, although the respective shares of the different regions in its import trade have changed very little since 1960. Imports from the United States, which had risen slightly in 1966, declined again in relative terms during the first half of 1967 (see table I-29).

In the last two years, Latin America has stepped up its purchases from Western Europe, thereby increasing that region's share of its import trade. Imports from Japan and from Latin America itself have also continued to expand.

Table I-29
LATIN AMERICA: GEOGRAPHICAL ORIGIN OF IMPORTS, ^{a/} 1960-66
(Percentage of total)

	1960	1961	1962	1963	1964	1965	1966	First half 1966	First half 1967
North America	46.5	43.9	41.6	42.4	44.8	43.2	43.6	44.3	42.9
United States	44.0	41.1	39.0	39.3	41.4	40.0	40.3	41.4	39.7
Canada	2.5	2.8	2.6	3.1	3.4	3.2	3.3	2.9	3.2
Western Europe	33.2	33.8	32.6	30.4	28.5	28.9	29.6	29.3	30.5
European Economic Community ^{b/}	20.1	21.1	20.2	18.8	17.5	17.5	17.7	17.9	18.5
European Free Trade Association ^{c/}	11.5	11.1	10.6	10.0	9.1	9.3	9.2	9.0	9.6
Other countries	1.6	1.6	1.8	1.6	1.9	2.1	2.7	2.4	2.4
Japan	3.5	3.9	3.9	4.0	4.4	4.4	4.5	4.3	4.5
Latin America	8.7	7.1	8.1	9.4	10.6	11.6	11.0	11.1	11.5
Countries with centrally planned economies	2.9	7.5	8.5	9.3	7.7	7.7	7.6	7.4	7.2
Rest of world	5.2	3.8	5.3	4.5	4.0	4.2	3.7	3.6	3.4

Source: United Nations, Monthly Bulletin of Statistics, December 1965, June and December 1966,
June and December 1967.

^{a/} Including Cuba.

^{b/} Belgium, France, the Federal Republic of Germany, Italy, Luxemburg, and the Netherlands.

^{c/} Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom.

/To judge

To judge by the incomplete data for 1967, the region's trade balances indicate that its position vis-à-vis the United States is becoming increasingly unfavourable as its exports decrease and while its imports expand steadily in absolute terms. The imbalance that has existed since 1964 and has become even more acute in the last two years is symptomatic of the rigidity of its export trade with the United States in contrast to the steady upward trend of its imports from that country (see table I-30).

On the other hand, its trade balances with Western Europe in the first half of 1967 showed that the trade surplus was slightly larger than in the corresponding half of the previous year. There had been a big surplus up to 1965, but it had then shrunk considerably in the following year. If this trend has persisted throughout 1967, the three-cornered trade between the United States, Western Europe and Latin America will have been thrown out of balance, and changes will have to be made in the structure of Latin America's trade with the United States in order to make it less unfavourable. This can only be done by expanding Latin America's exports and restricting its imports from the United States to a certain extent.

The same data show that trade balances with Eastern Europe were far lower than in the first half of 1966. These trade flows, which had been unfavourable to Latin America up to 1964, had taken a positive turn from 1965 onwards, but the data for 1967, although still incomplete, indicate that there will be a repetition of the trend that prevailed early in the decade. In fact, the region's surplus vis-à-vis Eastern Europe seems to have been due, apart from the particular conditions of trade with Cuba, to circumstantial factors that temporarily heightened the demand for certain Latin American products, such as wheat, to supply production deficits. With the stabilization of production in 1967, the surplus will have tended to disappear.

The most dynamic branch of Latin America's trade in the last two years has been with Japan, with which it has maintained a fairly constant trade surplus. Both its purchases and its sales increased in 1967. If this trend persists, the region's transactions with Japan will become one of the mainstays of its over-all foreign trade.

Table I-30

LATIN AMERICA: REGIONAL TRADE BALANCES,^{a/} 1961-67

(Millions of dollars at current prices)

	Year	Exports f.o.b.	Imports f.o.b.	Balance
World total	1961	8 670	8 130	540
	1962	9 150	8 100	1 050
	1963	9 740	8 010	1 730
	1964	10 600	9 170	1 430
	1965	11 060	9 320	1 740
	1966	11 570	10 360	1 210
	1966 b/	5 970	4 850	1 120
	1967 b/	6 020	5 140	880
United States	1961	3 270	3 340	-70
	1962	3 290	3 160	130
	1963	3 400	3 140	260
	1964	3 410	3 770	-360
	1965	3 540	3 730	-190
	1966	3 840	4 170	-330
	1966 b/	1 930	2 010	-80
	1967 b/	1 910	2 040	-130
Western Europe	1961	2 760	2 750	10
	1962	3 010	2 640	370
	1963	3 340	2 430	910
	1964	3 560	2 610	950
	1965	3 620	2 690	930
	1966	3 740	3 060	680
	1966 b/	1 940	1 420	520
	1967 b/	2 100	1 570	530
Eastern Europe	1961	505	510	-5
	1962	495	585	-90
	1963	465	660	-195
	1964	530	610	-80
	1965	730	590	140
	1966	790	710	80
	1966 b/	435	310	125
	1967 b/	325	320	5
Japan	1961	340	320	20
	1962	335	315	20
	1963	410	320	90
	1964	500	400	100
	1965	480	410	70
	1966	540	465	75
	1966 b/	290	210	80
	1967 b/	320	230	90

Source: United Nations, Monthly Bulletin of Statistics, December 1965, June and December 1966, June and December 1967.

a/ Including Cuba.

II. COMMODITY EXPORTS

1. Sugar

In 1967 prices on the free sugar market showed a marked recovery, although they are still at very depressed levels compared with 1964 and earlier years. The decline which had brought prices to their lowest point in the last quarter of 1966 was halted early in 1967. In the second quarter, prices rose 40 per cent, but once again dropped below 2 dollar cents per pound in the third quarter. The year ended, however, on a note of firmness, which may be only temporary.

Quotations on the free sugar market improved despite a small increase in stocks as the result of a larger increase in world production than in consumption.

At the end of 1967, price prospects for the following year were uncertain. Much will depend on the harvest, about which estimates vary; but another positive factor is the expansion of sugar purchases for uses other than human consumption. In trade circles it is assumed that these purchases will be maintained and may even increase, provided the price does not rise above some 50 dollars per metric ton (2.20 dollar cents per pound).

The reserved markets are of key importance for producer countries in Latin America. The whole of the present volume of Cuba's output is pledged to the USSR and other countries with centrally planned economies, while the other Latin American countries benefit from the quota system established by the Government of the United States, which enables them to export to that market at a price equal to the support price fixed for domestic producers.

At the beginning of 1967 the United States total consumption was calculated at 10.2 million short tons, but its real consumption was 10.8 million, the quotas granted to other countries amounting to 4,437,000 tons. Consumption in 1968 is provisionally estimated at 10.4 million tons, and the country quotas have accordingly been reduced to 3,855,000 tons. Cuts have also been made, although on a smaller scale in the quotas for domestic producers, except Puerto Rico, whose share in
/the United

the United States market is increased by about 60 per cent (from 725,000 to 1,140,000 tons). With the new distribution of quotas for 1968, the share of foreign exporters in the United States market would shrink to 37 per cent as against 46 per cent in 1967. In the course of 1967 sugar prices in the United States pursued the upward trend initiated in 1966, reaching 7.40 dollar cents per pound towards the end of the year (see table I-31).

Table I-31

SUGAR: PRICE TRENDS, 1963-67

(Dollar cents per pound, and index: 1963=100)

	1963	1964	1965	1966	1967	By quarter							
						1966				1967			
						I	II	III	IV	I	II	III	IV
Free market:													
Price	8.50	5.89	2.12	1.86	2.08	2.29	1.98	1.70	1.48	1.57	2.53	1.86	2.38
Index	100.00	69.30	24.90	21.90	24.50	26.90	23.30	20.00	17.40	18.40	29.80	21.90	28.00
United States:													
Price	8.18	6.90	6.75	6.99	7.29	6.88	6.90	7.05	7.13	7.16	7.26	7.33	7.40
Index	100.00	84.40	82.50	85.40	89.10	84.10	84.40	86.20	87.20	87.50	88.80	89.60	90.40

Source: United Nations, Monthly Bulletin of Statistics.

United States prices have remained consistently below the level attained in 1963, which is taken as the base year, but it should be remembered that 1963 was an exceptional year in which prices rose 30 per cent over the previous levels. Part of this increase was subsequently consolidated in the price, and since 1965 prices have been rising slowly but steadily. In contrast, free market prices, which had also soared in 1963, dropped again even below pre-1963 levels. The United Nations is continuing its efforts to secure the negotiation of a sugar agreement.

/2. Coffee

2. Coffee

The problems affecting world trade in coffee are still largely due to the heavy stockpiling (at the rate of 30 per cent annually) between crop years 1958/59 and 1962/63. Since the International Coffee Agreement came into force, the annual increase in stocks has not exceeded 5 per cent, essentially as a result of Brazil's programme for reducing its coffee-growing area and diversifying crops. But as consumption grows at an average rate of 2.5 per cent annually, the world market position of coffee continues to deteriorate. The price range and quotas established under the Agreement have proved ineffective in arresting the steady price decline. Brazil and Colombia are still accumulating stocks, which represent an increasingly heavy burden on their economies. Moreover, although the production surplus has been held back, the 1966/67 bumper crop intensified the declining trend in world prices (see table I-32).

Table I-32

COFFEE: PRICE TRENDS, 1963-67

(Dollar cents per pound, and index: 1963=100)

	1963	1964	1965	1966	1967	By quarter							
						1966				1967			
						I	II	III	IV	I	II	III	IV
Prices													
Santos 4	34.1	46.7	44.7	40.8	37.8	42.3	41.0	40.4	39.6	38.2	38.9	37.7	36.6
Manizales	39.6	48.8	48.5	47.4	42.0	49.5	48.6	46.8	44.8	42.5	42.0	40.7	42.5
Index													
Santos 4	100.0	137.0	131.1	119.6	110.9	124.0	120.2	118.5	118.4	112.0	114.1	110.6	107.3
Manizales	100.0	123.2	122.5	119.7	106.1	125.0	122.7	118.2	113.1	107.3	106.1	102.8	107.3

Source: ECLA, on the basis of the United Nations Monthly Bulletin of Statistics.

/Coffee continued

Coffee continued to lose ground on the world market in the 1967/68 crop year. At the end of September 1967, output for export was estimated to be 53.3 million bags while consumption was approximately 50 million. The surplus is only half as much as was expected at the beginning of the coffee year, because frosts reduced the harvest by 3 million bags. World exports, which, in 1966, had exceeded their 1965 level by more than 10 per cent (49,956,000 bags as against 44,578,000), increased rather more slowly in 1967. The figures for the first nine months indicate that the increment for the whole year will be barely 2 per cent. However, these figures refer to coffee beans, and thus do not include exports of soluble coffee, which have soared in recent years.

During the first nine months of 1967, the United States imported 18,660,000 pounds of soluble coffee, that is, three times as much as in the previous year. Its exports, on the other hand, dropped from 6,243,000 pounds in 1966 to 4,810,000 pounds, thereby reversing the trade balance for coffee from net sales of 190,000 pounds to net imports of 13,850,000 pounds (during the first nine months of both years). Brazil, the main supplier of soluble coffee to the United States market, sold 15 million pounds during the first nine months of 1967, thereby accounting for 80 per cent of the United States' imports. The purchases from Brazil equalled 14 per cent of the total volume of soluble coffee production in the United States, as against only 1 per cent in 1965. In view of this, the producers in the United States have launched a strong attack on Brazilian competition. They claim that Brazil enjoys preferential prices for its raw material, since it makes use of low-grade beans - with a large proportion of broken - that cannot be exported in the form of green coffee, and complain that the Government of Brazil, in an effort to develop exports of processed coffee, has exempted soluble coffee from the export tax levied on coffee beans. Brazil, for its part, alleges that the development of its soluble coffee industry is partly a result of the preference displayed by the United States producers for African robusta for making soluble coffee. The United States itself had encouraged the establishment of the industry in Brazil, and three out of the five plants had been set up with United States aid. Moreover, the Government of Brazil has announced that any United States firm may establish a soluble coffee plant in Brazil and profit by the advantageous conditions offered there.

/In view

In view of these conflicting positions, it was feared in the last few months of the year that negotiations for the conclusion of a new international coffee agreement would break down because of the opposition from the United States producers. The decision to renew the agreement was, in fact, obtained in circumstances that do not augere well for the future. The question of soluble coffee exports was not settled at the international level; instead, it was left to the Brazilian and United States Governments to work out, as soon as possible, a settlement that would be satisfactory to both sides and would pave the way for the ratification of the new agreement by the United States Congress.

In the meantime, the Coffee Conference decided to reduce the former price margin between the robusta and arabica varieties (see table I-33)

Table I-33

COFFEE: FLOOR AND CEILING PRICES,
BY VARIETIES, 1966/67 AND 1967/68

(Dollar cents per pound)

Varieties	Floor price		Ceiling price	
Colombian <u>arabica</u>	43.50	38.75	47.50	42.75
Other milds	40.50	37.25	44.50	41.25
Unwashed <u>arabica</u>	37.50	35.25	41.50	39.25
<u>Robusta</u>	30.50	30.50	34.50	34.25

Source: Bank of London and South America, Revista Mensual.

The new scales are much lower. On the other hand, there is little difference in the distribution of the initial quotas for the new coffee year. Total exports are expected to rise from 46.9 to 47.6 million bags, of which Latin America would supply 32.3 million compared with 31.7 million the previous year. Except for a few unimportant reductions in the case of Ecuador, Guatemala and Mexico, each of the Latin American countries has a share of the modest increase in the basic quotas. Two new countries - Bolivia and Paraguay - have been admitted for future distribution, with quotas of 50,000 and 7,000 bags respectively.

3. Cocoa

World cocoa prices improved in 1967 for the second year running, and reached the same relatively high average level as in 1963 (see table I-34). This recovery, following the abrupt downturn in 1965, is mainly attributable to the strengthening of the buyer markets and the decrease in production during the last two years of the period.

The fall in prices in 1965 (a reduction of 36 per cent in relation to 1963) was mainly due to the boom in world cocoa production in 1964/65, when output amounted to 1,505,000 tons as a result of the bumper crop in Africa (see table I-35). In the next two trade years (1965/66 and 1966/67), the volume of world production contracted to 1,212,000 and 1,325,000 tons, respectively, i.e., by 20 and 13 per cent in relation to 1964/65. Thanks to the persistent growth of cocoa consumption - at an estimated annual rate of 4.5 per cent over the last fifteen years - the 166,000 tons carried over from 1965 were successfully absorbed, and stocks dwindled steadily. According to estimates, the world market deficit was about 100,000 tons in 1967, and may have been even greater, since world output in 1967/68 is calculated at 1,281,000 tons, i.e., 3 per cent less than in the preceding year.

As has happened before, the continuous rise in cocoa prices may, by encouraging the tendency of industrial production to economize raw material, once again act as an incentive to consumption of other inputs. It must also be borne in mind that there was a marked expansion in production of cocoa powder (which represented 16 per cent of total world output of cocoa in 1966) and of the producer countries' exports of semi-manufactured cocoa products, whose influence on the world market is steadily increasing.

Fragmentary data on Latin America's cocoa exports indicate that in the first eight months of 1967 those of Brazil increased by 11 per cent in relation to the corresponding period in 1966, and those of Ecuador by 58 per cent, while the Dominican Republic's sales remained at the same level (see table I-36). Since these three countries account for a large proportion of total cocoa exports from Latin America, it may be assumed that in 1967 the percentage increase was greater than in the preceding year, when the level reached had been 20 per cent higher than in 1963.

/Table I-34

Table I-34
COCOA BEANS: NEW YORK PRICES (BAHIA), 1963-67

Year		Dollar cents per pound	Index (1963 = 100)
1963		26.5	100.0
1964		23.1	87.2
1965		16.9	63.8
1966		23.0	86.8
1967		26.1 <u>a/</u>	98.4 <u>a/</u>
<u>Quarter:</u>			
1966	I	21.6	81.5
	II	23.3	87.9
	III	24.4	92.1
	IV	22.9	86.4
1967	I	26.1	98.4
	II	25.5	96.2
	III	26.0	98.1
	IV	27.3 <u>b/</u>	103.0 <u>b/</u>

Source: United Nations, Monthly Bulletin of Statistics.

a/ Average for January to November.

b/ Estimates.

Table I-35

COCOA BEANS: BREAK-DOWN OF WORLD PRODUCTION BY SELECTED COUNTRIES AND REGIONS

(Thousands of tons)

Country or region	1963/64	1964/65	1965/66	1966/67	1967/68 a/	Annual growth rates			
						1964/55	1965/66	1966/67	1967/68
						1963/64	1964/55	1965/66	1966/67
Brazil	123	116	171	173	153	-5.7	47.4	1.2	-11.6
Ecuador	35	48	35	42	45	37.1	-27.1	20.0	7.1
Mexico	17	20	24	25	25	17.6	20.0	4.2	-
Venezuela	21	22	22	23	23	4.8	-	4.5	-
Dominican Republic	40	32	28	23	25	-20.0	-12.5	-17.9	8.7
Costa Rica	11	12	7	9	7	9.1	-41.7	28.6	-22.2
Other Latin American countries	45	45	44	46	47	-	-2.2	4.5	2.2
<u>Total for Latin America</u>	<u>292</u>	<u>295</u>	<u>331</u>	<u>341</u>	<u>325</u>	<u>1.0</u>	<u>12.2</u>	<u>3.0</u>	<u>-4.7</u>
Africa	886	1 177	852	951	916	32.8	-27.6	11.6	-3.7
Other countries	29	33	29	33	40	13.8	-12.1	13.8	21.2
WORLD TOTAL	<u>1 207</u>	<u>1 505</u>	<u>1 212</u>	<u>1 325</u>	<u>1 281</u>	<u>24.7</u>	<u>-19.5</u>	<u>9.3</u>	<u>-3.3</u>

Source: Gill and Duffus, Cocoa Market Report N° 210, January 1968.

Table I-36

COCOA BEANS: EXPORTERS FROM LATIN AMERICAN COUNTRIES

(Thousands of tons)

Country	1963	1964	1965	1966	1966 January to August	1967	Annual growth rates		
							1965	1966	1967
							1964	1965	(8 months) 1966 (8 months)
Brazil	68	74	90	111	56	62	21.6	23.3	10.7
Costa Rica	9	9	6	8	-	-	-33.3	33.3	-
Dominican Republic	23	27	22	26	22	21	-18.5	18.2	-4.5
Ecuador	35	26	39	32	19	30	50.0	-18.0	57.9
Mexico	18	3	9	8	-	-	200.0	-11.1	-
Venezuela	12	12	12	12	-	-	-	-	-
<u>Total</u>	<u>165</u>	<u>151</u>	<u>178</u>	<u>197</u>	-	-	<u>17.9</u>	<u>10.7</u>	-

Source: Gill and Duffus, Cocoa Market Report No 210, January 1968.

/Preliminary estimates

Preliminary estimates of cocoa production in Latin America for the trade year 1967/68 show a decline in total output in relation to the preceding year, following a steady upward movement since 1963/64 (see table I-35).

This falling-off was due to a sharp contraction (20,000 tons, i.e., 12 per cent) in Brazil's output, since the other producer countries recorded a slight expansion or maintained the previous year's level.

Despite the present market situation and the firm position of the producer countries in 1967, the International Cocoa Agreement which has been in process of negotiation since 1958 was not concluded.^{3/} Moreover, the preliminary agreement reached at Geneva on 4 October 1967 by the fourteen principal producer and consumer countries (Brazil, Cameroon, Ecuador, Ghana, Ivory Coast, Mexico and Nigeria on the one hand, and the Federal Republic of Germany, France, the Netherlands, Switzerland, the United Kingdom, the United States, and the USSR, on the other) was not endorsed at the United Nation Cocoa Conference which met under the auspices of UNCTAD, also at Geneva, from 28 November to 18 December 1967.

The preliminary agreement reached in October 1967 seemed to have settled the major differences among the participating countries with respect to the fixing of floor prices and the nature of buffer stock operations. It was agreed to establish an indicator price lying between 24.5 and 28.0 dollar cents per pound; within these limits, the Administrative Council of the Agreement would take certain steps relating to export quotas, if these quotas had come into operation. Floor and ceiling prices of 20 and 29 dollar cents per pound, respectively, were also fixed, and the agreement specified measures that should be adopted by the Council if these limits were exceeded, including the use of the buffer stock. With regard to buffer stock operations, no details were given on the scale of prices in the Memorandum of Agreement.^{4/} According to information from other sources,^{5/} however, the Governments of Ghana and of the United States came to an agreement on this point, to the effect that the buffer stock would be financed with a tax of 1 dollar cent

3/ See Economic Survey of Latin America, 1966 (United Nations publication, sales No: E.68.II.G.1).

4/ "Memorandum of Agreement adopted on 4 October 1967" (TA/Cocoa 1/11), 25 October 1967.

5/ The Economist, London, 14 October 1967.

per pound on the producer countries' world market sales of cocoa beans. The producer countries would be entitled to sell amounts in excess of their export quotas to the buffer stock, but at a price equivalent to one half of the minimum price established in the Agreement, a provision which should help to check over-production. If in the future the buffer stock sold its inventories (in order to stop prices from rising above the ceiling fixed), it would pay the other half of the minimum price to the producer countries from which it had purchased cocoa. The maximum level of the buffer stock was set at 250,000 tons, a figure approximately equivalent to the production surplus recorded in two recent years.

This preliminary agreement met with strong opposition from the cocoa industries, especially in the United Kingdom and the United States. Their argument was that the quota and buffer stock machinery in the hands of the Cocoa Council would constitute an arbitrary means of regulating the market and would restrict market operations (which are determined by a handful of commercial firms that control cocoa purchases). But the failure to reach agreement at the United Nations Cocoa Conference was due not only to the opposition put up by vested interests in the consumer countries but also to divergent views on the part of the producer countries themselves.

The United Nations Cocoa Conference concluded its proceedings on 19 December 1967, after three weeks' negotiations, with no decision adopted on thirteen out of the sixteen items on its agenda, and without having fixed a date for the resumption of negotiations.

The most serious differences of opinion arose between Brazil and the African countries and between the United States and the producer countries in general. In the first place, Brazil requested that the system of preferences granted to the African countries associated with EEC should be abolished as from the second year following the signing of the Cocoa Agreement. Although the African countries agreed in principle, they were not prepared to accept the time limit stipulated by Brazil. Brazil then asked the major consumer countries to refrain from setting up new obstacles to cocoa consumption in the shape of internal taxes, and gradually to eliminate those already existing, with a view to the expansion of consumption. Another proposal put forward by Brazil was to the effect that the

/administrative costs

administrative costs of the buffer stock (transport, insurance, etc.) should not be deducted from the 20-cent floor price previously agreed upon. This suggestion was rejected by the United States.

Another important point on which there was a divergence of views between the producer and the consumer countries was soluble cocoas. At the present time, the cocoa producing countries are stepping up their exports of processed and semi-processed products, since they are able to compete with the prices in the consumer countries because the raw material costs them less. The United States and the Netherlands have pressed for the elimination of this type of competition, but Brazil maintains a position similar to that which it adopted in respect of coffee.

The defensive stand taken by the consumer countries with reference to the access of processed and semi-processed products to their markets was also reflected in the structure of the tariff concessions granted to the producer countries by the EEC during the Kennedy Round. Although these reductions (which are to be applied progressively up to 1972) are relatively large (40 per cent), there is still some discrimination against processed cocoa products. While the ad valorem duty on cocoa beans has been fixed at 5.4 per cent, for cocoa paste and cocoa powder it is 15 and 16 per cent, respectively.

4. Bananas

The provisional figures for 1967 indicate a slight recovery of prices in relation to the previous year, to judge by the quotations on the German and United States markets. Despite the steady rise in world demand, the prices obtained in 1967 are lower than the 1963 prices.

The volume of world trade in bananas once more rose considerably in 1966 to reach a total of 5.4 million tons, an increase of 10 per cent over 1965, in which year there had been a similar increase (see table I-38).

Table I-37

BANANAS: AVERAGE IMPORT PRICES, 1963-67

	1963	1964	1965	1966	1967 ^{a/}
Federal Republic of Germany ^{b/}	589	531	568	542	564
Index	100.0	90.2	96.4	92.0	95.8
United States ^{c/}	16.8	17.0	15.9	15.4	15.5
Index	100.0	101.2	94.6	91.7	92.3

Source: FAO, Monthly Bulletin, 1967

a/ Provisional estimates.

b/ F.o.b. prices for Ecuadorian exports in Deutschmarks per 1,000 kilogrammes.

c/ For exports from Central and South America, in dollar cents per kilogramme.

In the United States, which is the main market, imports in 1966 were up about 7 per cent and amounted to as much as 1.7 million tons, and a similar trend was observed in Canada. In Eastern Europe in that year, imports did not increase to the same extent as in previous years, which is not surprising, since in 1965 they had shot up by more than 20 per cent. Imports into the European Economic Community in 1966 amounted to 1.6 million tons, an increase of 8 per cent over 1965. The largest increases were in France and the Benelux countries, and the Federal Republic of Germany remained the largest European market for bananas. Imports into the United Kingdom, estimated to be about 375,000 tons in 1966, were more or less the same as in 1965. In other Western European countries, imports once again increased, particularly in Austria (20 per cent), Switzerland (10 per cent) and Scandinavia (7 per cent). It is estimated that imports into Eastern Europe and the Soviet Union ranged between 70,000 and 75,000 tons in 1966. Japanese imports, which had shown only a moderate increase in 1965, climbed more than 20 per cent in 1966.

/Table I-38

Table I-38

BANANAS: LATIN AMERICAN EXPORTS AND WORLD IMPORTS

(Thousands of tons)

	Average for 1961-63	1964	1965	1966 (provisional figures)
<u>Exports</u>				
Ecuador	1 141.8	1 382.7	1 200.0	1 264.8
Brazil	222.7	225.5	215.8	230.0
Colombia	185.1	171.6	253.5	310.0
Costa Rica	261.8	293.7	312.2	340.0
Dominican Republic	154.3	69.1	48.0	25.0
Guatemala	125.0	94.4	34.1	47.0
Honduras	384.1	349.0	511.6	700.0
Panama	273.5	266.6	335.5	420.0
Others	53.2	69.3	58.2	76.2
Total for Latin America	<u>2 801.5</u>	<u>2,921.9</u>	<u>3 028.9</u>	<u>3 413.0</u>
<u>Imports</u>				
World total (excluding USSR)	<u>4 055.7</u>	<u>4 368.1</u>	<u>4 932.6</u>	<u>5 391.9</u>
European Economic Community (total)	1 117.9	1 139.4	1 462.1	1 581.6
United Kingdom	369.7	352.5	376.3	372.7
Scandinavia	113.2	121.2	135.6	143.5
United States	1 418.4	1 448.3	1 565.3	1 685.8
Canada	134.8	152.3	165.7	175.0
Japan	137.4	351.8	357.6	440.0

Source: "Bananas: market developments in 1966 and outlook for 1967", in
FAO Monthly Bulletin, vol. 16, No 6 (June 1967).

/With regard

With regard to exports, 1966 was a particularly favourable year for Central America, which seems to be rapidly recovering its former position in the world banana trade. In particular, Honduras achieved considerable increases in its exports both to the United States (although over the long term its share in the United States market is diminishing in favour of other Central American countries) and to Europe, and Panama and Costa Rica also improved their export figures. In contrast, Guatemala's exports were once again low in relation to previous years, because the crop is no longer being grown along the Pacific coast. In time, however, this reduction will be more than made up when the new plantations in the Atlantic zone go into production. Exports have dropped sharply in the Dominican Republic, probably because of the closing down of the United Fruit Company in that country in 1965 and because of the general domestic situation.

In South America, Ecuador had a fairly satisfactory year, since its exports increased by about 5 per cent. Ecuador's share in the world markets (particularly the United States market) has shrunk, but the absolute level of its exports has been maintained by expanding exports to other areas, especially EEC countries. Colombia's exports also increased, although the withdrawal of the United Fruit Company from Santa Marta in order to concentrate its activities in the Turbo region caused certain difficulties.

Preliminary data for 1967 indicate further increases in the banana trade, although it is unlikely that there was a repetition of the extraordinary rates obtained in 1965 and 1966. In the first place, the effect of the change-over in the method of shipping bananas (packing them in cartons instead of shipping stems), which was more or less completed in 1966, would no longer be felt in 1967. Secondly, annual per capita consumption in North America and in most Western European countries has already reached about 9 kilogrammes, and any further increase will inevitably be gradual. Similarly, the Latin American exporter countries will undoubtedly feel more intensively the effect of the tariff preferences granted by EEC to its African Associated States.

5. Wheat

In 1967, international wheat prices were 3.4 per cent more than in 1966, and also improved upon the relatively high price level of 1964 (see table I-39).

Table I-39

WHEAT AND MEAT: RECENT PRICE TRENDS ON THE LONDON MARKET, 1964-67

(Index: 1963 = 100)

Year/Quarter	Wheat	Beef
1964	103.1	118.8
1965	96.5	130.4
1966	100.0	122.1
1967	103.4	118.1
1966 - I	97.3	126.8
II	98.5	137.7
III	100.8	124.3
IV	101.5	98.9
1967 - I	103.1	105.8
II	103.1	125.7
III	101.9	115.2
IV	105.7	125.7

Source: United Nations, Monthly Bulletin of Statistics.

Argentina, which is Latin America's leading wheat exporter, has been unable to take full advantage of the buoyant market because of the sharp drop in its stocks at the beginning of the 1966/67 trade year after heavy sales in the two preceding years, and the relatively small harvest in 1966/67 for the second year in succession. In view of the situation, the Government had to suspend wheat exports in mid-June 1967, except for the 117,000 tons promised to Brazil under the agreement providing for the despatch of a million tons of Argentine wheat a year from 1965 to 1967 (see table I-40).

/Table I-40

Table I-40

ARGENTINA: WHEAT PRODUCTION, CONSUMPTION AND EXPORTS, 1964-67

(Thousands of tons)

	Trade year <u>a/</u>		
	1964/65	1965/66	1966/67
Stocks at beginning of year	2 213	3 340	175
Harvest	<u>11 260</u>	<u>5 400</u>	<u>6 380</u>
Total supply	13 473	8 740	6 555
Domestic consumption	3 729	2 998	3 900 <u>b/</u>
Exports	<u>6 404</u>	<u>5 567</u>	<u>1 963</u> <u>b/</u>
Stocks at end of year	3 340	175	692 <u>b/</u>

Source: The Review of the River Plate, No. 3643 (Buenos Aires, 30 June 1967).

a/ 1 December to 30 November.

b/ Estimate.

In 1966/67, Argentine wheat exports were two-thirds of their volume in the two previous years.

However, preliminary estimates of the 1967/68 crop are highly encouraging not only for Argentina but for the other major world suppliers (see table I-41).

It is expected to be bigger than the previous year's crop in all the wheat-growing countries save Canada, which has big stocks, the USSR, which had a record harvest in 1966/67, and Australia, where output reached the same level as in the previous year. World wheat trade, which amounted to 57 million tons in 1966/68, may thus be well balanced in 1967/68 and free from the exceptional pressures experienced in the early nineteen-sixties as a result of large-scale purchases by the USSR and other socialist countries, and in 1966/67 because of the emergency shipments to India.

/Table I-41

Table I-41

WHEAT: PRELIMINARY ESTIMATE OF WORLD HARVEST, 1967/68

(Millions of tons)

Country/region	1966/67	1967/68	Country/region	1966/67	1967/68
United States	35.6	42.0	Asia	33.5	38.0
Canada	23.0	15.0	South America	8.4	11.1
Western Europe	44.5	49.9	Argentina	6.4	9.0
European Economic Community	26.5	30.6	Africa	4.7	5.6
Eastern Europe	118.3	100.0	Australia	12.5	12.0
USSR	100.4	81.0			

Source: The Economist (28 October 1967).

The harvest in Argentina, which is estimated to have been about 9 million tons, is far bigger than in the last two years and nearly as good as the 1964/65 crop (see table I-41). Argentina's wheat exports may expand considerably as a result, although world competition based on the growth of exportable surpluses in the main supplier countries may have an adverse effect on international prices.

World trade will be regulated by the new international wheat agreement which was adopted at the International Wheat Conference held in Rome from 12 July to 18 August 1967. This will replace the current agreement, which has been in force since 1962. It will take effect on 1 July 1968 and remain in force until 1971. Prior to that date it must be ratified by the signatories of the Kennedy Round (the European Economic Community, Argentina, Australia, Canada, Denmark, Finland, Japan, Norway, Sweden, Switzerland, the United Kingdom and the United States) and the other countries that participated in the Rome Conference.

The new agreement will base the reference price on No. 2 Hard Winter wheat, f.o.b., ports in the Gulf of Mexico instead of on No. 1 Manitoba as specified in the 1962 agreement. The floor price was fixed by the

/participants at

participants at 1.73 dollars and the ceiling price at 2.13 dollars per bushel (27.215 kg). The price of Argentine Flata wheat was put on a par with the reference price. Price for Argentine wheat on the London market have remained within the specified limits in the last few years, but the bumper harvest in 1967/68 is liable to bring prices down below the new minimum before 1 July 1968. On the other hand, the prospect of higher prices from July onwards may well lead to bigger stockpiling and thus keep supplies steady.

The wheat agreement also establishes the quotas for the importing and exporting countries. The latter are authorized to sell their wheat at more than the ceiling price only when they have fulfilled their quota commitments to the importing countries that have signed the agreement.

The Rome Conference approved the creation of an international food aid fund, which, with the decisive support of the developed countries, was established at 4.5 million tons of grain for human consumption annually. This will be distributed on the basis of bilateral arrangements between donor and recipient countries. The implementation of the agreement will be supervised by a committee set up by the donor countries.^{6/}

6. Meat

In 1967 there was a continuation of the downward trend in world beef prices. After a drop of 6 per cent in 1966 in relation to 1965, they continued to fall during the first three quarters of 1967 and only picked up again at the end of the year (see table I-39). These trends are a reflection of the expansion of beef production (a production increment of 5.4 per cent for the world as a whole and of 8.7 per cent for South America in 1966) and of the increasing trade restrictions applied in the main European markets and in the United States.

Argentine exports of frozen and chilled beef were up 22.1 per cent in 1966 in relation to the previous year, and it is estimated that there was a further increase of 15 to 20 per cent in 1967, which would bring

^{6/} Participation in the Fund is as follows: United States, 42 per cent; European Economic Community, 23 per cent; Canada, 11 per cent; Australia, Japan and the United Kingdom, 5 per cent each. The balance will be contributed by the other signatories.

exports almost up to the high level recorded in 1963. (See table I-42.) Argentina continues to occupy first place with a share of 27.3 per cent in world exports in 1966, followed by Australia with 20.8 per cent.

Table I-42

ARGENTINA: EXPORTS OF BEEF

(Thousands of tons)

	1963	1964	1965	1966
Frozen beef	264.3	228.3	173.8	236.8
Chilled beef	262.4	162.7	133.5	138.4
<u>Total</u>	<u>526.7</u>	<u>391.0</u>	<u>307.3</u>	<u>375.2</u>

Source: The Review of the River Plate.

Nevertheless, the conditions of access for Argentine beef to the main markets continue to worsen. Thus, in its most important market - EEC -, which absorbs about one-third of its exports, Argentina's share in the total imports of beef has been decreasing steadily (see table I-43).

Table I-43

EEC: ARGENTINA'S SHARE IN TOTAL IMPORTS OF BEEF

(Thousands of tons)

	1963	1964	1965	1966
Total imports	416	560	613	526
Imports from Argentina	132	204	129	123
Percentage share	32	36	21	23

Source: The Review of the River Plate, No. 3643 (30 June 1967).

/In order

In order to improve the competitiveness of its exports to the EEC market, Argentina signed on 16 May 1967, during the Kennedy Round negotiations, an agreement with representatives of EEC to reduce the present import duties on frozen beef from 20 to 16 per cent. In addition, temporary reductions were included for certain months of the year in respect of extra duties, and certain guarantees were given regarding the establishment of guide prices. However, as a result of the opposition of the French Government, the agreement did not enter into force and is still under study. This situation stems from the protectionist policy of self-sufficiency in respect of agricultural products, initiated by EEC in recent years.

Since 1964 meat from Latin America has been subject to a tax equal to the difference between the f.o.b. value and the guide prices of the importing member country, which offsets any price advantage in relation to the domestic product of the EEC countries. This mechanism has already begun to have a negative effect on Argentina's share in the EEC meat market (see table I-43). The common market for beef entered into force on 1 April 1968, and this will intensify the policy of developing livestock production within the Community and of progressively eliminating foreign competition. The EEC Council of Ministers raised the internal price of beef 2.8 per cent for 1968, and this will entail comparable increase in the variable levies (prélèvements) applied to imports into the Community.

The United Kingdom's imports of beef from Latin America increased in 1966 in relation to 1965, but were cut back at the end of 1967 by the health restrictions imposed on Argentine beef because of the outbreak of foot-and-mouth disease affecting British livestock production. The outlook is not very favourable in this important market either, since in the National Plan for 1965-70 provision is made for a large increase in the domestic supply of meat and there is a possibility - although not yet imminent - of the United Kingdom's entry into EEC, which would bring with it changes in trade policy that would unfavourably affect Latin American exports.

In the United States - another important market for meat - import conditions are also deteriorating. Under Law No. 88-442, meat imports are subject to quotas established on the basis of the situation between 1959 and 1963. As this limitation was not applied in 1967, because the basic quota

of 995 million pounds for that year was not filled, a bill was submitted to the United States Senate in October 1967 which was designed to tighten the controls on imported meat. In view of the repercussions of such a bill and of the fact that it runs counter to the commitments assumed by the United States, there is every hope that it will be rejected. In any event, the fact that it was submitted (as were other bills of this kind) reveals the climate of opposition to the liberalization of imports into the United States, which is faced by the necessity of solving its chronic and growing balance-of-payments deficit.

7. Cotton

If average 1963 prices are taken as a base, the evolution of prices of the principal qualities of cotton produced in Latin America was characterized by a common downward trend in 1965 and 1966, followed by a marked recovery which began at the end of 1966 and gained strength in the course of 1967. At the same time, there were wide differences between the prices of the three qualities which are representative of Latin America's cotton exports.

The over-all recovery in cotton prices as from the fourth quarter of 1966 was basically due to a drastic reduction of the United States crop, resulting from a change in cotton policy. Output in the United States dropped from 14.9 million bales in 1965 to 9.9 million in 1966 and 8.0 million in 1967. Although elsewhere production continued to expand at a moderate rate, the world supply decreased considerably, with the ensuing repercussions on world stocks - despite a slight weakening of industrial demand during 1967 - and prices thus became firm (see table I-44).

Table I-44

WORLD COTTON PRODUCTION

(Millions of bales)

	1955/56	1965/66	1966/67	1967/68
United States	14.2	14.9	9.9	8.0
Countries with centrally-planned economies	12.6	14.7	15.2	15.5
Other countries	16.3	23.5	22.8	23.9
WORLD TOTAL	<u>43.1</u>	<u>53.1</u>	<u>47.9</u>	<u>47.4</u>

Source: International Cotton Advisory Committee.

/World stocks

World stocks, which had risen from 28.0 to 30.4 million bales between 1 August 1965 and the same date in 1966, had shrunk to 26.2 million by 1 August 1967.

The price of Brazilian cotton had already fallen by 1964, and stayed below the benchmark level thereafter, although according to provisional estimates the average for 1967 was again almost the same as in 1963. The latest quotation available (28.3 cents on 15 November) represents an index number of 107.2 in relation to the 1963 average (see table I-45).

Table I-45

RECENT TRENDS IN COTTON PRICES, BY QUALITIES, 1963-67

(Dollar cents per pound; index number: 1963 = 100)

Type of Product	1963		1964		1965		1966		1967 ^{a/}	
	Price	Index	Price	Index	Price	Index	Price	Index	Price	Index
Sao Paulo 5	26.4	100	26.1	98.9	26.1	98.9	24.4	92.4	25.7	97.3
Matamoros S.M. 1 1/16	29.3	100	29.5	100.7	28.8	98.3	28.2	96.2	30.4	103.8
Pima 1 1 9/16	38.9	100	45.5	117.0	41.0	105.4	42.4	109.0	45.8	117.7

Source: International Cotton Advisory Committee.

a/ Provisional estimates.

Mexican cotton presented a more favourable picture. The price decline lasted only over the years 1965 and 1966 and the recovery in 1967 was more vigorous. As in the case of the other qualities, the highest prices were those quoted in the later months of the year (31.9 cents in mid-November, corresponding to an index number of 108.8 in relation to 1963).

Lastly, the price of Peruvian long-staple cotton, after rising sharply in 1964, dropped in 1965, but by 1966 had already turned upwards, and in 1967 regained the high average level reached in 1964. The latest quotation (48.0 cents in mid-November) represents an index number of 123.4 in relation to 1963.

/In these

In these circumstances, 1967 was a more favourable year for cotton producers, and to judge from the market situation, the recovery achieved is likely to be consolidated in 1968. Clearly, this will depend upon several factors, including the continued application of the present United States cotton policy and the maintenance of demand in the industrialized countries.

In some circles apprehension has recently been expressed with respect to stronger competition from cotton produced in the countries with centrally-planned economies. A study of the relevant figures does not bear out these misgivings. In practice, production has expanded much more in the last twelve years in the countries with market economies, where it has increased by 47 per cent, as against 23 per cent in the countries with centrally-planned economies. In the latter group, moreover, the average annual growth rate of cotton production falls short of 2 per cent, i.e., it only just keeps pace with the rate of increase of the population.

Long-term cotton market prospects are less hopeful, owing to the stepping-up of competition from synthetic fibres, production of which is following an upward trend, while their prices are falling with the progress of industrial techniques. The experience of the past few years suggests that if cotton prices rise above their present levels there will be some risk of an increase in demand for rayon, the price of which has remained stationary, at 28.0 cents a pound, since 1964. Polyester fibre is putting up keener competition, which mainly affects long-staple cotton. Its price has dwindled from 188 dollar cents in 1953 to 141 in 1958-61, 114 in 1962, 90 in 1965, 84 in 1966 and 61 in 1967. There was even a further reduction of 3 cents in the first quarter of 1967, but the expansion of demand outmatched production capacity, and the price reverted to 61 cents a few months later.

8. Wool

In the wool market, the price decline which had begun in 1965 grew steeper in 1967, although different trends were shown by fine and coarse wools, since the price reduction was more moderate in the case of wool for clothing, whereas the slump in prices of coarse wool, used mainly for carpet-making, was spectacular (see table I-46).

Table I-46

WOOL: BOSTON MARKET PRICES, 1963-67

(Dollar cents per pound of wool, clean basis,
and index: 1963 = 100)

	1963	1964	1965	1966	1967				Average
					I	II	III	IV	
Uruguayan wool									
Super 0's									
(58-60's)									
Price	110	123	92	104	98.3	93.7	94.3	81.0	92.0
Index	100.0	111.8	83.6	94.5	89.4	85.2	85.7	73.6	83.6
Argentine wool									
5/6's (40-36's)									
Price	81	89	73	68	50.3	44.7	42.0	42.0	45.0
Index	100.0	109.9	90.1	84.0	62.1	55.2	51.9	51.9	55.6

Source: United Nations, Monthly Bulletin of Statistics.

This phenomenon is apparently not due to a basic imbalance between production and consumption, since both have kept more or less on a par, except in 1967 as the following data indicate:^{7/}

	<u>World consumption</u>	<u>World production</u>	<u>Surplus</u>
	<u>(Millions of pounds)</u>		
1963	3 316	3 321	+5
1964-66 (annual average)	3 268	3 303	+35
1967 (estimate)	3 270	3 437	+167

Although 1967 was a record year for production, it actually improved very little on the level in former years (less than 4 per cent). This increase appears even smaller because stocks were below normal at the beginning of the wool year.

^{7/} United States Department of Agriculture, Wool situation
(24 October 1967).

Price trends were determined by the decline in demand rather than by the growth of production. Industrial consumption in the developed countries fell off slightly, particularly in the United States, and there was stronger competition from man-made fibres (see table I-47).

Table I-47

NATURAL AND MAN-MADE FIBRES
CONSUMPTION IN UNITED STATES INDUSTRY, 1963-67

(Millions of pounds, and percentages)

	Wool for all uses except carpets				Wool for carpets			
	Natural		Man-made		Natural		Man-made	
	Volume	Per-centage	Volume	Per-centage	Volume	Per-centage	Volume	Per-centage
1963	64.2	31.9	43.3	21.5	94.7	69.6	30.5	22.4
1965	60.2	31.3	49.3	25.6	64.0	45.5	67.0	47.7
1966	61.4	31.2	52.4	26.6	61.7	43.3	71.8	50.4
1967 <u>a/</u>	55.1	31.8	53.3	30.8	45.2	39.2	65.5	56.8

Source: United States Department of Agriculture, Wool situation, 24 October 1967.

a/ Estimate.

Apparel wool maintained its relative position in clothing manufacture while man-made fibres gained ground at the expense of regenerated wool, which is not listed in the table.

/On the

On the other hand, the use of natural wool for carpet manufacture has been reduced to a little over half in the last four years because of the competition from man-made fibres, and it is impossible to tell how far the process of substitution will go.^{8/}

The decline in demand for coarse wool explains the divergent trends followed by the prices of the two types of wool and the increase in stocks during 1967.

The devaluation of sterling in November 1967 further weakened the wool market, although not in the same proportion as the currency. Prices on the Bradford market expressed in terms of dollars per ton of merino 64's were as follows:

Before devaluation (17 November)	2 434
After devaluation (24 November)	2 264
After devaluation (8 December)	2 315

Combed wool prices on the same market recovered more rapidly, and on the same dates were as follows: 2,545, 2,403 and 2,535 dollars.

9. Copper

The past year has been another period of sharp fluctuations in the price of copper. With the relatively high level reached by stocks accumulated in 1966 and the slackening of demand in Western Europe, the market deteriorated rapidly in the first half of 1967. Even the start of the copper strike in the United States in July was not enough to start a new rising trend, which was observable only in the last few months of the year. Even then, the average price of copper on the London market was more than 25 per cent lower than in 1966 (see table I-48).

^{8/} New advances in wool technology are an incentive to producers of fine wools. The United Kingdom and the United States have begun to manufacture "wash and wear" woollen clothing which can be machine-washed and needs no ironing.

Table I-48

COPPER: AVERAGE PRICES OF REFINED COPPER ON VARIOUS MARKETS, 1963-67

(Dollar cents per pound, and index: 1963=100)

		1963	1964	1965	1966	1967 <u>a/</u>			
A. <u>Annual averages</u>									
London	Price	29.2	43.9	58.5	69.4	51.3			
	Index	100.0	150.0	200.0	237.2	175.3			
United States domestic market	Price	30.6	32.0	35.0	36.2	38.5			
	Index	100.0	104.6	114.4	118.3	125.8			
United States export market	Price	28.4	31.0	35.6	49.6	47.2			
	Index	100.0	109.2	125.4	174.6	166.1			
Sale price of Chilean copper	Price	29.2	34.4	39.7	54.2	49.6			
	Index	100.0	117.8	136.0	185.6	169.9			
B. <u>Quarterly averages</u>									
		1966				1967			
		I	II	III	IV	I	II	III	IV <u>a/</u>
London	Price	82.0	79.5	58.6	57.2	53.8	46.0	46.9	58.5
	Index	280.3	271.8	200.4	195.7	183.8	157.3	160.3	200.0
United States domestic market	Price	36.1	36.0	36.0	36.5	38.0	38.1	38.7	...
	Index	118.0	117.6	117.6	119.3	124.2	124.5	126.5	...
United States export market	Price	43.0	52.3	51.2	51.8	48.9	43.3	44.6	51.9
	Index	151.4	184.2	180.3	182.4	172.2	152.5	157.0	182.7
Sale price of Chilean copper	Price	42.0	59.3	58.7	56.7	52.6	44.6	46.2	55.1
	Index	143.8	203.1	201.0	194.2	180.1	152.7	158.2	188.7

Source: United Nations, Monthly Bulletin of Statistics.^{a/} Estimates.

/At the

In the short term, or at least during the first half of 1968, the copper strike in the United States will continue to be the determinant of fluctuations in copper quotations. It is even reasonable to expect that quotations will remain firm for several months after the end of the strike because of the need to build up stocks (see table I-49).

Consumption of refined copper had outstripped production from 1960 to 1964 in the market-economy countries. The opposite trend was observable in the countries with centrally-planned economies. A comparison of the cumulative annual growth rates of production and consumption makes this situation clearer (see table I-50).

Because of the different rates of growth, the annual world production surplus of refined copper was reduced from 259,000 metric tons in 1960 to only 43,000 in 1964; thus an almost perfect balance was struck between production and consumption.

Important changes occurred from 1965 onwards. With the stepping-up of military operations in south-east Asia, United States consumption rose nearly 30 per cent in two years. This increase, however, is not reflected in the world situation (leaving the socialist countries out of account for want of data on their consumption), since the growth rate of consumption fell off appreciably, owing to a reduction of demand in absolute terms, in the market economy countries other than the United States. Although this may have been due to the slower rate of economic growth in these countries, the main reason seems to be the replacement of copper by other materials in certain manufactures.

The balance was maintained, however, since the United States, which had been a net exporter, became an importer from 1966 onwards; whereas by 1965 the other market economy countries had already switched over from the status of importers to that of net exporters.^{10/}

^{10/} These remarks are based entirely on consumption and production data, although trade flows showed no immediate reaction to the changes noted in the relation between production and consumption in the areas under consideration.

Table I-49

COPPER: CONSUMPTION, OUTPUT AND SURPLUS PRODUCTION OF REFINED COPPER, 1960-67

(Thousands of metric tons)

	1960	1961	1962	1963	1964	1965	1966	1967 ^{a/}
A. Consumption								
United States	1 224.6	1 327.1	1 451.2	1 582.4	1 640.9	1 799.0	2 119.1	...
Other market-economy countries	2 603.8	2 769.7	2 653.8	2 782.0	3 212.0	3 092.6	2 978.7	...
<u>Sub-total</u>	<u>3 828.4</u>	<u>4 096.8</u>	<u>4 105.0</u>	<u>4 364.4</u>	<u>4 852.9</u>	<u>4 891.6</u>	<u>5 097.8</u>	<u>4 800.0</u>
Socialist countries	911.6	941.8	985.1	1 021.0	1 045.0	...	...	...
WORLD TOTAL	<u>4 740.0</u>	<u>5 038.6</u>	<u>5 090.1</u>	<u>5 385.4</u>	<u>5 879.9</u>	...	...	...
B. Output								
United States	1 642.6	1 661.8	1 725.0	1 722.2	1 820.0	1 958.5	1 999.2	1 300.0
Other market-economy countries	2 556.1	2 636.0	2 668.5	2 741.5	3 152.4	3 124.7	3 242.6	3 350.0
<u>Sub-total</u>	<u>4 198.7</u>	<u>4 297.8</u>	<u>4 393.5</u>	<u>4 463.7</u>	<u>4 972.6</u>	<u>5 083.2</u>	<u>5 241.8</u>	<u>4 650.0</u>
Socialist countries	799.9	840.9	873.9	929.0	968.8	1 041.6	1 045.7	...
WORLD TOTAL	<u>4 998.6</u>	<u>5 138.7</u>	<u>5 267.4</u>	<u>5 392.7</u>	<u>5 941.4</u>	<u>6 124.8</u>	<u>6 287.5</u>	...
C. Surplus production								
United States	418.0	334.7	273.8	139.8	179.3	159.5	-119.9	...
Other market-economy countries	-47.7	-133.7	14.7	-40.5	-59.6	32.1	263.9	...
<u>Sub-total</u>	<u>370.3</u>	<u>201.0</u>	<u>288.5</u>	<u>99.3</u>	<u>119.7</u>	<u>191.6</u>	<u>144.0</u>	<u>-150.0</u>
Socialist countries	-111.7	-100.9	-111.2	-92.0	-76.2	...	...	...
WORLD TOTAL	<u>258.6</u>	<u>100.1</u>	<u>177.3</u>	<u>7.3</u>	<u>43.5</u>	...	...	...

Sources: Up to 1964: Metal Statistics; for 1965 and 1966: British Bureau of Non-Ferrous Metal statistics.

^{a/} Estimates.

Table I-50

COPPER: WORLD PRODUCTION AND CONSUMPTION, 1960-66

(Percentage annual growth rates)

	Production		Consumption	
	1960-64	1964-66	1960-64	1964-66
United States	2.6	4.8	7.6	13.6
Other market-economy countries	5.4	1.5	5.4	-8.0
<u>Subtotal</u>	<u>4.3</u>	<u>2.7</u>	<u>6.1</u>	<u>5.0</u>
Socialist countries	4.9	3.9	3.5	...
WORLD TOTAL	<u>4.4</u>	<u>2.9</u>	<u>5.5</u>	...

Source: ECLA, on the basis of the data in table I-49.

Despite the boom in demand generated by military operations, the upward trend of both world production and world consumption of copper declined considerably in the last few years of the period. Without the demand for military purposes, the growth rates of consumption and production of copper would be very similar. Although the prolonged strike in 1967, which is dragging on into 1968, has made a difference to the immediate outlook, any longer-term appraisal of the copper market must take into account the somewhat unfavourable trends it has shown in the present decade.

The copper market appears to be relatively vulnerable. If the extra demand generated by the hostilities in Viet-Nam - estimated at 320,000 tons yearly - is discounted, the growth rate of consumption is slower than the rate of increase of industrial production in the more advanced countries. This relative deterioration in the position of copper is undoubtedly due to the increasing use of substitutes. For example, the German cable industry's consumption of aluminium has risen 85 per cent since 1964. In Japan the volume of aluminium conductors used jumped from 415 tons in 1965 to 6,000 tons in 1966. Moreover, Japanese industry is beginning to use aluminium in

/the manufacture

the manufacture of transformers, generators, radiators, and even television tubes. The amount of copper ousted by aluminium in 1965 and 1966 is estimated at 400,000 metric tons.^{11/}

The determining factor in the process of using aluminium as a substitute for copper is the relative prices of the two metals. It is not merely a question of the high level reached by copper prices since 1964, but also of their wide fluctuations and the ensuing uncertainty on the part of consumers with regard to the evolution of their costs. Aluminium prices have always fluctuated between narrow limits, and they remain stable for long periods at a time. The maximum price reached by aluminium ingots so far in the nineteen-sixties has been 26.0 dollar cents a pound (1960), and the minimum 22.6 cents (1963). The price remained constant at 24.5 cents throughout 1965 and 1966 and increased by barely half a cent in April 1967. Very rough estimates place the safety margin for copper at 40 per cent; in other words, by virtue of its technical advantages copper can withstand competition from aluminium as long as its price does not rise more than 40 per cent above that of aluminium. This statement is borne out by the fluctuations of internal copper prices in the United States when market pressures are not unduly severe.

The major copper mining projects under study may also affect the future outlook. If the balance between production and consumption existing in 1966 is taken as a base, and it is assumed that the cumulative annual growth rate in the nineteen-sixties may be estimated at a little under 4 per cent (discounting the influence of the hostilities in South-East Asia), it would be rash to expect investment to lead to an annual increase in output of more than 1.8 million to 2 million tons by 1975. The plans that are being considered by the leading producer countries other than the United States (Chile, Peru and Zambia) envisage an additional production capacity of only about 1.2 million tons. It is probably such data as these that will be taken into account by the countries which set up an Inter-Governmental Council of Copper Exporting Countries in June 1967, with

^{11/} Chase Manhattan Bank, World Business, November 1967.

the aim of developing this sector on lines that will prevent sharp price fluctuations, which, although their immediate effect may be stimulating, over the long term aggravate the instability and the distortions of the copper economy.

10. Other metals

There were no significant movements in the tin, lead and zinc markets in 1967. Prices had plummeted in 1966, although by no means as low as in 1963, and in the first three quarters of 1967 they remained at the same level as in the fourth quarter of 1966, picking up slightly in the last quarter (see table I-51).

Table I-51

TIN, LEAD AND ZINC: RECENT PRICE TRENDS, 1963-67

(Pounds sterling per long ton, and index: 1963 = 100)

	1963	1964	1965	1966	1966/IV	1967				Average
						I	II	III	IV	
Tin:										
Price	910	1 237	1 412	1 299	1 211	1 201	1 219	1 200	1 271	1 223
Index	100	135.9	155.2	142.7	133.1	131.9	132.0	131.9	139.7	134.4
Lead:										
Price	63.4	101.0	115.1	95.2	82.3	81.1	82.6	83.6	88.0	83.8
Index	100	159.3	181.5	150.2	129.8	127.9	130.3	131.9	138.8	132.2
Zinc:										
Price	76.8	117.9	113.0	102.0	102.8	101.7	99.4	96.8	104.2	100.6
Index	100	153.5	147.1	132.8	133.8	132.4	129.4	126.0	135.7	131.0

Source: United Nations, Monthly Bulletin of Statistics.

The relative stability of tin prices in 1967 is the result of the play of two opposing factors. The relationship between production and consumption of primary tin metal has deteriorated considerably, to the

/detriment of

detriment of the producers. After several years of moderate growth, production expanded by more than 12 per cent in the first seven months of 1967, while consumption continued to follow the extremely slow growth rate of previous years (see table I-52).

Table I-52

TIN: PRODUCTION AND CONSUMPTION OF PRIMARY METAL^{a/}

(Thousands of long tons)

	Production	Consumption	Balance
1960-1964 <u>b/</u>	142.5	162.2	-19.7
1965	149.4	165.1	-15.7
1966	156.1	166.7	-10.6
1967 <u>c/</u>	175.6	167.6	+8.0

Source: The Statistical Bulletin of the International Tin Council.

a/ Not including the centrally planned economies, except for Yugoslavia and, from 1962 onwards, Czechoslovakia.

b/ Annual average.

c/ Based on data for seven months.

In 1967 there was also a considerable reduction in the volume of sales from the United States strategic reserves. In comparison with sales totalling about 65,000 tons in the three previous years, the figure for the first nine months of 1967 was only 4,188 tons. Lastly, it is possible that the International Tin Council took measures to support prices when they fell below 1,200 pounds sterling a ton.^{12/}

In mid-November, just before the devaluation of sterling, the price of tin for immediate delivery had risen on the New York market to 156 dollar cents, which then corresponded to 1,247 pounds sterling per ton.

The prices of iron ore showed little variation in 1967, remaining just below the average for 1966.

^{12/} The buying and selling transactions relating to the buffer stock administered by the Council are kept secret for the following nine months. Consequently, the only known transaction so far is the purchase of 1,500 tons in March 1967. The Council's previous stocks had been completely liquidated in 1963.

III. BALANCE OF PAYMENTS AND EXTERNAL FINANCING

1. Balance of payments before compensatory financing

An acceleration of the inflow of autonomous capital into Latin America in 1967 once again enabled the region to achieve a surplus of 500 million dollars on the balance of payments before compensatory financing, which led to an increase of about 300 million dollars in its international reserves and a reduction of more than 200 million in the Central Banks' liabilities (see table I-53). Latin America is thus maintaining the trend followed over the last five years, i.e., increasing the liquidity of the monetary authorities by adding to the net gold and foreign exchange reserves, which in gross terms are now approaching the levels of ten years ago.

During the last five years, Latin America has built up its international reserves by about 1,150 million dollars, including the position with the International Monetary Fund (IMF) and reduced the Central Banks' liabilities by about 500 million (see table I-53). The total of 1,650 million dollars is almost equal to the balance-of-payments deficit in the first three years of the decade (1,630 million dollars) before compensatory financing, which led to an increase of about 940 million dollars in the monetary authorities' liabilities and a running down of the reserves, including the position with IMF, by about 690 million dollars. The indebtedness of the Central Banks and the extent to which the reserves dropped during this period brought pressure to bear on the balance-of-payments position of several countries - Argentina, Brazil, Colombia, Chile, Uruguay and Venezuela - and forced them to take steps to improve it. These efforts, which were a characteristic feature of the years 1963-67, signified for those countries a policy of import restrictions (with the exception of Chile), export promotion and renegotiation of debts; in addition, insofar as these measures were not enough to attain the desired improvements, autonomous capital was channelled towards compensatory financing with a view to reducing the liabilities and replenishing the reserves in the amounts required.

Table I-53

LATIN AMERICA:^{a/} BALANCE-OF-PAYMENTS POSITION BEFORE COMPENSATORY FINANCING, 1962-67

(Millions of dollars)

	Total for the period 1960-62	1963	1964	1965	1966	1967 ^{b/}	Total for the period 1963-67
Argentina	-283.9	145.3	-80.0	99.0	64.0	432.8	661.1
Bolivia	-4.3	5.4	16.8	13.9	4.8	-2.0	38.9
Brazil	-586.0	-92.0	55.0	329.0	94.0	-77.0	309.0
Colombia	-119.0	-31.0	-16.5	43.4	-55.5	57.0	-2.6
Chile	-262.8	-35.2	-6.2	39.1	75.4	-27.0	46.1
Ecuador	-4.8	10.8	4.7	-12.3	11.4	8.4	23.0
Mexico	-39.3	123.0	44.0	-61.0	-18.0	49.0	137.0
Paraguay	-1.1	0.2	2.7	7.8	1.7	0.1	12.5
Peru	73.2	18.5	25.0	14.5	-22.2	-60.1	-24.3
Uruguay	-66.3	-21.3	-100.7	6.2	18.8	15.5	-81.5
Venezuela	-263.6	288.0	133.0	-6.0	-22.0	112.0	505.0
Haiti	1.0	-2.4	-1.4	-1.0	0.4	-1.8	-6.2
Panama	-	-	-	-	-	-	-
Dominican Republic	-26.7	16.4	-12.9	-2.4	-32.2	3.4	-27.7
Central America	-41.7	33.6	26.3	22.6	-23.3	-9.7	49.5
Costa Rica	-20.3	-5.5	-4.8	-7.3	-9.8	15.1	-12.3
El Salvador	-8.0	15.6	13.0	1.6	-12.5	-3.7	14.0
Guatemala	-7.3	12.2	5.3	3.0	-7.5	-11.6	1.4
Honduras	-2.2	0.3	4.9	5.8	3.6	3.2	17.8
Nicaragua	-3.9	11.0	7.9	19.5	2.9	-12.7	28.6
TOTAL	-1 625.3	459.3	89.8	492.8	27.3	500.6	1 639.8
Compensatory financing	1 625.3	-459.3	-89.8	-492.8	-97.3	-500.6	-1 639.8
Net balance-of-payment loans, trade arrears, deferred import payments and swaps	891.9	-88.9	122.9	-113.0	-99.9	-203.4	-501.7
Other net liabilities of the monetary authorities	46.6	18.7	-120.4	-9.7	-8.0		
Net operations with IMF	183.7	111.4	-76.2	-38.1	-152.9	-13.8	-169.6
Stand-by loans	288.5	57.4	-62.8	-22.8	-32.3	-37.0	
Compensatory credits	-	60.0	-	-	-8.9	13.7	
Other positions	-104.8	-6.0	13.4	15.3	-111.7	9.5	
Official gold and foreign exchange (increase -)	503.1	-500.5	-16.1	-332.0	163.5	-283.4	-968.5

Source: IMF, Balance of Payments Yearbook, vols. 17, 18 and 19.

a/ Excluding Cuba.

b/ Preliminary estimates subject to revision.

Table I-53 reveals that the over-all improvements in the net international reserves position, represented by the sum of the surpluses before compensatory financing in the period 1963-67, were mainly concentrated in Argentina and Venezuela (1,166 million dollars), as a result of the large surpluses on current account obtained in some or all of those years. They are followed by Brazil, Mexico, Chile, Bolivia, Nicaragua, Ecuador, Honduras, El Salvador, Paraguay and, to a lesser extent, Guatemala, whose improvements in their net level of international reserves were determined - unlike those of Argentina and Venezuela - by the inflow of autonomous capital in excess of their deficits on current account. This led to an increase in the liquidity of the monetary authorities, but at the expense of greater external indebtedness in respect of autonomous capital movements.

In the remaining countries - Uruguay, the Dominican Republic, Peru, Costa Rica, Haiti and Colombia - for the period 1963-67 as a whole there were over-all deficits on the balance of payments before compensatory financing which led to further deteriorations in the international reserves position, despite the efforts made by some of those countries - Colombia and Uruguay in particular -, but which were frustrated by the insufficiency of exports.

Limiting the analysis to 1967, table I-53 shows that the size of the surplus on the balance-of-payments before compensatory financing - five times larger than in 1966 and comparable to the 1963 and 1965 levels - is in contrast to a large increase in the deficit on current account, and that only a greater inflow of autonomous capital - at a level matched only once before, in 1957 - made it possible to obtain such a large surplus. Although ten countries succeeded in showing a surplus and improving their net gold and foreign exchange reserves position, it was Argentina's surplus before compensatory financing that determined the size of the regional figure.

In fact, the surpluses shown by Venezuela, Colombia, Mexico, Uruguay, Costa Rica, Ecuador, the Dominican Republic, Honduras and (although very slight) Paraguay amounted to less than 260 million dollars, of which the first three countries accounted for 82 per cent, while Argentina's surplus alone amounted to about 430 million dollars, thus giving a total of about 690 million, which was reduced to 500 million for the region as a whole

/by the

by the deficit or drawing on the net gold and foreign exchange reserves to the value of some 190 million dollars for the remaining eight countries as a whole, not including Panama because of the special features of its monetary system.

Despite the decisive role played by the inflow of autonomous capital in securing surpluses before compensatory financing, the surpluses in Argentina and Uruguay were also determined by balance-of-payment surpluses on current account and in Colombia by the great reduction in its deficit on current account. Of the ten countries in positions of surplus, Argentina, Uruguay, Honduras, Paraguay and Ecuador showed steady improvements over two or more years, while the rest moved into surplus only in 1967.

In 1967 the countries with deficits before compensatory financing, which led to reduction in their net gold and foreign exchange reserves, were Brazil, Peru, Chile, Nicaragua, Guatemala and, to a lesser extent, El Salvador, Bolivia and Haiti. With the exception of Bolivia, the deficit was determined by the unfavourable or sluggish behaviour of exports, while imports continued to grow or were not sufficiently controlled. For the second year running, the position worsened in Peru, El Salvador and Guatemala, while the rest of the countries referred to above moved into deficit only in 1967.

In view of the stagnation of exports, the greater inflow of autonomous capital in 1967 financed only a moderate increase in Latin American imports, since more funds went on replenishing the net gold and foreign exchange reserves, thus pointing once again to the fact that the need to maintain a certain level of reserves acts as a bar to increasing the capacity to import.

2. Balance of payments on current account

In 1967 the deficit on Latin America's current account once more increased to total some 1,600 million dollars (see table I-54). In 1966 it was about 1,100 million dollars, while in the period 1963-65 the average annual deficit was less than 500 million. There has, therefore, been a tendency over the last two years for the deficit on current account to worsen, and the high level recorded in 1967 has only exceeded once before, in 1957, because of the Suez crisis.

Table I-54

LATIN AMERICA: BALANCE-OF-PAYMENTS POSITION ON CURRENT ACCOUNT, 1960-67

(Millions of dollars)

	Average for 1960-62	1963	1964	1965	1966	1967 ^{a/}
Argentina	-355.0	+231.8	+33.0	+220.0	+257.0	+184.0
Bolivia	-35.9	-46.2	-29.9	-38.4	-31.7	-45.2
Brazil	-431.7	-204.0	+50.0	+247.0	-67.0	-310.0
Colombia	-132.2	-137.1	-138.0	-19.8	-276.9	-72.0
Chile	-227.4	-204.1	-137.9	-38.5	-83.1	-166.1
Ecuador	-17.6	-8.1	-27.8	-23.5	-20.7	-21.2
Mexico	-255.1	-217.0	-421.0	-397.0	-367.0	-540.0
Paraguay	-10.3	-8.8	-10.5	-7.9	-13.8	-21.0
Peru	-12.4	-84.0	+13.7	-161.0	-183.2	-163.4
Uruguay	-56.9	-4.9	-6.1	+68.2	+35.4	+0.8
Venezuela	+418.2	+476.0	+200.0	-29.0	-45.0	-70.0
Haiti	-12.3	-6.5	-10.6	-17.8	-8.9	-8.6
Panama	-32.5	-35.0	-22.9	-35.6	-39.6	-36.0
Dominican Republic	+20.1	-38.1	-70.5	-27.1	-68.2	-63.8
Central America	-63.5	-87.1	-120.8	-159.6	-183.4	-270.3
Costa Rica	-19.6	-29.0	-26.6	-70.9	-47.8	-48.9
El Salvador	-10.1	-13.6	-27.4	-15.0	-43.8	-53.3
Guatemala	-23.9	-19.7	-40.0	-38.3	-17.1	-70.1
Honduras	-0.3	-17.4	-15.0	-9.1	-20.9	-23.7
Nicaragua	-10.2	-7.4	-11.8	-26.3	-53.8	-74.3
TOTAL, LATIN AMERICA (EXCLUDING CUBA)	-1 204.5	-373.1	-699.3	-420.0	-1 096.1	-1 602.8
TOTAL, LATIN AMERICA (EXCLUDING CUBA AND VENEZUELA)	-1 622.7	-849.1	-899.3	-391.0	-1 051.1	1 532.8

Source: IMF, Balance of Payments Yearbook, vols. 17, 18 and 19.

^{a/} Preliminary estimates subject to revision.

/Whereas for

Whereas for the first time in the decade, in 1967 there was no improvement in exports of goods from Latin America, imports continued to increase, thus sharply reducing the surplus on merchandise account. As payments under the head of profits and interest on foreign capital, which also increased, are already 60 per cent higher than the surplus on merchandise account, the addition of net imported services in the rest of the transactions accentuated the imbalance in relation to the surplus on merchandise account, and this explains the sharp increase in the over-all deficit on current account.

While the increase in imports, in contrast with the unfavourable trends followed by exports, might have been influenced by fears that the international situation would worsen, in view of the heightening of the war in South-East Asia and the outbreak of hostilities in the Middle East in June 1967, it was the greater inflow of autonomous capital which helped to finance this increase.

An analysis by countries shows that the deficit on current account in 1967 increased most in Brazil, Mexico, Guatemala, Chile, Venezuela, Nicaragua, Bolivia, Paraguay and El Salvador, and showed little change in relation to 1966 in Ecuador, Haiti, Panama, the Dominican Republic, Costa Rica and Honduras. Moreover, as there was a sizable reduction in the surplus on current account in Argentina and it was almost wiped out in Uruguay, this accentuated the deficit for the region as a whole, although it was offset to some extent by a large reduction in Colombia's deficit and a smaller reduction in Peru's.

The underlying causes of these movements vary from country to country. In four countries - Brazil, Mexico, Guatemala and Nicaragua - the imbalance in the current account was aggravated by the divergence between an increase in imports and a decline in exports, as was the reduction in Uruguay's surplus and, to some extent, in Argentina's. Except for Colombia and Peru, in the rest of the countries the larger deficit was determined by a greater increase in imports than in exports. In all the countries, except Argentina and Peru, a further factor was the increase in payments under the head of profits and interest on foreign capital.

/These general

These general trends reveal that balance-of-payment pressures were caused either by external indebtedness or by the irregular behaviour of exports, or by both at the same time. Thus, there was a reduction in the surplus on current account in Argentina and in particular in Uruguay, a sharp increase in the deficit in Brazil and to a lesser extent in Venezuela, and finally a significant reduction in the deficit in Colombia. In contrast with the fluctuations in the current account movements in those countries, in Central America the over-all deficits have been increasing sharply and steadily, Mexico continues to have the highest deficit in the region, and Peru, the Dominican Republic and Paraguay have had large deficits over the last few years, which from another standpoint is a reflection of the concentration of net external financing in this group of countries.

3. Balance of payments: surpluses on merchandise account
and net expenditure on invisibles on
current account

The surplus on the merchandise account, which had substantially increased up to 1965, turned downward, also sharply, in the next two years. The period was thus split into two, during the first of which exports expanded to a greater extent than imports, while in the second imports continued to increase but exports remained at the same level up to 1967 (see table I-55).

In contrast with the foregoing position, net expenditure on invisibles, which in the past had been higher than the surpluses on merchandise account, went on rising throughout the period. This expansion was due to the large-scale and steady growth of net payments under the head of profits, interest and other returns on foreign capital, since the annual increases and decreases in net expenditure on transport, insurance, travel and other services resulted in only a slight upward trend.

Table I-55

LATIN AMERICA (EXCLUDING CUBA): TRANSACTIONS ON MERCHANDISE ACCOUNT, NET INCOME
FROM OR EXPENDITURE ON INVISIBLES, AND BALANCE-OF-PAYMENTS,
POSITION ON CURRENT ACCOUNT, 1960-67

(Millions of dollars)

Year	Transactions on merchandise account ^{a/}			Net income from or expenditure on invisibles ^{b/}			Net private transfer payments and non-monetary gold transactions	Balance-of- payments position on current account
	Exports	Imports (f.o.b.)	Balance on merchandise account	Freight, insurance and other transport travel and other services	Net profits and interest payments on foreign capital	Total net expenditure on invisibles		
1960	7 923.4	7 119.4	804.0	-674.5	-1 182.7	-1 857.2	-83.6	-1 136.8
1961	8 133.9	7 316.2	817.7	-629.4	-1 344.1	-1 973.5	-83.2	-1 239.0
1962	8 590.0	7 565.5	1 024.5	-751.2	-1 451.5	-2 202.7	-59.5	-1 237.7
1963	9 054.3	7 263.3	1 771.0	-686.6	-1 418.6	-2 105.2	-38.9	-373.1
1964	9 729.2	7 854.9	1 874.3	-914.2	-1 651.0	-2 565.2	-8.4	-699.3
1965	10 191.4	8 085.0	2 106.4	-721.5	-1 783.1	-2 504.6	-21.8	-420.0
1966	10 753.2	8 959.6	1 793.6	-828.5	-2 047.7	-2 876.2	-13.5	-1 096.1
1967 ^{c/}	10 660.0	9 294.3	1 365.7	-793.8	-2 160.2	-2 954.0	-14.5	-1 602.8

Source: IMF, Balance of Payments Yearbook, vols. 17, 18 and 19.

^{a/} Excluding non-monetary gold.

^{b/} Excluding private transfer payments.

^{c/} Preliminary estimates subject to modification.

/Accordingly, in

Accordingly, in 1960-62 surpluses on merchandise account financed no more than 44 per cent of net expenditure on invisibles, but the proportion rose to 80 per cent in 1963-65, only to decline again to 54 per cent in 1966-67, and to barely 46 per cent if 1967 is considered separately. These variations also give the measure of the imbalance on current account during the nineteen-sixties. During the initial period, when exports increased while their prices and their purchasing power declined, which meant that the maintenance of a given level of imports and of heavy net expenditure on invisibles generated serious external deficits on current account. These in turn implied a marked deterioration in the net position of the monetary authorities, on account of the scanty inflow of autonomous (non-compensatory) capital. In 1963-65 exports continued to expand, and their prices recovered to some extent, but in order to obtain a bigger surplus on merchandise account and cope with increasing net expenditure on invisibles, import restrictions had to be imposed. By this means the external deficit on current account was substantially reduced and the amount by which the inflow of non-compensatory capital exceeded the deficit enabled the monetary authorities to improve their net position. Although exports were stepped up in 1966, they remained stationary in 1967, while imports continued to increase in both years, so that the surplus on merchandise account shrank considerably. Since the steady expansion of net expenditure on invisibles was not arrested, the deficit on current account increased, and in 1967 reached the peak level of the decade.

In contrast to the situation in 1960-62, however, it was possible to finance this deficit out of the greater inflow of non-compensatory capital, and in addition the monetary authorities were able to continue with the improvement of their net position.

External pressures were intensified in Latin America with the increase in its external indebtedness and in what was represented by interest payments, profits and other returns on foreign capital in current balance-of-payments transactions. As can be gathered from table I-55, whereas in the past seven years the cumulative growth rate of exports goods was 4.3 per cent, net payments under the head of profits, interest and other

/returns on

returns on foreign capital rose at an annual rate of 9 per cent. Thus, the proportion of export earnings absorbed by these payments climbed from 15 to 20 per cent between 1960 and 1967, with the result that the capacity to import was reduced by about 530 million dollars in the latter year.

The endeavours made by some Latin American countries to improve their external position from 1963 onwards were based on the restriction of imports. Although these measures were reflected in stronger incentives to import substitution in some fairly capital-intensive branches of industry they set limits to the growth of other sectors which were unable to broaden their production base owing to the absorption of the resources originally invested in these new industries, whose needs in respect of imports of intermediate products increased as the investment matured. In short, the restriction of imports handicapped domestic capital formation and economic growth.

Thus, the lesson of earlier experience was once again corroborated: if there is to lie any appreciable speeding up of Latin America's economic development exports must be expanded at an annual rate at least equal to the rate of increase of the returns on foreign capital which affect the balance of payments. This is the only possible way of meeting the import requirements entailed by development and effectively relieving the pressures generated by external indebtedness. But the growth rate of exports can be brought into line with external financing requirements only: discrimination against the region's basic products in the leading markets is eliminated, prices guarantees are established for these commodities, and facilities are granted for the access of manufactured goods.

4. Capital account

(a) Financing of the current deficit ^{13/}

In 1966 there was an increase in net external financing which took on added force in the following year, when the current deficit of some 1,600 million dollars was covered by a net inflow of autonomous capital

^{13/} The current balance-of-payments deficit is covered by net external financing deriving from the movements of autonomous capital (assets and liabilities with the rest of the world) and from compensatory capital (reserves and liabilities of the monetary authorities).

/that also

that also followed an upward trend, and, in its turn, led to a further and significant improvement in the net position of the monetary authorities. There had been similar improvements in 1963-65, but net external financing had dropped sharply at the time. When it was relatively high, during the first three years of the decade, reserves had been drawn on heavily and the liabilities of the monetary authorities had increased owing to the inadequacy of the net autonomous capital inflow (see table I-56).

These facts relate to a number of trends that have characterized the evolution of the external sector in the past ten years. In 1960-62 export prices declined and, as the level of imports was maintained as far as possible and net inflow of autonomous capital was not large enough, compensatory financing had to be extensively resorted to. The following period (1963-65) was marked by a recovery in export prices, but imports were restricted to improve the net position of the monetary authorities while autonomous capital movements were highly erratic. Finally, in the last two years (1966-67), imports increased over the whole period while exports did so only up to 1966, but the increased inflow of net external financing made it possible to continue building up the net international reserves, which were replenished over the last five years by almost the same amount as the drawings in 1960-62.

The condition under which these developments took place were so varied that a country break down must be given. In Venezuela, there was a net outflow of external financing up to 1964 owing to a net disinvestment in autonomous capital and an improvement in the net position of the monetary authorities. After 1965, with the net inflow of external financing at a fairly low level, the inflow of autonomous capital exceeded the outflow and by 1967 had become substantial enough to bring about a further increase in the net international reserves. In addition to the demands made as regards capital, the factors responsible for this trend were the steady fall in prices, which is still affecting Venezuela's exports, a reduction in petroleum demand owing to competition from other areas, and an extremely high level of payments of profits on foreign capital, which led to the curtailment of imports but encouraged import substitution.

Table I-56
LATIN AMERICA: FINANCING OF THE DEFICIT ON CURRENT ACCOUNT, 1960-67
(Millions of dollars)

	Total (excluding Cuba)				Venezuela		
	Net auto- nomous capital movements	Net compen- satory capital movements (-increase)	Errors and omissions	Total net external financing	Net auto- nomous capital movements	Net compen- satory capital movements (-increase)	Errors and omissions
1960	911.9	547.9	-323.0	1 136.8	-351.3	310.6	-353.9
1961	992.1	342.3	-95.4	1 239.0	-431.0	32.0	-76.0
1962	911.3	735.1	-408.7	1 237.7	-465.0	-79.0	159.0
1963	880.4	-459.3	-48.0	373.1	-221.0	-288.0	33.0
1964	1 672.2	-89.8	-883.1	659.3	29.0	-133.0	-96.0
1965	868.1	-492.8	+44.7	420.0	82.0	6.0	29.0
1966	1 593.8	-97.3	-400.4	1 096.1	61.0	22.0	-38.0
1967 a/	2 368.2	-500.6	-264.8	1 602.8	242.0	-112.0	-60.0
Argentina							
1960	556.6	-175.2	-176.5	204.9	195.0	329.0	10.0
1961	352.6	162.5	70.6	585.7	288.0	-60.0	49.0
1962	241.2	296.6	-263.3	274.5	302.0	317.0	-135.0
1963	-14.7	-145.3	-71.8	-231.8	180.0	92.0	-68.0
1964	-21.0	80.0	-92.0	-33.0	210.0	-55.0	-205.0
1965	-146.0	-99.0	25.0	-220.0	110.0	-329.0	-28.0
1966	-145.0	-64.0	-48.0	-257.0	205.0	-94.0	-44.0
1967 a/	252.8	-432.8	-4.0	-184.0	263.0	77.0	-30.0
Brazil							
1960	534.0						
1961	277.0						
1962	484.0						
1963	204.0						
1964	-50.0						
1965	-247.0						
1966	67.0						
1967 a/	310.0						
The other Latin American countries							
1960	453.2						
1961	609.3						
1962	680.2						
1963	659.9						
1964	561.3						
1965	461.0						
1966	874.1						
1967 a/	866.8						
Mexico							
1960	187.5	20.3	131.5	339.3	324.1	63.2	65.9
1961	282.0	27.0	-67.0	242.0	500.5	180.8	-72.0
1962	202.0	-8.0	-10.0	184.0	631.1	208.5	-159.4
1963	278.0	-123.0	62.0	217.0	658.1	5.0	-3.2
1964	628.0	-44.0	-163.0	421.0	826.2	62.2	-327.1
1965	145.0	61.0	191.0	397.0	677.1	-131.8	-84.3
1966	531.0	18.0	-182.0	367.0	941.8	20.7	-88.4
1967 a/	639.0	-49.0	-50.0	540.0	971.4	16.2	-120.8

Source: IMF, Balance of Payments Yearbook, vols. 17, 18 and 19.

a/ Preliminary estimates subject to alteration.

/In Argentina,

In Argentina, the high level of external indebtedness up to 1962 as regards both autonomous capital and compensatory financing led to a net outflow of external financing in the next few years as the result of a steady net disinvestment of autonomous capital, which was not reversed to any significant extent until 1967, and of improvements in the net position of the monetary authorities, particularly in that year. These developments entailed an expansion of exports and a restriction of imports, which was not supported by internal growth, since limitations were already being placed on the more obvious lines of import substitution products.

In the other Latin American countries, net external financing, while erratic at times, virtually doubled, and the net inflow of autonomous capital trebled, but even so was insufficient in nearly every year during the period under consideration, the result being either net utilization of international reserves or a deterioration in the net position of the monetary authorities (see table I-56). Although, taken together, these countries record a deterioration in this position for the period as a whole, Bolivia, Chile, Ecuador, El Salvador, Honduras, Nicaragua and Paraguay increased their international reserves, while Colombia and Uruguay made great efforts to do so but were thwarted by the insufficiency of their export and their autonomous capital receipts.

A comparison of these two positions shows that, with a few exceptions, the medium-sized and small countries received more net external financing and autonomous capital than the larger countries, save for Mexico, which has continued to be the main recipient of autonomous capital over the last few years.

Lastly, it should be pointed out that in 1967, apart from the substantial increase in net external financing, there was a further increase in the flow of autonomous capital, which was possibly higher than it has been for the last ten years. As has already been pointed out, in the last two years, Mexico has received the largest inflow of autonomous capital, but if 1966 is taken as the base year, Argentina and Venezuela also received substantially larger amounts. In Colombia and Peru the inflow dropped sharply in 1967, but increased in Guatemala, the Dominican Republic, Chile, Costa Rica, Nicaragua, El Salvador, Uruguay, Paraguay, Haiti and, to a lesser extent in Brazil, Bolivia, Honduras and Panama.

/Brazil also

Brazil also was compelled to curtail its net external financing sharply, and a negative position was recorded in some years because of the monetary authorities' need to improve their net position. The inflow of autonomous capital was reduced, and became very irregular owing to the trend of external debt amortization, which took up virtually the whole amount of the new loans in certain years. In 1967, the decline in exports together with the growth of imports again raised the level of external financing, and a greater though still inadequate inflow of autonomous capital led to a deterioration in the net position of Brazil's international reserves. Exports had been expanded in previous years, but external debt commitments made it necessary to restrict imports for most of the period.

Mexico's situation differs from that of these three countries. Its net external financing, while subject to general fluctuations, was substantial and positive in trend, and did not weaken international reserves, since the inflow of autonomous capital remained at a consistently high level, except in one or two years. This situation was further aided by the vigorous expansion of exports of goods and growing surpluses for border trade and travel.

(b) Net movements of foreign and domestic capital (autonomous and compensatory) in net external financing

The analysis contained in the previous section on net external financing which is based on movements of autonomous and compensatory capital in 1967 and earlier years, serves as a basis for evaluating the role which those sources of funds have played in balancing Latin America's external payments, but it fails to distinguish between the contribution made by flows of foreign and of domestic capital in achieving this balance. Therefore, in showing the forms of external financing, a distinction has been made in previous surveys between foreign autonomous and compensatory capital (short- and long-term liabilities in respect of non-residents), domestic autonomous capital (residents' short- and long-term assets), and the monetary authorities's gross reserves. Figures for this break down are available only up to 1966, however, since complete data on the individual countries' balance-of-payments are usually at least a year late.

/As can

As can be seen from table I-57 the net inflow of funds from abroad, which had reached its peak in 1964, dropped sharply the following year to barely 1,000 million dollars, but rose again to 1,750 million dollars in 1966. In view of the level which net external financing had reached a further increase is estimated for 1967, possibly bringing the total to over 2,000 million dollars. The larger net inflow of foreign capital in recent years was entirely in the form of autonomous funds, since compensatory capital has shown a negative value since 1964, as a result of the measures adopted by the monetary authorities of certain countries to reduce their liabilities.

A noteworthy factor in the reactivation of the net inflow of foreign non-compensatory capital is the recovery in 1964, and since then the steady increase of direct foreign investment, the present levels being the highest in the present decade (some 570 million dollars in all), and the increase in non-compensatory loans in 1966, to an unprecedented net value of about 900 million dollars; to judge from the over-all indicators mentioned above, this value should be even higher in 1967. There was a striking recovery in short-term liabilities, a trend which was probably maintained in 1967.

The increment in foreign autonomous capital, which in 1966 helped to offset the net reductions in the monetary authorities' liabilities (compensatory funds), only partly offset the net outflows of domestic capital and of the amounts lumped together under the head of errors and omissions, and the region was finally forced to draw to a very small extent on its gross international reserves. As these reserves rose by about 300 million dollars in 1967, the improvement was presumably based on a further increase in the net inflow of foreign non-compensatory capital, since domestic capital has always been a minus quantity for the region.

Table I-57

LATIN AMERICA (EXCLUDING CUBA): BALANCE-OF-PAYMENTS POSITION ON CAPITAL ACCOUNT, 1960-67

(Millions of dollars at current prices)

	1960	1961	1962	1963	1964	1965	1966	1967 ^{a/}
Net external financing (A+D+E)	<u>1 136.8</u>	<u>1 239.0</u>	<u>1 237.7</u>	<u>373.1</u>	<u>632.3</u>	<u>420.0</u>	<u>1 096.1</u>	<u>1 602.8</u>
A. Net foreign capital (sub)	<u>1 651.1</u>	<u>1 776.8</u>	<u>1 545.0</u>	<u>1 385.8</u>	<u>1 900.6</u>	<u>1 025.0</u>	<u>1 771.3</u>	
(a) Foreign autonomous (non-compensatory) capital								
1. Direct investment	971.6	1 502.0	1 272.3	1 338.6	1 969.9	1 170.5	1 920.4	
2. Long-term loans	417.4	371.6	221.4	233.5	355.7	513.2	566.3	
3. Official transfer payments	227.0	790.7	763.2	855.3	836.5	401.4	904.8	
4. Short-term capital (liabilities)	122.5	130.3	127.1	134.2	127.5	179.9	145.8	
(b) Foreign compensatory capital	204.7	209.4	160.6	115.6	601.2	76.0	303.5	
1. Deferred import payments	679.5	274.8	272.7	47.2	-60.3	-145.5	-149.1	
2. Balance-of-payments loans	177.8	-36.0	327.8	46.1	216.6	-277.3	-82.9	
3. Monetary authorities' short-term liabilities	226.7	165.3	30.3	-135.0	-33.7	164.3	-17.0	
4. IMF stand-by and compensatory loans	192.9	-129.9	-16.4	18.7	-120.4	-9.7	-8.0	
B. Net domestic capital as shown in the balance of payments								
1. Private long-term capital (assets)	-59.7	-509.2	-361.0	-458.2	-288.7	-302.4	-326.6	
2. Public long-term capital (assets)	-13.2	-222.2	-177.0	-96.3	-48.2	-39.3	-51.0	
3. Short-term capital (assets)	-86.2	-138.7	-111.3	-25.2	-46.6	-73.0	-49.6	
C. Errors and omissions	-39.7	-149.0	-72.7	-336.7	-193.9	-189.5	-226.0	
D. Net domestic capital plus errors and omissions (sub)	<u>-323.0</u>	<u>-95.4</u>	<u>-408.7</u>	<u>-48.0</u>	<u>-803.1</u>	<u>144.7</u>	<u>-400.4</u>	
E. Movement of reserves of gold and foreign exchange (increase-)	<u>-332.7</u>	<u>-605.3</u>	<u>-769.7</u>	<u>-506.2</u>	<u>-1 171.8</u>	<u>-257.7</u>	<u>-727.0</u>	
1. Monetary authorities' short-term assets	-131.6	67.5	462.4	-506.5	-29.5	-347.3	51.8	-283.4
2. Official monetary gold	-281.1	149.4	222.8	-511.4	-49.2	-387.0	67.8	
3. IMF contributions	227.6	-56.6	241.0	10.9	33.1	55.0	95.7	
	-78.1	-25.3	-1.4	-6.0	-13.4	-15.3	-111.7	

Source: IMF, Balance of Payments Yearbook, vols. 17, 18 and 19.

^{a/} Preliminary estimates subject to revision.

The pressures on the balance of payments in certain countries have resulted in an irregular trend in net external financing, unlike what has occurred in the other Latin American countries. It will be seen from table I-58 that the early negative trend of net external financing in Venezuela, which continued up to 1964, was due to a considerable net disinvestment of autonomous capital - particularly direct investment -, and to net outflows under the head of compensatory capital, and extensive reconstitution of its international reserves to improve the net position of the monetary authorities. From 1964 onwards, the inflow of foreign capital reflected a positive balance, and this was also the case with the net external financing in 1965; both of these flows increased steadily up to the end of the period under review, and, except in certain years, helped to reduce the Central Banks' liabilities (compensatory funds) and to increase the gross gold and foreign exchange reserves.

In Argentina, the increase in external indebtedness as a result of the extensive use of medium-term suppliers' credits which were renegotiated several times, coupled with the low levels to which the gross international reserves had fallen, brought about a critical position in 1962, and from 1963 onwards Argentina's external financing position was consistently negative on account of net outflows of foreign autonomous and compensatory capital (particularly under the head of loans) and of domestic capital, and the building-up of gross gold and foreign exchange reserves, which reached fairly high levels in 1967.

The increase in external borrowing - mainly over the medium term as a result of successive renegotiations primarily of compensatory loans - forced Brazil also into a negative net external financing position in 1964 and 1965, and although the balance was positive the following year, it plunged into the red again in 1967. Thanks to this situation, during those years Brazil was able to speed up the amortization of compensatory loans, which meant a net disinvestment of those funds, and achieve a substantial increase in its gross international reserves in 1965; as a result, it was able to cover the disbursements over the next two years, when the net inflow of foreign capital was too small to finance the deficit on current account.

Table I-58

LATIN AMERICA: NET MOVEMENTS OF FOREIGN AND DOMESTIC CAPITAL (AUTONOMOUS AND COMPENSATORY)
IN NET EXTERNAL FINANCING OF SELECTED COUNTRIES, 1960-67

(Millions of dollars at current prices)

Year	Net foreign capital			Net domestic autonomous capital			Net errors and omissions	Movement of gross reserves (increase-)	Net errors and omissions	Movement of gross reserves (increase-)				
	Net external financing	Autonomous	Compensatory	Total	Autonomous	Compensatory					Total			
<u>Venezuela</u>														
1960	-394.6	-333.2	195.5	-137.7	-18.1	-353.9	115.1	204.9	564.9	131.2	696.1	-8.3	-176.5	-306.4
1961	-475.0	-148.0	3.0	-145.0	-283.0	-76.0	23.0	585.7	365.7	-22.5	343.2	-13.1	70.6	185.0
1962	-385.0	-280.0	-77.0	-357.0	-185.0	159.0	-2.0	274.5	244.0	-9.4	234.6	-2.8	-263.3	306.0
1963	-476.0	-34.0	-125.0	-159.0	-187.0	33.0	-163.0	-231.3	36.4	7.1	43.5	-51.1	-71.8	-152.4
1964	-200.0	51.0	-47.0	4.0	-22.0	-95.0	-8.0	-33.0	-9.0	-51.0	-60.0	-12.0	-92.0	131.0
1965	29.0	134.0	17.0	151.0	-52.0	-59.0	-11.0	-220.0	-166.0	-31.0	-197.0	20.0	25.0	-68.0
1966	45.0	169.0	-45.0	124.0	-108.0	-38.0	67.0	-257.0	-79.0	-53.5	-132.5	-66.0	-48.0	-10.5
1967 a/	70.0	...	...	...	...	...	-85.0	-184.0	...	...	...	...	...	-483.0
<u>Brazil</u>														
1960	534.0	233.0	353.0	586.0	-38.0	10.0	-24.0	339.3	189.6	4.8	194.4	-2.1	131.5	15.5
1961	277.0	373.0	81.3	454.0	-85.0	49.0	-141.0	242.0	364.0	42.0	406.0	-82.0	-67.0	-15.0
1962	484.0	281.0	212.0	493.0	21.0	-135.0	105.0	184.0	267.0	-39.0	228.0	-65.0	-10.0	31.0
1963	204.0	189.0	66.0	255.0	-9.0	-68.0	26.0	217.0	362.0	-3.0	359.0	-84.0	62.0	-120.0
1964	-50.0	235.0	-129.0	106.0	-25.0	-205.0	74.0	421.0	713.0	-2.0	711.0	-81.0	-167.0	-42.0
1965	-247.0	148.0	-114.0	34.0	-38.0	-28.0	-215.0	397.0	237.0	-	237.0	-92.0	191.0	61.0
1966	67.0	249.0	-120.5	128.5	-44.0	-44.0	26.5	367.0	458.0	20.0	478.0	73.0	-182.0	-2.0
1967 a/	310.0	...	...	...	...	...	180.0	540.0	...	...	...	...	...	-29.0
<u>Mexico</u>														

Source: IMF, Balance of Payments Yearbook, vols. 17, 18 and 19.

a/ Preliminary estimates subject to revision.

/In contrast

In contrast to these three countries, Mexico's inflow of foreign non-compensatory capital, although irregular, remained at a high level, as did that of net external financing, which enabled it to increase its gross gold and foreign exchange reserves nearly every year over the whole period.

In the remaining Latin American countries (see table I-59), the net inflow of foreign capital, with some irregularities, almost quadrupled, although total net external financing, with a few ups and downs, only doubled. These inflows offset the net outflows of domestic funds and the movements included under the head of errors and omissions, while gross international reserves improved from 1963 to 1966, but decreased in 1967. The net inflow of non-compensatory foreign capital more than trebled; and, in two years only, there was some trend towards increased borrowing of compensatory capital with a consequent increment in the monetary authorities' liabilities. In view of the level they had reached, Uruguay, Colombia and Chile, had already found it necessary of these liabilities in the last few years although other countries continued to accumulate trade arrears or to require contingency and compensatory credit from the International Monetary Fund.

In this group of countries, at the beginning of the decade, foreign non-compensatory capital consisted mainly of direct investment and official transfer payments. At the present time, long-term autonomous loans, which increased twelve-fold from 1960 to 1966, are the most important form of foreign capital under that head, since the level of direct investment, after its contraction in the mid-nineteen-sixties, is now no higher than it was at the beginning of the decade.

Thus, in the course of the sixties the flow of foreign capital followed a different trend in each country. Autonomous and compensatory loans, which in the early sixties were concentrated in the major countries of the region, have been increasingly channelled towards the medium and small countries since 1962. This is not true of direct foreign investment, however, which over the last few years has regained and even exceeded its former level in the major countries, particularly Mexico and Brazil.

Table I-59
LATIN AMERICA (EXCLUDING ARGENTINA, BRAZIL, CUBA, MEXICO AND VENEZUELA):
NET MOVEMENTS OF FOREIGN AND DOMESTIC CAPITAL (AUTONOMOUS AND
COMPENSATORY) IN NET EXTERNAL FINANCING, 1960-67

(BILLIONS OF DOLLARS)

	1960	1961	1962	1963	1964	1965	1966	1967 ^{a/}
Net external financing (A + D + E)								
A. Net foreign capital (a + b)								
(a) Foreign non-compensatory capital	453.2	609.3	680.2	659.9	561.3	461.0	874.1	866.8
Direct investment	312.2	718.5	946.4	867.3	1 139.6	800.0	1 173.3	
Long-term loans	317.3	547.3	760.3	785.2	970.9	817.5	1 123.4	
Official transfer payments	111.5	147.8	131.6	34.6	144.7	99.2	116.3	
Short-term capital (liabilities)	51.9	135.1	345.8	517.7	481.5	520.4	634.8	
Deferred import payments	103.0	114.1	91.4	100.2	94.5	142.9	116.8	
Balance-of-payments loans	50.9	150.3	191.5	132.7	250.2	55.0	255.5	
Monetary authorities' short-term liabilities	-5.0	171.3	186.1	102.1	168.7	-17.5	49.9	
IMF stand-by and compensatory loans	-0.2	13.0	97.8	40.1	81.6	17.7	35.1	
	-46.0	54.0	30.2	-18.6	73.3	-1.7	-19.0	
	55.6	-39.1	55.1	-17.8	6.6	-34.7	7.0	
	-14.4	143.4	3.0	98.4	7.2	1.2	26.8	
B. Net domestic capital as shown in the balance of payments	6.8	-46.8	-129.2	-127.1	-144.7	-140.4	-181.6	
Private long-term capital (assets)	28.0	-0.2	-1.0	16.9	-1.2	0.1	-2.0	
Public long-term capital (assets)	-24.9	-40.9	-33.1	-5.5	-10.6	-28.0	-15.6	
Short-term capital (assets)	3.7	-5.7	-95.1	-138.5	-132.9	-112.5	-164.0	
C. Errors and omissions	65.9	-72.0	-159.4	-3.2	-327.1	-84.3	-88.4	
D. Net domestic capital plus errors and omissions (B + C)								
E. Movement of gross reserves of gold and foreign exchange (increase -)	68.2	9.5	22.4	-97.1	-106.5	-114.3	-29.2	133.6
Monetary authorities' short-term assets	103.8	16.3	-10.2	-87.0	-91.2	-145.0	-31.2	
Official monetary gold	-24.3	2.5	34.0	-4.1	-1.9	36.0	21.7	
IMF contributions	-11.3	-9.3	-1.4	-6.0	-13.4	-5.3	-19.7	

Source: IMF, Balance of Payments Yearbook, vols. 17, 18 and 19.

a/ Preliminary estimates subject to revision.

5. Flows and servicing of autonomous and compensatory
foreign capital and their net contribution
to external purchasing power

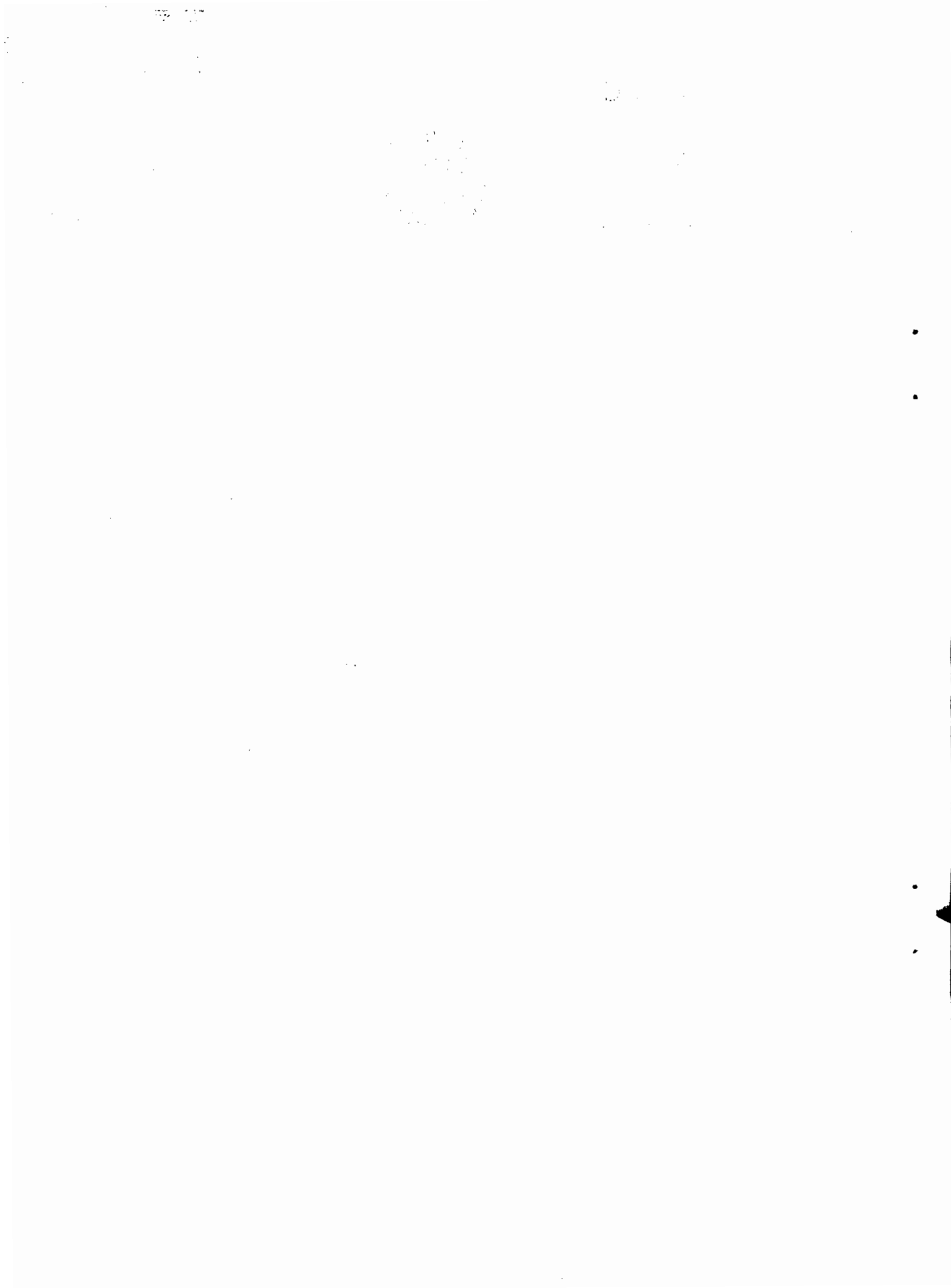
In the Economic Survey of Latin America, 1966,^{14/} the contribution to Latin America's external purchasing power made by total autonomous (or non-compensatory) and compensatory foreign capital, net of amortization payments, is analysed in the aggregate, without a break-down of the funds in question by their component capital flows. To supplement this analysis, each capital flow will now be considered separately, with particular reference to gross compensatory and autonomous loans, the incidence of service payments (amortization and interest), the inflow of direct investment as against the annual returns payable thereon (profits), and other movements of foreign capital, concluding with each flow's net contribution to external purchasing power.

Among the principal sources of external financing in the current decade are autonomous and compensatory loans. Between 1960 and 1966, the gross inflow channelled into Latin America under these heads amounted to 18,150 million dollars, i.e., an annual average of 2,600 million. Starting at 2,000 million dollars in 1960, it rose to just over 2,750 million in 1961, and remained close to this figure, although a little below it, until 1966, when it increased to some 2,860 million dollars (see table I-60). Autonomous credits accounted for two-thirds of these total gross receipts and compensatory loans for the remainder, thus representing annual averages of 1,750 and 840 million dollars, respectively. The figure for each year's real inflow differed little from these averages, except that in the case of autonomous credits it was higher in 1964 and again in 1966, when it exceeded 2,200 million dollars, while in that of compensatory loans it dropped in 1966 to about 650 million dollars.

^{14/} United Nations publication, Sales No.: E 68.II.G.1.

(Millions of dollars)

Year	Gross loans			Amortization of loans			Interest payments on foreign loans	Net contribution of non-compensatory and compensatory loans		Profits on direct investment	Net contribution of direct investment		Other net movements of foreign capital			Net aggregate contribution external purchasing power
	Autonomous or non-compensatory	Compensatory	Total	Autonomous or non-compensatory	Compensatory	Total			Net direct investment		Net contribution of direct investment	Net autonomous short-term liabilities	Official transfer payments	Other net liabilities of the monetary authorities	Total net contribution of other foreign capital	
	(a)	(b)	(c=a+b)	(d)	(e)	(f=d+e)	(g)	(h=g-f-g)	(i)	(j)	(k=i-j)	(l)	(m)	(n)	(o=l+m+n)	(p=h+k+o)
<u>Latin America excluding Cuba</u>																
1960	1 194.8	837.6	2 032.4	967.8	351.0	1 318.8	288.8	424.8	417.4	949.2	-531.8	204.7	122.5	192.9	520.1	413.1
1961	1 778.5	981.2	2 759.7	987.8	576.5	1 564.3	340.4	855.0	371.6	1 094.0	-722.4	209.4	130.3	-129.9	209.8	342.4
1962	1 748.1	908.2	2 656.3	984.9	619.1	1 604.0	361.2	691.1	221.4	1 120.6	-899.2	160.6	127.1	-16.4	271.3	63.2
1963	1 724.7	844.6	2 569.3	869.4	816.1	1 685.5	357.1	526.7	233.5	1 096.6	-863.1	115.6	134.2	18.7	268.5	-67.9
1964	1 914.7	822.6	2 737.3	1 078.2	762.5	1 840.7	447.4	449.2	395.7	1 252.7	-857.0	601.2	127.5	-120.4	608.3	200.5
1965	1 694.0	835.0	2 529.0	1 292.6	970.8	2 263.4	545.2	-279.6	513.2	1 363.4	-790.2	76.0	179.9	-9.7	246.2	-823.6
1966	2 208.4	653.8	2 862.2	1 303.6	794.9	2 098.5	605.5	158.2	566.3	1 518.1	-951.8	303.5	145.8	-8.0	441.3	-352.3
<u>Venezuela</u>																
1960	17.6	300.4	318.0	212.9	99.8	312.7	15.7	-10.4	-126.0	517.6	-643.6	-12.0	0.1	-5.1	-17.0	-671.0
1961	5.0	231.0	236.0	135.0	226.0	361.0	36.0	-161.0	-25.0	561.0	-586.0	9.0	-2.0	-2.0	5.0	-742.0
1962	57.0	50.0	107.0	62.0	124.0	186.0	21.0	-100.0	-241.0	622.0	-863.0	-34.0	-	-3.0	-37.0	-1 000.0
1963	53.0	-	53.0	16.0	124.0	140.0	17.0	-164.0	-24.0	610.0	-694.0	13.0	-	-1.0	12.0	-786.0
1964	58.0	-	58.0	18.0	48.0	66.0	16.0	-24.0	-24.0	683.0	-707.0	34.0	1.0	1.0	36.0	-695.0
1965	106.0	-	106.0	20.0	15.0	35.0	18.0	53.0	3.0	720.0	-717.0	46.0	-1.0	32.0	77.0	-587.0
1966	113.0	-	113.0	28.0	15.0	43.0	22.0	48.0	75.0	696.0	-621.0	8.0	1.0	-30.0	-21.0	-594.0
<u>Argentina</u>																
1960	257.0	201.6	458.6	41.3	59.0	100.3	25.4	332.9	332.0	63.0	265.0	16.6	0.6	-11.4	5.8	607.7
1961	439.6	92.2	531.8	96.0	114.9	210.9	49.9	271.0	-18.2	115.9	-134.1	39.1	1.2	0.2	40.5	177.4
1962	404.6	87.0	491.6	187.2	94.9	282.1	42.9	176.6	71.8	37.2	34.6	-56.0	1.7	-1.5	-56.7	154.5
1963	264.1	99.1	363.2	191.5	92.5	284.0	41.1	38.1	77.9	30.4	47.5	-116.1	2.0	0.5	-113.6	-28.0
1964	176.0	134.0	310.0	249.0	186.0	435.0	51.0	-175.0	27.0	63.0	-36.0	34.0	3.0	1.0	38.0	-173.0
1965	171.0	104.0	275.0	368.0	133.0	501.0	50.0	-276.0	43.0	9.0	34.0	-14.0	2.0	-2.0	-14.0	-256.0
1966	119.0	164.5	283.5	170.0	216.0	386.0	71.0	-173.5	30.0	92.0	-62.0	-54.0	-4.0	-2.0	-60.0	-295.5
<u>Brazil</u>																
1960	351.0	254.0	605.0	370.0	50.0	420.0	137.0	48.0	138.0	61.0	77.0	97.0	17.0	149.0	263.0	388.0
1961	584.0	280.0	864.0	307.0	113.0	420.0	126.0	318.0	147.0	61.0	86.0	-67.0	16.0	-86.0	-137.0	267.0
1962	324.0	347.5	671.5	262.0	62.5	324.5	123.0	224.0	132.0	79.0	53.0	55.0	32.0	-73.0	14.0	291.0
1963	248.0	262.5	510.5	215.0	236.5	451.5	90.0	-31.0	87.0	57.0	30.0	36.0	33.0	40.0	109.0	168.0
1964	187.0	219.0	406.0	183.0	221.0	404.0	134.0	-132.0	86.0	58.0	28.0	114.0	31.0	-127.0	18.0	-86.0
1965	258.0	455.0	713.0	267.0	564.0	831.0	167.0	-285.0	154.0	102.0	52.0	-33.0	36.0	-5.0	-2.0	-235.0
1966	373.0	201.0	574.0	294.0	318.5	612.5	166.0	-204.5	159.0	125.0	34.0	-23.0	34.0	-3.0	8.0	-162.5
<u>Mexico</u>																
1960	363.2	-	363.2	189.5	-	189.5	48.9	124.8	-38.1	141.6	-179.7	52.2	1.8	4.8	58.8	3.9
1961	352.0	45.0	397.0	187.0	-	187.0	56.0	154.0	120.0	148.0	-28.0	78.0	1.0	-3.0	76.0	202.0
1962	401.0	-	401.0	268.0	45.0	313.0	78.0	10.0	127.0	159.0	-32.0	5.0	2.0	6.0	13.0	-9.0
1963	426.0	-	426.0	231.0	-	231.0	80.0	115.0	118.0	186.0	-68.0	50.0	-1.0	-3.0	46.0	93.0
1964	755.0	-	755.0	371.0	-	371.0	88.0	296.0	162.0	236.0	-74.0	169.0	-2.0	-2.0	165.0	387.0
1965	370.0	-	370.0	369.0	-	369.0	103.0	-102.0	214.0	236.0	-22.0	22.0	-	-	22.0	-102.0
1966	643.0	-	643.0	486.0	-	486.0	123.0	34.0	186.0	250.0	-64.0	117.0	-2.0	20.0	135.0	105.0
<u>Chile</u>																
1960	50.5	33.0	83.5	41.5	30.2	71.7	18.5	-6.7	29.0	46.1	-17.1	10.2	34.4	25.7	70.3	46.5
1961	143.1	151.6	294.7	57.1	54.9	112.0	28.4	154.3	51.9	53.3	-1.4	42.5	16.8	-18.5	40.8	193.7
1962	197.7	189.6	387.3	61.9	73.1	135.0	36.3	216.0	35.8	57.3	-21.5	44.2	11.2	-5.3	50.1	244.6
1963	212.5	216.1	428.6	63.1	180.9	244.0	41.4	143.2	-30.1	48.6	-78.7	22.4	1.6	-2.0	22.0	86.5
1964	239.5	186.0	425.5	68.7	161.7	230.4	39.0	156.1	-8.5	66.7	-75.2	-7.2	2.2	-6.2	-11.2	69.7
1965	191.0	133.4	324.4	89.7	119.7	209.4	66.5	48.5	-6.6	51.5	-58.1	-3.9	-0.6	-4.2	-8.7	-18.3
1966	257.3	47.6	304.9	108.7	98.9	207.6	73.6	23.7	-30.2	111.2	-141.4	36.1	11.9	9.7	117.7	-
<u>Rest of Latin America</u>																
1960	155.5	48.6	204.1	112.6	112.0	224.6	43.3	-63.8	82.5	119.9	-37.4	40.7	68.6	29.9	139.2	38.0
1961	254.8	181.4	436.2	205.7	67.7	273.4	44.1	118.7	95.9	154.8	-58.9	107.8	97.3	-20.6	184.5	244.3
1962	353.8	234.1	587.9	143.8	219.6	363.4	66.0	164.5	95.8	166.1	-70.3	147.3	80.2	60.4	287.9	382.1
1963	521.1	266.9	788.0	152.8	182.2	335.0	87.6	365.4	64.7	164.6	-99.9	110.3	98.6	-15.8	193.1	458.6
1964	499.2	283.6	782.8	188.5	145.8	334.3	120.4	328.1	153.2	146.0	7.2	257.4	92.3	12.8	362.5	697.8
1965	598.0	142.6	740.6	178.9	139.1	318.0	140.7	281.9	105.8	184.9	-79.1	58.9	143.5	-30.5	171.9	374.7
1966	703.1	240.7	943.8	216.9	146.5	363.4	149.9	430.5	146.5	243.9	-97.4	159.4	104.9	-2.7	261.6	594.7



If gross disbursements in respect of loans to Latin America were substantial, so too were the service payments they entailed; and while the annual sums represented by the former remained fairly constant, the latter steadily increased. In the period under review, payments under the head of amortization of autonomous and compensatory loans amounted to some 12,375 million dollars, i.e., an annual average of 1,765 million dollars, while in terms of actual annual payments the outflow followed an unbroken upward trend, interrupted only in 1966, when amortization payments on compensatory loans declined. The growth rate of the latter was so rapid that from 1963 onwards they offset or exceeded the inflow of compensatory loans. This is explained, however, by the fact that the monetary authorities had adopted the policy of reducing their liabilities in order to improve their net position.

Interest payments were another variable that reduced the contribution made by foreign loans. These payments totalled 2,945 million dollars, or an annual average of 420 million, but in terms of actual disbursements they doubled between 1960 and 1966, thus increasing even faster than amortization payments on autonomous and compensatory credits. When amortization and interest payments are added together and deducted from the gross inflow of credits, it can be seen from table I-60 that the net inflow of about 855 million dollars recorded in 1962 steadily declined, until by 1965 the figure was negative; in the following year, however, a small positive balance was shown, thanks to a significant increase in the flow of autonomous loans and a reduction of amortization payments on compensatory credits. Up to 1962, some countries - Argentina, Brazil, Venezuela - made intensive use of medium-term suppliers' credits which had to be repaid quickly in the course of the next few years, with the consequent limiting effects on their capacity to use new credits to improve their external position. This meant that in the region as a whole the increase in amortization payments, unaccompanied by an equivalent increase in loans, led to the gradual absorption of almost the whole of the new credits or of even larger sums, and ultimately, therefore, to a deterioration of the position as regards the net contribution of these foreign capital inflows to aggregate external purchasing power.

/Another traditional

Another traditional source of external financing - although its importance was less than in earlier periods - was direct foreign investment, which in 1960-66 amounted only to some 2,720 million dollars,^{15/} i.e., an annual average of about 390 million determined by a trend which declined until 1963 and then recovered, rising to about 570 million dollars in 1966. The counterpart of these capital resources was a sum of approximately 8,335 million dollars which Latin America had to disburse in the same period in the shape of remittances of profits and other returns on investment; this yearly outflow, fluctuating within a steadily rising trend, averaged 1,190 million dollars, or three times as much as the average annual inflow of direct investment. The net transfer of funds abroad implied by this excess of returns over investment lowered the annual capacity to import by about 800 million dollars on an average, the actual margins of reduction having risen from some 530 to 950 million dollars between 1960 and 1966 (see table I-60).

In addition to the two preceding sources of external financing, there are other foreign capital flows, such as short-term liabilities (compensatory and autonomous) and official transfer payments, whose contribution during the period under consideration, although erratic, was favourable on the whole. The inflow constituted by official transfer payments and autonomous short-term liabilities sufficed to offset the net outflows represented almost throughout the period by the monetary authorities' reductions of their short-term liabilities (compensatory) in order to improve their net position, and ultimately showed a net positive balance that buttressed external purchasing power (see table I-60). Nevertheless, the piling-up of external debts under the head of autonomous short-term liabilities - payable on demand - may well generate pressures over the long term which would necessitate additional financing for the conversion of such liabilities into obligations with regular annual debt servicing. This situation has not yet arisen, thanks to the guarantee provided by Latin America's foreign assets. In some years, however, certain countries have been compelled to effect "

^{15/} Including reinvestment of profits.

net payments in order to check the snowballing of indebtedness under the head of autonomous short-term liabilities. Furthermore, this capital inflow may possibly decrease in the future as a result of the measures requiring United States firms with subsidiaries abroad to reduce their net short-term financial assets,

Thus, with the exclusion of the movements of capital entered under the balance-of-payments item "Errors and omissions", the aggregate flow of autonomous and compensatory foreign capital made a positive although sharply declining contribution to the capacity to import up to 1962. In the following years, with the exception of 1964, the position was reversed, and negative figures of about 820 and 350 million dollars were shown in 1965 and 1966, respectively, so that imports in those years were curtailed by the same amounts. In so far as the net contribution of autonomous and compensatory loans was reduced because of the increase in amortization and interest payments, it was impossible to counterbalance the net transfer of resources implied by the fact that remittances of profits exceeded the inflow of investment; nor could it be offset with the help of the other foreign capital flows. In these circumstances, Latin America's imports in recent years have been based entirely on its export earnings, and as long as these fail to expand, external indebtedness pressures will cramp the capacity to import, in the absence of sufficient funds to offset service payments on foreign capital.

As in previous cases, the situation described for Latin America as a whole is particularly influenced by the position of certain countries, which should be considered separately in order to analyse external financing trends in the rest of the region.

The external position of Venezuela (see table I-60) was under great pressure at the beginning of the decade because of the high level of external indebtedness, as regards both compensatory and autonomous loans - generally medium-term - and as regards the net outflow of direct investment capital and the heavy payments of profits on foreign capital, which all combined to have an increasingly depressive effect on the capacity to import and this was reduced by as much as 1,000 million dollars in 1962. The figure for the contribution of autonomous and compensatory loans (net of amortization

/and interest

and interest payments) was negative until 1964, as was that for direct investment, but in both cases the trend was upwards. In the first case the negative position was mainly determined by the amortization of autonomous loans (retirements of Treasury bills sold abroad) and the repayment of compensatory loans (arrears), and in the second, by the net decreases in direct foreign investment caused by the transfer of capital abroad under the head of capital depreciation. With the reduction in service payments on the external debt and greater recourse to autonomous loans, the net contribution made by these loans was positive from 1965 onwards, as was direct investment. This, together with other inflows of foreign capital, to some extent counterbalanced the volume of payments under the head of profits, and reduced the net transfer of resources abroad in the last few years to about 600 million dollars.

In Argentina, intensive use was made of medium-term autonomous loans ^{16/} up to 1962, and to a lesser extent, of compensatory loans. While repayments on autonomous loans were stepped up from 1962 onwards, there was a sharp drop in gross credits under this head, ^{17/} and greater recourse to compensatory loans, which in itself led to an increase in amortization payments. These repayments, together with interest payments on the external debt, meant that from 1964 onwards there was a fairly large negative net figure for the aggregate loans, which improved not only the net position of the Central Bank by reducing its liabilities, but also that of the non-monetary sectors, although at the expense of fewer imports.

With regard to direct investment, after a large inflow in 1960 (about 330 million dollars), mostly in petroleum, it dropped considerably in the succeeding years until at the end of the period it represented an inflow of between 20 and 40 million dollars, ^{18/} This inflow was offset by payments of profits which fluctuated considerably in value and which, depending on their size, had either a positive or a negative effect on the capacity to import.

^{16/} Mostly suppliers' credit used to re-equip much of the country's industry.

^{17/} Funds from international sources were not available for the execution of a number of large investment projects.

^{18/} Does not include reinvestment of profits.

Other foreign funds, particularly autonomous and compensatory short-term liabilities, also showed, throughout most of the period, decreases or net outflows which improved the position of the monetary and non-monetary sectors, but pushed down the level of imports.

In the case of Argentina, the reduction of the pressures caused by external indebtedness meant a net disinvestment of foreign autonomous and compensatory capital which reduced the country's import capacity by 28 million dollars in 1963. The amount of this reduction steadily increased until in 1966 it was as much as 300 million dollars, which explains why subsequent import levels were so low.

In Brazil, too, the levels of autonomous and compensatory loans - mainly medium-term - were high until 1962, after which they declined to recover slightly towards the end of the period.^{19/} From 1963 onwards, these gross inflows were almost totally absorbed by repayments on loans, and with the addition of interest payments, the net total was large and negative, which meant an improvement in the net position of the monetary and non-monetary sectors but a deterioration in the capacity to import.

Similarly, direct investment was fairly high at the beginning of the decade, declined in 1963 and 1964 and recovered towards the end of the period, while throughout the period payments under the head of profits on foreign capital invested in the country were lower than the corresponding capital inflows, thus swelling the capacity to import, although by decreasing amounts.

Of the other foreign funds, compensatory short-term liabilities showed decreases or net capital payments in almost every year, as did autonomous liabilities until the end of the period. Consequently, the inflow of official transfer payments, which remained more or less constant, tended to be absorbed by these negative movements.

Total movements of foreign capital net of the corresponding services were, therefore, negative in Brazil from 1964 onwards, mainly as a result of the net disinvestment recorded in the flow of loans, and determined a reduction in the capacity to import.

^{19/} As in Argentina, funds from international sources were not available for the execution of specific investment projects.

In contrast with the situation in Argentina and Brazil, the flow of autonomous loans in Mexico increased steadily until 1964, declined in 1965 and resumed an upward trend in 1966. As, in addition, Mexico did not have recourse to compensatory loans, which were very high in Argentina, Brazil and Venezuela, repayments on autonomous loans tended to double but, except in 1964, remained below the gross inflow of credits recorded in 1960. Including amortization and interest payments on the external debt, the net contribution of the loans was positive and helped to push up the capacity to import throughout the period (except, once again, in 1964), although in decreasing amounts. This was suggestive of a certain amount of strain in the external financing position, in view of the prevalence of medium-length terms and high interest rates.

There has been a higher concentration of capital inflows under the head of direct investment in Mexico during the present decade than in any other country, but in every year payments of profits were always higher than investment, with the result that the effect on the capacity to import was negative throughout the period.

Lastly, the predominant feature of the flow of other foreign capital was the short-term autonomous liabilities, which fluctuated considerably but were quite sizable in certain years. These liabilities, together with the net inflow of loans, more than counterbalanced the payments abroad under the head of profits on direct investment, and except in two years total capital movements led to an increase in the capacity to import.

Chile is another country in which the total inflow of foreign capital, after pushing up the capacity to import for the greater part of the decade, is now being counterbalanced by the increase in service charges on that capital, and although Chile was able to maintain a high import level, this was because of favourable conditions in the copper sector.

The amount of foreign capital lent to Chile increased considerably up to 1964, but then dropped in the last two years of the period under consideration. This decline was basically due to Chile having less recourse to compensatory loans, since autonomous loans increased again in 1966, after a decline in 1965. Repayments on these loans, particularly compensatory loans, were also speeded up - in some years they were almost

/tripled -, as

tripled -, as a result of the efforts of the monetary authorities to improve their net position. Interest payments on the external debt were almost four times higher, but nevertheless the net contribution of these funds continued to be positive and to add to the capacity to import, although in rapidly decreasing amounts, particularly in the last two years.

The inflow of foreign direct investment, which was positive until 1962, became negative from 1963 onwards and there was a net disinvestment of capital. In contrast, profits on direct investment, which remained more or less constant up to 1965, doubled in the following year as a result of the boom in copper prices. The net disinvestment of capital, together with payments of profits, further accentuated the outflow of funds and had a depressive effect on the capacity to import.

Throughout the period, except for two years, other inflows of foreign capital showed a positive net contribution, which was determined by the autonomous short-term liabilities, since the compensatory liabilities in almost every year signified reductions or net payments which improved the position of the monetary authorities. The positive inflow of these funds, and of the loans, more than counterbalanced the outflow of payments under the head of direct investment and the resulting surplus led to an expansion of the capacity to import up to 1964, which was cancelled out in the next two years.

It is now possible to study the evolution of external financing in the rest of the Latin American economies, leaving out of account that of the countries which have already been considered separately (see table I-60).

In 1960, while the inflow of foreign loans - autonomous and compensatory - amounted to about 200 million dollars, repayments already exceeded that total, and, if interest on the external debt is added, these funds reflect a negative net balance. Nevertheless, from 1961 onwards, the inflow of both autonomous and compensatory loans rose steadily, up to a total of 950 million dollars in 1966. The amortization payments on these loans remained at much the same levels from 1962 onwards, possibly because the terms were more liberal than in the countries analysed above, especially for autonomous loans. In contrast with this trend, the interest payments on the external debt have more than trebled, which indicates that although

/longer periods

longer periods were accorded for the repayment of these loans, the interest rates were no more liberal. The movements of amortization and interest payments on the external debt resulted in net inflows which, in 1963 and subsequent years, ranged from 300 to 400 million dollars, and increased the capacity to import. This situation is different from that prevailing in Argentina, Brazil, Mexico and Chile, where these net flows either reflected negative balances during those years, or were reduced or practically cancelled out by the end of the period.

The inflow of capital under the head of direct foreign investment in these countries also increased nearly every year but, as the total was lower than the outflow of profits, the capacity to import for the whole period, except one year, was reduced by amounts fluctuating between 50 and 100 million dollars.

The movements of other foreign funds, although somewhat erratic, added considerably to the total capacity to import. These movements were determined by capital inflows under the head of short-term autonomous liabilities and official transfer payments received, which more than offset the net payments under the head of short-term compensatory liabilities.

The total net contributions represented by loans and by short-term autonomous liabilities and official transfer payments received more than offset the amount by which payments of profits exceeded direct investment; therefore, the net aggregate inflow of capital increased the capacity to import. This grew steadily to about 700 million dollars in 1964, and although it decreased the following year, it rose again to about 600 million dollars in 1966.

The situation in this group of countries is radically different from that of the region as a whole, and from that in Venezuela, Argentina, Brazil and Chile. Although the inflow of loans increased steadily, their amortization over longer periods somewhat attenuated the growth of these payments. This was not the case in Argentina, Brazil and, to a lesser degree, Chile and Mexico. When amortization payments were stepped up in Argentina and Brazil, the gross inflow of loans decreased, and its subsequent recovery was not enough to counterbalance the increase in repayments. In

/Chile and

Chile and Mexico, although the large inflow of foreign loans continued, the increase in service payments was such that the net contribution to the capacity to import was gradually reduced. This is a situation which will probably arise in the future in the rest of the Latin American countries, and has already done so in Colombia and Uruguay, where debt servicing is growing faster than the inflow of loans. If it does, and exports do not grow fast enough to create additional resources to cover the eventual net disinvestment involved in external financing, this will have to be offset by a curtailment of exports, as has been the case in Argentina, Brazil and Venezuela.

Chapter IV

SOME RECENT CHANGES IN TAX FINANCING

1. Over-all evaluations

In order to give an idea of tax trends in Latin America as a whole, developments in Argentina, Brazil, Chile, Guatemala, Mexico and Venezuela during the period 1960-66 will be discussed.

In modern societies public sector responsibilities and, hence, government expenditure, are tending to increase. Some of the factors underlying this upward trend - such as the needs that derive from urbanization and the provision of welfare services - are common to both the industrialized and the developing economies, while others, - such as, the need for the State to take an active part in promoting economic growth in the less developed economies, - are peculiar to one or the other type only.

Whatever their causes, however, it is universally apparent that the trends of public expenditure and public revenue are to some degree incompatible, that the former is usually the more dynamic of the two, and that the population as a whole, or influential groups of it, are more easily prevailed upon to maintain or expand government functions than to provide the necessary funds. It is the fact that the two are out of kilter which is usually the cause of the imbalance in government accounts.

This problem is far more sharply defined in the developing than in the developed countries. To begin with, the transfer of funds to the State involves a relatively greater sacrifice, because of the low average levels of income, to say nothing of the effects of income concentration, the distribution of the tax burden or the compensatory benefits of government action. Furthermore, the industrialized countries are able to tap private savings by increasing the public debt, and at times make intensive use of this method. This possibility is, however, more remote for the developing countries, which are therefore compelled to rely on some means of compulsory transfer, which may be a tax of a monetary measure, such as central bank loans.

/For the

For the purposes of the present review, it is assumed that the government finances of the Latin American countries are essentially dependent on tax revenue, since other methods of obtaining funds including external borrowing, are unreliable, short-lived and liable to be inflationary in their effects, however indispensable they may be in certain circumstances.

2. Trends and relative importance of public expenditure

Central government expenditure in the countries under consideration increased in absolute terms between 1960 and 1966.^{1/} While a trend of this kind was only to be expected, it is particularly interesting to compare it with the growth rate of the domestic product in order to see the extent to which the importance of the public sector has changed.

It can be seen that Guatemala and Venezuela were the only countries where the growth of expenditure lagged seriously behind that of the product. In the others, the product-elasticity of government expenditure was higher than unity, and, in Mexico, public expenditure increased a good deal faster than domestic production (see table I-61)

During 1960-66 at least, the supply of goods and services does not seem to have been under heavy pressure from public demand, and, where this did happen - in Mexico - it coincided with steady growth on the part of the over-all product. In other countries where expenditure had a positive elasticity during those years (e.g., Brazil and Chile), sharp fluctuations took place with high rates of expansion followed by severe contractions or vice versa.

^{1/} Central government expenditure was chosen as the indicator because of the difficulty of collecting comparable figures for the so-called "public sector", although these would give a more accurate picture of the impact and development of State participation. Owing to this problem the ratio of government expenditure to the domestic product in Argentina, Brazil, Mexico, and, to a lesser extent, in Chile, underestimates the real importance of this participation. In any event, there is reason to suppose that a fairly close correspondence has existed between the trend of central government expenditure and that of other public sector expenditure, since the decentralization of various public activities has involved direct and increasing transfers of State funds.

Table I-61
SELECTED LATIN AMERICAN COUNTRIES: INDICATORS OF CENTRAL GOVERNMENT TAX FINANCING

Item	Period	Argentina	Brazil	Chile	Guatemala	Mexico	Venezuela
1. Total expenditure/domestic product	1960-1962 1964-1966	13.4 13.1	13.8 13.9	21.6 22.9	12.2 10.8	10.0 10.0	24.7 20.0
2. Public fixed investment/total fixed investment a/	1960-1962 1964-1966	22.4 28.5	34.5 61.8	59.5 66.5	26.8 23.1	32.7 31.3	43.7 39.6
3. Current income/total expenditure	1960-1962 1964-1966	84.4 73.3	68.1 83.5	76.9 82.8	67.7 74.4	70.0 76.5	84.0 97.6
4. Tax revenue/domestic product	1960-1962 1964-1966	8.6 6.6	7.8 9.9	15.6 17.7	7.5 7.4	6.4 7.2	19.9 18.7
5. Elasticity $\frac{\Delta \text{Total expenditure}}{\Delta \text{Domestic product}}$ b/	1960-1966	1.015	1.008	1.042	0.540	1.273	0.417
6. Elasticity $\frac{\Delta \text{Tax revenue}}{\Delta \text{Domestic product}}$ b/	1960-1966	0.832	1.109	1.103	0.719	1.183	0.827
7. Elasticity $\frac{\Delta \text{Tax revenue}}{\Delta \text{Total expenditure}}$ b/	1960-1966	0.823	1.096	1.060	1.004	0.925	1.631
8. Percentage structure of tax system	1960 1966	1960 1966	1960 1966	1960 1966	1960 1966	1960 1966	1960 1966
Direct	25	26	27	11	14	47	14
Indirect	38	49	43	43	54	37	9
External	37	25	34	46	32	16	77

Source: See tables relating to the countries discussed in the next section.

a/ Figures relate to the public sector.

b/ Estimated on the basis of the slope of a regression curve.

The problem is related to the proportion of total expenditure represented by government spending, and the growth rate of the product. It may be assumed, in principle, that the smaller the proportion of funds absorbed or employed by the State and the higher the growth rate of the product, the more vigorous will be the expansion of public expenditure. The trend of developments in Mexico fully bears out this assumption. In spite of the diversification of its economy (and the considerable under-estimation of the role of the State in the central government data), the proportion of the product represented by government expenditure (about 10 per cent) is low, being less than half what it is in Chile and Venezuela. At the same time, the Mexican economy has developed at an exceptionally rapid tempo in comparison with the other Latin American countries.

In the other cases, it is found that government expenditure represents a high proportion of the product or that recent development trends have been unpropitious. In the case of Brazil, if the other parts of the Federal structure are added to the central Government (even with the decentralized agencies excluded), the share of the public sector will be one of the largest in the region.

Apparently the rate of development is the key factor. Where this is satisfactory, government expenditure can more easily keep pace with the growth of the product or even outstrip it, since the result will be a steady increase in the supply of private goods and services. It should be remembered, however, that one of the determining factors of the product's rate of growth is public expenditure itself.

In view of recent experience in this group of countries, it is difficult to find support for the hypothesis that public expenditure plays a decisive and truly "autonomous" role in providing the impetus for development. Chile, in 1965-66, is the only case which provides some corroboration of this premise, but, here again, several other factors came into play. The substantial increase in public expenditure was to some extent a consequence of the stagnation of the public sector and other areas of activity in the immediately preceding years, and it was the expansion of exports on the basis of copper and ample credit facilities which, in addition to providing a basis for the increase in public expenditure, helped to activate the economy as a whole.

/Moreover, it

Moreover, it had already become apparent by 1967 that public expenditure could no longer expand "autonomously" without similar growth on the part of domestic production.

This is not in any way an attempt to detract from the importance of State intervention, but simply to assess its true value. From its present scale and trends, and the nature of the prevailing economic systems, it would seem that the public sector cannot be the sole or even the principal motive force behind development, although it may come to be through the medium of over-all economic policy, as the results of certain stabilization policies would suggest.

Nevertheless, the management of public income and expenditure - especially the latter - has played quite an important role in attempts to control inflationary or deflationary pressures. In the first place, more or less stringent measures to restrict public expenditure have been a feature common to stabilization campaigns, although it has been virtually impossible to maintain the same growth rates of expenditure as inflationary pressures have gained momentum. Moreover, in almost all the countries where depressive trends have set in, an effort has been made to mitigate their effects by recourse to public investment as a means of offsetting the decline in private investment; but the results achieved have been less satisfactory than in the former case.

To sum up, with one or two exceptions, during the period under review and in the group of countries studied there are no very marked signs of a trend towards an increase in public expenditure, or in its influence on development. Although this influence is still considerable, the impression received is that other factors, including over-all economic policy, have been more powerful mainsprings of growth. It is upon the operation and effects of these determinants that the possibility of expanding public expenditure itself seems largely to depend. In the last analysis, this expenditure is seen to be a factor which is not so much "autonomous" as conditioned by other circumstances, at least within the limits of the period covered and for the group of countries as a whole.

/Role and

3. Role and growth pattern of tax revenue

There are solid grounds for the assumption that in the Latin American countries - and in the developing countries in general - the possibilities of financing an increasing amount of public expenditure are primarily contingent upon tax revenue. If this hypothesis - which should on no account be taken as a hard-and-fast rule or as dogma - is accepted, there would also be reason to assume that one of the ratios of most significance for the public sector's accounts is the relation between total expenditure and current income. In so far as the gap between them widens, governments will be forced to contract liabilities of one kind or another, which in practice, in Latin America, usually take the form of central bank or foreign loans. Apart from the fact that they are not the best long-term solution, such expedients, are a threat, at least potentially, to internal and external stability. In nearly all the countries studied the gap between current income and total expenditure is wide in relative terms. For example, in 1964-66 all the Latin American countries except Venezuela had to cover from 16 to 26 per cent of their expenditure by resorting to various types of borrowing. The deficit was particularly heavy in Argentina, where the situation was worse than in the 1960-62; nor was Mexico's position very favourable in this respect, despite the appreciable progress achieved between the two periods mentioned. The Government's constant practice of obtaining credit from the Central Bank and other sources to supplement its current income has not prevented Mexico from maintaining a reasonable degree of stability, which is a sign that the importance of the gap in question should not be over-estimated, especially when economic policy can command other expedients capable of counteracting its possible effects. On the other hand, Venezuela's highly advantageous situation as regards the coverage of total expenditure by current income is offset, up to a point, by the great dependence of tax revenue on the contribution of the petroleum sector.

At all events, although the margin of difference between current income and total expenditure was still considerable in 1964-66, in all the countries except Argentina the position was better than in 1960-62, when some countries - Brazil and Mexico, for instance - had financed upwards of 30 per cent of their expenditure by means of borrowing.

/Again with

Again with the exception of Argentina, tax revenue followed the same trend as expenditure. This parallelism was very clearly marked in Venezuela, where, partly because the rate of increase of the domestic product considerably outstripped that of government expenditure, tax revenue showed a great deal of elasticity; in the other countries the expenditure-elasticity of taxation approached or slightly exceeded unity (see table I-61).

Despite the contrast between Argentina's position and that of the other countries, the evolution of its tax revenue was not in fact appreciably different, although the sharp drop in tax receipts in 1964 - the very year in which the growth rate of expenditure was highest - partly accounts for the marked inelasticity shown by the average trend over the period. In Brazil, during the early years of the period tax revenue lagged far behind the rapid expansion of public expenditure, while the trend was reversed from 1964 onwards, and taxes increased much more quickly than disbursements.

The advantage represented by a tendency for tax revenue to rise faster than total expenditure is greater if current expenditure only is taken into account, so that in almost all countries larger surpluses were available for financing capital outlays. This was particularly true of Brazil, Chile and Venezuela. Venezuela's surplus current account financed over 90 per cent of its capital expenditure in the last years of the period under review. On the other hand, the share of public investment (government and semi-government), besides being habitually high, increased substantially in the last three years (1964-66), especially in Brazil and Chile, where it came to represent approximately 62 and 65 per cent of total investment. In both cases the aim was to compensate for the decline in private investment in order to speed up the development process.

As regards the "tax burden", considerable differences can be discerned from one country to another. While in four of those under consideration the proportion of the product represented by tax revenue ranged from a little over 6 per cent to just under 10 per cent, in the other two - Chile and Venezuela - it was between 18 per cent and nearly 20 per cent. It is no coincidence that in the Chilean and Venezuelan economies there is a highly productive foreign-owned export sector whose tax potential is obvious, apart from the fact that through public income and expenditure some of the income

/generated by

generated by this export sector is transferred to the rest of the economic system. Nevertheless, the burden of taxation on internal activities is much heavier in Chile than in Venezuela, because the relative importance of petroleum in Venezuela's economy and public finance is greater than that of copper in Chile.

4. The tax structure

Not only because of the need to finance inevitably increasing public expenditure, but also because the tax system has an impact on income distribution, few topics have received more attention in Latin America during the period under review than the question of "tax reform". The objectives of tax reform are clear and definite: progress should be made towards a tax system which will be flexible in its response to the evolution of public expenditure and of the domestic product, which will imply a more equitable distribution of the tax burden and which at the same time will provide incentives or disincentives for specific activities, in accordance with the interests of development.

Although progress has not been spectacular - especially in view of the basic or implicit imbalance in the public-sector accounts -, tax revenue has shown a reasonable degree of flexibility in keeping pace with expenditure and the domestic product. On the other hand, when it has been used as an instrument of development - and many countries have sought to use it in this way - the results achieved do not seem to have been very promising. The application of tax incentives, usually in the form of exemptions of various kinds, has often meant that governments had to forego quite a substantial portion of their tax revenue without receiving an appropriate quid pro quo in respect of the effects sought. There is little room for doubt that the main reason for this has been the fact that as no fully effective planning systems have been firmly established - with the result that there is no clearly-defined and co-ordinated system of priorities - it has proved impossible to design any adequate system of incentives and disincentives.

An evaluation of the redistributive effects presents considerable difficulties. First, because it is based on too rough a criterion, such as the assumption that an increase in the proportion of aggregate direct taxes means progress, while an increase in that of indirect taxes means the opposite.

/Although the

Although the general validity of this relationship is not disputed, it must be pointed out that the results of taxation (disregarding the no less important question of the composition of expenditure) greatly depend on the nature and relative importance of indirect taxation. This problem takes on a particular significance in developing countries, since the low level of average incomes means that large sections of the population have little or no opportunity for certain types of consumption, e.g., the purchase of durable consumer goods or various high-cost services. That being so, indirect taxation from which, for example, staple items of consumption would be excluded, and which would be applicable in varying degrees to the remainder, could have a progressive rather than a regressive effect.^{2/}

There are no data available for determining the social impact of indirect taxation from the above-mentioned standpoint in recent Latin American experience, but it is clear that, in general, an attempt has been made to eliminate or reduce the burden of taxes on essential goods and services, which in some cases have also been subsidized.

Subject to these reservations, it may be noted that indirect taxation, besides remaining high in relative terms in the group of countries considered, increased in each individual country except Chile between 1960 and 1966, although in every country except Brazil the proportion of direct taxation also increased, particularly in Mexico.

This paradox is explained by the fact that the taxes on foreign trade transactions were reduced in all the countries concerned, the reductions being particularly drastic in Argentina, Guatemala and Mexico. In Chile and Venezuela they were on the small side and, in view of the obvious importance of copper and petroleum, the proportion of these taxes in total tax revenue remained high, particularly in Venezuela. In Brazil on the other hand, their importance, already slight, declined even further, and they accounted for only 9 per cent of total tax revenue in 1966.

^{2/} This method of tax differentiation is a feature of the tax systems of the socialist countries, where, in addition, it has served as a supplementary instrument of planning inasmuch as it influences relative prices and, ultimately, the allocation of resources and the balancing of supply and demand.

Several factors have been responsible for this trend, apparently the most widespread being the change in the composition of imports. Because of the reduction in the capacity to import, the foreign exchange earnings are barely sufficient for the purchase of essential consumer goods, basic inputs or capital goods, which pay little or no duty or may even be subsidized. In Guatemala, the tariff concessions accorded to the member countries of the Central American Common Market have also been instrumental in producing this trend. Lastly, except in Chile and Venezuela, the practice of exempting exportable products from customs duties seems to be quite widespread; other incentives consist of the draw-back system, i.e., the refunding of the domestic taxes paid in respect of export activities,

In some cases the decline in the relative importance of taxes on the external sector has coincided with the disappearance of the differential exchange rates which in previous decades often constituted an important source of revenue. Although the loss of revenue from this source has usually been made up by an increase in income tax, the latter has sometimes proved a clumsier instrument than the differential exchange rates. Even in Venezuela, where concentration of export production on the petroleum sector might have facilitated the change-over, the loss of the fiscal revenue obtained from the differential exchange rates appears not to have been entirely offset by higher taxes on profits. This would be even more difficult to achieve where there are many scattered export producers, since the collection of income tax runs into all the usual difficulties to be met with in developing economies.

Argentina, however, without restoring the system of multiple exchange rates took advantage of the heavy devaluation in 1965 and 1967 to hold back a proportion of the exceptional export earnings for the Treasury; but this was, of course, only a temporary expedient.

The only significant change in the over-all tax structure seems to be the reduction in the proportion of tax revenue represented by taxes on foreign trade transactions. This shows that the agitation for tax reform has not led to any fundamental changes in the existing systems.

/Nevertheless, there

Nevertheless, there have been continual adjustments in the tax systems which, in Brazil, Chile and Mexico, for example, have involved changes which were not inconsiderable.

In the countries which have always suffered from inflation, efforts have been directed mainly towards bringing tax revenue into line with price movements, and this has been effective in narrowing the gap between the amounts the State received from relatively fixed sources of fiscal revenue and the cost of the supplies it had to buy.

Another outstanding trend has been towards extending the scope of personal income tax and increasing the proportion of revenue it represents, and towards the introduction of more progressive rates, in an attempt to emulate the systems applied in the industrialized countries. In the opinion of some specialists this may not be the most effective method, because of the demands it makes on the tax inspection and collection machinery, which may have to face a problem of "diminishing returns" or "rising costs" as the range of taxation is extended to include groups with incomes that are low in absolute or relative terms. According to this school of thought, it would be more productive to concentrate the administrative resources on tightening up tax collection from the high-income minority, reaching other groups through measures that are simpler to handle, such as taxes on expenditure.

In addition, progress seems to have been made in concentrating the tax burden in a few key taxes, thereby reducing the number and range of the taxes, which, apart from the cost and difficulties they involved, hampered economic activity.

Lastly, mention may be made of one special case. It is the experience of a particular country but it responds to a repeated recommendation by tax specialists: Chile's attempt to combine income tax with the tax on net wealth. Besides being relatively simple to administer, this tax instrument is applicable to a particular form of accumulating private property, i.e., through the acquisition of building and "heavy" durable consumer goods such as cars, and it could be extended, as under the French system, to other "signs of well-being". Given the high-income sectors' well-known proclivity for this type of expenditure, it seems clear that such a system may well have other than strictly fiscal implications.

5. The tax potential and the particular case of petroleum
and copper in Venezuela and Chile

It is quite safe to predict that in the next few years there will continue to be pressure for more intensive activity and participation on the part of government and the public sector, particularly in capital formation and social services. This will inevitably lead to increased public spending, for which new sources of financing will have to be found. For the reasons given above, to which in some cases must be added the relatively low level of the tax burden, it would seem indisputable that the main responsibility for providing the necessary resources must fall on the tax system.

This is not the place to recapitulate the broad policy lines that should be followed in this regard, in relation both to their social effects and to their effects on development.^{3/} It is, however, worth while calling attention to another type of approach supplementary to the more or less traditional and inevitable one of the "equitable distribution of the tax burden", which quite understandably **tackles** the problem primarily from the point of view of the individuals subject to the taxation.

From this new standpoint, the main economic activities should be broken down according to the irrelative levels of productivity, on the assumption that those activities whose productivity is well above average are the ones with the greatest "surplus" and, consequently, have the greatest tax potential.

Following this line of reasoning and taking certain over-all classifications proposed in a number of ECLA studies,^{4/} as a first step

^{3/} Some aspects of this question were studied, for example, in the OAS/IDB/ECLA Joint Tax Programme. In this regard, see Fiscal Policy for Economic Growth in Latin America. Papers and Proceedings of the Conference held in Santiago, Chile, December 1962. (Baltimore, the Johns Hopkins Press, 1965).

^{4/} On this question, see "La mano de obra y el desarrollo económico de América Latina en los últimos años" (E/CN.12/L.1), a study prepared by Zygmunt Slawinski and presented to a seminar organized by the International Labour Organization and held at Rio de Janeiro, Brazil, in October 1964.

a distinction should be drawn between three large multisectoral areas: the "modern", the "intermediate" and the "primitive" or "under-developed". To give a rough idea of the significance of these areas in Latin America as a whole, the first employs about 13 per cent of the economically active population but generates almost 48 per cent of the gross domestic product; the second employs 47 per cent of the working population and generates 46 per cent of the product; and the third absorbs 40 per cent of the working population, but its contribution to the total product is only about 7 per cent. These relationships vary considerably from country to country, depending on the stage of development. Generally speaking, the more advanced the economy, the greater is the proportion of the economically active population engaged in the "modern" sector.

In addition, account must be taken of the levels of productivity per worker in each of these groupings. From that standpoint, it can be estimated that productivity in the "modern" sector is almost four times higher than the average; that it is about average in the "intermediate" sector; and that in the "primitive" it is less than 20 per cent of the average.

If each sector were taxed in accordance with its contribution to the product, there would be no redistribution effect. In fact, from the standpoint of the marginal utility of income, the total effect would be regressive, since each unit of income paid by the "primitive" sector, for example, would represent a much greater sacrifice than a unit of income paid by the "modern" sector.

To take an extreme case, in which tax revenue represented 24 per cent of the product and in which the "modern" sector surrendered half of its gross income in taxes, its average per capita income (which, for purposes of simplification, is assumed to be equivalent to its average productivity) would nevertheless be approximately double that of the "intermediate" sector and almost ten times higher than that of the "primitive" sector.

Although it is impossible to arrive at more precise figures, a rough outline of these situations and relationships is sufficient to give some idea of the tax potential of a "modern" sector in this type of economy.

/By way

By way of indirect illustration and because of the important role they play in the countries in question, it is of interest to compare the tax significance of two major "export nuclei": copper mining in Chile and the petroleum industry in Venezuela. Both industries are of key importance in the respective countries, because of their share in exports, their contribution to tax revenue and their dynamic role in the economy.

The importance of each industry in the economy as a whole is not at all comparable, however, since petroleum carries much more weight than copper (see table I-62). Petroleum, which accounts for a little more than one-fourth of the domestic product, contributes two-thirds of the tax revenue, while copper's contribution is little more than twice its share of the product. Table I-62 shows that between 1960 and 1962 the taxes on petroleum absorbed a much higher proportion of the sectoral product than the corresponding taxes on copper, but that between 1964 and 1966 the ratio of taxes to product tended to increase in the case of copper.

These relationships do not, however, show whether the tax potential of these activities is realized or to what extent it is not. For this purpose, several other relevant factors would have to be taken into account.

6. Tax developments in various countries

(a) Argentina

Since the end of the last decade, the Argentine economy has been characterized by relatively sluggish growth (an average annual rate of about 2.8 per cent in 1960-66) and marked instability, which on many occasions has led to the adoption of measures of varying degrees of severity for containing inflationary pressures.

Table I-62

VENEZUELA AND CHILE: PETROLEUM AND COPPER TAX INDICATORS

Year	Percentage share in				Ratio of			
	Domestic product		Total exports		Taxation to total tax revenue		Taxation to sectoral products	
	Petroleum	Copper	Petroleum	Copper	Petroleum	Copper	Petroleum	Copper
1955	29.9	-	94.1	64.5	63.2	19.4	33.2	-
1950-62	30.0	5.4	92.4	61.2	70.2	12.1	45.7	35.8
1964-66	27.9	5.7	92.5	49.4	69.7	14.3	46.9	43.4
1966	26.4	6.9	91.5	54.7	66.8	16.6	47.6	46.9

Source: For petroleum: ECLA, on the basis of data supplied by the Central Bank and the Ministry of Finance of Venezuela, and other official statistics.

For copper: ECLA, on the basis of data supplied by the Ministry of Finance and the Planning Office (ODEPLAN) of Chile, and other official statistics.

/Within this

Within this general picture, government expenditure grew at much the same rate as the domestic product, with the result that there was little variation in the relationship between the two. Total expenditure represented 13.8 per cent of the domestic product in 1960 and, with only slight variations in the intervening years, amounted to 13.5 per cent in 1966 (see table I-63). Current expenditure increased, but expenditure on capital formation did not vary much in real terms during that period. This increase in current expenditure (which had declined in real terms in the previous five-year period) explains why it was possible to finance only about one-fourth of capital expenditure out of government saving in 1966, in contrast with more than one-half in 1960.

Current revenue did not increase in proportion to the slight rise in total expenditure, with the result that in 1965-66 it only covered about 78 per cent of the total outgoings. The trends followed by tax revenue were even more unfavourable, and in the same years it only covered about 55 per cent of total spending. This implies that taxes decreased substantially in relation to the domestic product, compared with the situation at the beginning of the decade and in the mid nineteen-fifties. However, in considering these relationships it should be borne in mind that non-tax revenue is particularly important in Argentina and includes transfers from decentralized agencies to the Central Government, a situation which is not generally found in the rest of the region.

The virtual stagnation of tax revenue in real terms in 1960-66 was to some extent due to the fluctuations in economic activity, which led to a downright recession in 1962 and 1963. The decline in sales and the restriction of credit reduced liquidity in the private sector and made it more difficult for the sector to fulfil its tax obligations. Moreover, although measures designed to bring tax revenue into line with the movement of prices have been incorporated into the tax system, they do not seem to have succeeded in maintaining the real value of payments in face of persistent and extremely abrupt changes in price levels.

Despite these unsatisfactory trends in tax revenue, however, the system underwent appreciable modifications during the period under consideration.

Table I-63

ARGENTINA: GOVERNMENT ACCOUNTS

	1955	1960	1964	1965	1966
<u>Thousands of millions of pesos at 1960 prices</u>					
Current expenditure	109.3	86.7	96.0	103.2	108.5
Capital expenditure ^{a/}	...	45.6	43.2	41.5	45.3
Total expenditure	...	132.3	139.2	144.7	153.8
Current income	93.3	112.1	88.9	112.3	119.5
Tax revenue	70.6	88.3	59.3	79.3	84.6
Current saving	-16.0	25.4	-7.1	9.0	11.0
<u>Percentage ratios</u>					
To the gross domestic product					
Total expenditure	...	13.8	13.2	12.7	13.5
Current income	11.1	11.7	8.5	9.8	10.5
Tax revenue	8.4	9.2	5.6	6.9	7.4
To total expenditure					
Current income	...	84.7	63.9	77.6	77.7
Tax revenue	...	66.7	42.6	55.2	55.0
Tax revenue/current income	64.6	78.8	66.7	70.6	70.8
Current saving in relation to:					
Capital expenditure	-	55.7	-	21.7	24.3
Gross domestic product	-	2.6	-	0.8	1.0

Source: CONADE, Ingresos y Gastos Corrientes del Sector Público Nacional, 1955-1966 and Plan Nacional de Desarrollo, 1965-1969.

^{a/} Including capital expenditure of decentralized agencies.

/The most

The most striking feature is the decline in the relative share of direct taxation, as is shown in table I-64. In the mid-fifties, direct taxation accounted for about one-third of tax revenue, one of the highest proportions in Latin America, whereas in 1966 it accounted for only 26 per cent.

Table I-64

ARGENTINA: GOVERNMENT TAX STRUCTURE

(Percentages of total tax revenue)

	1955	1960	1964	1966
<u>Direct taxes</u>	33.4	24.8	18.7	25.9
Income tax	29.4	19.8	16.2	20.6
<u>Indirect taxes</u>	62.1	38.3	50.6	49.2
Sales tax	16.0	12.1	12.1	17.6
Consumption	13.3	7.8	10.8	6.9
Energy and fuels	22.3	9.7	12.9	8.3
<u>Taxes on the external sector</u>	4.5	36.9	30.7	24.9

Source: CONADE, Ingresos y Gastos Corrientes del Sector Público Nacional, 1955-1966.

This decline in the share of direct taxation was offset by an increase in that of indirect taxation and of taxes on external transactions. At the end of the period 1960-66, indirect taxes accounted for about half of total tax revenue, but this proportion was even higher in the mid-fifties. Hence, the most significant change was in taxes on the external sector. In 1955 these taxes represented less than 5 per cent of tax revenue, but this proportion rose to almost 37 per cent in 1960 and dropped again to 25 per cent in 1966. This is a relatively high proportion for Argentina, but it is lower than for Chile or for Venezuela.

/These developments

These developments are closely linked with the form taken by the anti-inflationary policy applied so far in the sixties which has been characterized by heavy devaluations, with a high proportion of the extra profits thereby earned by the export sector being withheld in the form of taxes. But these are stop-gap measures whose effect is only temporary, and other more regular sources of public financing must be found.

With regard to the social effect of taxes, two contradictory trends can be discerned in the developments in Argentina. On the one hand, the sharp decline in the share of direct taxation might point to a regressive tendency, which is quite likely in the case of Argentina, since there are fewer possibilities of social discrimination in regard to taxes on spending. On the other, the taxes or withholdings affecting the export sector might have a more progressive effect, depending on the extent to which they are applied and on how long they are maintained.

In 1967 a new stabilization programme was launched, containing important tax provisions. The programme set a target of an increase of 70 per cent in tax revenue, to be accompanied by an increase of only 23 per cent in public spending. It was hoped thereby to reduce considerably the difference between total expenditure and current income. In order to achieve this aim new taxes were to be imposed and existing taxes raised, particularly the taxes on exports through the withholding of profits, which would be considerably increased as a result of a further devaluation, this time of as much as 40 per cent. The results of this programme have yet to be seen, but it would appear that the most serious and persistent problems of tax financing in Argentina remain unsolved.

(b) Brazil

The evolution of the public sector in Brazil in 1960-66 falls into two phases which closely correspond to development trends during those years. Both production and State activities expanded vigorously up to 1962, although the instability of the economic system was growing more acute, and in the end it became very difficult to maintain these upward trends. In 1963 the rate of growth slowed down considerably, and at the same time inflationary pressures became more severe. These two factors, inter alia, motivated a sudden switch of economic policy as from 1964. Thenceforward, State action

/laid emphasis

laid emphasis on anti-inflationary measures, and this change of stress had far-reaching repercussions on the evolution of the public sector.

Between 1960 and 1963, the total expenditure of the Central Government expanded rapidly enough for its share in the domestic product to rise from a little over 13 per cent in 1960-61 to rather more than 15 per cent in 1962-63. The increase is even greater in relation to 1956, when the corresponding proportion was only 11.4 per cent. Although these figures are relatively high, they do not reflect the real weight carried by the public sector, for with the addition of the other levels of government (states and municipios) and decentralized enterprises its share of the product amounted to about 28 per cent (see table I-65).

In 1964, a break in the expansionist trend of public expenditure was accompanied by a contraction of its share in the domestic product, which, in its turn, also increased slowly. The curtailment of public expenditure affected only current outlays, which in absolute terms and real figures were lower in 1964-65 and 1966 than in 1962-63. Conversely, capital expenditure gained ground in both relative and absolute terms. The restriction of current expenditure enabled public-sector saving to acquire greater significance in the last few years under review, and in 1966 it financed about 70 per cent of capital outlays, whereas prior to 1964 the balance on current account had shown, instead of surpluses, quite considerable deficits. The cut in current expenditure affected wage and salary increases, and also transfer payments to public utility enterprises, with the result that there were substantial increases and variations in the prices and tariffs of the services concerned.^{5/}

^{5/} The extent to which current expenditure was reduced by means of wage and salary cuts is illustrated in a report prepared in 1967 on economic development in Brazil, according to which expenditure under this head (in real terms) was 15 per cent lower in 1965 than in 1964; estimates for 1966 show a decrease of about 13 per cent in relation to 1964.

Table I-65

BRAZIL: CENTRAL GOVERNMENT ACCOUNTS AND SOME INDICATIVE RATIOS

	1956.	1960-61	1962-63	1964-65	1966
<u>Millions of new cruzeiros at 1960 prices</u>					
Current income	165.7	237.3	263.3	317.5	353.1
Tax revenue	132.1	199.0	223.6	270.5	302.0
Current expenditure	194.5	247.3	310.8	281.7	250.7
Saving	-28.8	-10.0	-47.6	35.8	102.4
Capital expenditure	48.0	68.4	105.6	114.1	144.9
<u>Percentage ratios</u>					
To gross domestic product					
Total expenditure	11.4	13.3	15.1	14.0	13.8
Current income	7.8	9.4	9.6	11.3	12.3
Tax revenue	6.2	7.9	8.1	9.6	10.5
To total expenditure					
Current income	68.3	70.8	63.2	80.6	89.3
Tax revenue	54.5	59.4	53.7	68.7	76.4
Tax revenue/current income	779.7	83.9	84.8	85.2	85.5
Public sector saving in relation to:					
Capital expenditure	-60.0	-12.8	-45.0	25.8	70.7
Gross domestic product	-1.4	-0.4	-1.8	1.3	3.6

Source: ECLA, on the basis of statistics supplied by the Ministry of Planning and the Fundação Getulio Vargas.

/In 1960-63

In 1960-63 there was a wide gap between current income and total expenditure. Whereas the former remained at about 9.5 per cent of the product in 1960-61 and 1962-63, total expenditure rose from just over 13 per cent to 15 per cent of the product. In these circumstances, during the early years of the period, current income financed only a little under 70 per cent of total expenditure, most of the remainder being covered by loans from the monetary system. The gap was considerably narrowed in subsequent years, and the share of current income in the product approached that of total expenditure. In 1964-66, about 84 per cent of aggregate expenditure was financed out of current income.

Although tax revenue, generally speaking, covered a relatively small proportion of public-sector expenditure up to 1964, it showed a moderately rising trend, even in the years of rapid inflation. Thus, while in the mid-nineteen-fifties it accounted for little more than 6.2 per cent of the product, its contribution rose to 8 per cent in 1960-63. Later on, in conformity with one of the explicit objectives of the fiscal policy applied from 1964 onwards, it continued to increase both its share in the product (10.5 per cent in 1966) and its importance in relation to current income, of which it provided a little over 85 per cent in 1964-66.

The moderate flexibility of tax revenue seems to be linked to a marked increase in the relative importance of indirect taxation. In the mid-nineteen-fifties, taxes of this type represented about 51 per cent of total tax revenue; this proportion climbed to approximately 59 per cent in 1964-65 and 62.5 per cent in 1966. Conversely, direct taxation, especially taxes on enterprises, lost ground during the nineteen-sixties (see table I-66). The contribution of external sector taxes, while small as a rule, followed a rising trend up to 1962-63, and thereafter declined.

Since 1964 a number of changes designed to improve tax revenue have been introduced into Brazil's tax system. The main features of this may be summarized as follows.

Table I-66

BRAZIL: TAX STRUCTURE AND TAX BURDEN

(Percentages of total tax revenue)

	1956	1960-61	1962-63	1964-65	1966
<u>Direct taxes</u>	45.5	32.6	30.2	31.7	28.6
Personal taxes	12.7	10.7	9.0	11.0	11.8
Taxes on enterprises	25.5	20.4	19.5	19.6	15.4
<u>Indirect taxes</u>	50.9	55.2	57.7	58.9	62.5
Consumption taxes	41.8	44.3	49.0	47.0	47.4
Petroleum taxes	3.6	9.4	7.1	8.5	9.6
<u>Taxes on the external sector</u>	3.6	12.3	12.2	9.4	8.9

Source: ECLA, on the basis of statistics supplied by the Ministry of Planning.

Personal income tax was made more progressive by a change in the rates in respect of income from which tax is deducted at source. To prevent time-lags in the payment of these taxes, the tax base was adjusted in the light of cost-of-living indexes. Furthermore, maximum exempted income was reduced in certain cases, and some of the tax privileges granted to teachers, writers and journalists were abolished.

The cascade tax on sales and consignments had proved a strong inducement to the vertical integration of enterprises, even marketing firms and it was difficult to check of their tax compliance. To overcome this drawback, the tax was replaced by another, on circulation of goods, which was easier to supervise, and had not the cumulative character of the former tax.

At the level of the municipios, estimates of the revenue that would accrue from the tax on circulation of goods suggested the advisability of eliminating several taxes with small yields and high administrative costs,

/but apparently

but apparently tax proceeds fell short of expectations, and larger transfers had to be made from the Federal budget to the states and municipios.

Taxation on financial transactions was confined to insurance and credit operations effected by banks, loan and investment companies, and other financial institutions, and the revenue was transferred to the Federal Government. The proceeds of taxes on services were earmarked for the municipios when the activities subject to taxation were carried on in the area of their jurisdiction. If they extended beyond it, the tax yield passed into the hands of the Federal Government. Taxation on transfers of real estate also underwent various modifications.

Export taxes were transferred from the states to the Federal Government without changes in their structure, inasmuch as they are a suitable tool for directing export activities at the national level.

Reductions in the customs tariff averaged 20 per cent. They were granted product by product, not on the basis of a general rule, so that the result should be a rational equalization of uneven levels of protection.

(c) Chile

The problems of public financing in Chile from 1960 to 1966 were faced against a background of a fairly active development, although it was not without its ups and downs. The prime factor in this boom was the expansion of the external sector, which has a particular influence on the production system and on the public economy.

Public sector activities have considerable relative importance in Chile. In the nineteen-sixties for example, the share of total central government expenditure in the domestic product was substantially higher than in the mid-fifties, and in the two years 1965-66 it was more than 25 per cent. This expansion was very uneven, however. Part of this substantial increase represented a recovery after the holding down of public expenditure in 1963-64 (see table I-67).

Current income followed a fairly satisfactory trend during the period under review. Although, on an average, it financed only about 80 per cent of total expenditure, making it necessary to resort to external and Central Bank credit to cover the balance, it tended to increase at a slightly faster pace than disbursements. This was a particularly important factor in 1965 and 1966 owing to the rapid growth of expenditure (25 and 19 per cent, respectively); however, current income rose by approximately 28 per cent, in real terms, in each of those years.

Table I-67

CHILE: CENTRAL GOVERNMENT ACCOUNTS

	1955	1960	1964	1965	1966
<u>Millions of escudos at 1965 prices</u>					
Current expenditure	1 621	2 066	2 259	2 722	3 209
Capital expenditure	447	894	1 061	1 438	1 729
Total expenditure	2 068	2 960	3 320	4 160	4 938
Current income	1 899	2 289	2 627	3 366	4 295
Tax revenue	1 607	2 163	2 498	3 122	3 956
Current saving	278	223	368	644	1 086
<u>Percentage ratios</u>					
To the gross domestic product					
Total expenditure	17.4	21.1	19.4	23.2	25.8
Current income	16.0	16.3	15.4	18.7	22.4
Tax revenue	13.5	15.4	14.6	17.4	20.7
To total expenditure					
Current income	91.8	77.3	79.1	80.9	87.0
Tax revenue	77.7	73.1	75.2	75.0	80.1
Tax revenue/current income	84.6	94.5	95.1	92.8	92.1
Current saving in relation to:					
Capital expenditure	62.2	24.9	34.7	44.8	62.9
Gross domestic product	2.3	1.6	2.2	3.6	5.7

Sources: CORFO, Cuentas Nacionales de Chile, 1940-1962; ODEPLAN, Cuentas Nacionales de Chile, 1963-1966; Ministry of Finance, Budget Office, Balance consolidado del sector público de Chile (various years) and Exposición sobre el estado de la hacienda pública, November 1967.

/Tax revenue,

Tax revenue, which normally constitutes more than 90 per cent of current income, followed much the same trend and shows a positive elasticity with respect to the growth of both the domestic product and total expenditure (see table I-61). Hence the sizable increase in the share of tax revenue in the domestic product. The tax burden rose by about 13.5 per cent in 1955, about 15 per cent at the beginning of the sixties and 18 per cent in 1965-66.

At first sight, there seem to have been no significant changes in the tax structure that might explain the vigorous growth of current income and tax revenue (see table I-68). In general, if the situation in 1955 and in 1960 are considered in relation to the situation prevailing at the end of the period, it will be noted that the proportion of the major groups of taxes remained fairly constant. Nevertheless, there was an appreciable increase in the proportion of direct taxes in 1964, which was consolidated in the next few years. On the other hand, the relative importance of taxes on the external sector diminished with respect to the position in 1955, in spite of the favourable conditions prevailing for external transactions, particularly in copper, and the fact that the proportion of taxes on copper mining in relation to the product of this sector did not decrease. Accordingly, the extra tax revenue must be ascribed mainly to domestic activities.

Although the tax structure has undergone no major changes, the system has been frequently modified during the period under review. A notable factor is the increase in direct taxation. Added to the periodical automatic adjustment of the taxable base in accordance with price movements, the tax on net wealth considerably raised the total revenue from personal taxes. In the field of indirect taxes, the base for applying the sales tax was substantially broadened to include most commercial transactions, whereas in the past it had been applicable only to real estate.

In large-scale copper mining, a vital activity in Chile, there have been no great changes in the system which was legally established in 1955, and which sets a fixed rate of 40 per cent on company profits, and a rate of 25 per cent which is progressively reduced; as production rises above certain basic levels. At the beginning of 1966, however, the system was slightly modified. The fixed profits tax was raised from 50 to 52.5 per cent, and it may be increased to as much as 85 per cent if production falls below the basic level. On the other hand, new major copper mining companies going into production in the future will pay a single tax of 50 per cent on their taxable income.

Table I-68

CHILE: TAX STRUCTURE

(Percentage of total tax revenue)

	1955	1960	1964	1965	1966	1967 ^{a/}
<u>Direct taxes</u>	23.4	22.4	27.6	30.7	26.9	28.2
Personal taxes ^{b/}	8.3	7.5	8.8	12.3	9.7	11.1
Taxes on enterprises	6.5	9.4	9.6	11.4	9.8	9.9
Property tax	8.6	5.5	9.2	7.0	7.4	7.2
<u>Indirect taxes^{c/}</u>	42.7	43.2	44.4	42.6	40.3	42.9
Sales tax	20.3	20.1	25.7	24.6	23.0	25.7
Taxes on production	8.8	8.3	8.7	7.4	6.1	7.2
Taxes on services	9.0	9.7	6.3	5.7	6.2	4.8
<u>Taxes on the external sector</u>	33.9	34.4	28.0	26.7	32.8	28.9
Import duties	14.0	20.6	14.8	13.7	16.2	15.6
Taxes on large-scale copper mining	19.9	13.8	13.2	13.0	16.6	13.3
<u>Total tax revenue</u>	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance, Budget Office, Balance consolidado del sector público de Chile (various years) and Exposición sobre el estado de la hacienda pública, November 1967.

a/ Provisional figures.

b/ As from 1965 this includes the tax on net wealth.

c/ Include other taxes not elsewhere classified.

/The figures

The figures in table I-69 confirm that apart from the increase in the proportion of taxes on copper in the product for that sector, there has been little change in the share of large-scale mining in the gross domestic product, and that the proportion of total tax revenue contributed by taxes on copper has declined compared with the first half of the nineteen-fifties.

(d) Guatemala

After more than a decade of virtual stagnation, in 1963 the economy of Guatemala embarked upon a period of expansion, and by 1966 had achieved an average growth rate of 6.5 per cent. Generally speaking, the country's basic characteristics remained much the same as in the preceding decade, and exports continued to constitute the mainspring of growth.

Within this general framework, the Central Government's expenditure rose slightly, at a slower rate than the domestic product. In 1960 its share in the product was 12.2 per cent - i.e. comparatively low in relation to the levels reached in other countries - and in the next few years the proportion declined until by 1966 it was only 9.9 per cent. The modest increase in expenditure was mainly on current account, since capital outlays remained stationary, and indeed in 1966 were lower than in 1960. Thus the share of current expenditure in total expenditure rose from 58 per cent to over 73 per cent between the first and last years of the period under consideration. The relatively bigger increases in the current disbursements of the public sector kept down its saving, despite a slight increase in the proportion of capital outlays for which it accounted, mainly because the Government made only a small contribution to domestic investment (see table I-70).

The growth rate of the Central Government's current income was moderate, although its upward trend was more marked than that of expenditure, as can be seen from the extent to which expenditure was covered by income, which rose from 69 per cent in 1960 to nearly 81 per cent in 1966. A gap between income and expenditure still remained, and was financed, up to a point, on the basis of external credit, with the consequent pressure on Guatemala's balance of payments.

Table I-69

CHILE: LARGE SCALE COPPER MINING

Year or period	Output	Price	Value of exports	Copper taxes	Copper taxes as a percentage of total tax revenue	Copper taxes as a percentage of the gross product of large-scale copper mining	Product of large-scale copper mining as a percentage of gross domestic product
			a/ Indexes				
1952/54	71.8	92.7	68.9	96.0	15.7	...	...
1955	82.5	126.6	103.0	178.0	19.4	...	...
1956/58	91.1	100.8	81.3	97.6	17.4	...	...
1960	100.0	100.0	100.0	100.0	13.8	35.9	6.2
1961	100.6	91.7	87.5	76.5	10.0	33.0	4.9
1962	106.7	93.2	94.1	86.8	12.4	38.6	5.1
1963	106.1	92.4	93.1	98.4	13.0	37.3	5.3
1964	110.2	100.1	92.5	119.5	13.2	40.3	5.0
1965	102.3	111.7	102.9	138.5	13.0	42.9	5.3
1966	109.8	139.8	155.1	225.0	16.6	46.9	6.9

Sources: Universidad de Chile, Instituto de Economía, La economía de Chile en el período 1950-1963; Ministry of Finance, Budget Office, Balance consolidado del sector público de Chile (various years); ODEPLAN, Cuentas Nacionales de Chile, 1960-1966, and data supplied directly.

a/ The value taken for exports is the f.o.b. value in dollars, IMF, Balance of Payments Yearbook, vol. 19 and previous issues.

Table I-70

GUATEMALA: CENTRAL GOVERNMENT ACCOUNTS AND SOME INDICATIVE RATIOS

	1960-62	1963-65	1966
	<u>Millions of quetzales at current prices</u>		
Current income	86.7	104.6	120.4
Tax revenue	78.6	96.1	113.3
Current expenditure	73.7	86.8	109.6
Saving	13.0	17.8	10.8
Capital expenditure	54.4	59.6	39.6
	<u>Percentage ratios</u>		
To gross domestic product			
Total expenditure	12.2	11.0	9.9
Current income	8.2	7.9	8.0
Tax revenue	7.5	7.2	7.5
To total expenditure			
Current income	67.7	71.7	80.7
Tax revenue	61.5	65.7	75.9
Tax revenue/current income	90.7	91.7	94.1
Public-sector saving in relation to:			
Capital expenditure	24.0	31.0	27.3
Gross domestic product	1.2	1.3	0.7

Source: ECLA, on the basis of statistics supplied by the Banco de Guatemala.

The proportion of current income represented by tax revenue was high; despite some fluctuations, it remained relatively stable at over 90 per cent. The rate of increase of tax revenue, however, was not commensurate with that of exports and of industrial production, and, on the whole, it failed to keep pace with the growth of the domestic product.

In the case of the Guatemalan economy, which is still under-developed, and where, therefore, the possibilities of drawing upon internal sources to finance increasing public-sector activity are small, it would seem to be incumbent upon the external sector of the economy to play the major role in this respect.

The export quantum index reveals an increase of 131 per cent in relation to 1960; in contrast, the index of export prices greatly deteriorated, dropping to 85.5 if 1960 is taken as the base year. Even so, the value of exports rose by 97 per cent between 1960 and 1966. Imports showed similar trends, with sharper upswings partly caused by the economic expansion that has taken place since 1963 and the increased demand for intermediate and capital goods on the part of the industrial sector. Notwithstanding these higher values, the tax revenue deriving from foreign trade flows remained stationary, and actually lost ground in relation to the evolution of tax revenue as a whole. As regards export taxes, it was impossible even to maintain the low levels reached at the beginning of the period. This was partly imputable, especially where the coffee sector was concerned, to the change in the tax base from the prices quoted on the New York Exchange to those stipulated in local contracts. Much the same happened in respect of imports, in this case because of the exemptions granted to imports of raw materials and capital goods and the impact of the tariff reductions agreed upon within the Central American Common Market (see table I-71).

The tax burden is not heavy in Guatemala. The record level for the period under review was reached in 1960 (8 per cent of the domestic product); in the following years a steadily declining trend, broken only by fluctuations in 1964 and 1965, brought the proportion down to only 7.5 per cent by 1966.

Table I-71

GUATEMALA: EXTERNAL-SECTOR TAX INDICATORS

(Indexes and percentages)

Year	Exports					Imports	
	Indexes (1960=100)				Tax coef fi cient	Tax coef fi cient	Imports from Central American Common Market Total imports
	Volume	Prices	Value	Taxation			
1960	100.0	100.0	100.0	100.0	7.9	22.7	5.5
1961	106.1	92.7	98.4	91.8	7.3	23.1	6.7
1962	114.5	89.7	102.7	81.3	6.3	20.9	5.8
1963	160.7	82.4	132.4	66.9	4.0	18.5	8.3
1964	162.9	92.3	150.4	68.5	3.8	14.4	13.0
1965	184.1	90.0	165.7	93.2	4.4	14.3	13.7
1966	230.8	85.5	197.3	93.2	3.7	14.0	16.4

Source: ECLA, on the basis of statistics supplied by the International Monetary Fund and the Banco de Guatemala.

/The percentage

The percentage contribution of direct taxes to total tax revenue showed a slightly upward trend as from the beginning of the economic expansion in 1963. The larger proportion, however, was still represented by indirect taxes, of which the dynamic components were the stamp duties and stamped paper, and taxes on consumption of petroleum products. In line with the unsatisfactory rate of economic development, a great deal of weight is also carried by taxes on alcohol and tobacco consumption, although the proportion they represented was reduced in the later years of the period (see table I-72).

According to other research relating to the year 1962, the structure of the tax system was still such that about 89 per cent of total revenue was obtained from regressive taxes and 92 per cent from taxes lacking in elasticity.

Table I-72

GUATEMALA: TAX STRUCTURES

(Percentages of total tax revenue)

	1960	1966
<u>Direct taxes</u>	11.0	13.9
Income tax	9.3	11.2
Land tax	1.7	2.7
<u>Indirect taxes</u>	42.9	54.3
<u>Taxes on the external sector</u>	46.1	31.8
Import duties	34.9	24.3
Export taxes	11.2	7.5

Source: ECIA, on the basis of statistics supplied by the Ministry of Finance and Public Credit.

The fact is that no major tax reforms have been introduced for a number of years past. In respect of direct income tax, the systems of collection and inspection are defective. The existence of a number of exemptions, some of which are intended to encourage industrial development, is another of the reasons why the public sector has not benefited by the increase achieved in industrial production. In 1963, for example, the

/tax on

tax on company income was replaced by a tax on profits and a capital gains tax, with the result that revenue decreased. Agricultural income taxes are affected by high rates of exemptions; for example most coffee-growers are exempted from tax liabilities.

Property taxes are characterized by low rates and the tax base is considerably under-valued. In 1963 likewise, a process of revaluation was started, but results have so far fallen short of expectations.

The tax on consumption, especially where alcohol and tobacco are concerned, is weakened by a certain amount of tax evasion. Generally speaking, as regards indirect taxation, it is thought possible to increase sales taxes, especially on wholesale transactions, and also taxes on luxury consumption and those intended to discourage demand for imports.

Accordingly, the following are the main features of the fiscal situation in Guatemala. The total expenditure of the Central Government is being financed to an increasing extent out of current income, although other sources of financing still have to be drawn upon, including external sources, with the result that some pressure has been exerted on the payments position. This financing deficit occurs within a framework of percentage relationships which are such that the tax burden is still distinctly low, and even showed a slightly declining trend between the first and last years of the period considered. In view of the structure of the economy and the stage of development reached, efforts to secure appropriate financing for public-sector activities, and their eventual expansion, should be largely focused on the potential of the export sector, whose level of efficiency is high in comparison with that of other domestic activities. In addition, direct taxes, whose share in aggregate taxation has been rising, could make a bigger contribution to public-sector financing, especially in the case of property taxes.

(e) Mexico

From 1960 to 1966 the Mexican economy succeeded in maintaining a rapid and steady rate of growth, averaging 10 per cent yearly, from 1960 to 1966, without producing any appreciable inflationary pressure. Federal Government expenditure rose even more rapidly, at a mean annual rate of nearly 14 per cent, thus helping considerably to keep the economy buoyant.

/In spite

In spite of the difference between the growth rates, the share of government expenditure in the domestic product was still fairly small at the end of the period, when it amounted to 11 per cent, that is, less than in the other five countries considered (see table I-61). As in their case, however, this ratio is far from presenting a true picture of the importance of State activities which, in Mexico, include not only the decentralized agencies but also transfers of government funds to a number of industrial firms with mixed public and private capital that are not taken into account in the government figures on public investment.

Current government income also increased rapidly. It outstripped the growth of the domestic product but lagged slightly behind that of total expenditure, thus widening the margin to be covered by income from other sources, such as loans from the monetary system. About 85 per cent of government expenditure was financed out of current income in 1956, but this proportion dwindled to 79 per cent in 1960 and as little as 68 per cent in 1966 (see table I-73). Despite this widening of the gap, official policy, succeeded in keeping the accounts fairly well balanced. The expansionist or disrupting effects of the trend were obviously off set by restrictive measures, which were resorted to above all in manipulating monetary movements.

If the trends of current income and expenditure are compared in order to gauge the incidence of government saving, it will be seen that the share of expenditure on capital formation financed by such saving fell to only 21.6 per cent in 1966 from 52 per cent in 1960. Hence, in 1966, nearly 80 per cent of the capital expenditure had to be covered from sources other than current income.

Tax revenue accounted for approximately 93 per cent of total current income during the period under consideration, but, although its growth rate has slightly exceeded that of total income it has been well behind that of expenditure. Moreover, although its contribution to the product expanded from 6.5 to 7 per cent during those years, the tax burden is still one of the lowest in this group of countries.

Table I-73

MEXICO: FEDERAL GOVERNMENT ACCOUNTS

	1956	1960	1966
<u>Millions of pesos at current prices</u>			
Current expenditure	4 780	7 717	18 130
Capital expenditure <u>a/</u>	4 340	6 232	12 409
<u>Total expenditure</u>	<u>9 120</u>	<u>13 949</u>	<u>30 539</u>
Current income	7 735	10 970	20 815
Tax revenue	6 729	10 065	19 306
Current saving	2 955	3 253	2 685
<u>Percentage ratios</u>			
To the gross domestic product			
Total expenditure	9.1	8.9	11.0
Current income	7.7	7.0	7.5
Tax revenue	6.7	6.5	7.0
To total expenditure			
Current income	84.8	78.6	68.2
Tax revenue	73.8	72.2	63.2
Tax revenue/current income	87.0	91.8	92.8
Current income in relation to:			
Capital expenditure <u>a/</u>	68.1	52.2	21.6
Gross domestic product	2.9	2.1	1.0

Sources: IBRD, Recent economic performance of Mexico (18 October 1967); Alliance for Progress, Evaluación del Plan de Acción Inmediata de México (August 1964).

a/ Amortization under this head consists only of amortization payments on the external public debt.

/The tax

The tax structure altered during that period as a result of differences in the development of the individual taxes. The share of indirect taxes, which had been 35 per cent of over-all tax revenue in 1955, expanded to 38 per cent in 1960 and continued to increase until it reached 47 per cent in 1966. The share of indirect taxes, on the other hand, increased from 27 to 35 per cent between 1955 and 1960, and then remained at that level for the rest of the period.

Taxes on foreign trade lost ground from 1955 onwards, when they constituted 38 per cent of the total. Five years later their share had shrunk to 27 per cent and by 1966 was only 16 per cent (see table I-74).

Export taxes represented nearly a quarter of all tax revenue in 1955, while import duties brought in 15 per cent. By 1960 their relative importance had altered: the share of the former had dropped to 9 per cent while the latter had risen to 17 per cent. In the next few years, export taxes continued to decline as the result of a planned policy of reducing the tax burden on the external sector, and by 1966 they accounted for only 3.6 per cent of the total. Import duties continued to increase in line with the value of imports (about 6 per cent annually), but their share of the total shrank to 13 per cent in 1966.

The changes that took place in the tax system were largely due to reforms, relating primarily to income tax. In 1962 and 1963, a tax on accrued income was established, as a first step towards transforming the schedular system into an over-all progressive tax. Taxes were also levied on income from different sources: rents, dividends from shares and interest payments on debts outstanding, and profits on sales of real estate. The tax rates for certain categories of income tax were also modified, as were the rates for consumption of specific goods and the possession of a car. On the other hand, death duties and taxes on legacies were abolished.

Other changes were made at the end of 1964, this time in relation to personal and corporation income. A progressive tax ranging from 5 to 42 per cent was levied on industrial, commercial and agricultural enterprises. At the same time the excess profits tax was abolished, and part of the profits tax.

Table I-74

MEXICO: FEDERAL GOVERNMENT TAX STRUCTURE

(Percentages of total tax revenue)

	1955	1960	1963	1966
<u>Direct taxes</u>	35.2	38.2	42.2	46.9
Income tax	32.4	36.0	40.6	45.7
Personal taxes	11.4	14.2	18.6	18.1
Taxes on enterprises	21.0	21.8	22.0	26.1
<u>Indirect taxes</u>	26.8	35.2	37.6	36.7
Sales tax	10.5	10.9	11.4	12.4
Taxes on production and trade	12.6	13.1	14.1	13.5
<u>Taxes on the External sector</u>	38.0	26.6	20.2	16.4
Export taxes	23.4	9.2	6.5	3.6
Import duties	14.6	17.4	13.7	12.8

Sources: IBRD, Recent economic performance of Mexico (18 October 1967);
Dirección de Estudios Hacendarios, Cuenta pública e investigaciones del Departamento de Estudios Económicos (20 April 1966).

As regards personal income tax, the scales and rates of tax for income brackets of less than 150,000 pesos a year were unchanged, but a single progressive tax at a rate varying from 13 to 35 per cent was levied on accrued income of more than that amount.

These reforms were accompanied by improvements in tax administration and collection and a large number of taxpayers were added to the register.

In view of Mexico's dynamic rate of growth and relatively light tax burden, it would not be difficult for it to narrow the gap between current or tax revenue and total expenditure and even to maintain or enhance the expansionist tendency of government expenditure through the medium of current and capital outlays.

(f) Venezuela

Venezuela's economic growth has tapered off since the boom in the nineteen-fifties. This trend is closely linked to the evolution of petroleum output and exports, because of this sector's predominating share

/in the

in the composition of the domestic product - more than 29 per cent - and its indirect impact on various sectors of the economy, particularly the public sector.

Total central government expenditure in relation to the domestic product is at a high level, one of the highest in the region. Although from 1960 to 1966 expenditure rose more slowly than the product, it still amounted to 24.1 and 19.4 per cent respectively, as shown in table I-75.

Current income is a basic factor in the financing of central government expenditure. In the period under review, the proportion of expenditure covered by current income rose to 98 per cent. Tax revenue is the principal component of current income, of which it provided around 96 per cent.

Current income, and particularly tax revenue, grew at much the same rate as expenditure during the period concerned, while the high levels of saving financed most of Venezuela's capital expenditure.

The structure of the tax system reveals the high proportion of taxes on the external sector, since petroleum taxes account for the bulk of tax revenue. The relative importance of taxes on iron production has been rising, while customs revenue has lost ground. The contribution of direct taxes on domestic activities almost doubled from 1955 to 1966, while that of indirect taxes diminished (see table I-76).

If consideration is given to what share of the tax burden corresponds to internal tax revenue, it will be seen that this ratio is even lower (generally below 4 per cent) than in most other countries of the region. If the revenue accruing from the external sector is added, however, the aggregate tax burden is seen to be comparatively high. The ratio increased to 21 per cent in 1963, and thereafter dropped sharply, the level in 1966 (18.3 per cent) being slightly lower than that recorded at the beginning of the period.

In view of the petroleum sectors' vital contribution to total tax revenue, it seems useful to go into some detail on the subject.

Table I-75

VENEZUELA: CENTRAL GOVERNMENT ACCOUNTS AND SOME INDICATIVE RATIOS

	1955	1960-62	1963-65	1966
<u>Millions of bolívars at current prices</u>				
Current income	2 970	5 556	6 998	7 770
Tax revenue	2 809	5 312	6 729	7 445
Current expenditure	1 671	3 657	4 040	4 686
Saving	1 299	1 900	2 958	3 084
Capital expenditure	1 312	2 955	3 141	3 198
<u>Percentage ratios</u>				
To the gross domestic product				
Total expenditure	16.7	24.7	20.9	19.4
Current income	16.6	20.8	20.4	19.1
Tax revenue	15.7	19.9	19.6	18.3
Internal tax revenue	2.9	3.6	3.8	4.1
To total expenditure				
Current income	99.6	84.0	97.5	98.6
Tax revenue	94.2	80.3	93.8	94.4
Tax revenue/current income	94.6	95.6	96.2	95.8
Public saving in relation to:				
Capital expenditure	99.0	63.2	94.3	96.4
Gross domestic product	7.3	7.1	8.6	7.6

Source: ECLA, on the basis of data supplied by the Ministry of Finance of Venezuela.

Table I-76
VENEZUELA: TAX STRUCTURE AND TAX BURDEN
(Percentages of total tax revenue)

	1955	1960-62	1963-65	1966
<u>Direct taxes</u>	7.3	10.0	11.2	13.7
Death duties and taxes on gifts	0.4	0.3	0.3	0.6
Taxes on domestic activities	6.9	9.7	10.9	13.1
<u>Indirect taxes</u>	11.0	8.3	8.3	8.7
<u>Taxes on the external sector</u>	81.7	81.7	80.5	77.6
Petroleum taxes	63.1	70.2	72.1	66.9
Iron taxes	-	2.8	1.7	4.3
Import duties	18.4	8.7	6.6	6.4

Source: ECLA, on the basis of data supplied by the Ministry of Finance.

The share of petroleum taxes in total tax revenue increased up to 1963, when it reached 74.1 per cent. The proportion subsequently declined to only 66.9 per cent in 1966 (see table I-77).

The petroleum industry is taxed in various ways. A schedular tax, and a supplementary progressive tax are levied on income. The industry is also subject to a tax levied on net income after deduction of other taxes. There are, moreover, a number of charges payable on the areas over which prospecting and drilling rights are held, the drilling charges being partly replaceable by a royalty levied on gross production value. Lastly, the Government obtains a certain amount of income from the profit margin accruing from differences in the exchange rates applied to monetary transactions with the above-mentioned enterprises. The tax structure has been amended several times, especially in 1946, 1948 and 1958 as regards income tax, and 1961 and 1962 as regards exchange rates. In 1964 a radical change took place when the profits on exchange transactions virtually eliminated the loss of revenue being offset by increase returns from other taxes. These modifications combined with the trends in the petroleum sector to raise tax revenue from petroleum until 1964, after which it declined.

Table I-77

VENEZUELA: PERCENTAGE RATIOS IN THE PETROLEUM SECTOR

	1955	1960	1961	1962	1963	1964	1965	1966
Gross sectoral product/ Total gross domestic product	29.9	29.5	29.8	30.7	29.9	29.0	28.2	26.4
Petroleum tax revenue/ total tax revenue	63.2	69.0	69.7	71.8	74.1	72.9	69.4	66.9
Petroleum tax revenue/ gross domestic product	10.1	12.3	14.5	14.3	15.4	14.0	12.7	12.5
Petroleum tax revenue/ gross sectoral product	33.2	41.8	48.8	46.6	51.4	48.3	44.9	47.6
Petroleum output (millions of barrels)	787.0	1 042.0	1 066.0	1 168.0	1 186.0	1 242.0	1 268.0	1 230.0
<u>Petroleum export indexes</u> (1960=100)								
Volume	75.2	100.0	105.9	112.5	114.6	119.6	120.8	118.2
Prices	110.1	100.0	102.1	97.1	92.8	89.2	87.1	85.6
Petroleum exports as a percentage of total exports	94.1	91.2	92.8	93.2	93.4	93.2	92.8	91.5

Source: ECLA, on the basis of data supplied by the Ministry of Finance.

/The nature

The nature of the tax system has made it possible for the State to keep its share in petroleum activities throughout the period (measured in terms of the ratio of taxes to the petroleum product), although with fluctuations similar to those mentioned in the preceding paragraph. During that period both indicators were higher than in 1955.

A tax reform making various changes in income taxes was recently carried out to increase fiscal income and encourage investment. These modifications consisted in replacing the schedular by a single global system, eliminating or reducing the tax payable on average and low incomes and creating new incentives to investment in industry, agriculture, mining and petroleum and to the establishment of industrial enterprises in certain areas of the country. There were also changes in death duties and excise taxes on cigarettes and spirits.

In addition, the reform altered the tax on motor-vehicle licence plates. A progressive rate was established on the basis of value, and freight and passenger vehicles for hire were exempted. Measures to control the development of the motor-vehicle industry are also under consideration.

The petroleum tax rate was raised from 47.5 to 52 per cent. However, enterprises with low productivity were authorized to pay the tax at a reduced rate scaled in inverse proportion to the ratio of the enterprise's profits net of income tax to its total income.

The early results of the reform have not lived up to expectations. The financial position of the Government is satisfactory, however, despite a slight deterioration at the end of the period. Income tax on domestic activities has tended to increase in line with their rates of growth and the tax reform. Thanks to the improvements in the machinery of tax administration, it has been possible to increase the yield of indirect taxes, and there has been a simultaneous increase in the share of direct taxes.

Venezuela is one of the exceptions to the general pattern of public sector financing in Latin America, since its current income covers virtually all public sector expenditure. However, as this income is mainly obtained from taxes, its principal source is the external sector - particularly petroleum - while the tax burden on domestic activities is comparatively

/light. Although

light. Although income taxes have risen considerably, there is still an appreciable margin for further growth, which is encouraging in view of the fact that such taxes represent one of the main sources of financing for development of the public sector's activities.

This is all the more important since the taxes on petroleum drilling and exports are fairly high, and international market conditions are not very favourable to petroleum at present. However, as this is a key sector of the world economy with a dynamic rate of growth, there is every likelihood that more fiscal income can be obtained from it when conditions improve.

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