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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 space ( ) is used to distinguish thousands and millions (3 421 520).

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

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

Use of a hyphen (-) between dates representing years, e.g., 1950-1954, normally signifies an annual average for the calendar years involved, including the beginning and end years. "To" between the years indicates the full period, e.g., 1950 to 1954 means 1950 to 1954, inclusive.

References to "tons" indicate 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.

PRELIMINARY NOTE

The present *Survey* is the eighth in the series of annual reports prepared by the secretariat of the Economic Commission for Latin America with a view to studying the region's economic situation, serving the needs of the Commission and co-operating with the Department of Economic and Social Affairs of the United Nations in supplying information on current world economic conditions, pursuant to the Economic and Social Council's recommendations.

The *Survey* for 1957 differs somewhat from its predecessors in structure and content. In Part One, the external situation of the Latin American economy is discussed in terms of the world economy. To this end, chapter I analyses the world market problems affecting the commodities produced by the region. A study of the levels of economic activity in the United States and Western Europe, of changes in inventories, and of the imports effected by the industrialized countries provides the necessary background for an understanding of the present position of Latin America's exports and an estimate of their prospects. In chapter II, which is concerned with the more detailed consideration of these exports, an analysis of world market prices is followed by a review of developments in respect of eight individual commodities selected for their importance and significance in the region's foreign trade. Chapter III examines private and public capital movements in Latin America, and chapter IV deals with the capacity to import, and includes a special section on payments and receipts in the services account, and on the terms of trade.

Latin America's internal economic situation is outlined in Part Two of the *Survey*. In chapter I of this part, which covers the region as a whole, the product in the agricultural, industrial and mining sectors is analysed, after a brief discussion of Latin America's rate of growth. Next come six chapters comprising separate studies of the current economic problems of Argentina, Brazil, Colombia, Chile, Cuba and Mexico. It is perhaps these country chapters, which contain a thorough study of the problems of the individual economies during 1957 and the immediately preceding period, that the most novel features of the present *Survey* are to be found.

Part III consists of a single chapter on the balance of payments in Latin America as a whole and in the individual countries of the region. It is not confined to the events of 1957 in this field but also covers the decade from 1947 to 1956. It was thus possible to consider medium-term trends in pressures on the region's external equilibrium, with reference both to internal and to international factors. The chapter ends with an analysis of compensatory financing of balance-of-payments deficits and a few brief remarks on more recent exchange and trade policy.

Lastly, a special study on Latin America's trade in agricultural commodities has been included in the 1957 *Survey*. An over-all approach to the evolution of agricultural exports and imports in the last quarter of a century is followed by a section dealing with the seven commodities which are regarded as of the greatest importance in this trade. In the subsequent country-by-country discussion, careful consideration is given to the agricultural trade of Argentina, Brazil, Colombia, Chile and Mexico.

The present *Survey* is published on the sole responsibility of the secretariat, and the views expressed in it should not be attributed to the Commission or its member Governments.

Part I

LATIN AMERICA AND THE WORLD ECONOMY

INTRODUCTION

World trade rose considerably in 1957 once again (see table 1). The total increase was nearly 7 000 million dollars or about 7½ per cent. Yet Latin America's exports hardly changed.[1] This contrast was partly due to a shift in the terms of international trade. If annual averages are compared, it will be seen that the prices of primary commodities rose little between 1956 and 1957, whereas those of exported manufactures continued to climb, in fact more rapidly than in previous years. In addition, the volume of Latin American exports contracted slightly, whereas that of world trade as a whole went on increasing, mainly because of the sustained growth of trade in manufactures but also because the volume of exports of other non-industrial areas continued to expand.

Within the primary commodities group, it seems that prices of agricultural commodities had, by 1957, generally returned to their levels of 1953. The boom in cacao and coffee prices temporarily raised the total food group in 1954, but otherwise the average price level showed little change. Prices of minerals, on the other hand, registered a decline after the end of the Korean hostilities, followed by a rise each year. The increase in mineral prices between 1956 and 1957 was due not to the prices of metals, which fell, but to those of other minerals, especially petroleum.

The steadiness of total Latin American exports in 1957 is in fact misleading. If the main petroleum producer, Venezuela, is excluded from the figures for export values, it can be seen that Latin American exports fell and there is in fact no longer any marked upward trend visible in exports in the past five years. Again, as will be shown in chapter III of this part of the *Survey,* while there was a sharp rise in foreign capital investment in Latin America in 1956 and 1957, it was also concentrated to a large extent in the Venezuelan oilfields. This contrast between the experience of Venezuela and that of other Latin American countries, especially in 1957, has to be borne in mind at all times, if the significance of recent changes in Latin America's foreign transactions is to be understood.

A further important point is that, although, on the average, primary commodity prices changed little between 1956 and 1957, there had been a general rise during 1956 (the Suez incident occurred soon after poor harvests in both Europe and Latin America), which continued into the early months of 1957. Annual averages for 1957 reflect the relatively good prices for many commodities in the first half of the year due to the persistence of this small temporary boom. The prices of primary commodities weakened, however, throughout the year (see table 2). Petroleum was once more an exception: its price stayed up at levels set early in the year, which modified the decline in the index of mineral prices. Another exception was cacao, a poor crop in Africa having raised its price—and the index number for the beverage group—in the middle of the year. But, by the end of 1957, most prices had fallen back to the levels of early 1956 and were continuing to decline. Still, prices of manufactures continued to climb steadily, so that the terms of trade of primary producers deteriorated and were, by the end of 1957, worse than they had been for several years.

[1] Latin America's exports include intra-regional exports throughout.

Table 1. World and Latin American Trade (Selected Series)

	1953	1954	1955	1956	1957
	(Thousands of millions of dollars)				
World exports	73.3	76.1	82.8	92.0	98.8
Latin American exports	7.66	7.92	8.10	8.75	8.76
Latin American exports (excluding Venezuela)	6.15	6.25	6.20	6.55	6.35
	(Index numbers: 1953 = 100)[a]				
World primary commodity prices					
— total	100	104	101	102	104
— food	100	108	99	99	100
— coffee cacao and tea[b]	100	141	107	107	102
— non-food agricultural	100	100	102	101	102
— minerals	100	99	102	110	115
— metals[b]	100	95	104	112	110
Prices of exports of all non-industrial countries	100	102	100	99	100
Prices of Latin American exports	100	107	98	98	99
Prices of Latin American exports (excluding petroleum)	100	107	97	96	99
Prices of world exports of manufactures	100	98	100	103	107
Volume of exports of all non-industrial countries	100	102	111	118	121
Volume of Latin American exports	100	98	107	116	114
Volume of Latin American exports (excluding petroleum)	100	95	102	111	105
Volume of world exports of manufactures	100	105	113	125	(132)[c]

Source World exports, and index numbers: United Nations, *Monthly Bulletin of Statistics,* March and May 1958. Latin American exports: see chapter IV.
[a] Index numbers exclude the centrally-planned economies. Prices are measured in dollars. Latin American index numbers for 1957 are estimated by ECLA.
[b] Included in the group above.
[c] First nine months.

The recession in the United States, which gained momentum in the second half of the year, came therefore at a time when the foreign trade of Latin America (excluding Venezuela) had already ceased to show any long-term improvement and was in addition already under other short-term influences tending to depress it.

Chapter I deals with some of the economic forces which have an important influence on Latin American sales overseas. Among the determinants of the demand for Latin American exports are the levels of economic activity and the inventory policies of the industrial countries which buy Latin American commodities, particularly the United States, which purchases nearly half the exports of Latin America.

Chapter I then shows how United States and Western European imports from Latin America have changed over the long and short terms. Finally, there is a section dealing with current export prospects. Chapter II contains a more detailed analysis of selected Latin American export commodities and of changes in the exports of countries that depend on them. In chapter III, the flow of foreign capital into Latin America from different private and official sources is studied at some length because of its growing importance as a source of foreign exchange. Finally, chapter IV examines changes in income from services, such as the tourist industry, and movements in import prices, and then shows the total effect of all these various factors on Latin America's capacity to import.

Table 2. Quarterly indices of world prices, 1956 and 1957

(1953 = 100)

	1956				1957			
	I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*
World primary commodity price index								
— all primary commodities	100	100	102	105	107	105	103	100
— food	96	97	101	102	102	101	99	97
— beverages[a]	100	103	113	112	105	100	102	102
— non-food agricultural commodities	99	100	100	103	104	104	102	98
— minerals	108	108	109	114	120	115	112	111
— metals[a]	113	111	111	113	114	112	108	104
Prices of world exports of manufactures	102	103	103	104	106	107	107	108

Source: United Nations, *Monthly Bulletin of Statistics*, March 1958.
[a] Included in the group above.

Chapter I

THE WORLD MARKET FOR LATIN AMERICAN COMMODITIES

1. CHANGES IN THE LEVEL OF ECONOMIC ACTIVITY IN THE UNITED STATES

The recovery from the 1953-54 recession in the United States was rapid and strong (see table 3). The rise in the gross product between 1954 and 1955 was 9 per cent, 7 per cent of which was a real increase in volume, and this was followed by another increase of 6 per cent from 1955 to 1956 (3 per cent in volume, 3 per cent in prices). Investment in fixed capital and in inventories rose substantially, and exports climbed more rapidly than imports. In the course of 1956, however, the pace of advance slowed down. Fixed-capital investment and investment in inventories ceased to increase so quickly. Since prices were now rising at the rate of about 1 per cent each quarter, the real increase in these components of the product was small, although the components themselves had now reached very high levels. The boom was however prolonged by other forces. The increase in Government expenditure accelerated and the export surplus rose, reflecting heavy, exports of agricultural commodities and petroleum to Western Europe, some of the agricultural exports being financed under the scheme for the disposal of surpluses. Industrial output, after having remained constant for much of 1956, rose again. But thereafter there was no further advance in the real national product and industrial output slipped back slightly.

Nevertheless, variations in output were small. For most of 1957. In September, the index of industrial production (144) was the same as it had been a year previously. A new high level of output had been established and generally maintained. But it is difficult for an economy to maintain for long a stationary level of output. After a time, destabilizing forces begin to build up if heavy investment of all kinds is taking place while output fails to expand. Wholesale inventories gradually grew relative to sales: from 1.12 months' sales in September 1956 to 1.15 in September 1957. In manufacturing the corresponding rise was from 1.60 to 1.62. What made rising inventories appear more menacing was the fact that new orders to manufacturers had been declining since the beginning of the year.[2]

Furthermore, the growth of investment abroad had outrun the supply of loans and grants. Although the outflow of capital had increased, it had not done so sufficiently to offset the expansion of the export surplus, and the rest of the world as a whole was losing dollar and gold reserves in the first three-quarters of 1957 (see table 4). This shift of surplus United States production overseas alleviated slightly, and temporarily, the problem of inadequate sales in the United States itself, but the consequent pressure on the reserves of some countries forced them to take measures to curb their imports.[3]

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[2] Inventories were growing relative to income not only in warehouses and factories but probably in households as well, although there is little statistical evidence of this. Outlays on motor cars and household durable were, in the first three-quarters of 1957, considerably above those of the corresponding period of 1956.

[3] The special needs arising out of the poor harvests of 1956 and the closing of the Suez Canal were also subsiding.

Table 3. United States: Gross national product by end use, wholesale prices and industrial output, 1953-57

(Thousands of millions of dollars)

	1953	1954	1955	1956	1957	1956[a] I	1956[a] II	1956[a] III	1956[a] IV	1957[a] I	1957[a] II	1957[a] III	1957[a] IV
Personal consumption	231	237	254	267	280	263	265	269	272	277	279	284	282
Gross fixed capital formation	—	50	56	61	64	59	61	62	63	64	63	64	64
Change in inventories[b]	—	—2	4	5	1	5	5	3	5	—	3	3	—3
Net investment overseas	—2	—	—	1	3	—	1	2	2	4	4	3	2
Government expediture	84	77	77	80	86	78	79	81	83	86	87	87	87
Gross national product	363	361	392	415	434	405	411	417	426	430	436	440	433
Wholesale prices (1947-49 = 100)	110	110	111	114	118	112	114	115	116	117	117	118	118
Industrial output (1947-49 = 100)	134	125	139	143	143	142	142	141	146	146	143	144	139

Sources: 1955-57: Department of Commerce. *Survey of Current Business.* February 1958, (except for a wholesale prices in 1956). Other years: *Economic Report of the President,* 1958.

[a] *Quarterly seasonally-adjusted figures expressed at annual rates. The wholesale price index is not seasonally adjusted.*

[b] Excluding changes in strategic and price-support inventories which are covered by Government expenditure.

Table 4. United States: Balance of payments, 1953-57

(Thousands of millions of dollars)

	1953	1954	1955	1956	1957	1957 I	1957 II	1957 III	1957 IV
Exports	12.3	12.8	14.3	17.3	19.3	5.0	4.9	4.8	4.5
Services[a]	4.8	5.2	5.7	6.2	7.0	1.7	1.8	1.8	1.7
Inflow of capital	0.2	0.2	0.3	0.5	0.3	0.2	0.1	—	—
Errors and omissions	0.3	0.2	0.4	0.7	0.8	0.4	0.2	0.3	−0.1
Total receipts	17.6	18.4	20.8	24.7	27.4	7.1	7.1	6.9	6.1
Imports	11.0	10.4	11.5	12.8	13.3	3.2	3.3	3.4	3.4
Services[b]	6.3	7.2	7.0	7.6	8.1	2.1	2.0	2.0	2.0
Outflow of capital[c]	2.4	3.2	3.4	5.3	5.6	1.6	1.7	1.1	1.2
Total payments	19.7	19.9	21.9	25.7	26.9	6.9	7.0	6.5	6.6
Increase in foreign gold and liquid dollar assets through United States transactions	2.1	1.5	1.1	1.0	−0.4	−0.4	−0.1	−0.4	+0.4

Sources: *Economic Report of the President* and *Survey of Current Business*, March 1958.
[a] Including military sales.
[b] Including remittances.
[c] Including grants.

Of even greater significance was the fact that, although fixed-capital investment had ceased to rise in the United States, it was still rapidly adding new productive capacity to the economy. Almost exactly one-half of fixed-capital outlay consisted of investment by companies in new plant and equipment: 30 000 million dollars in 1956 and 33 000 millions in 1957. Depreciation allowances—17 000 million dollars in 1956 and 19 000 million in 1957—were much lower. The depreciation allowed by the fiscal authorities may not exactly represent the actual wear-and-tear (and obsolescence) of equipment; nevertheless, this comparison indicates that these must have been considerable further additions to capacity in both 1956 and 1957, and much of it was taking place in the manufacturing sector.[4] Although a great deal of new investment had occurred in the meantime, industrial output was, in the middle of 1957, only 7 per cent higher than at the previous peak activity four years previously. It appears that, in September 1957, manufacturing industries were operating at 82 per cent of capacity as compared with 86 per cent in December 1956 and 92 per cent in December 1955, whereas 90 per cent of capacity is considered the "preferred rate" of operation.[5]

Further investment at home and abroad thus became gradually less feasible in the course of 1957. At the same time it was made more difficult by increasing financial stringency. Banks received only small increases in deposits and, while they had been able to expand business loans substantially in 1955 and 1956 by heavy sales of Government securities in those years, this expansion of lending had reduced their liquidity, and such sales of securities were halted in 1957. Consequently, businesses increased their loans from banks by only 1.600 million dollars in 1957 as compared to 6.300 million in 1955 and 5.500 million in 1956. Furthermore, with the stabilization of business, the upward trend of dividends was gradually reducing the amount of profits retained by corporations, which had therefore to turn increasingly to the stock exchanges for capital. New issues of stock rose from 8.000 million dollars in 1956 to 11.000 million in 1957. But firms are often reluctant to increase their capital, so this turn of events had a depressing influence on investment. Moreover, all methods of raising money were becoming more expensive. The Federal Reserve Bank discount rate was raised by stages from 1.5 per cent in the early months of 1955 to 3 per cent in the middle of 1956, and there were corresponding increases in other interest rates. In August 1957, the Federal Reserve Bank's discount rate was increased to 3.5 per cent.[6]

The first major change was a shift, in the fourth quarter of 1957, from accumulation to a sharp reduction of inventories (see again table 3). Government military expenditure also declined in the second half of the year, in part because progress payments slowed down somewhat, and, although this decline in Federal outlays was outweighed by the continuing rise in State and local expenditures, it

[4] These data are taken from table F-29 of the *Economic Report of the President*, 1958, but additions to capacity may in fact have been larger than they indicate. Much equipment is still being written off at a fast rate under special provisions for defence facilities introduced during the Korean hostilities. (These figures also exclude about 4 000 million dollars for similar outlays by unincorporated enterprises.)

[5] See "McGraw-Hill's Fall Survey: Preliminary Business Plans for Capital Spending in 1958-59", quoted verbatim in *Hearings before the Joint Economic Committee, Congress of the United States*, Washington, Government Printing Office, 1958, pp. 88 *et seq.* The following extract is from page 91:

"For the first time since we began asking the question in 1955, every manufacturing industry is now operating at a lower rate of capacity than it generally prefers. The average for all manufacturing was 82 per cent of capacity in September 1957, according to the present survey. This compares with 90 per cent of capacity reported on previous surveys as the preferred average. (N. B. The companies reporting to McGraw-Hill are generally the larger companies in their respective industries—and so may be operating at a little higher rate than some others. In a few industries, seasonal factors raised the operating rate. However, generally speaking, September is a normal month for comparison with past data.) In December 1955, manufacturing industry was operating at an average rate of 92 per cent of capacity; in December 1956, at 86 per cent; in September 1957, at 82 per cent. Thus the operating rate has dropped from a point that required many companies to use high-cost facilities to one that leaves modern capacity idle. And this explains the let-up in manufacturers' capital spending."

[6] The Chairman of the Federal Reserve Board, speaking to the Senate Finance Committee on 13 August 1957, described inflation as "the over-riding problem that faces the Federal Reserve System at the present time".

Table 5. United States: Selected monthly indicators, 1957 and 1958

	1957						1958		
	July	*August*	*September*	*October*	*November*	*December*	*January*	*February*	*March*
Industrial output[a] (1947-49 = 100)	145	145	144	142	139	135	133	130	128
Retail sales (Thousands of millions of dollars)[a]	17.0	17.0	16.9	16.7	16.6	16.9	16.7	16.1	15.9
Unemployment as percentage of labour force[a]	4.2	4.3	4.5	4.7	4.9	5.0	5.8	6.7	7.0
Wholesale prices, all commodities (1947-49 = 100)	118.2	118.2	118.0	117.8	118.1	118.5	118.9	119.0	119.7

Source: Government Printing Office, *Economic Indicators*, Washington.
[a] Seasonally adjusted.

was accompanied by a marked falling-off in the new Defense Department obligations, which helped reduce the flow of new orders to industry. The fall in industrial production was now rapid (see table 5). For a time consumption remained high. The drop in income was concentrated almost entirely in the manufacturing sector and it was automatically cushioned by lower tax payments and larger social security benefits as unemployment grew. Yet, in the first quarter of 1958, there was a sharp decline in fixed-capital investment, due to a decrease of 2 000 million dollars in outlays on new plant and equipment. The gross national product fell to 424 000 million dollars, or 4 per cent below the level of the third quarter of 1957. Unemployment doubled, from 2.6 million in August 1957 to 5.2 million in February and March 1958. This was partly due to seasonal influences,[7] but, even allowing for these, there was a noticeable rise (see again table 5).

The main administrative measures taken up to the end of April 1958 were monetary. The Federal Reserve Board lowered its discount rate by successive steps to 1¾ per cent and reduced reserve requirements. Although military expenditure itself did not greatly increase as yet, there was a rise in new Defense Department orders to industry. Congress also passed legislation which will lead to increased expenditure on highways and public housing later in the year and deposit requirements were waived on veterans' dwellings sold on mortgage.

A noticeable feature of this recession is that, although the rise has slackened, there has so far been a continued increase in both wholesale and retail prices.[8] Prices of agricultural commodities were sustained by support programmes and, despite the decline in demand and the appearance of excess capacity, prices of petroleum, steel vehicles and other finished goods were not subject to general or marked reductions.[9] The only group of wholesale prices which showed a net decline during 1957 was "crude non-food materials (except fuel)".[10] This divergence in price trends is reflected in an improvement in the terms of trade of the United States and other industrial countries during the year, while those of Latin America and other primary exporting regions deteriorated (see again table 1).

[7] There is normally an increase of about one million in unemployment in the United States in the winter. Apart from the effect of the slowing-down of retail demand that occurs everywhere after Christmas and the seasonal decline in agricultural employment, construction is reduced in the northern States because of the weather.

[8] Prices also remained firm in 1953-54 but did not show quite such resistance to downward pressures.

[9] There were however some breaks in the maintained retail prices of appliances in 1958.

[10] See *Hearings before the Joint Economic Committee, op cit.*, p. 59.

II. CHANGES IN THE LEVEL OF ECONOMIC ACTIVITY IN WESTERN EUROPE[11]

At first sight, Western European production appears to have continued to rise at much the same pace as previously (see table 6). This is also true of two of the three countries which account, between them, for most of Western European output and for the greater part of Latin American exports to this region. In France, a fast rise in output (more than 5 per cent per year in the real gross national product, or about 9 per cent in industrial output) was maintained throughout the past three years. Output in the United Kingdom continued, as in 1956, to show only a gradual rise: less than 2 per cent *per annum* in the national product and virtually static industrial output. In the Federal Republic of Germany, however, there was a reduction in the previously very rapid rate of expansion, which dropped to a slower rate than that of France.

There was moreover a general tendency for expansion to slow down in the course of 1957. This is shown by the quarterly indices of industrial output (see table 7). The slowing-down was especially marked for the Federal Republic of Germany, and in the United Kingdom industrial output remained stagnant. A number of other countries were also affected by this tendency of the rate of industrial growth to slow down. Output rose more slowly in Italy, more or less levelled out in the Scandinavian countries, and apparently declined somewhat in Belgium and the Netherlands at the end of the year. Only in France was a fast rise still maintained.

A common reason for this general deceleration was the adoption of disinflationary policies, which were introduced, among other reasons, because of the rapidity of the rise in prices in 1956 and 1957. Most countries adopted somewhat more restrictive budgets in 1956. Taxes were increased in a number of cases and special fiscal incentives to investment reduced.[12] But the main emphasis was on monetary policy. In the Federal Republic of Germany, the *Bank Deutscher Länder* raised its discount rate by stages from 3 per cent in 1954 to 5½ per cent for most of 1956, and there were general increases throughout Western Europe.

In 1957, another motive for such disinflationary policies became more important. The foreign reserves of several countries were seriously strained in the first half of the year. During 1955 and most of 1956, the United States had on balance supplied gold and dollars to the rest of the world as a total result of its foreign transactions (see again table 4), and this had largely offset the chronic export surplus of the Federal Republic of Germany and smaller surpluses

[11] For a full discussion see *Economic Survey of Europe in 1957* (E/ECE/317), United Nations publication, Sales No.: 58.II.E.1.

[12] In the case of the United Kingdom, there was also a sharp reduction in military spending.

Table 6. Western Europe: Indices of output, 1954-57

(1953 = 100)

	1954	1955	1956	1957[a]
Gross national product (at 1954 prices)				
Federal Republic of Germany	107	120	127	132
France	105	112	117	124
United Kingdom	104	108	110	111
All Western Europe	*104.5*	*111.5*	*115*	*119*
Industrial output				
Federal Republic of Germany	112	129	139	147
France	110	120	133	145
United Kingdom	108	114	113	114
All Western Europe	*109*	*119*	*125*	*130*

Sources: Data on gross national product were taken from *OEEC Statistical Bulletins — General Statistics*, January 1958, with the exception of data for 1957, which were taken from national sources.
[a] Provisional.

Table 7. Western Europe: Quarterly indices of industrial output (seasonally adjusted), 1957

(1953 = 100)

	I	*II*	*III*	*IV*
Federal Republic of Germany	145	148	146	148
United Kingdom	113	115	114	114
Western Europe	130	132	130	(130)

Source: Data published in national sources were corrected for seasonal fluctuations by the secretariat of the Economic commission for Europe. The indices exclude building.
Note: Seasonally adjusted estimates are not available for France. They would however show a continued rise. In the fourth quarter of 1957, output was 9 per cent above that of the fourth quarter of 1956.

in Canada and Venezuela. So there were no general losses of gold and dollars in the rest of the world. It will be recalled, however, that despite continued loans and grants overseas, the United States gained nearly 1 000 million in gold and dollars in the first three quarters of 1957, as a result of its export surplus. Since the Federal Republic of Germany, like Canada and Venezuela, was still accumulating gold and dollars at a fast rate, the consequent loss of gold and dollars by the rest of the world was rapid, affecting particularly France and the United Kingdom, with Japan and the Netherlands also significant losers (see table 8).[13] These losses of gold and dollars were indicative of the balance-of-payments problems of the countries concerned. (In the case of the United Kingdom, the explanation was a total payments deficit in other sterling area countries, which caused them to convert sterling assets into dollars.)[14] The loss of reserves by France and the United Kingdom was aggravated in the middle of 1957 by speculation against the franc and the pound.

Discount rates were already high in August 1957 in the countries which were gaining gold and dollars, especially the United States (3½ per cent) and the Federal Republic of Germany (4½ per cent).[15] Thus, since Governtments of countries losing their reserves relied primarily on monetary policies to check the loss, especially the speculative outflow, they had to raise their Central Bank rates to very high levels indeed. In France, the Netherlands and Sweden, discount rates were raised to 5 per cent and in the United Kingdom to 7 per cent.[16] There was also a *de facto* devaluation of the French franc.

At the end of the year, the policy of the Federal Republic of Germany took a more expansionary turn. Social security benefits were extended, the discount rate was lowered to 3½ per cent, and the Government's budget, introduced in February 1958, reduced taxes, especially on dividends. The Federal Republic's reserves ceased to grow. There was some acceleration in long-term investment overseas, but this check to the growth of reserves was largely due to short-term influences, such as pre-payment of amortization obligations and of costs of imported armaments, and also the outflow of much of the foreign speculative capital, which had been sent there in the middle of 1957.

Some of this speculative capital which left the Federal Republic flowed back into the reserves of the United Kingdom, which were also boosted by special receipts amounting to about 600 million dollars.[17] But policy continued to be restrictive, the aggregate level of bank advances was

[13] The loss of other countries in 1957 was less than the gain in the United States, mainly because of the output of gold, which was worth about 900 thousand dollars *per annum* (excluding the Soviet Union).

[14] There was also some outflow of capital via the "Kuwait gap" in the defences of the sterling area. This gap was effectively closed in the course of the year, because the United Kingdom's exchange position did not permit private capital investment in North America or other hard-currency areas (except for specially authorized projects).

[15] In Canada the rate was 4.3 per cent.

[16] In Japan, the bank rate had already been raised to 8.4 per cent in May.

[17] An advance payment by the Federal Republic of Germany and an Export-Import Bank loan: payment of the instalment due on the post-war United States loan was also waived under the special procedure recently designed for periods of pressure on foreign exchange reserves.

Table 8. World gold and dollar reserves (excluding the Soviet Union and United States), 1955-57[a]

(Thousands of millions of dollars at end of month)

	December 1955	December 1956	September 1957
Federal Republic of Germany	2.1	3.3	4.1
France	2.0	1.5	1.0
Other continental Western European countries	9.1	9.6	9.7
Total continental Western Europe	13.5	14.4	14.7
Sterling area	4.0	4.2	3.9
Canada	2.6	3.0	3.2
Venezuela	0.7	1.1	1.6
Other Latin American countries	3.3	3.2	3.1
Japan	1.0	1.1	0.7
Other countries	2.3	2.3	2.4
International organizations	4.0	3.5	2.9
World total	31.5	32.9	32.6

Source: United States, Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, Washington, January 1958.
[a] Including United States Government bonds and notes.

limited to that of previous years, and the Government decided to make no further increases in public investment, including investment by the nationalized industries. It is true that in March 1958 the bank rate was reduced to 6 per cent and in May to 5½ per cent, but this is still, historically, a very high level. The April budget brought only minor tax concessions.

The drain on French reserves of foreign exchange continued until the Government obtained dollar credits in January 1958, amounting to 655 million,[18] after an explanation had been given of the new French fiscal and monetary policy. This policy is designed to act as a brake on the vigorous French expansion, so as to release resources for exports and to reduce imports from outside the franc area. Higher taxes had already been introduced, at the end of 1957, on petrol, various household goods and corporate profits.

[18] From the United States Government, the European Payments Union (mainly through special arrangements with the Federal Republic of Germany) and the third quarter of French drawing rights on the International Monetary Fund. (In addition France was granted a further increase of 400 million dollars in its European Payments Union quota. Since only 75 per cent has to be settled in gold, this is equivalent to an extra line of credit of 100 million dollars.)

III. CHANGES IN THE ACCUMULATION OF INVENTORIES OF MATERIALS AND FOODSTUFFS

Besides depending on the level of economic activity in the industrial countries, the demand for Latin American commodities is particularly influenced by changes in these countries' inventories. This section deals with such changes, starting with private inventories, passing to Government strategic stockpiles and ending with agricultural inventories accumulated as a result of price-support programmes.

1. Private inventories

Judging from the statistics available, increases in private inventories also appear to have been heavy in 1955 and 1956 in most industrial countries, and this continued at least for the first half of 1957, one general reason being the replenishment of petroleum inventories. Inventories rose particularly sharply in the United Kingdom in 1957 (see table 9). Although this was partly due to bigger stocks of coal, as the coal shortage disappeared, it also represented a considerable increase in the rate of accumulation of im-

Table 9. United Kingdom and United States: Selected series of inventory changes, 1953-57[a]

	1953	1954	1955	1956	1957	1957[b] I	II	III	IV
United Kingdom (Millions of pounds)									
Total	125	50	325	250	425	(90)	(80)	(45)	...
Private	99	237	421	255	402	...	...	...	...
United States (Thousands of millions of dollars)									
Private, all types	0.3	—1.9	4.2	4.6	0.8	—	0.7	0.8	—0.7
Manufacturers' materials[c]	—0.4	—1.1	1.1	1.7	0.1	0.2	—	—	—0.3

Sources: United Kingdom: *Economic Survey for 1958* and *The Times Review of Industry*, March 1958. United States: *Economic Report of the President*, and Department of Commerce, *Survey of Current Business*, February 1958.
[a] Change in volume valued at average prices of the year (i.e. excluding changes in value due to changes in prices during year), except that United States inventories of purchased materials are valued at current prices.
[b] Seasonally adjusted.
[c] As designated by the manufacturer. Including semi-finished goods.

ported materials and foodstuffs.[19] In the United States, the accumulation of inventories of manufacturers' materials, which was heavy in 1956 and early 1957, turned into a decline soon after the middle of the year which accelerated in the final quarter.

2. Governmental strategic stockpiles

The economically most important inventory changes which occurred under this heading were in the United States strategic stockpile, and consisted mainly of metals.

There are several types of such stockpiles in the United States. Firstly, the most important is the Strategic and Critical Materials Stockpile, with a target value of 9 300 million dollars, of which goods worth 5 700 million dollars were already in stock by the end of December 1957.[20] Secondly, there is the so-called Supplemental Stockpile, consisting of materials obtained through barter with foreign countries in exchange for agricultural surpluses and worth 400 million dollars in January 1958.[21] Thirdly, there are inventories accumulated under the "borrowing authority" provided for in the Defense Production Act and worth about 750 million dollars (apart from 1 750 million dollars representing the approximate value of Government commitments under contract). Fourthly, there are the survival and relief commodities—mainly medicinal—of the Federal Civilian Defense Administration, which are worth 200 million dollars. There is also a machine-tool inventory, valued at 3 500 million dollars. Altogether those inventories were worth more than 11 000 million dollars at the end of 1957. Even so, this amount does not include inventories of equipment and supplies ready for military use, nor the national industrial reserve of plant and equipment, nor Atomic Energy Commission stocks of fissionable materials, for which categories no figures are released.

The Strategic and Critical Materials Stockpile programme was designed, in the words of the enabling Act, to "decrease and prevent wherever possible a dangerous dependence of the United States upon foreign nations for supplies of materials in times of national emergency". The general standard used was to provide enough supplies for an emergency lasting five years. This programme was adopted before the Korean hostilities began, but in fact it was greatly expanded in 1950 and the bulk of the orders were placed in the period from June 1950 to June 1952 (see table 10). Expenditures then continued to grow, reaching a peak in 1952-53, after which they fell back.[22] Purchases slowed down considerably in 1956 and again in 1957. In fact the value of the stockpile in December 1957 was actually less than in December 1956, because the effect of the decline in prices outweighed further purchases.[23] Net

Table 10. United States: Obligations and expenditures for the strategic and critical materials stockpile, 1947-57

(Hundreds of millions of dollars)

Fiscal year	*Obligations incurred*	*Expenditure*
Before 1947-48	124	66
1947-48	253	83
1948-49	460	304
1949-50	680	441
1950-51	2 075	656
1951-52	948	845
1952-53	252	906
1953-54	117	645
1954-55	322	801
1955-56[a]	292	382
1956-57[a]	190	355
1957-58 (First half)[a]	49	87
Total to December 1957	5 722	5 571

Source: Executive Office of the President, *Stockpile Report to Congress*, July-December 1957.
[a] Figures on an accrual basis.

purchases amounted to 199 million dollars in the first half of 1957 and to 74 million dollars in the second half. Outstanding commitments in December 1957, under this particular programme, were small (140 million dollars).

The strategic stockpiling objectives are on three levels: "procurement priority level", "minimum objective increment" and "long-term increment".[24] The degree of achievement of these objectives is indicated by the following figures:

	Stock value, December 1957	*Programme*
	(Thousands of millions of dollars)	
Procurement priority level	3.0	3.1
Minimum objective increment	1.7	2.6
Long-term increment	1.0	3.6
Total	5.7[a]	9.3

[a] Excluding 100 million dollars in excess of certain objectives, and also materials on order.

The stockpiling programmes cover 75 commodities, nearly all metals or other minerals. The objectives for individual commodities are not stated, but information is available on

[19] *Economic Survey for 1958*, presented to Parliament by the Chancellor of the Exchequer by command of Her Majesty, London, April 1958, p. 9.

[20] *Stockpile Report to Congress, July-December 1957*, Washington, Executive office of the President, April 1958. The target was originally 10 000 million dollars, but this appears to have been adjusted downwards because of changes in prices.

[21] See Special Stockpile Advisory Committee, *Stockpiling for Defense in the Nuclear Age*, Washington, 1958, for estimates of the value of these additional inventories.

[22] Except where otherwise indicated, all figures included in this section are derived from data released by the United States Office for Defense Mobilization.

[23] The total expenditure figure does not correspond exactly to the actual value of stockpiled materials. These are valued at market prices, subject to periodic revision, and do not cover the maintenance cost of about 40 million dollars *per annum* included in the expenditure figures. On the other hand, net price increases for many materials raised the current value of the stockpile above its original purchase cost.

[24] These concepts have been explained as follows: "A total national requirement was computed by combining the requirements for an emergency in the categories, military, atomic energy, industrial, essential civilian, and in some cases exports. The Nation's ability to meet those needs was determined by measuring them against supplies that could be reasonably relied upon in wartime from domestic production and from accessible foreign sources, after explication of appropriate safety factors or discounts based on the advice of the Departments of Defense and State and other agencies. If a comparison of the requirements and the factored supply revealed a shortage, the indicated emergency deficit generally became the "minimum stockpile objective". Of this amount, the deficit that would exist over a three-year period was identified as the "procurement priority level", the predominant element in planning and procurement. Pursuant to a directive of the President in 1954, an additional factor of safety was provided by adopting the concept of the "long-term stockpile objective" in the case of metals and minerals. These objectives generally were computed by discounting completely all overseas supplies excepting those from the very limited group of countries immediately accessible to the United States". (See *Stockpile Report, op. cit.)*

whether the objectives have been achieved. For 35 commodities, including tin, all stockpiling objectives had already been attained in 1957.[25] For 13 others, including lead and zinc, the minimum but not the long-term objective had been reached.[26] For 15 commodities, apart from the previous ones, only the procurement priority level had been attained: these include copper and nickel. This leaves 12 commodities for which priority procurement had not been completed, but these 12 not include any important Latin American exports.

From these data it can be deduced that the margin left for further purchases of the main Latin American non-ferrous metals was, at the end of 1957, already rather small.[27] Moreover, the stockpile requirements for many commodities will now be "considerably less". The year 1957 was a transitional one in stockpile policy, since new mobilization requirements were being prepared by the Department of Defense "in accordance with the most recent strategic guidance". In the second half of the year, one major new policy was adopted: procurement was limited to preparedness for a three-year, instead of a five-year, emergency.[28] The second major change was that, as from July, new procurement was limited to what was required to achieve the "procurement priority level", [29] which, as can be seen above, had already been reached in most cases. Thirdly, existing obligations were reviewed and, "where they could be cancelled with advantage to the Government, negotiations were undertaken to secure cancellation when the material to be received would be in excess of the procurement priority level". Fourthly, the stockpile objectives themselves were reviewed for materials not substantially affected by military requirements (and in some cases preliminary data on the new military requirements were also used).

A Special Stockpile Advisory Committee was appointed in October 1957 to review stockpiling policies and programmes in the light of new strategic concepts. Its report,[30] published in January 1958, stated that in a nuclear war the material-using facilities would be much more exposed to destruction than stored materials. Consequently the stockpile needs for a limited war or "an economic or political conflict" would be greater than for a nuclear war. Stockpile objectives, the Committee recommended, should be based on the requirements for a three-year emergency and consist of two levels. As before there would be procurement priority objectives, assuming reasonable access to overseas sources of supply, and in addition there would be "greater security goals", assuming only sources of supply "within the general North American area".[31] The emphasis in planning should, in the Committee's view, be shifted from raw materials to finished goods, especially medicines and other items needed for human survival and relief. The "greater security goals" should be treated as a low priority and, if supplies have to be bought for them, these purchases should be "under favourable price conditions". The Committee recognized that "Government inventories of several materials already exceed these goals". In its view, disposal policy should be more flexible and excess perishables should be sold, where this would not upset markets. Nevertheless the Committee recommended that excess metals and other minerals should *not* be sold, except for those below specification or subject to deterioration in storage.

The Committee also recommended that, where possible, contracts for the supply of commodities already in surplus inventory should be terminated by agreement. Under the Defense Production Act of 1950, a Borrowing Authority had been established in order to boost national production of critical commodities, primarily minerals and metals, but also some vegetable products and manufactures, especially machine-tools. This involved various types of intervention, the commonest being credits for the expansion of mining and manufacturing, and undertakings by Federal authorities to buy, at fixed prices—sometimes at contractors' option—part, or even all, of the production of the enterprises concerned. In some cases these schemes ensured the continued existence of marginal high-cost producers, especially in mining.

Under this programme only small inventories (worth about 750 million dollars at the end of 1957) are held, since most of the purchases are sold on the market or transferred to the main strategic stockpile. The total "probable ultimate net cost" of operations was estimated, in September 1957, as under 1 000 million dollars, most of which was attributable to losses on purchases of scarce minerals (e.g. tungsten, nickel, manganese and titanium).

The total outlay, including loans and exploration grants, etc. had, however, amounted to 7 800 million dollars by September 1957. As can be seen from table 11, most of this expenditure was on non-ferrous metals. Losses were relatively low for the principal metals. Mainly because of

[25] Including 17 commodities for which there is no "long-term stockpile objective" but only a "minimum stockpile objective".

[26] Large quantities of lead and zinc were also obtained for the "supplementary stockpile" under barter arrangements.

[27] On 1 August 1957, the Director of the Office of Defense Mobilization told the House Committee on Ways and Means that it would only be "a matter of months" before the long-term objective for zinc was reached, at current rates of procurement, and for lead "not many months thereafter". He felt that there was no justification for increasing these objectives.

[28] "Except that in cases requiring urgent maintenance of the mobilization base, procurement was authorised against five-year objectives pending the outcome of a comprehensive stockpile review". (See *Stockpile Report to Congress, op. cit.)*

[29] Exceptions were again permitted "where such procurement was essential to maintaining the domestic mobilization base". (Of the new commitments undertaken in the second half of the year to a value of 42 million dollars, 26 million were for amounts in excess of minimum objectives.)

[30] *Stockpiling for Defense in the Nuclear Age,* op.cit.

[31] This appears, from other statements, to include Mexico as well as Canada. These goals apparently correspond to the "long-term stockpile objectives", but assume a three-year, instead of a five-year, emergency.

Table 11. United States: Transactions in non-ferrous metals under the borrowing authorority, up to 30 September 1957

(Millions of dollars)

Commodity	*Value programme*	*Probable ultimate net cost to Government of transactions covered*
Aluminium and bauxite	1 596	18
Copper	840	20
Nickel	815	122
Manganese	486	111
Tungsten	373	218
Tin	222	5
Cobalt	140	7
Lead and zinc	64	23
All other non-ferrous metals	644	196
Total non-ferrous metals	5 180	720

Source: Office of Defense Mobilization, *Report on Borrowing Authority,* 30 September 1957.

relatively high market prices in 1955 and 1956, the clause guaranteeing Government purchases at fixed prices has not often been invoked by producers.

Copper was second only to aluminium and bauxite in the programme of the Borrowing Authority. These commitments involved the Government's guaranteeing to buy a total volume of 1 300 000 tons of copper, distributed over a number of years. Actual buying, owing to market conditions, was much lower, but at the end of 1957 it was estimated that, as a result of the dip in prices, the Government could be contractually obliged to buy as much as 10 000 tons monthly at guaranteed prices.[32] By the end of the year 35 000 tons had been tendered.

Similar contracts were also signed with lead and zinc producers though the total programme was much smaller. As regards lead, actual buying under guarantee clauses amounted to 63 000 tons up to mid-1957. In the case of zinc, out of commitments involving 105 000 tons, the United States Government had to pay effectively for 47 000 tons. The amount of tin bought was 77 000 tons, but this figure includes 20 000 tons from Indonesia and 40 000 transferred from the Reconstruction Finance Corporation. On 30 September 1957, unsold stocks under this programme amounted to only 7 000 tons for copper, 1 200 for lead and 500 for tin (zero for zinc). The total outstanding commitments of the Borrowing Authority, under contracts still in force (and in some cases valid for another five years) are estimated at 1 750 million dollars, though these may be adjusted downwards, following the Advisory Committee's recommendations.

To sum up, the combination of the Borrowing Authority and the strategic stockpile programme led to the acquisition of large inventories, mostly of metals, by expanding domestic sources of production where possible. The growth of these inventories slowed down considerably, however, in the inventories slowed down considerably, however, in the last few years. But, in 1957, with the decline of prices, Government price guarantees to domestic producers came into force. In many cases purchases kept very marginal producers in existence with the object of maintaining the domestic mobilization base. For some commodities, the programme became somewhat similar in its economic effects to the agricultural price-support programme discussed below.[33]

The stockpile policy is being re-assessed. The full original 10 000 million dollar programme would have sustained demand for materials for some years but it appears that additions to inventories will henceforward in general be avoided. This change of policy has tended to increase the pressure of producers to obtain additional means of protection, particularly higher tariffs or subsidies, and in some cases this pressure has the support of the Office of Defense Mobilization, which is concerned with the maintenance of domestic production facilities.[34]

There was also a re-assessment of stockpile policy in other countries, involving some decline in the rate of accumulation. The case of the United Kingdom is specially important, since it involved an actual reduction of inventories. The United Kingdom Government sold about 100 000 tons out of its copper stockpile between 1955 and March 1957.[35] It had intended to sell a further 27 000 tons, but the sale was postponed owing to bad market conditions. Between March and November, 30 000 tons of lead were also put on the market, and 20 000 tons more were made available for further selling at a monthly rate of 1 200 tons. At the end of 1957, the Government decided to sell 27 000 tons of zinc. In the year ending March 1958, wool sales out of the United Kingdom stockpile were between 80 000 and 100 000 bales.

3. Agricultural inventories under programmes to support domestic prices[36]

The main country concerned here is again the United States. The commodities in these inventories are all vegetable or animal products, intended as food or for the production of non-durables. The two most important are wheat and cotton. Various special aspects of the United States surplus disposal programme will be discussed below in the appropriate chapters. At this juncture the general impact of those sales on Latin American foreign trade will be examined.

The formation of agricultural surpluses in the United States reflected a rapid increase in output, which was primarily the consequence of an extraordinary increase in agricultural productivity. Average output per man-hour went up 84 per cent in the ten years from 1947 to 1957.[37] This increase was due in part to the stimulus of guaranteed prices for many products.

As part of the price-support programme, efforts have been made to curtail output. Under the "acreage allotment" system, each farmer is given an acreage quota for price-support products; if he plants more than this, he ceases to be eligible for price-support. In some cases, including wheat and cotton (long-staple and upland), there is a quota for the quantity marketed as well, and farmers suffer penalties for exceeding it. Finally, under the "soil bank" programme (introduced in 1956), farmers receive special subsidies if acreage is reduced still further (i.e. below allotments), and also receive compensation for taking general crop land out of production altogether. It will be seen (table 12) that, although areas under cultivation have

[32] The buying price specified in copper contracts has risen from under 25 cents to over 30 cents a pound. Most of the large contracts involved minimum buying prices of under 30 cents. The "probable ultimate net cost" is calculated on the assumption that copper can be sold at 25 cents per lb. (See *Stockpile Report, op. cit.*, p. 8.)

[33] See sub-section 3.

[34] The Director of the Office, commenting on the Secretary of the Interior's proposed sliding-scale excise duties on lead and zinc in August 1957, stated that "domestic production provides a somewhat greater degree of national security", and supported the programme of the Department of the Interior to maintain "a healthy domestic mining industry". The Office also wishes to avoid strengthening competitive foreign producers. Discussing barter arrangements for adding materials to the Supplemental Stockpile, in June 1957, before the Senate Committee on Agriculture and Forestry, the Director stated that the Office took into account, when listing suitable materials, "the avoidance of expansion of foreign supplies and production capacity which might undercut the domestic mobilization base needed for national security". The Director's Office also has the responsibility of finding whether imports of a commodity "are in such quantities as to impair the national security." Under this provision a programme of restricting petroleum imports was adopted in 1957 (see chapter II).

[35] *The Economist*, 4 January 1958, is the source for this paragraph. Italy also made about 50 000 tons available from official copper stocks under a tentative programme involving sales of 8 000 tons in 1958.

[36] See chapter II of this part of the *Survey* regarding changes in coffee inventories under international agreements designed mainly to maintain export prices.

[37] *Economic Report of the President, op. cit.* This is an average cumulative rate of 6 per cent *per annum*, or about twice as fast as in manufacturing.

been sharply reduced in recent years, this has had little effect on output, so far as cotton is concerned, being matched by a very rapid rise in productivity. In the case of wheat, however, some reduction in output was achieved.

Taking the programme as a whole, inventories climbed rapidly from 1953 onwards (see table 13). The climb was particularly fast in the 1953-54 recession, when markets were rather weak,[38] but in the crop years 1954/55 and 1955/56, additions to inventories continued at a rate exceeding 1 000 million dollars *per annum*. Cotton and wheat accounted for much of this inventory accumulation (see table 14). But the timing was different: there was a sustained rise in wheat inventories from 1953 to the middle of 1955. In the case of cotton, however, almost all the accumulation occurred in the second half of 1955.

In order to check the growth of these price-support inventories, the United States Government has attempted to stimulate consumption in two ways. Firstly, special programmes of food distribution to those in need (children, unemployed, pensioners, etc.) were adopted at home. Secondly, supplies were offered to foreign Governments through different "special governmental export programmes" which include the following types: barter against strategic materials for stockpiling; grants and donations to distressed countries; and also, under Title I of Public Law 480 enacted in July 1954, sales against foreign currencies, coupled with long-term credits or investment in economic development ventures or social welfare in the purchasing country.[39] The United States authorities claim that they have conformed to FAO "Principles of Surplus Disposals", i.e., by undertaking prior consultation with affected parties and by trying to avoid major disturbances in foreign markets.[40] But even so, special sales on the world market on this scale were bound to affect the exports of other producing countries.

These export programmes have been considerably increased since June 1955 in response to the high levels of inventories which were accumulating. Some figures may help to give an idea of the order of magnitude of recent sales (see table 15). The figures given in this table cover only one type of programme-sales against foreign currencies.[41] If other surplus sales through special Government export programmes are also taken into account, the total "promoted" exports rose from 500 million dollars in 1952/53 to 1 400 and 2 000 million in 1955/56 and 1956/57 respectively. The figure for 1956/57 represents 43 per cent of all United States agricultural exports. Under the impact of the programmes, agricultural exports increased much more rapidly than total United States exports

[38] There had also been a rapid accumulation of inventories during the 1949 recession.

Table 12. United States: Cotton and wheat, areas cultivated and output, 1946-49 to 1957[a]

	Cotton		*Wheat*	
	Area in cultivation (Millions of acres)	*Output (Millions of running bales)*	*Seeded area (Millions of acres)*	*Output (Millions of bushels)*
Average 1946-49	22.8	12.7	78.0	1 226
Average 1950-53	24.8	14.1	77.8	1 122
1954	19.8	13.6	62.5	984
1955	17.5	14.5	58.2	934
1956	16.8	13.2	60.7	997
1957	14.2	12.6	49.7	927

Source: Department of Agriculture, *Agricultural Outlook. 1958*, November 1957.
[a] Statistics refer to crop years.

Table 13. United States: Agricultural inventories and loans under price-support programmes, 1949-57[a]

(Thousands of millions of dollars)

	Cost value of inventories	*Crop loans outstanding*	*Total*
June 1949	1.1	1.3	2.4
June 1953	2.3	1.1	3.4
June 1954	3.7	2.3	6.0
June 1955	5.0	2.1	7.1
June 1956	6.0	2.3	8.3
June 1957	5.4	2.0	7.4

Source: Department of Agriculture, *Information Bulletin 135*, April 1957, and information supplied by the Department.
[a] Under Commodity Credit Corporation Programs.

Table 14. United States: Inventories of cotton and wheat under price-support programmes, 1949-57

	Cotton		*Wheat*	
	Quantity (Millions of bales)	*Cost value (Thousands of millions of dollars)*	*Quantity (Millions of bushels)*	*Cost value (Thousands of millions of dollars)*
1949 January	—	—	—	—
1950 „	3.7	0.6	155	0.4
1951 „	0.1	—[a]	257	0.6
1952 „	—	—	126	0.3
1953 „	0.2	—[a]	128	0.3
1954 „	0.2	—[a]	442	1.2
1955 „	1.8	0.3	727	1.9
1956 „	7.7	1.4	872	2.4
1957 „	6.5	1.1	820	2.3
1957 December	4.0	0.7	756	2.1

Source: Price Programme: Department of Agriculture, *Information Bulletin 135*, and information supplied by the Department.
[a] Value less than 50 million dollars.

[39] A large part of the "cash" or "commercial" sales, outside the special programmes, should also be considered as subsidized exports. In some cases, private traders receive a direct subsidy, in others they are allowed to buy surplus commodities at "competitive international prices", instead of at prices prevailing in United States markets.

[40] See the United States statement in GATT Press Release GATT/378, 25 November 1957.

[41] They also refer to agreements and not to actual shipments.

Table 15. United States: Export value of all agreements signed with foreign countries under Public Law 480, Title I, up to December 1957

(Millions of dollars)

Period	*Wheat*	*Other grains*	*Cotton*	*Miscellaneous*	*Total*
Up to June 1955	85	45	125	72	327
1955-56	195	104	130	197	626
1956-57	484	97	152	188	921
July-December 1957	88	54	19	19	180
Total to December 1957	852	300	426	476	2 053

Source: Message of the President to Congress, 4 February 1958.

Table 16. United States: Exports, total and selected commodities, 1954-57

(Millions of dollars)

Period[a]	Total exports	Agricultural commodities			Non-agricultural commodities		
		Total	Cotton	Grains	Total	Machinery	Petroleum
1954	14 934	3 042	788	744	11 892	2 736	658
1955	15 346	3 188	477	938	12 158	3 052	643
1956	18 765	4 164	728	1 337	14 608	3 803	759
1957	20 625	4 513	1 059	1 373	16 113	4 171	989
1956 I	4 178	830	85	266	3 348	893	148
II	4 856	1 031	157	354	3 825	1 014	161
III	4 614	978	167	335	3 636	947	174
IV	5 116	1 325	320	381	3 798	949	277
1957 I	5 395	1 283	365	400	4 112	1 005	367
II	5 413	1 132	274	372	4 282	1 111	257
III	4 866	962	172	295	3 904	1 008	185
IV	4 952	1 137	248	307	3 815	1 047	178

Source: Department of Commerce, *Survey of Current Business.*
[a] Roman figures represent quarters.

after 1955, and high levels were achieved in the last quarter of 1956 and the first half of 1957 (see table 16).

Wheat and cotton played a leading part in this expansion. Exports of wheat had already started to rise in the crop year 1955/56, but this was a poor period for cotton, and for this crop the big expansion did not come until 1956/57, when it was marked (see table 17). Cotton inventories were in fact accumulated rapidly in 1955 (see again table 14), whereas the rise in wheat inventories was then tapering off. Thenceforward some reduction was achieved in inventories of both crops, and cotton inventories were reduced substantially in 1957.

Table 17. United States: Exports of cotton and wheat, 1954-57

Year ending 30 June	Cotton (Millions of dollars)			Wheat (Millions of bushels)		
	Under Government programmes[a]	Other	Total	Under Government programmes[a]	Other	Total
1954	304	376	680	126	91	217
1955	281	411	692	130	144	274
1956	268	114	382	240	106	346
1957	515	611	1 126	361	185	546

Sources: Cotton: Department of Agriculture, *Trade Statistics Report, No. 19,* 20 December 1957. *Wheat:* Department of Agriculture. *The problem of maintaining high level agricultural exports,* November, 1957.
[a] Public Law 480, MSA Section 402, and credit sales.

A partial appreciation of the impact of surplus sales on third markets may be formed from import figures for cotton and wheat in a few main industrial countries, as shown in table 18. It can be seen that, in the first half of 1957, as compared with the same period of the year before, imports from the United States into each country were higher for both wheat and cotton, whereas Latin American receipts were lower in every case, except for French imports of cotton.

Disposals of surplus commodities also had some impact on intra-regional Latin American trade. A full analysis of trade figures for shipments by country and by year is not available, but the information in table 19 is sufficient to give some idea of this impact. The figures cover only sales against local currencies not including grants, barter arrangements or credit sales in dollars; and they refer to agreements, not to shipments. The highest figure, 146 million dollars for grain to Brazil, includes, for instance, a sale of wheat valued at 110 million dollars over a three-year period beginning in 1957. As can be seen, wheat was responsible for the greater part of the value of these exports to Latin America, since it accounted for 193 million of the 220 million dollars represented by such exports.[42] A comparison of the actual amount of sales with the initial cost shows that it is also in wheat that the Commodity Credit

[42] Total sales contracted with Latin America include 3 059 000 tons of wheat and 27 000 tons of cotton.

Table 18. Western Europe: Imports of wheat and cotton by selected countries in first halves of 1956 and 1957.

(Millions of dollars)

		United Kingdom	Federal Republic of Germany	France	Italy	Total, 4 countries
Wheat	All sources	197	87	38	36	358
First half 1956	All sources	— 16	25	14	— 10	13
Change between first half 1956	United States	13	26	19	6	64
and first half 1957	Latin America	— 1	— 12	— 2	— 5	— 20
Cotton	All sources	149	123	128	78	478
First half 1956	All sources	26	27	38	— 1	90
Change between first half 1956	United States	77	83	13	40	213
and first half 1957	Latin America	— 9	— 51	12	— 5	— 53

Source: Based on United Nations, *Commodity Trade Statistics.*

Table 19. Latin America: Composition of commodities covered by agreements, under Public Law 480, Title I, up to 31 December 1957

(Millions of dollars)

Country	Sales value				Cost[b]
	Wheat and flour	*Cotton*	*Other commodities*[a]	*Total*[b]	
Argentina	—	—	30	30	33
Bolivia	5	—	2	6	9
Brazil	145	—	10	156	273
Chile	14	7	16	37	54
Colombia	13	10	4	27	37
Ecuador	2	1	5	8	9
Mexico	27[c]	—	—	27	64
Paraguay	2	—	1	3	4
Peru	12	—	1	13	22
TOTAL	220	18	68	306	504
Value of Latin American agreements as percentage of world total	22.3	4.1	10.6	14.9	16.3

Source: Statement by Secretary Benson to the Senate Committee on Agriculture and Forestry, 17 January 1958.
[a] Mostly, or wholly, oils and fats.
[b] Excluding maritime transport (which amounted to 35 million dollars for the whole area).
[c] Feed grains.

Table 20. United States: Agricultural exports to Latin America, 1955-56 and 1956-57

(Millions of dollars)

Period	Total	Under special Government programmes				
		Total	*For local currencies*[a]	*Grants and donations*[b]	*Barter arrangements*[c]	*Credit sales in dollars*
Year ending 1 July 1956	470	110.5	78.8	21.1	10.7	—
Year ending 1 July 1957	490	117.3	82.0	19.9	9.2	6.2

Source: Department of Agriculture, *Trade Statistics Reports*, Nos. 17 and 18, November 1957.
[a] Public Law 480, Title I, and MSA Section 402.
[b] Public Law 480, Titles II and III (No. 302).
[c] Publication 480, Title III (No. 303).

Corporation of the United States suffered the greatest loss. On the average, goods sold to Latin American countries have been (or will be) delivered at about 40 per cent below cost.[43] Full data are available on sales to Latin America under all the various disposal schemes only for the fiscal years 1955/56 and 1956/57 (see table 20).

The consequences for competing Latin American exporters were different in the cases of wheat and cotton. The volume of the wheat trade did not seem to be greatly affected. There has not been, as yet, any abnormal accumulation of unsold stocks in Argentina, and the export problems of Uruguay were due more to internal difficulties than to those of marketing. World wheat prices were depressed, however, and, taking everything into account, this was probably more important than the programme's effect on the volumes exported. The case of cotton was rather different. Acreages seem to have been limited in Brazil and Mexico because of the fear among growers of the impact of the United States programme, and the growth of stocks in Peru can be directly linked to smaller exports to Chile and Japan which received cotton under the United States programme. World cotton prices, too, were depressed, though prices of the long-staple varieties exported by Peru did not decline in 1957.

Unfortunately the partial liquidation of United States surplus stocks does not mean any significant alleviation of the pressure of world stocks as a whole. What happened in 1955/56 (for wheat) and 1956/57 (for both wheat and cotton) was a shift towards other countries (see table 21). Wheat inventories in Canada, which are also financed with official support, grew very rapidly. Moreover, United States inventories of both crops were still high at the end of the crop year 1956/57.

The price-support programme continues in operation and this tends to generate a surplus of United States output over consumption, which has either to be added to inventory or disposed of abroad in some way. Up to 1955, the main method was to increase inventories, which helped to maintain world prices. Since mid-1955, there has been a determined effort to export the surplus, with a consequent depressing effect on world agricultural markets.

[43] It appears that these sales cover about a quarter of all United States agricultural exports to Latin America. It can be seen from table 19, last line, that the subsidy is somewhat bigger for Latin America than for the rest of the world, since this region accounts for a bigger proportion of original cost than of final sales value.

Table 21. Wheat and cotton: Changes in inventories in the United States and other countries, July 1955 - July 1957

(Thousands of tons)

	As of 1 July 1955	*Change from 1 July 1955 to 1 July 1956*	*Change from 1 July 1956 to 1 July 1957*	*As of 1 July 1957*
Wheat				
World total	51 465	2 042	— 490	53 017
United States	28 196	— 82	—3 402	24 712
Canada	14 424	2 450	4 082	20 956
All other countries	8 845	— 326	—1 170	7 349
Cotton				
World total	4 462	326	— 366	4 422
United States	2 429	720	— 716	2 433
All other countries	2 033	— 394	350	1 989

Sources: Wheat: Information from the United States Department of Agriculture. Cotton: *The quarterly bulletin of the International Cotton Advisory Committee.*

Apart from wheat and cotton, many other surplus agricultural commodities are sold by the United States under governmental programmes, some below cost, e.g., rice, barley, maize and dairy produce, and others approximately at cost, such as tobacco, fats and oils, and (in minor quantities) meat, fruit and vegetables. In all those cases, with the exception of the last group, the existence—and even more the liquidation—of surplus stocks has an adverse effect on world prices.

IV. IMPORTS OF INDUSTRIAL COUNTRIES FROM LATIN AMERICA

At the time of writing, sufficiently detailed figures are not yet available from Latin American statistics on the direction of trade in 1957, but the trade accounts of the main industrial countries, which represent more than 80 per cent of both the exports and imports of Latin America, serve as a good enough guide.

Although United States demand for Latin American exports, excluding petroleum, ceased to expand in 1957, there was a marked increase in the imports of the other industrial countries, except Japan.

1. United States purchases

(a) *Long-term trends*

From 1950 to 1956, Latin America witnessed a further deterioration of its relative position with regard to total United States commodity imports. The decline in Latin America's share of such imports, so patent since the end of the Second World War, was moreover considerably greater in volume, than in current price terms. In terms of constant dollars, Latin America's share of United States imports dropped from 40 per cent in 1946 to 29 per cent in 1950 and only 25 per cent in 1954-57 (see tables 22 and 23). During the first five post-war years, Latin America's declining share was due to the more or less stable level of its volume of exports, at the same time as larger supplies and an increasingly competitive range of prices and varieties were being offered by other major overseas suppliers. Post-war reconstruction in Western Europe and Japan, and the growth in Canada's rapidly developing industrial sector, combined to increase the share of United States imports originating from these areas (see table 24).

Developments during those initial post-war years of reviving competition from traditional and new suppliers were therefore not unduly surprising. What is of concern to the twenty Latin American republics, however, is the decline in their aggregate share after 1950 and the prospect of a relatively stagnant trading pattern in the future.

To put the matter in a wider perspective, it should be noted that such developments have not been limited exclusively to exports from the twenty Latin American republics to the United States. On the contrary, as is analysed in considerable detail in various GATT studies on international trade developments,[44] there has been a general tendency for exports from non-industrial to industrial areas to form a declining proportion of total world exports, in recent years. In 1950, for instance, 29 per cent of world exports were accounted for by exports from non-industrial areas to industrial areas, but in each succeeding year this proportion has fallen, and it reached 24 per cent in 1956. Looking at the same development from a somewhat different aspect, in 1950 almost 46 per cent of the industrial areas' total imports came from non-industrial regions as against only 37 per cent in 1956. To illustrate the long-term importance of this trend, GATT has estimated that non-industrial regions as a whole would have been able to import 14 per cent more from the industrial areas in 1956 than they actually imported, if their exports to the in-

[44] See GATT, *International Trade*, issues of 1954, 1955 and especially 1956.

Table 22. United States: Aggregate imports f.o.b., 1946-57[a]

	Value (Millions of dollars)			*Quantum (Millions of dollars at 1947-49 prices)*		
	Total	*From Latin America*	*Percentage Latin America*	*Total*	*From Latin America*	*Percentage Latin America*
Annual						
1946	4 942	1 762	36	6 418	2 554	40
1947	5 756	2 168	38	6 053	2 356	39
1948	7 124	2 352	33	6 791	2 261	33
1949	6 622	2 301	35	6 622	2 234	34
1950	8 852	2 910	33	8 159	2 328	29
1951	10 967	3 348	31	8 052	2 277	28
1952	10 717	3 411	32	8 308	2 321	28
1953	10 873	3 442	32	8 825	2 341	27
1954	10 215	3 291	32	8 088	2 044	25
1955	11 384	3 328	29	9 043	2 249	25
1956	12 615	3 640	29	9 778	2 395	25
1957[b]	12 966	3 766	29	10 036	2 502	25
Semi-annual						
1956:						
January-June	6 346	1 907	30	4 925	1 261	26
July-December	6 269	1 733	28	4 853	1 134	23
1957:[b]						
January-June	6 442	1 931	30	4 944	1 258	25
July-December	6 523	1 835	28	5 092	1 244	24

Source: Information supplied by the Department of Commerce.
[a] United States general imports. Quantum data represent general imports deflated by unit value indices of imports for consumption.
[b] Partly provisional figures.

dustrial areas had grown at the same rate as world exports since 1938. In the various GATT analyses previously mentioned, a variety of factors are listed as contributing to this tendency. As regards the industrial areas, the main developments are considered to be *(a)* the decline in required raw material and fuel inputs per unit of manufacturing output; *(b)* protectionist agricultural policies designed to expand production of traditional items, as well as items previously obtained mainly from abroad; *(c)* intensified use of manufactured raw materials, especially due to technological advances in synthetics; and *(d)* the relative decline in the textile industries. So far as the non-industrial regions are concerned, policies aimed at industrial protection were singled out for special mention.[45]

Table 23. United States: Imports from Latin America. Indices of quantity, unit value and value, 1946-57[a]

(1947-49 = 100)

	Quantity[b]	*Unit value*	*Value*
Annual			
1946	112	69	77
1947	103	92	95
1948	99	104	103
1949	99	103	102
1950	101	125	127
1951	100	147	147
1952	104	147	153
1953	103	147	152
1954	91	161	146
1955	99	148	147
1956	105	152	160
1957	111	151	167
Quarterly			
1954: I	107	152	163
II	97	165	161
III	78	165	129
IV	82	161	132
1955: I	99	153	152
II	94	148	139
III	94	146	137
IV	107	149	159
1956: I	118	149	176
II	103	154	158
III	105	153	160
IV	95	154	146
1957: I	117	155	182
II	105	152	159
III	104	150	155
VI	118	145	171

Source: Information supplied by the Department of Commerce.
[a] Based on imports for consumption.
[b] Calculated on a slightly different basis from that used in the previous table.

The above trends are reflected, to some extent, in the statistics of imports of the United States (see table 25), but some points are of special interest to Latin America. Firstly, United States imports as a whole have not shared proportionately in the post-war growth trends of United States income and industrial production. Secondly—and this is of particular significance to Latin America—the vast majority of this region's exports to the United States comprise foodstuffs and raw materials and only a small share is represented by semi-finished and finished manufactures (see table 26). Yet, as shown in table 27, combined United States imports of the former categories have increased far less than total United States imports since 1950, whereas combined United States imports of items in various manufactured forms have risen at a far more rapid rate than the aggregate, accounting for one-half of the total in 1957, in contrast to only two-fifths in 1950. Thus, changes in the pattern of United States demand have benefited the twenty republics much less than countries whose exports are mainly manufactured goods. Thirdly, within the broad commodity groups including, on the one hand, raw or other materials constituting direct inputs into the United States manufacturing sector and, on the other, foodstuffs and beverages, two basic problems of structural deterioration have arisen for Latin American exports: (i) many United States industrial materials purchased from Latin America have not increased at the dynamic rate registered by United States manufacturing production as a whole; (ii) the United States demand for Latin American foodstuffs, including beverages, has lagged far behind the growth of real (disposable) United States income.

It is useful to examine these two problems of structural deterioration in some detail. If the quantum of United States industrial output is considered first, certain important initial conclusions may be deduced from the statistical groupings in table 28. Firstly, the manufacturing branches shown, which consume materials of types exported by Latin America, accounted for only a small share, 6.4 per cent, of the total output of industry during the base period. Of

[45] See GATT, *International Trade 1956*, pp. 10-11.

Table 24. United States: Distribution of imports by regions[a]

(Percentages of total current import values)

	Average 1936-40	*Average 1946-50*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*[b]
Latin America[c]	23.5	36.5	33.3	34.1	33.6	34.4	31.7	31.3	31.9
Africa	3.3	5.6	5.4	5.7	5.5	5.9	5.4	4.7	4.5
Asia	31.6	18.7	18.8	16.9	15.0	14.4	16.5	15.8	15.3
Oceania	1.5	2.5	4.1	2.3	1.9	1.6	1.5	1.6	1.7
Europe	25.3	15.2	18.6	18.9	21.5	20.4	21.5	23.5	24.2
Canada	14.8	21.5	20.8	22.3	22.6	23.3	23.3	23.1	22.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Statistical Abstract of the USA, and World Trade Information Service, *Statistical Reports*, selected issues.
[a] Based on general imports.
[b] Partly provisional figures.
[c] Including some European dependencies in the Western Hemisphere. Between 1952 and 1954, these dependencies represented approximately 2 per cent of total annual United States general imports. During 1956 and 1957 they represented 2.5 and 2.9 per cent respectively.

Table 25. United States: Indices of imports[a] from all regions by economic classes

(1950 = 100)

Year	Total			Raw materials			Unprocessed foodstuffs			Processed foodstuffs			Semi-manufactures			Finished manufactures		
	Quantity	Price	Value	Quantity	Price	Value	Quantity	Price	Value	Quantity	Price	Value	Quantity	Price	Value	Quantity	Price	Value
1950	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1951	99	126	124	93	146	137	105	113	119	104	109	114	91	126	116	107	117	126
1952	103	119	123	99	121	119	104	114	118	110	109	121	94	128	121	120	116	139
1953	108	114	123	97	108	106	110	114	125	113	109	123	104	122	126	128	114	146
1954	101	116	117	93	105	98	92	137	126	115	107	124	92	118	109	128	114	146
1955	112	116	130	103	111	115	97	117	114	117	106	124	102	128	130	154	112	173
1956	121	118	143	110	114	125	103	113	116	122	107	130	104	136	141	188	114	214
1957[b]	124	120	148	110	118	129	104	111	115	126	112	141	103	133	137	202	116	235

Sources: See table 24.
[a] Imports for consumption.
[b] Partly provisional figures.

Table 26. United States: Imports from Latin America by selected commodity groups

(Value in millions of dollars)

	Total from Latin America	Selected foodstuffs and beverages[a]		Selected raw fibres[b]		Selected metals, minerals and petroleum[c]		All others[d]	
		Value	Percentage	Value	Percentage	Value	Percentage	Value	Percentage
1950	2 910	1 516	(52)	223	(8)	683	(23)	488	(17)
1956	3 640	1 768	(49)	88	(2)	1 231	(34)	553	(15)
1957[e]	3 766	1 701	(45)	73	(2)	1 410	(37)	582	(16)

Source: Information supplied by the United States Department of Commerce.
Note: The "total" refers to general imports, whereas commodity data are available only on an "imports for consumption" basis. Since general imports are slightly higher than imports for consumption (approximately half of one per cent on the average during 1952-56), the residual item errs slightly on the high side.
[a] Coffee, cacao, bananas and sugar.
[b] Raw wool, sisal and henequen.
[c] Iron ore; non-ferrous ores and metals; ferro-alloys, ores and metals; crude petroleum and residual fuel oil.
[d] Including meat products, fish, molasses, inedible vegetable oils and oil seeds, tobacco, sodium nitrate, textile manufactures, and others.
[e] Partly provisional figures.

Table 27. United States: Value indices and relative share of economic classes in imports[a] from all regions

Year	Total imports (1950 =100)	Foodstuffs and raw materials		Semi-finished and finished manufactures	
		Value (1950 =100)	Percentage of total imports	Value (1950 =100)	Percentage of total imports
1950	100	100	58	100	41
1951	124	126	59	120	41
1952	123	119	56	128	43
1953	123	116	54	134	45
1954	117	112	56	124	44
1955	130	117	53	148	47
1956	143	123	50	172	50
1957	148	127	50	177	50

Source: See table 24.
[a] Imports for consumption.

course, other branches of industry also absorbed materials obtainable from Latin America, but the sample shown undoubtedly covers a significant share of industry's total demand for Latin American raw materials and semi-manufactures. Secondly, it is evident that only a relatively small proportion of total Latin American exports were intended for those manufacturing branches whose production volume has kept pace with manufacturing output as a whole. For example, 1957 production indices of woollen textiles, carpets, leather products, confectionery and cigars were all far below the total index of manufacturing output. As a corollary, the volume of United States imports from Latin America of raw wool, hides and skins, tobacco and, to a certain extent, cacao and sugar as well, increased relatively little, or actually declined, after 1950.[46] Passing from those manufacturing branches producing "soft goods", or other non-durable consumer goods, to those using inputs of metals, minerals and petroleum, a very different picture emerges. Thus United States indices of pig iron, non-ferrous metals, tin can production and petroleum refining all show very dynamic growth trends since the late 1940's, more or less equal to the rate of growth of United States manufacturing output as a whole. As a consequence of the demand originating in these "high growth" branches of the United States manufacturing sector, United States imports from Latin America of iron ore, non-ferrous ores and metals, ferro-alloys and ores, and crude petroleum as well as residual fuel oil, have in the aggregate been far more buoyant[47] than imports of the other industrial inputs mentioned

[46] See the Statistical Annex at the end of this chapter for tables showing trends in imports of particular Latin American commodities.

[47] There are exceptions, of course, explicable on grounds of technological substitutes, competition from other areas, and other factors. It is also true that United States imports of metals have in most cases declined somewhat since the peaks of 1952 or 1953, but this is due to the slowing-down in purchases for the stockpiles (discussed above). By comparing 1950 with 1956 and 1957 it will be seen that this problem is not so important, because these were all years of relatively low growth in strategic inventories.

Table 28. United States: Index of industrial production, total and selected industrial sectors

(1947-49 = 100)

	Weight[a]	1950	1951	1952	1953	1954	1955	1956	1957[b]
All industry	100.00	112	120	124	134	125	139	143	143
Manufactures									
Total	90.02	113	121	125	136	127	140	144	145
Selected sectors									
Pig iron	0.37	113	123	107	130	101	134	131	137
Non-ferrous metals	1.67	115	126	116	129	120	143	144	136
Tin cans	0.30	123	120	122	129	131	142	151	146
Wool textiles	0.97	100	97	85	78	66	79	86	75
Woven carpets	0.31	110	78	90	86	71	79	83	71
Cattle hides and leather	0.29	94	87	87	92	92	99	99	98
Refined petrol products	1.04	113	126	132	144	141	152	159	162
Refined fuel oil products	0.56	106	123	128	130	128	138	147	147
Confectionery	0.71	104	102	102	102	99	101	107	112
Cigars	0.17	97	101	105	107	105	104	104	106
Total listed weights	6.39								

Source: Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin,* Washington, selected issues.
[a] Percentage of total value of industrial production in 1947-49.
[b] Partly provisional figures.

29. United States: Selected data on gross national product and personal consumption expediture

(Thousands of millions of dollars)

	Total gross national product	Personal consumption expenditure			
		Total	Durable goods	Non-durable goods	Services
Annual					
1950	285	194	29	100	65
1951	328	208	27	111	70
1952	345	218	27	116	76
1953	363	231	30	119	82
1954	361	237	29	121	87
1955	392	254	36	126	93
1956	415	267	34	133	100
1957[a]	434	281	35	140	105
Quarterly data, annual rates					
1956 I	403	262	35	131	97
II	409	264	33	132	99
III	417	269	33	134	101
IV	426	272	35	135	102
1957[a] I	430	277	36	137	103
II	436	279	35	139	105
III	440	284	35	143	106
IV	433	282	34	141	107

Source: Department of Commerce, *Survey of Current Business,* selected issues.
[a] Partly provisional figures.

in the preceding paragraphs. Yet these commodities represented in 1950 less than a quarter of total Latin American exports to the United States (see again table 26).

The factor directly stimulating demand for a much larger share of Latin America's exportable production is disposable income, reflected in personal consumption expenditure (see table 29). Most important among the commodities concerned are coffee, cacao, sugar and bananas.[48] The essence of the second problem of structural deterioration is that imports of these four products lag far behind the growth in United States incomes. From 1950 to 1956, for instance United States aggregate personal consumption expenditure rose from 194 000 million to 267 000 million dollars, or by almost 40 per cent.

[48] Some others, such as meat, fish products and tinned and bottled speciality items, are excluded for lack of statistical data.

During the same period, United States total imports of these four commodities rose from 1 516 to 1 768 million dollars, or only 17 per cent, well below the 25 per cent growth in total United States imports from the twenty republics. In turn this has served to reduce their share in this total from 52 per cent in 1950 to 49 per cent in 1956. In terms of volume, the record is much more disturbing. From 1947-49 to 1956, real disposable income[49] grew from 1 436 to over 1 700 dollars *per capita,* whereas between the same years annual United States *per capita* consumption (in pounds) of these four commodities remained virtually unchanged or decreased, as shown by the following figures (expressed in pounds):

	1947-49 *(Annual average)*	1956
Coffee	18.2	15.7
Cacao beans	4.1	4.0
Refined sugar	95.1	98.4
Bananas	20.8	19.0

Although the poundage of coffee imports from Latin America rose by a total of 5 per cent between 1950 and 1956, that of the three other items decreased. Moreover, with the exception of bananas, all of which traditionally come from Latin America, the share of Latin America in total United States imports also declined.

Three major conclusions emerge from the above analysis. Table 26 shows that fuels, plus those Latin American commodities intended as direct inputs for the production of consumer durables and capital goods, have fared remarkably well since 1950: they increased by 80 per cent in terms of value as compared with only 25 per cent for all United States imports from the various republics. Their share in the total grew from 23 per cent in 1950 to 37 per cent in 1957, and promises to become still greater in the future. Raw fibres have declined by two-thirds since 1950. They now represent only 2 per cent of United States imports from Latin America, as compared with 8 per cent in 1950, and at best they might retain a share somewhere between these limits. Foodstuffs and beverages fall between the two extremes mentioned above. These important commodities may revive in import volume in the future and grow in pro-

[49] At 1956 prices.

portion to the increase in the United States population. The pattern of consumption in the past has, however, changed in a way unfavourable to soft goods and foodstuffs.[50] It seems that, in the light of experience since 1950, Latin America can rely on only a few commodities—petroleum, minerals and metals—for "rapid growth" exports, at least so far as the United States market is concerned.

These findings, it might be noted, are very similar to those of GATT which were based upon post-war international trade developments between non-industrial areas and Western Europe and North America as a whole. Thus, making a tentative forecast for 1975, GATT states[51] that long-term prospects "are distinctly favourable in respect of fuels and metals"; "distinctly less favourable for textile fibres"; "promising" for some foodstuffs and "quite uncertain" for others.

(b) *Developments in 1957*

In 1957, United States imports continued to expand, though at a slower rate, and Latin America retained its share of the total. Within the Latin American total, however, the increase was due to petroleum,[52] which was in turn partially matched by the large increase in United States petroleum exports to Western Europe.[53] Consumption of petroleum products did not increase in volume (see table 30), although it did rise somewhat in value, because of price increases.

The rise of imports both from Latin America and from the rest of the world as a whole can in fact be very largely attributed to petroleum. The total value of other imports was approximately unchanged. For the first three quarters of 1957, the total volume, too, was the same, reflecting the stagnation in manufacturing output during this period, as discussed above. Again, although private inventories of materials continued to grow until the middle of 1957, the rate of increase was slower than in the corresponding period of 1956, and the rate of growth of the strategic stockpile continued to be slow. Imports of materials other than petroleum failed to rise, and in many cases they declined sharply in volume (see again table 30). The weakness in textiles was in part attributable to woollen goods and meant a larger reduction in imports, which bear the brunt of declines in demand for wool. Imports of non-ferrous metals also fell off, except lead and zinc, strategic stockpiling of which continued. United States consumption of copper decreased, but this was matched by increases in exports and inventory-building, so that only a mild reduction occurred in the volume imported—though prices sagged badly. There was a reduction in the volume of coffee imports, particularly in the third quarter, and also for cacao, which partly explains the decline in imports of foodstuffs in the first three-quarters. In both cases, the falling off was due to reductions in inventories. By contrast, sugar and banana imports grew, despite the failure of purchasing power to increase much. Imports of finished consumer goods also

[50] In 1914-23, perishable commodities and semi-durables accounted for 57 per cent of consumer expenditure (in terms of 1929 prices) in the United States, durables for 9 per cent, and services for 34 per cent. In 1953, the respective percentages were 47, 13 and 40.

[51] *Op. cit.*, part I.

[52] See Statistical Annex.

[53] There was, also, some involuntary accumulation of petroleum inventories in the course of the year.

Table 30. United States: Changes in imports by category and in related indicators of domestic demand, 1953-57

(Percentage changes)

	1953 to 1954	1954 to 1955	1955 to 1956	1956 to 1957[a]
Gross national product (at constant dollars)	− 1	7	3	1[b]
Total imports (volume)	− 9	12	9	—
Manufacturing production	− 7	10	3	2
Imports of industrial materials (volume)	− 9	13	8	− 1
Domestic consumption fo petroleum	2	9	4	—
Imports of petroleum products (thousands of barrels)	2	20	14	12
Output of textiles[c]	− 7	9	− 1	− 2
Imports of materials for non-durable goods (volume)	−19	21	8	− 6
Output of durables	−10	13	3	3
Private residential construction	12	18	−10	−10
Associated imports of materials (volume)	−11	10	6	—
Consumption of food *per capita* (constant dollars)[d]	—	1	1	− 1[e]
Imports of food *per capita* (volume)[d]	− 6	2	4	−11
Disposable personal income (current dollars)	2	6	6	5
Imports of finished (non-food) consumer goods (value)	3	28	18	24

Source: Department of Commerce, *Survey of Current Business*, January 1958.
[a] First 9 months in each case.
[b] ECLA Estimate.
[c] Including clothing and footwear.
[d] Including beverages.
[e] Preliminary (refers to whole year).

rose, almost entirely because of heavier imports of motor cars from Europe.

Latin America's experience in the first three quarters of 1957 reflected that of the rest of the world. United States imports from the region declined for most primary commodities other than petroleum. In the case of coffee, however, the decline in volume was wholly at the expense of Latin America, while imports from other regions showed an upward trend.

In the fourth quarter, a rather abrupt and surprising change occurred. Despite the incipient recession and declining prices, the value of United States imports rose (after seasonal adjustment). This happened, moreover, despite a slight drop in petroleum imports.[54] In volume, however, the increase was concentrated in only a few commodities. Motor car imports rose steeply again. The Latin American commodity chiefly concerned was coffee, the volume of which climbed sharply, mainly owing to heavy purchases of Brazilian coffee at the end of the year to replenish United States inventories. Yet this increase in coffee sales does not fully account for the expansion in the volume of Latin American exports to the United States. United States imports of tobacco and non-ferrous metals also rose, the former increase being absorbed in re-exports. Nevertheless, the increase in the total volume of imports from Latin America is difficult to account for fully with the information so far to hand. (It appears to imply that the liquida-

[54] See chapter II for details of the restriction on petroleum imports.

tion of private inventories of materials and foodstuffs was not severe for most Latin American commodities.) But one conclusion can be drawn: it would not be correct to say that the United States recession had produced a very harmful effect on the volume of Latin American exports up to the end of 1957, taking the region as a whole.

2. Western Europe

(a) *Long-term trends*

Taking 1948 as a base year, table 31 shows the changes that occurred between 1948 and 1957 in imports of the main industrial countries from Latin America. This table shows that, while the rate of increase of United States imports from Latin America was much higher between 1948 and 1951 than subsequently, the opposite was true of Western Europe's imports. This is directly related to the rates of growth. In the United States, growth was faster in the first period than in the latter. Conversely, continental Western Europe, in the period 1948-51, was just ending its post-war recovery and advanced rapidly from 1951 onwards.

Trends in the United Kingdom were determined by some special factors. It is true that the pace of economic development in the United Kingdom since the Second World War has been slower—though more steady—than in other Western European countries or in the United States, but this does not seem to have been the main factor influencing trends in trade with Latin America. The United Kingdom is primarily supplied by its own overseas territories and the other members of the sterling area. Latin America is more or less a marginal supplier of many commodities. The small rise in United Kingdom imports from Latin America in both periods indicates that the remainder of the sterling area has been able to supply nearly all its increased requirements.

If the regional direction of trade is considered (see table 32), it will be seen that up to 1955 Western Europe's trade expanded more rapidly internally than externally. Moreover Latin America's share declined, reflecting the smallness of the increase in its trade with the United Kingdom. Purchases from Latin American were also rather erratic at least up to 1953. From 1955 onwards, there was a rapid rise in imports from the rest of the world, especially Latin America, chiefly due to an expansion in volume. The sharp rise in Latin American purchases was due to a number of factors. The pace of Western Europe's expansion, though slowing down, is increasing the demand for primary commodities from outside the franc and sterling areas, and private inventory accumulation has been heavy, particularly in the Federal Republic of Germany.

Developments since 1951 will now be examined in greater detail. Table 33 shows the trends for the main Latin American export commodities in Western Europe. Even though 1951, the base year, was a year of high Latin American exports, including heavy additions to strategic stockpiles, there was a rather strong upward trend for almost all commodities, as shown by the imports of the main industrial countries. The most striking feature de-

Table 31. Imports of selected industrial countries from Latin America, 1948 and 1957

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

Importing countries and regions	*Imports in 1948*	*Imports in 1957*	*Change from 1948 to 1951*	*Change from 1948 to 1957*	
				Value	*Percentage*
United Kingdom	901	968	30	67	7
Continental Western Europe (7 countries)[a]	1 306	2 182	120	876	67
United States[b]	2 757	4 311	1 093	1 554	56
Canada[a b]	222	474	38	252	114
Japan[a]	88	311	171	223	253
Total, countries listed[a]	5 274	8 246	1 452	2 972	56

Source: United Nations, *Direction of International Trade.*
[a] Data for 1957 are estimated for some countries.
[b] Estimated c.i.f. values based on f.o.b. data.

Table 32. Western Europe[a]: Imports by regions

(Millions of dollars at current prices and index numbers 1953 = 100)

	1950	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*
	(a) *Intra-regional trade of Western Europe*							
Current value (millions of dollars f.o.b)	9 610	12 882	12 969	13 378	14 780	16 906	18 652	20 331
Unit value index	84	105	108	100	97	98	101	105
Quantum index	87	93	90	100	115	130	139	148
	(b) *Total imports from other regions*							
Current value (millions of dollars c.i.f.)	14 433	20 652	19 072	17 864	18 804	21 538	23 525	25 720
Unit value index	89	117	111	100	97	101	102	104
Quantum index	91	98	96	100	108	120	131	138
	(c) *Imports from Latin America*							
Current value (millions of dollars c.i.f.)	1 919	2 508	1 896	2 102	2 344	2 409	2 848	3 253
Quantum index				100	114	118	140	154

Sources: Based on Organization for European Economic Co-operation, *Statistical Bulletins, Foreign Trade, Series I and III.*
[a] Countries of the Organization for European Economic Co-operation only.

monstrated by this table is that the volume of imports from Latin America more than doubled between 1951 and 1956 for the following commodities:

United Kingdom: Meat (frozen and tinned), wheat, fresh fruit, cacao, cotton, iron ore, fertilizers (crude) and copper.

Continental Western Europe:[55] Meat (frozen), barley, maize, fresh fruit, wool, cotton, other textile fibres, iron ore, petroleum (crude), petroleum products, copper and lead.

On the other hand, sugar and vegetable oils suffered substantial reductions in the imports of both the United Kingdom and Continental Western Europe.

In two respects the structure of Western Europe's imports from Latin America is different from that of the United States. Firstly, it is more diversified: the United States never buys certain primary commodities from Latin America which it produces in adequate quantity itself and

[55] In this paragraph the term "Continental Western Europe" refers only to the six States members of the Coal and Steel Community and of the European Common Market, i.e., Belgium, the Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands.

Table 33. Western Europe: Volume of total imports and of imports from Latin America for selected commodities, 1951 (or 1952) and 1956[a]

(Thousands of tons)

		United Kingdom		*Latin America as percentage of total*	*Continental Western Europe[b]*		*Latin America as percentage of total*
		Total	*From Latin America*		*Total*	*From Latin America*	
Food and tobacco							
Meat, fresh and frozen	Base year	612	129	21	168	93	55
	1956	914	345	38	372	189	51
Meat, canned	Base year	212	8	4	30	9	30
	1956	188	42	18	38	7	18
Wheat, unmilled	Base year[b]	3 968	—	—	6 295	651	10
	1956	4 872	327	7	6 513	972	15
Barley	Base year	1 150	20	2	1 141	125	11
	1956	824	—	—	3 563	588	17
Maize	Base year	1 394	155	11	1 730	281	16
	1956	1 562	144	9	2 613	654	25
Other cereals	Base year	311	4	1	1 965	280	14
	1956	527	18	3	2 254	362	16
Fruit and nuts (fresh, excluding oil nuts)	Base year	837	16	1	1 963	90	5
	1956	1 145	61	5	2 835	398	14
Sugar	Base year	2 402	1 038	43	1 282	744	58
	1956	2 920	937	32	986	462	47
Coffee	Base year	43	13	30	310	153	49
	1956	45	10	22	496	254	51
Cacao	Base year	115	1	1	206	33	16
	1956	98	7	7	272	47	17
Feeding stuffs	Base year	606	165	27	1 339	290	22
	1956	1 603	241	15	2 048	352	17
Tobacco, unmanufactured	Base year	102	—	—	134	17	13
	1956	104	—	—	167	23	14
Hides and skins	Base year	86	33	41	207	52	25
	1956	83	32	39	225	67	30
Vegetable oils	Base year	435	51	12	769	105	14
	1956	381	10	3	941	49	5
Wool	Base year	329	29	9	342	23	7
	1956	343	39	11	570	67	12
Cotton	Base year	326	39	12	868	123	14
	1956	421	82	20	1 082	264	24
Vegetable fibres (excluding cotton and jute)	Base year	142	—	—	352	18	5
	1956	163	—	—	503	39	8
Mineral products							
Fertilizers, crude	Base year	1 039	22	2	4 993	181	4
	1956	1 278	24	2	5 663	187	3
Iron ore	Base year	9 850	102	1	10 513	33	0
	1956	14 583	1 218	8	28 274	2 087	7
Ores of nonferrous base metals	Base year	...	...	...	5 499	219	4
	1956	1 462	45	3	6 244	229	4
Petroleum, crude[c]	Base year	27	1	3	35	3	9
	1956	34	4	10	69	8	12
Petroleum products[c]	Base year	...	...	...	6	—	—
	1956	...	...	...	13	1	10
Copper	Base year	392	5	1	417	31	7
	1956	410	81	20	811	116	14
Lead	Base year	149	5	3	111	6	5
	1956	171	8	5	187	45	24
Zinc	Base year	234	—	—	71	3	4
	1956	129	2	2	103	1	1

Source: Organization for European Economic Co-operation, *Statistical Bulletins.*

[a] Base year for all commodities is 1951 for Continental Western Europe; 1952 for United Kingdom. (This difference is necessary for statistical consistency). Total United Kingdom imports were about the same level in 1951 as in 1956, whereas in 1952 they were 11 per cent lower than in either.

[b] Six common market countries.

[c] Volume units are millions of litres for the United Kingdom; millions of tons for Continental Western Europe.

Table 34. Western Europe: Sources of selected imports by regions, 1951 and 1956

(Millions of dollars)

	Total value of imports for selected commodities[a]	From Latin America	From EPU countries		From sterling area[b]	From United States	From all other countries
			Continental	Overseas			
Six countries of Continental Europe							
Year 1951	9 273	1 118	1 857	1 155	1 853	1 609	1 681
„ 1956	12 455	1 559	2 972	1 598	2 545	1 809	1 972
Percentage increase 1951-56	34.3	39.5	60.0	38.3	37.4	12.5	17.3
Percentage distribution by area							
in 1951	100.0	12.2	20.0	12.5	20.0	17.4	18.1
in 1956	100.0	12.5	23.9	12.8	20.4	14.5	15.8
B. *United Kingdom*							
Year 1952	6 206	473	779	226	2 979	499	1 250
„ 1956	6 877	732	924	183	3 076	656	1 306
Percentage increase 1952-56	10.8	54.7	18.6	— 19.3	3.3	31.5	4.5
Percentage distribution by area							
in 1952	100.0	7.6	12.6	3.7	48.0	8.0	20.1
in 1956	100.0	10.6	13.4	2.7	44.7	9.5	19.1

Source: Organization for European Economic Co-operation, statistical publications.
[a] Including all the commodities listed in table 33 plus some other minor ones.
[b] Figures for continental countries include the United Kingdom.

for which it may be a competitive exporter (for example, cotton and wheat). It can be seen also that the pattern of Western European imports does not show a marked tendency to become less diversified: among the faster-growing imports are foodstuffs and textile materials, as well as metals and petroleum. Secondly, in cases where the United States does import from Latin America, it is much more heavily dependent on this region as a source of supply. The countries of Western Europe, especially the United Kingdom, are in many cases importing primarily from their own overseas territories or from countries closely linked economically with them (such as former colonies).

It is worth stressing that, in 1951, imports from Latin America were at about the same level, for the six continental countries as imports from their own dependent territories, and that they grew by about the same percentage from 1951 to 1956, despite rapid economic development in those territories (see table 34). It is true that imports from Latin America in 1956 were somewhat inflated by two circumstantial factors: one being a bad wheat crop in France, and the other the Suez crisis. Nevertheless, the impact of those factors does not need to be over-emphasized. It seems, if we compare wheat imports with their 1954-55 average and imports of petroleum and petroleum products with those of 1955, that the incidence of these two factors did not exceed 100 million dollars, out of a total increase of 441 million in Continental Western European imports from Latin America. The impact of these factors on United Kingdom imports appears to have been higher—some 100 million out of 259 million—but, even when it is deducted, the net increase in imports from Latin America from the base year is still above 30 per cent, both for the United Kingdom and the Continental countries. Moreover, as has been said above, 1951 imports were themselves rather high for special reasons. The upward trend in European imports from Latin America is thus much greater than that of United States imports, which rose by less than 10 per cent over the same period. This is the product of two forces: firstly, that total Western European imports have grown faster than those of the United States; and secondly, that the share of Latin America has risen in the former, while it has fallen in the latter.

(b) *Developments in 1957*

The rise in imports in 1957, which started at the end of 1956, was largely due to special influences that are already disappearing. Moreover, most of the increase is attributable to three Latin American suppliers: Argentina, Cuba and Venezuela. Imports from the remainder of Latin America were not greatly changed (see table 35). Sales of meat from Argentina, especially to the United Kingdom, increased considerably. In addition, following the Suez crisis, Western Europe's imports of petroleum from Venezuela increased sharply (a diversion of demand from the Middle East). Finally, the value of imports of sugar from Cuba rose, though this was largely due to the increased price. The rise in sugar reversed, temporarily at least, the declining trend in purchases of Latin American sugar by Western European countries. But imports of wheat and cotton from Latin America declined. The explanation apparently lies in United States sales under special export programmes, since total imports rose sharply. (There were important United States sales to Italy under Public Law

Table 35. Western Europe: Imports from Latin America, total and from selected countries, 1956 and 1957

(Quarterly values in millons of dollars at current prices c.i.f.)

Origin	1956				1957			
	I	II	III	IV	I	II	III	IV
Total, Latin America	677	706	711	755	855	874	802	722
Selected countries:								
Argentina	160	161	168	189	209	205	178	182
Cuba	30	25	38	27	35	76	64	20
Venezuela	83	88	105	122	157	180	167	149
Total, three countries Specified	273	274	311	338	401	461	409	351

Source: Organization for European Economic Co-operation, *Statistical Bulletins, Foreign Trade, Series I,* April 1958.

Table 36. Imports of selected industrial countries from Latin America, 1957

Country	1957 imports	Change over 1956	
	Millions of dollars c.i.f.		Percentage change
Belgium-Luxembourg	147	− 13	− 8
Federal Republic of Germany	802	35	5
France	286	46	19
Italy	243	32	15
Netherlands	345	88	34
Sweden	176	7	4
Switzerland	97	2	2
United Kingdom	968	208	27
Total, eight European countries	3 064	405	15
Canada	457	32	8
Japan[a]	310	− 10	− 3
United States	4 349	182	5
Total, eleven countries	8 180	609	8

Source: Organization for European Economic Co-operation, *Statistical Bulletins, Foreign Trade, Series I*, April 1958.
[a] January-September at annual rate.

480.) It will be noted that imports fell off during the third quarter, as petroleum and sugar shortages were eased, and this decline continued into the fourth quarter.

Table 36 shows that all the leading countries of Western Europe, except Benelux, expanded their imports from Latin America in 1957, taking the year as a whole. Despite its reduction of strategic inventories, the rise was particularly large in the case of the United Kingdom, due in part to increased imports of meat and petroleum. This rise in Western European imports in 1957 was responsible for the bulk of the expansion in imports of Latin American commodities by the industrial countries as a whole. The imports of industrial countries show a continued expansion even though Latin American exports were constant. One important possible explanation for the difference is that the former statistics refer to an earlier period—and a period likely to show a better trend—than the export statistics because of the time goods spend at sea between clearing Latin American ports and arriving as "imports". It should also be borne in mind that there are differences in valuation (the import statistics being c.i.f. in this case), and that the "export" statistics cover exports to non-industrial areas, including exports within Latin America itself. Finally, 1957 figures are provisional in many cases.

V. CURRENT PROSPECTS FOR LATIN AMERICAN EXPORTS

The relatively mild impact of the 1953-54 recession in the United States was due in part to the fact that European output continued to rise without noticeable check. The preceding analysis shows that, although in 1957 declines in output have not been common in the industrial countries, the rate of growth outside the United States has already slowed down considerably. An examination of current trends in the leading countries will now be made.

In the United States, the main force depressing output is no longer the reduction of inventories but the decline in business investment in new plant and equipment. The Department of Commerce survey of investment plans shows that investment in expected to drop from an annual rate of 37 000 million dollars in the second half of 1957 to 33 300 million in the first half of 1958 and 30 800 million in the second half.[56] Further reductions appear to be in prospect for 1959.[57] Industry was operating, in February 1958, at about 75 per cent of capacity as compared to 82 per cent in September 1957,[58] and it is not expected that the requirements of the new military programme will involve much capital investment.[59] Exports slumped in the opening months of 1958 and may well tend to fall a good deal further because of the shortage of dollars in many other countries. The main compensatory factor to these downward influences is likely to be an increase in Government expenditure, because of higher federal military and public works outlays and also a continued increase in State and local Government spending.[60] The official revision of the federal budget in April suggested that the Government's expenditures would rise by 4 000 million dollars in the fiscal year 1958/59 as compared with 1957/58, and this would nearly offset the expected decline in business investment, unless the decline accelerated. Private residential building may also be stimulated by the new mortgage incentives and cheaper interest rates; and the rate of inventory reduction must decline sooner or later from the very high level of 7 500 million dollars (at annual rates) in the first quarter of 1958. But these forms of investment will depend very much on how far and how fast personal incomes fall, because of the decline in investment already under way. Falling incomes discourage residential building. In addition, in view of the public's heavy indebtedness,[61] involving fixed commitments, retail sales tend to decline almost parallel to personal incomes. Consequently, although trade and manufacturing inventories continued to fall in the second quarter, they may still have seemed to their holders in the middle of the year excessive in relation to sales.[62] This depends partly on business opinion. The course of inventory disinvestment is particularly difficult to forecast, because of this psychological element. It is therefore impossible to predict precisely when stimulating forces will balance and overcome those which have been

[56] United States Department of Commerce, *Survey of Current Business*, March 1958. The survey was made between late January and early March.

[57] The McGraw-Hill survey shows that, according to current preliminary plans, 28 per cent of the firms covered would spend less in 1959 than in 1958, as against 20 per cent planning to spend more. *Hearings of the Joint Economic Committee* (Evidence of the Chief Statistician, McGraw-Hill Co.). The Department of Commerce survey shows that unfinished projects in process of execution would be much fewer at the end of 1958 than at the end of 1957. For manufacturing companies, about 6 000 million dollars out of their expected outlay of 13 000 million in 1958 will be spent completing projects already under way in January. The sum of 7 000 million refers to new projects, and only 3 000 million dollars, worth of work on these projects is expected to be carried over into 1959.

[58] *Hearings of the Joint Economic Committee, op. cit.*, p. 87.

[59] *Ibid.*, p. 377 (Evidence of the Comptroller of the Defense Department).

[60] However defence orders are expected to fall back in the second half of the year from the abnormally high rates of the first half.

[61] Total consumer debt was, at the beginning of March 1958, 6 per cent above a year previously, although personal incomes in that month were less than ½ per cent higher.

[62] Thus at the end of February 1958, total sales of manufacturers were 10 per cent lower than 6 months previously after seasonal adjustment, whereas inventories had been reduced by only 3 per cent. So inventory-sales ratios were actually higher than at the start of the recession. Retail inventories were still virtually unchanged, despite a decline of 6 per cent in sales.

depressing the economy. In the first half of the year it must be considered very possible that the level of economic activity at the end of 1958 will still be substantially below that of mid-1957.[63]

Progress in Western Europe depends largely on how successful the recent measures in the Federal Republic of Germany are in eliminating the chronic export surplus, or in financing it by other means than an inflow of gold and dollars. Other Governments have been discouraged by the pressure on their reserves from taking measures to revive their rate of expansion. Although the Federal Republic's and fixed-capital formation showed some weakness in 1957, the stimulus to consumption provided in the budget, together with higher Government expenditure, should make for continued expansion, though very possibly at a lower rate than in 1957.[64] Some special measures have been adopted to prevent a further inflow of gold and dollars, notably the extension of credit through the European Payments Union and an expansion of trade credit, but it is far from certain that the gold and dollar drain from other Western European centres will not be renewed.

A prolonged recession in the United States, especially combined with a continued inflow of gold into the Federal Republic of Germany, would adversely affect the sterling area's gold reserves again. Since sterling is now *de facto* convertible for non-residents, and widely held, whereas dollars are scarce, much of the pressure on dollars would be focused on sterling are reserves, and experience in both 1956 and 1957 shows how rapidly such pressure can be reinforced by speculative drives. It may well therefore be difficult for the United Kingdom, and for other countries similarly placed, to maintain in such circumstances both their current level of economic activity and liberal exchange policies, unless special resources are made available.[65]

Although gold and dollar reserves outside the United States recovered somewhat after September 1957, they are still very low (except in the Soviet Union) and largely concentrated in the hands of Canada, the Federal Republic of Germany, Switzerland and Venezuela (see table 37). If these countries are excluded, reserves have increased only moderately since the end of 1953 —the last time a United States recession was gathering momentum, in fact much more slowly than trade has expanded. Consequently reserves are low in relation to imports in many countries. Moreover, other forms of liquid (or reserve) assets have also decreased substantially. The resources of the European Payments Union are already stretched nearly to the limit; the sterling balances of members of the sterling area have declined; and International Monetary Fund holdings of gold and dollars sank from 3 700 million dollars in September 1956 to 1 300 million in February 1958.

It appears from the plans of the private and public

Table 37. World gold and dollar reserves, December 1953 and December 1957[a]

(Thousands of millions of dollars)

	December 1953	*December 1957*
Canada	2.4	3.2
Federal Republic of Germany	1.2	4.1
Switzerland	2.1	2.8
Venezuela	0.6	1.6
Total for these four countries	6.4	11.7
Rest of the world	16.7	18.0
Total	*23.1*	*29.7*

Source: Board of Governors of the Federal Reserve System of the United States, *Federal Reserve Bulletin,* January 1956 and March 1958.
[a] Excluding international organizations, United States and Soviet Union. Holdings include United States Government bonds and banknotes. (See source for exact definitions used).

sectors in the United Kingdom[66] that there will be less increase in fixed-capital investment in 1958 than in 1957 and little change in real terms in Government current spending. The official view is that it will be difficult to maintain exports: the fall in commodity prices has affected the incomes of the United Kingdom's customers in the sterling area and, although many countries in the area have been able to draw on sterling reserves to maintain imports, this loss of reserves is forcing a growing number to impose import controls. Investment in inventories is also expected to be less. The Chancellor of the Exchequer has said that "The level of industrial production has tended to decline in the last few months and unemployment has been rising. These trends may well go rather farther during the rest of the year".[67] In the event of a recession, the Government would give first priority to increasing credit to foreign countries.

The French Government's economic policy at the beginning of the year envisaged a decline of 10 per cent in military expenditure in real terms (7 per cent in total real Government expenditure), and a decline of 7 per cent was also anticipated in both real public investment and residential construction. An expansion in the volume of exports is, however, hoped for. It is officially expected that the rise in the real gross national product will be 1-2 per cent,[68] if the other targets mentioned are all achieved. This would be very much slower than in the past few years.

Generally speaking, it seems that in 1958 Western Europe as a whole can expect little aggregate rise over 1957 levels of output, particularly in the industrial sector. In several countries this may raise a question which became important in 1957 in the United States: whether the continued expansion of capacity and accumulation of inventories can be sustained when industrial output is not rising vigorously.

With output expected to be below early 1958 levels in both the United Kingdom and the United States, it is clear that the demand for Latin American commodities arising out of current activity is not likely to increase and

[63] The April revision of the revenue estimate for 1958/59, from 74 000 million to 70 000 million dollars, which would be below the revenue of calendar year 1956, apparently implies a national product in 1958/59 considerably below that of 1957/58 *(The New York Times,* 19 April 1958). This would mean a deficit of about 8 000 million dollars in 1958-59.

[64] See *Economic Survey of Europe in 1957, op. cit.,* chapter II, p. 32.

[65] The United Kingdom Chancellor of the Exchequer stated, at the end of the Budget debate in April: "The Government have had some discussion with the Government of the United States (about) long-term financial liquidity and many other problems. He believed that the time hand come for another forward move in international economic co-operation".

[66] These forecasts are taken from the *Economic Survey for 1958, op. cit.*

[67] Budget speech. House of Commons. 15 April 1958.

[68] See *Rapport sur les Comptes de la Nation, 1958.*

may well be reduced. An additional reason is that the major expansionist influence at present in sight—heavier Government expenditure in the United States—does not involve a great increase in imports of materials. In part it involves more spending on public works (composed mainly of outlays on labour, cement and steel), and in part higher expenditure on missiles. Like recent developments in connexion with other types of military expenditure, and in other countries, this implies a rise in demand for technical manpower rather than for raw materials. It has been shown above that the upward trend of private consumption is strongest in respect of durables, which have a low raw material content.[69] The same tendency applies to public consumption as well. The composition of a relatively static total output of the industrial countries is thus changing in a way that depresses imports.

It is hard to say what will be the effect of inventory changes, since the new United States policy regarding strategic inventories has yet to be clarified. But it appears very unlikely that policies will be modified in such a way as to revive demand for materials in general, or so as once more to absorb in inventories a significant fraction of United States agricultural commodities. Moreover, the special influences which tended to increase the purchases of Latin American commodities by Western Europe have disappeared. Consequently the general prospects for Latin America's exports to traditional buyers in the last half of 1958 and the first half of 1959 are not very favourable.

Possibilities emerged at the end of 1957 of expansion into relatively new markets. The Soviet Union and other countries with centrally-planned economies sent trade missions to various Latin American countries. Early in 1958 the Argentine Government signed an agreement which will lead to a revival of Soviet-Argentine trade, including the shipment to Argentina of oil-drilling and other equipment. The Government of Chile sold to the Soviet Union 20 000 tons of copper wire (of less than 4 mm). The Soviet Union also bought Cuban sugar and Uruguayan wool in quantity. Press reports refer to negotiations regarding further Soviet purchases of these commodities, as well as of coffee on quite a large scale from Brazil and Colombia. So far, however, actual trade with the Soviet Union, Eastern Europe and the People's Republic of China, even allowing for firm agreements recently signed, is of relatively small magnitude for the region as a whole.[70]

[69] Where consumption declines over the short term, the decline appears also to be concentrated on durable, and though this means sharp decreases in imports of minerals, which had previously grown fastest, the total impact on imports is less marked than if consumption of food and textiles declined.

[70] It should also be borne in mind that for some commodities, such as tin, this group of countries is entering world markets as a net seller.

UNITED STATES IMPORTS OF SELECTED LATIN AMERICAN COMMODITIES

Table I. United States: Imports of coffee[a]

	Value (Millions of dollars)			Volume (Millions of pounds)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	1 092	1 046	96	2 439	2 323	95
1951	1 362	1 299	95	2 694	2 557	95
1952	1 376	1 297	94	2 681	2 512	94
1953	1 469	1 371	93	2 787	2 582	93
1954	1 486	1 360	92	2 261	2 046	91
1955	1 357	1 228	90	2 599	2 290	88
1956	1 440	1 302	90	2 810	2 463	88
1957[b]	1 375	1 206	88	2 759	2 324	84
Semi-annual						
1956:						
January-June	750	693	92	1 487	1 337	90
July-December	690	609	88	1 323	1 126	85
1957:[b]						
January-June	707	627	89	1 383	1 175	85
July-December	668	579	87	1 376	1 149	84

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption.
[b] Partly preliminary data.

Table II. United States: Imports of cane sugar[a]

	Value (Millions of dollars)			Volume (Millions of pounds)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	381	331	87	7 361	6 413	87
1951	387	315	81	7 283	5 911	81
1952	416	325	78	7 694	5 973	78
1953	425	320	75	7 603	5 784	76
1954	410	298	73	7 504	5 551	74
1955	414	305	74	7 834	5 870	75
1956	437	331	76	8 287	6 366	77
1957[b]	458	356	78	8 262	6 502	79
Semi-annual						
1956:						
	249	179	72	4 755	3 464	73
	188	152	81	3 532	2 902	82
1957:[b]						
January-June	254	182	72	4 599	3 342	73
July-December	204	174	85	3 663	3 160	86

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption.
[b] Partly preliminary data.

Table III. United States: Imports of cacao[a]

	Value (Millions of dollars)			Volume (Millions of pounds)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	167	83	50	670	303	45
1951	197	75	38	612	233	38
1952	178	68	38	576	220	38
1953	167	76	46	566	255	45
1954	252	132	52	519	267	51
1955	185	94	51	504	279	55
1956	144	67	47	559	273	49
1957[b]	135	69	51	513	248	48
Semi-annual						
1956:						
January-June	95	31	33	353	123	35
July-December	49	36	73	206	150	73
1957:[b]						
January-June	73	25	34	308	109	35
July-December	62	44	71	205	139	68

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption.
[b] Partly preliminary data.

Table IV. United States: Imports of bananas[a]

	Value (Millions of dollars) Total	Volume (Millions of stems) Total
Annual		
1950	56	51
1951	54	49
1952	55	50
1953	67	51
1954	65	48
1955	66	47
1956	68	46
1957[b]	70	48
Semi-annual		
1956:		
January-June	36	25
July-December	32	21
1957:[b]		
January-June	37	25
July-December	33	23

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption, all from Latin America.
[b] Partly preliminary data.

Table V. United States: Imports of crude petroleum[a]

	Value (Millions of dollars)			Volume (Millions of barrels)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	369	305	83	174	139	80
1951	375	305	81	177	135	76
1952	439	334	76	208	144	69
1953	510	341	67	238	140	59
1954	544	374	69	243	148	61
1955	655	401	61	292	162	55
1956	838	471	56	355	190	54
1957[b]	982	583	59	386	221	57
Semi-annual						
1956:						
January-June	390	222	57	166	89	54
July-December	448	249	56	189	101	53
1957:[b]						
January-June	449	300	67	173	113	65
July-December	533	283	53	213	108	51

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption.
[b] Partly preliminary data.

Table VI. United States: Imports of residual fuel oil[a]

	Value (Millions of dollars)			Volume (Millions of barrels)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	198	46	23	123	27	22
1951	200	41	21	122	25	21
1952	221	52	24	133	32	24
1953	226	77	34	135	46	34
1954	240	94	39	132	52	39
1955	306	131	43	155	68	44
1956	366	169	46	166	77	46
1957[b]	465	229	49	176	87	49
Semi-annual						
1956:						
January-June	190	89	47	88	41	47
July-December	176	80	45	78	36	46
1957:[b]						
January-June	252	123	49	96	46	48
July-December	213	106	50	80	41	51

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption.
[b] Partly preliminary data.

Table VII. United States: Imports of copper and manufacturers[a]

	Value[b] (Millions of dollars)			Volume[c] (Millions of content pounds)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	243	150	62	1 212	752	62
1951	280	192	69	1 079	756	70
1952	411	287	70	1 274	903	71
1953	433	263	61	1 341	788	59
1954	363	213	59	1 207	730	60
1955	455	239	53	1 175	661	56
1956	502	282	56	1 126	680	60
1957[d]	384	207	54	1 181	695	59
Semi-annual						
1956:						
January-June	260	142	55	544	315	58
July-December	242	140	58	582	365	63
1957:[d]						
January-June	221	116	53	627	361	58
July-December	163	91	56	554	334	60

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption.
[b] Crude, semi-manufactured items and manufactures.
[c] Crude and semi-manufactured items.
[d] Partly preliminary data.

Table VIII. United States: Imports of iron ore and concentrates[a]

	Value[b] (Millions of dollars)			Volume (Millions of long tons)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	44	12	27	8.2	3.5	43
1951	60	22	37	10.1	4.6	46
1952	83	39	47	9.8	4.9	50
1953	97	46	47	11.1	6.1	55
1954	120	68	57	15.8	9.7	61
1955	178	78	44	23.4	11.1	47
1956	250	108	43	30.4	14.3	47
1957[b]	285	152	53	33.7	19.2	57
Semi-annual						
1956:						
January-June	98	56	57	12.1	7.5	62
July-December	152	52	34	18.4	6.8	37
1957:[b]						
January-June	112	70	63	13.1	8.6	66
July-December	173	82	47	20.6	10.6	51

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption.
[b] Partly preliminary data.

Table IX. United States: Imports of lead and manufactures[a]

	Value (Millions of dollars)			Volume[c] (Million of content pounds)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	136	73	54	1 135	624	55
1951	80	33	41	458	180	39
1952	208	102	49	1 290	640	50
1953	116	57	49	915	449	49
1954	122	38	31	968	309	32
1955	122	53	43	909	398	44
1956	143	64	45	980	444	45
1957[d]	157	64	41	1 151	478	42
Semi-annual						
1956:						
January-June	67	30	45	474	219	46
July-December	76	34	45	506	225	44
1957:[d]						
January-June	78	29	37	540	200	37
July-December	79	35	44	611	278	45

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption.
[b] Crude, semi-manufactured items and manufactures.
[c] Crude and semi-manufactured items.
[d] Partly preliminary data.

Table X. United States: Imports of zinc ore[a]

	Value (Millions of dollars)			Volume (Millions of content pounds)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	25	12	48	496	305	61
1951	35	22	63	480	294	61
1952	114	70	61	1 164	733	63
1953	50	21	42	929	482	52
1954	54	28	52	1 007	598	59
1955	40	20	50	814	486	60
1956	53	33	62	968	635	66
1957[b]	89	54	61	1 364	872	64
Semi-annual						
1956:						
January-June	21	12	57	437	270	62
July-December	32	21	66	531	365	69
1957:[b]						
January-June	38	22	58	598	372	62
July-December	51	32	63	766	500	65

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption.
[b] Partly preliminary data.

Table XI. United States: Imports of tin ore[a]

	Value (Millions of dollars)			Volume (Thousands of content long tons)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	47	27	57	25	15	60
1951	82	36	44	30	13	43
1952	65	31	48	26	13	50
1953	83	39	47	36	19	53
1954	42	21	50	22	13	59
1955	37	17	46	20	10	50
1956	32	16	50	17	9	53
1957[b]	—	—	—	—	—	—
Semi-annual						
1956:						
January-June	21	9	43	11	5	45
July-December	11	7	64	6	4	67
1957:[b]						
January-June	—	—	—	—	—	—
July-December	—	—	—	—	—	—

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption.
[b] Partly preliminary data.

Table XII. United States: Imports of all non-ferrous metals and ferro-alloys[a]

(Millions of dollars)

	Total[b]	From Latin America[c]	Percentage from Latin America
Annual			
1950	967	...	...
1951	963	309	32
1952	1 563	553	35
1953	1 662	465	28
1954	1 392	368	26
1955	1 529	405	26
1956	1 710	483	28
1957[d]	1 672	446	27
Semi-annual			
1956:			
January-June	828	237	29
July-December	882	246	28
1957:[d]			
January-June	878	227	26
July-December	794	219	28

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption. Comprising non-ferrous ores and metals (including scrap), and ferro-alloys, ores and metals.
[b] During the four years 1953-56, non-ferrous ores and metals accounted for 83 per cent of the total imports listed.
[c] During the four years 1953-56, non-ferrous ores and metals accounted for 88 per cent of the listed imports from Latin America. Copper and lead were the two most important non-ferrous metals involved, together accounting for 70 per cent of the total listed imports from Latin America.
[d] Partly preliminary data.

Table XIII. United States: Imports of three selected nitrogenous fertilizers[a]

	Value[b] (Millions of dollars)			Volume[b] (Thousands of short tons)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	40	22	55	980	616	63
1951	55	27	49	1 285	726	57
1952	65	28	43	1 367	675	49
1953	85	23	27	1 848	569	31
1954	69	27	39	1 562	732	47
1955	52	22	42	1 186	608	51
1956	48	16	33	1 135	500	44
1957[c]	41	17	41	1 102	585	53
Semi-annual						
1956:						
January-June	30	11	37	704	323	46
July-December	18	5	28	431	177	41
1957:[c]						
January-June	23	10	43	601	326	54
July-December	18	7	39	501	259	52

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption comprising ammonium sulphate (Schedule A No. 850000); ammonium nitrate and mixtures (Schedule A No. 850600).
[b] During 1955 and 1956, aggregate United States imports of all fertilizers and fertilizer materials totalled 111 million and 102 million dollars respectively, as compared with the 52 million and 48 million dollars respectively included in the above headings. However, owing to non-homogeneous characteristics, the remaining items were not additive in terms of volume and therefore only the three major nitrogenous fertilizers have been used in this table. It might be added that practically all imports from Latin America were of Chilean nitrate.
[c] Partly preliminary data.

Table XIV. United States: Imports of Unmanufactured wool[a]

	Value (Millions of dollars)			Volume (Millions of content pounds)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	428	190	44	478	221	46
1951	714	218	31	368	123	33
1952	382	100	26	376	107	28
1953	296	125	42	301	146	49
1954	223	66	30	214	77	36
1955	261	73	28	258	86	33
1956	242	73	30	256	85	33
1957[b]	211	59	28	207	65	31
Semi-annual						
1956:						
January-June	144	51	35	154	59	38
July-December	98	22	22	102	26	25
1957:[b]						
January-June	121	39	32	117	42	36
July-December	90	20	22	90	23	26

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption. Clean basis.
[b] Partly preliminary data.

Table XV. United States: Imports of sisal and henequen[a]

	Value (Millions of dollars)			Volume (Thousands of long tons)		
	Total	From Latin America	Percentage from Latin America	Total	From Latin America	Percentage from Latin America
Annual						
1950	39	33	85	153	134	88
1951	71	49	69	170	125	74
1952	75	29	39	179	78	44
1953	37	13	35	155	64	41
1954	28	14	50	145	78	54
1955	24	16	67	147	101	69
1956	21	15	71	132	98	74
1957[b]	18	14	78	125	95	76
Semi-annual						
1956:						
January-June	12	9	75	73	55	75
July-December	9	6	67	59	43	73
1957:[b]						
January-June	9	7	78	61	48	79
July-December	9	7	78	64	47	73

Source: Information supplied by the United States Department of Commerce.
[a] Imports for consumption.
[b] Partly preliminary data.

Chapter II

COMMODITY EXPORTS

SUMMARY

Two developments of major importance for Latin America occurred in 1957: a widespread weakening of export prices in the course of the year and the start of a recession in the United States. It is tempting, but it would be most misleading, to point to the latter as the main cause of the former. In fact a more fundamental influence has been at work, that had itself already caused the prices of many commodities to decline before the recession started.

For a number of years, the world output of several commodities has been growing faster than world consumption (see table 38). The excess has been absorbed in inventories. There are three main types of such inventories: Government strategic inventories (mostly metals), Government inventories of surplus agricultural commodities and private trade inventories. Firstly, as was seen in chapter I, there has been a general reduction in the pace at which Governments have been buying goods for strategic reasons, and, in some cases, sales have been made out of these inventories. Secondly, the United States Government succeeded in halting the rise in inventories of commodities purchased in order to protect farm prices and achieved some reduction in 1957. But it was able to do this only by subsidizing exports, both by selling them at levels considerably below their cost price and also by offering them in many cases for foreign currency, part of this being on long-term credit, or as gifts. Trade inventories are no longer being built up so rapidly: in one commodity after another they became adequate for normal purposes and, moreover, inventory-building in the industrial countries was increasingly discouraged by the adoption of higher interest rates. The process of building up these inventories disguised the fundamental imbalance that was gradually emerging, and the true gap between consumption and production was only unmasked when this process ended, for many commodities in 1956 or 1957.

The recession in the United States at the end of the year should be considered as one additional factor further depressing prices especially of metals, because it reduced the total consumption of raw materials in the industrial countries and thus widened the gap still further between production and consumption in the world economy. In addition, this setback in business encouraged or compelled firms not only in the United States, to reduce their inventories. Another special influence was that the prices of some commodities, which had been artificially boosted during the Suez crisis, dropped naturally in 1957.

There were two influences operating in opposite directions. Firstly, the Soviet Union, other countries of Eastern Europe and the People's Republic of China were increasingly entering some markets as potential buyers of primary commodities, although they also appeared as sellers of others. Secondly, while the United States was disposing of its surplus, countries which depend on exports of primary commodities to sustain their rate of growth, were turning to inventory-building themselves to sustain export prices, the two most important cases being the collective building of tin inventories and the international agreement to accumulate coffee inventories. Thus the burden of inventory-building was in part taken up by the primary producers.[1]

Yet these offsetting influences were relatively small and affected few commodities. The factors which tended to force prices downward were dominant in 1957. They were, as usual, reinforced by bearish speculation. Consequently, measures were taken, as the year wore on, to reduce output by cutting back production, especially of minerals. For obvious reasons this is difficult to do over the short term for agricultural commodities (especially tree crops) and in any case many producers were protected from the decline in world prices by Government support schemes.

This chapter starts with a general survey of world markets for the leading Latin American export commodities and then deals with each of these commodities in turn. Finally, the consequences of these developments for individual countries are discussed.

I. WORLD MARKET PRICES

The general price index for thirteen staple Latin American exports,[2] which account for rather more than 70 per cent of the region's export trade, was 5.8 per cent higher in 1957 than in 1956 (see tables 39 and 39-A). This increase, while highly satisfactory at first glance, loses some of its significance when it is realized that it is partly attributable to the rise in crude petroleum and sugar prices whose share in the total weighting is high. Average prices for other commodities (meat, cacao and wool) were also better in 1957 than in the previous year but, except in the case of cacao, the more satisfactory prices obtained in the first part of the year dropped in the last three months. Observation of the quarterly price indices (see the lower part of table 39) shows that the downward price trend prevailed for 11 of the 13 commodities examined and that, despite the substantial rise in the case of petroleum, the total index decreased by 9 per cent between the first and fourth quarters of 1957. (The drop would be 13 per cent if petroleum is excluded.)

The declining trend registered for the prices of most of Latin America's exports was not equally intensive in all instances nor due to the same causes, although in the case of a good many commodities the adverse effects of the present economic recession on external demand are clearly apparent.

As regards foodstuffs, prices for wheat sold outside the International Wheat Agreement were lower during the greater part of 1957 than in 1956, but did not differ very greatly from those prevailing during 1954 and 1955 (see figure I). The slight rise in these prices registered in 1956 in relation to the two previous years was mainly due to the increase in demand on the part of the European countries, which suffered such heavy losses in crops during the winter of 1955 that France—traditionally a net exporter of wheat in Europe—became a net importer for a short time. In the course of 1957, with the recovery of European production, the conditions characteristic of previous years were restored, and prices reverted to their 1954 and 1955 levels. Since 1953 the international wheat market has been depressed by the large production surpluses accumulated in the United States, Canada and Australia, and if wheat prices have not dropped catastrophically on account of these surpluses, this is partly due to

[1] This is, on the international plane, analogous to the well-known phenomenon of national inventory cycles: a shift of inventories towards the manufacturer as incomes cease to rise.

[2] Namely wheat, maize, meat, wool coffee, cacao, sugar, cotton, copper, tin, lead, zinc and petroleum.

Table 38. Estimated world[a] production of selected foodstuffs and raw materials

(Millions of tons.)

	1948/49-1951/52 Average	1955/56-1956/57 Average
Agricultural commodity		
Wheat	111	122
Maize	120	132
Sugar[b]	26.6	32.6
Coffee	2.26	2.73
Cacao	0.76	0.88
Cotton	5.76	6.51
Wool[c]	1.58	1.84
Meat[d]	30.0	37.8
Mineral products	1949-52	1956-57
Copper	2.28	3.02
Lead	1.55	1.88
Zinc	2.18	2.50
Tin	0.17	0.18
Crude petroleum	551	769

Sources: Agricultural commodities: FAO, *The state of food and agriculture*, Rome, 1957. Mineral Products: United Nations, *Monthly bulletin of statistics*.
Note: The figures for non-ferrous metals refer to foundry products.
[a] Excluding the USSR, Eastern Europe and the People's Republic of China.
[b] Including centrifugal sugar only.
[c] In terms of washed wool.
[d] Beef, mutton and pork.

the system of export quotas utilized by the countries subscribing to the International Wheat Agreement, to which Argentina did not accede until 1956. It is undoubtedly thanks to the application of this Agreement that wheat prices during the last eight years have registered smaller annual fluctuations than those recorded for the other staple Latin American exports, with the exception of petroleum.

Prices for maize (see figure II) and, broadly speaking, for feed grains, have fluctuated more widely than quotations for wheat. This group of commodities is also affected by the problem of the accumulation of large exportable surpluses, although not to the same extent as wheat. Price fluctuations have been mainly determined by variations in production and in the import requirements of the countries of Western Europe, which absorb approximately three-fourths of world exports. During the hostilities in Korea, United Kingdom prices for Argentine maize rose considerably, but from 1953 onwards a decline again set in and the downward trend persisted until the beginning of 1956, when Argentina's limited export availabilities resulted in a slight rise, further influenced by the increase in freight charges. But the moderate price increment recorded in 1956 rapidly disappeared during 1957, as European production of feed grains increased substantially during 1956, a large part of the wheat-growing area affected by the winter of 1955 having been resown to these cereals.

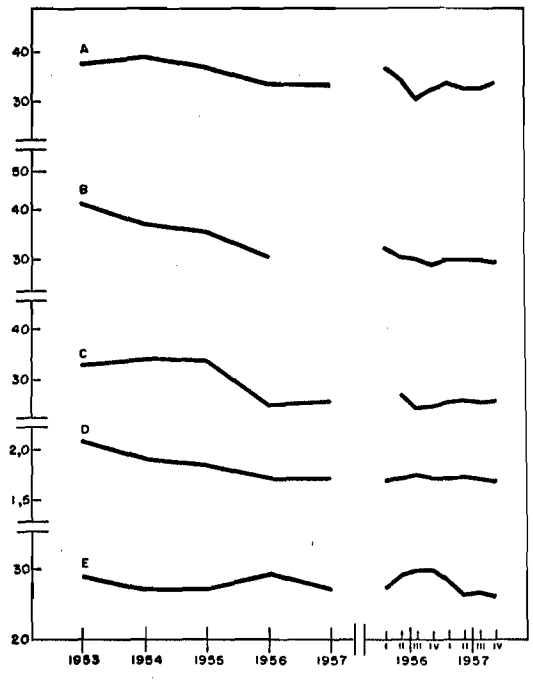
Although in most European countries meat rationing had been abolished by 1950, in the United Kingdom, which holds a leading place among world importers, it was not abolished until July 1954, and only then was private trade in meat resumed. Hitherto an official agency had been responsible for the United Kingdom's meat imports under long-term bilateral agreements. United Kingdom prices for Argentine meat up to the first half of 1954 were determined by these agreements and by the need to ensure adequate supplies. As from the end of 1955, this situation changed radically and by 1956 and 1957 the level of Smithfield market prices for Argentine meat had substantially declined as a result of the change in the world supply position (see again figure II).

Broadly speaking, foodstuffs from the tropical agriculture zone were subject to wider price fluctuations than those reviewed above. An examination of coffee prices (see figure III) reveals that United States quotations for Brazilian coffee rose to a moderate extent between 1950 and mid-1953 but, as from the second half of the latter year and throughout the major part of 1954, they soared to an unprecedented level because of the heavy losses suffered by Brazilian production as a result of frost. These high prices led to a certain contraction of consumption in the United States market and therefore to a marked decline in exports from Latin America, especially from Brazil. By 1955 Brazilian coffee prices had already reverted to levels

Figure I

COTTON AND WHEAT PRICES

Semi-logarithmic scale

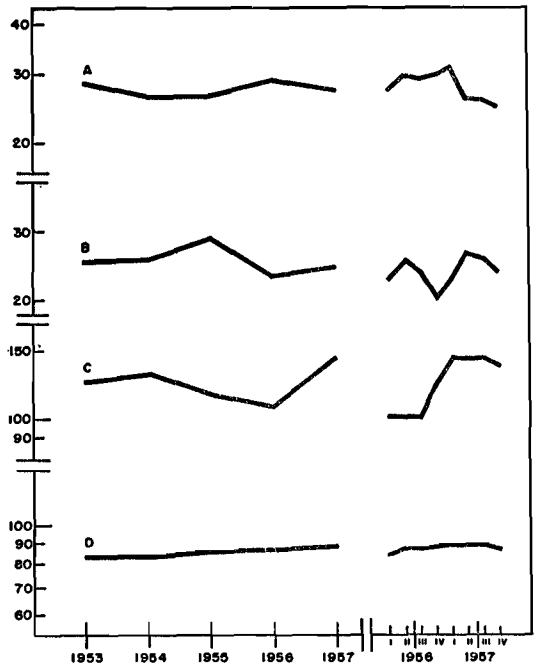


A. Mexican cotton, Matamoros SM-1-1/32, c.i.f. price at Liverpool, dolar cents per pound. *B.* Brazilian cotton, Sao Paulo type 5, c.i.f. price at Liverpool, dollar cents per pound. *C.* United States cotton, Middling 15/16, f.o.b. export price; from 1956 onwards Commodity Credit Corporation price for exports, dollar cents per pound. *D.* United States wheat, No. 1 hardwinter, f.o.b. export price at Galveston, for sales under the terms of the International Wheat Agreement, dollars per 60-pound bushel. *E.* Argentine wheat, c.i.f. price in the United Kingdom, sales outside the International Wheat Agreement, pounds sterling per long ton.
Source: United Nations, *Monthly Bulletin of Statistics*.

Figure II

MAIZE, MEAT AND WOOL PRICES

Semi-logarithmic scale



A. Argentine maize, c.i.f. price United Kingdom, pounds sterling per long ton. *B.* Argentine chilled beef, c.i.f. price in the United Kingdom, pence per pound. *C.* Uruguayan wool, 58s-60s, clean base, import price at Boston, United States, dollar cents per pound. *D.* Argentine wool, 40s-36s, clean base, import price at Boston, United States, dollar cents per pound.

Source: United Nations, *Monthly Bulletin of Statistics.*

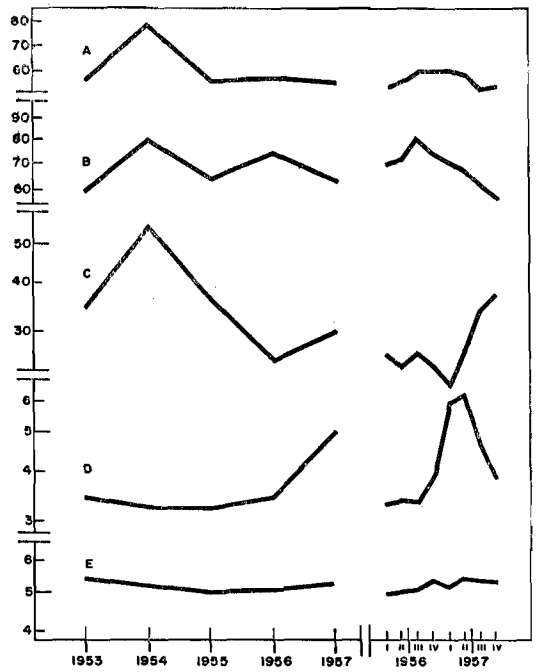
approaching those of early 1953, but during 1956 a moderate upward trend was recorded as the result of a further decline in the harvest. Nevertheless, while prices for Brazilian coffee became somewhat higher in 1956, those of the mild grades, not produced by Brazil, rose more steeply, so that a basic quality like Manizales (Colombia) was quoted at a high premium in relation to Brazilian grades. This relatively greater increase in mild coffee prices was due to the fact that immediate availabilities were somewhat limited; this situation gradually altered as from the end of 1956 and throughout 1957. In the latter year, prices both for Brazilian coffees and for other Latin American grades again entered upon a phase of decline, attributable to the prospects of the accumulation of large exportable surpluses, chiefly in Brazil. The gradual weakening in prices during the course of the year was more marked in the case of mild coffees, with the result that during the last months of 1957 the premium of such coffees over Brazilian coffees had already disappeared. As will be seen later, the declining trend in coffee prices could be arrested only during the last two months of the year, as a result of the undertaking adopted by countries adhering to the so-called Mexico City Agreement in October 1957 to regulate their foreign shipments.

There are certain similarities between the evolution of coffee and cacao prices during recent years (see again figure III). The fluctuations in cacao prices have been largely determined by changes in the volume of production, principally African production which represents approximately two-thirds of the world total. In Latin America, Brazil is the most important producer and exporter and its basic export grade, Bahia cacao, is quoted on world markets at prices slightly lower than those of the basic African grade, Accra cacao. Both types of cacao showed a rising trend in the New York market during 1950-53, which was partly caused by a decline in the volume of African crops. In mid-1954 cacao prices reached the highest levels in their history, but at these high levels consumption was substantially reduced. The decline in consumption and the recovery of world production in the two following years caused a drop in prices. In 1955, prices of Bahia cacao in New York were already at levels not very different from those of 1951-53, but consumption had still not completely recovered. Since at the same time world production continued to increase, the decline in prices during 1956, became more marked and they fell to the lowest level recorded during the last eight years. The declining trend in prices persisted until the first quarter of 1957 when the first estimates of the volume of the new crops in Africa and Brazil became known. They indicated that yields would be lower than those of the preceding four years and as a result prices began to rise; in the last quarter of 1957 they were 70 per cent higher than those of the first quarter of 1957. Yet the average price of Bahia cacao in 1957 was only 19 per cent higher than the average price in 1956,

Figure III

COFFEE, CACAO AND SUGAR PRICES

Semi-logarithmic scale



A. Brazilian coffee, Santos 4, import price, ex-dock New York, dollar cents per pound. *B.* Colombian coffee, Manizales, import price, ex-dock New York, dollar cents per pound. *C.* Brazilian cacao, Bahía, import price in New York, dollar cents per pound. *D.* Cuban raw sugar, f.o.b. export price in Cuban port, sales to United States preferential market, quotations on New York Coffee and Sugar Exchange, dollar cents per pound.

Source: United Nations, *Monthly Bulletin of Statistics.*

Table 39. Latin America: Staple export commodities. World market prices

A. *Annual averages*

Product		1950	1951	1952	1953	1954	1955	1956	1957
Wheat[a]	(£ per long ton)	27.8	27.0	29.0	28.6	26.8	26.9	28.9	26.5
Maize[b]	(£ per long ton)	24.9	37.9	38.1	28.5	26.2	26.1	28.9	27.2
Meat[c]	(Pence per pound)	*n. a.*	*n. a.*	*n. a.*	25.0	25.2	28.9	23.0	24.3
Wool[d]	(Dollars per pound)	1.55	2.53	1.25	1.25	1.30	1.16	1.07	1.39
Coffee[e]	(Cents per pound)	50.5	54.2	54.0	57.9	78.7	57.1	58.1	56.9
Cacao[f]	(„ „ „)	29.2	35.1	35.8	34.9	55.7	36.2	25.5	30.5
Sugar[g]	(„ „ „)	4.98	5.67	4.17	3.41	3.26	3.24	3.47	5.16
Cotton[h]	(„ „ „)	*n. a.*	55.3	43.1	37.5	39.0	37.1	33.6	33.4
Copper[i]	(„ „ „)	21.2	24.2	24.2	28.8	29.7	37.5	41.8	29.6
Tin[j]	(Dollars per pound)	0.96	1.28	1.20	0.96	0.92	0.95	1.01	0.96
Lead[k]	(Cents per pound)	13.3	17.5	16.5	13.5	14.1	15.1	16.0	14.7
Zinc[l]	(Dollars per pound)	13.9	18.0	16.2	10.9	10.9	12.3	13.5	11.4
Petroleum[m]	(Dollars per barrel)	2.63	2.63	2.63	2.76	2.88	2.87	2.80	3.04

	1956				1957			
	I	*II*	*III*	*IV*	*I*	*II*	*III*	*IV*
B. *Quarterly averages*								
Wheat	26.8	29.0	29.8	29.8	28.1	25.9	26.1	25.9
Maize	27.5	29.6	29.0	29.5	31.0	26.0	25.9	24.9
Meat	22.6	25.2	23.6	20.1	22.5	26.0	25.1	23.5
Wool	1.02	1.02	1.02	1.22	1.43	1.42	1.42	1.36
Coffee	55.2	56.8	60.0	60.3	60.2	58.5	54.1	54.8
Cacao	26.1	24.5	26.5	24.8	22.2	27.2	34.3	38.1
Sugar	3.29	3.34	3.33	3.98	5.93	6.20	4.65	3.84
Cotton	36.9	34.4	30.9	32.4	33.8	32.9	33.0	34.0
Copper	45.0	45.6	40.0	36.6	33.2	31.0	27.7	26.3
Tin	1.02	0.97	1.00	1.07	1.00	0.98	0.95	0.91
Lead	16.1	16.0	16.0	16.0	16.0	15.2	14.0	13.4
Zinc	13.5	13.5	13.5	13.5	13.5	12.1	10.0	10.0
Petroleum	2.80	2.80	2.80	2.80	3.01	3.05	3.05	3.05

Source: United Nations, *Monthly Bulletin of Statistics.*

[a] Domestic/import price, c.i.f. in United Kingdom, Argentine wheat, up-river, sales outside the International Wheat Agreement.
[b] Domestic/import price, c.i.f. London, La Plata maize.
[c] Domestic/import price, in London, Argentine chilled kinds.
[d] Import price at Boston, United States, Montevideo wool 58-60, clean basis.
[e] Domestic/import price, ex-dock, New York, spot price.
[f] Domestic/import price, ex-warehouse, New York, Bahía cacao.
[g] Export price, f.o.b. Cuban port, New York quotations for exports to free market, raw sugar.
[h] Domestic/import price, c.i.f. Liverpool, United Kingdom, Mexican cotton Matamoros SM-1-1/32.
[i] Domestic price, f.o.b. refinery, New York., electrolytic wirebars and ingots.
[j] Domestic/import price c.i.f. New York, Straits tin.
[k] Domestic price, New York, common lead.
[l] Domestic price, delivered New York, Prime Western zinc.
[m] Export price, f.o.b. Puerto La Cruz, Venezuela, 35-35.9 API gravity.

Table 39-A. Latin America: Staple export commodities. World market price indices

(1953 = 100)

	1950	1951	1952	1953	1954	1955	1956	1957
Wheat[a]	97	94	101	100	94	94	101	93
Maize[b]	87	133	134	100	92	92	101	95
Meat[c]	...	...	...	100	101	116	92	97
Wool[d]	124	202	100	100	104	93	86	114
Total group	110	155	104	100	99	95	93	103
Coffee[e]	87	94	93	100	136	99	100	98
Cacao[f]	84	101	103	100	160	104	73	87
Sugar[g]	146	166	122	100	96	95	102	151
Cotton[h]	...	148	115	100	104	99	90	89
Total group	101	115	102	100	125	98	98	107
Copper[i]	74	84	84	100	103	130	145	102
Tin[j]	100	133	125	100	96	99	105	100
Lead[k]	97	130	122	100	104	112	119	109
Zinc[l]	128	165	149	100	100	113	124	105
Total group	85	105	101	100	102	121	133	103
Total 12 commodities	100	120	102	100	118	100	101	106
Petroleum[m]	95	95	95	100	104	104	101	110
Total index	100	113	100	100	114	101	101	107

	1956				1957			
	I	II	III	IV	I	II	III	IV
Wheat[a]	94	101	104	104	98	91	91	91
Maize[b]	97	104	102	104	109	91	91	87
Meat[c]	90	101	94	80	90	91	100	94
Wool[d]	82	82	82	98	114	114	114	114
Total group	88	92	92	99	106	103	103	101
Coffee[e]	95	98	104	104	104	101	93	95
Cacao[f]	75	70	76	71	64	78	98	109
Sugar[g]	97	98	98	117	174	182	136	113
Cotton[h]	98	92	82	86	90	88	88	91
Total group	95	96	99	103	115	115	102	98
Copper[i]	156	158	139	127	115	108	96	91
Tin[j]	106	101	104	112	104	102	99	95
Lead[k]	119	119	119	119	119	113	104	99
Zinc[l]	124	124	124	124	124	111	92	93
Total group	140	141	129	123	115	108	98	93
Total 12 commodities	99	100	101	105	113	112	101	98
Petroleum[m]	101	101	101	101	109	110	111	111
Total index	100	101	101	104	112	112	104	102

Source: Table 39.
Note: See footnotes to table 39.

although it continued to be almost 12 per cent lower than the average prices for the period 1951-53.

Sugar prices on the free market[3] have also been characterized by marked fluctuations during the last eight years (see again figure III). The increases registered during 1950 and 1951 disappeared during the following year and the persistent decline in prices induced the principal world producers and exporters to conclude an international agreement which has been in force during the last four years. During 1954, 1955 and the first ten months of 1956, sugar prices on the free market remained steady, with slight fluctuations around the minimum price established originally in the agreement. In the two final months of 1956, the prices began to reveal a pronounced upward trend, which was partly due to the decrease in the large reserve stocks held by Cuba in previous years. In addition, the market was very sensitive to the war fears occasioned, during the Suez crisis, by the low levels of inventories. The rising trend was maintained only until mid-1957; the price decline persisted during the second half of the year. In spite of this the average price for 1957 exceeded that for 1956 by 50 per cent, thus coming near to the exceptional levels which were recorded during the price boom brought about by the Korean hostilities. In the first three months of 1958, however, prices continued to fall.

Generally speaking, the price levels of sugar shipped to the preferential market of the United States are higher than those of sugar sold on the free world market. During the last eight years this has been the position of prices in both markets with two exceptions: the first in 1951 (during the price boom caused by the Korean hostilities); and the second, during the first half of 1957, for the reasons given in the previous paragraph. But the annual average for 1957 followed the trend already indicated for the two markets, i.e., it continued to be higher in the preferential market than in the free market, although by a smaller margin than that which prevailed in the previous four years. As compared with those of 1956, average prices during 1957 on the preferential market of the United States were 4.1 per cent higher. This increase appears trifling by comparison with that recorded for the average prices on the free market between the two years quoted (about 50 per cent), but it must be remembered that the free-market prices between 1953 and the end of 1956 remained at extraordinarily low levels. Furthermore, this rise was as sharp as it was brief: in the initial months of 1958, free-market price levels already came close to those of 1956 and thus, before the beginning of the year, the quantitative controls on exports and the other restrictions provided for in the international agreement had to be re-established.

During the second half of 1950 and the first half of 1951, wool prices attained exceptionally high levels. During the same period, exports from the two important Latin American producers—Argentina and Uruguay—were reduced to minimum levels, a fact which resulted in the accumulation of export balances of some size. This accumulation and the decline of the textile industry kept prices down during the following years; in 1956, they reached the lowest level registered during the last eight years. At the end of 1956 and the beginning of 1957 there was a favourable reaction, especially in the prices of fine wools, largely brought about by increased consumption in the main manufacturing countries. Although the prices of coarse wools did not increase in the same proportion as those of fine wools, the average prices of both types in 1957 were the highest recorded since 1952 (see again figure II).

Cotton is the commodity which has been most affected by the United States surplus sales programme. The impact of this programme was reflected primarily in the level of prices, which fell steadily during 1955 and 1956, particularly during the latter year, for it was then that the stocks accumulated by the United States Commodity Credit Corporation became available for the foreign market at prices 20 per cent lower than those of the domestic market. The prices of the basic grades of Latin American cotton on the Liverpool market declined less in comparison, partly because shipments of United States cotton began to be sold at the new prices only in August 1956, in spite of the fact that the relevant sales contracts had been concluded at the beginning of the year. As a result, during the first six months of 1956, the Latin American countries, together with the other individual producers, excluding the United States, were the main suppliers of the market. The lapse of time between the beginning of sales and that of shipments (February 1956-August 1956) of cotton from the United States explains why the prices of Latin American grades decreased relatively less than those of the United States. It also explains the fact that during 1956 Latin American exports did not decline but rather increased. During 1957, with prices only slightly lower than those of 1956, Latin American exports of cotton declined abruptly, as a result of the greater competitive advantages of United States cotton during this period[4] (see again figure I).

The group of commodities most affected by the recession in the United States has been that of non-ferrous metals. This is understandable if it is remembered that non-ferrous metals are used in the production of intermediate and durable goods—precisely those sectors of industrial activity where the effects of any period of economic decline are first felt. Although the price movements of the four non-ferrous metals exported by Latin America have not been uniform during recent years, they do show certain common features.

On the supply side, there was an increase in investments designed to expand output capacity by offering special incentives, with the result that world production of copper, lead and zinc showed a steady upward trend during recent years.[5] At the same time, the secondary production of these metals (mainly copper) has been increasing constantly, so that the prices of recovered metal, which are always lower than those of primarily produced metal, have played an important part in determining the level of the latter.

On the demand side, besides the growth in consumption of metals, Government purchases for strategic stockpiling in certain industrial countries enabled surplus production to be absorbed without difficulty. Thus, while such purchases remained at high levels, the disequilibrium which

[3] In regard to sugar exports sold on the free or preferential market, see section III, 3, footnote 15.

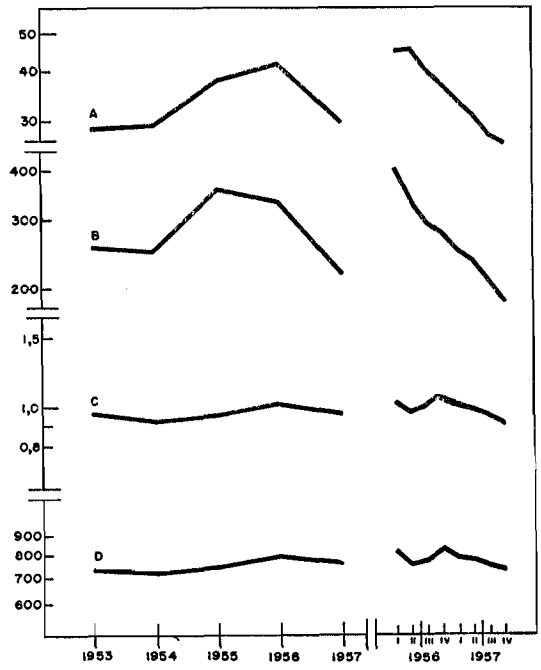
[4] These competitive advantages reside principally in the fact that many importing countries were able to import some cotton under the terms of the United States surplus sales programme, i.e., by paying for them in their national currency and retaining a large part of the value of the purchases to serve as long-term loans.

[5] See chapter I.

Figure IV

COPPER AND TIN PRICES

Semi-logarithmic scale



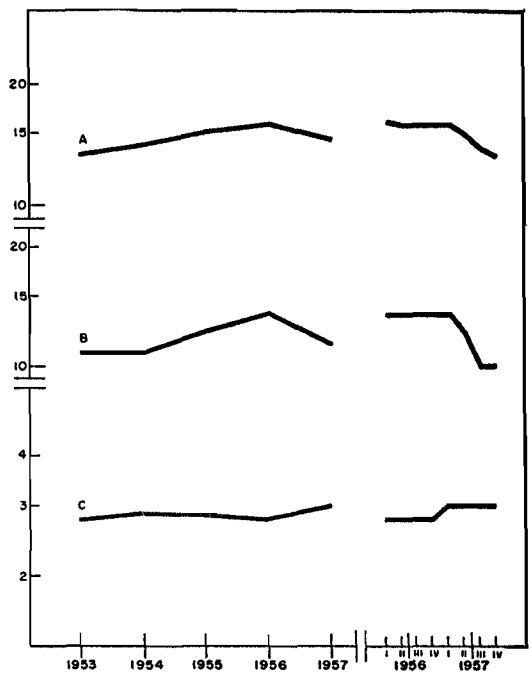
A. Electrolytic copper, domestic price in New York, dollar cents per pound. *B.* Electrolytic copper, import price in London, pounds sterling per long ton. *C.* Tin, c.i.f. price in New York, dollar cents per pound. *D.* Tin, c.i.f. price in London, pounds sterling per long ton.

Source: United Nations, *Monthly Bulletin of Statistics.*

Figure V

LEAD, ZINC AND PETROLEUM PRICES

Semi-logarithmic scale



A. Lead, domestic price in New York, dollar cents per pound. *B.* Zinc, internal price in New York, dollar cents per pound. *C.* Crude petroleum, f.o.b. export price, Puerto La Cruz, Venezuela, gravity 35-35.9 API, dollars per barrel.

Source: United Nations, *Monthly Bulletin of Statistics.*

was building up because production was rising more rapidly than consumption did not become apparent. As purchases for strategic stockpiling decreased and, to an even larger extent, from the time when such purchases ceased in certain countries and others announced their decision to sell part of the accumulated reserves, the market position became extremely weak. Hence prices began to show a sharp decline and in 1957 the average price of copper was 30 per cent lower than in 1956, that of zinc 15 per cent lower, of lead 8 per cent lower and of tin 5 per cent lower (see figures IV and V). The smaller relative decline for tin must be attributed to the fact that during 1955 and 1956 its prices did not follow the rising trend of the other three metals and also to the fact that during 1957 the Buffer Stock, established by the International Tin Agreement, began to operate. Purchases made for this Stock thus prevented a drop in the price of tin below the minimum fixed in the Agreement until the end of December.

Finally, because of its production and marketing characteristics—both being concentrated in the hands of big international corporations—the prices of crude petroleum are the steadiest of all staple Latin American exports (see figure V). Prices remained unchanged between 1950 and the first quarter of 1953, when they rose 9 per cent. The new price remained stable during 1954 and 1955 but in 1956 it dropped by 3 per cent, apparently as the result of surpluses in certain heavy types of petroleum. At the beginning of 1957, however, prices rose again, this time as a result of supply difficulties arising from the temporary blocking of the Suez Canal and the damage to certain pipelines in the Middle East. Although, apparently, these were the causes of the general rise in crude petroleum prices, the re-opening of the Canal, the repair of the pipelines and the consequent return to normal of shipments from the Middle East did not bring prices back to their 1956 level. On the contrary, during the whole of 1957, they remained at the level fixed at the beginning of that year, i.e., 8.5 per cent higher than those of 1956.

II. THE EXPORT QUANTUM

Before the evolution of the external market for Latin American exports is examined for each commodity in turn, due attention should be paid to the more important changes that took place in the total quantum of exports. With this in mind, 16 primary commodities, which together represent slightly over three-quarters of the total value of exports from the region, have been reviewed in table 40. In the first place, the volume of typical exports—wheat, maize, meat, hides, wool and linseed oil—from the River Plate countries dropped sharply, chiefly because of the marked decline in Uruguayan exports.[6] Within this commodity group, wool, followed by maize, were the most affected, although for different reasons; less maize was sent abroad because of a decrease in exportable availabilities,

[6] See the relevant paragraph on Uruguay in section IV.

while wool exports fell off as a result of factors connected with the exchange rate applied to them in producer countries. The problems involved finally brought wool exporting to a total standstill in Uruguay during the last few months of the year, and it was maintained at only a very low level in Argentina during the same period.

Among agricultural commodities from tropical zones, coffee and cotton sales dropped fairly notably, although for very different reasons. World demand for Latin American coffee—principally Brazilian—weakened due to the fact that African coffee is gaining a firmer foothold in the United States market. Moreover, the downward trend of external prices during several months of 1957 obliged certain producer countries to adopt a system of export quotas, thereby aggravating the decline in exports. The contraction in cotton exports was related to the lower production level in several countries—among them, Brazil and Mexico—and to the strong competition offered by United States cotton which led to a serious drop in Peruvian sales abroad.

The quantum of sugar exports registered an increment, partly influenced by circumstantial factors—purchases for stockpiling purposes during the Suez crisis—and partly as a result of a step-up in purchases by the United Kingdom, the Soviet Union and the Federal Republic of Germany. The increment was mainly the result of the resumption of Brazilian exports, which were negligible in 1956, and larger exports from Peru and the Dominican Republic.

Exports of non-ferrous metals, which, as indicated previously, were especially affected by the fall in prices, remained at much the same level. Those of zinc showed a very small percentage decrease, counterbalanced by a similarly small increase in copper, tin and lead sales. The quantum of exports of these metals as a whole has not varied noticeably, although the share of each item in the total has been somewhat modified in the last few years.

Petroleum has the unique distinction of being the only Latin American export commodity which has pursued a decided and unbroken upward trend during recent years. This trend was the result of the equally uninterrupted growth of Venezuelan production which was further stimulated during part of 1957 by European demand for petroleum while supplies from the Middle East were cut off.

In 1957, the aggregate quantum of the export commodities included in table 40 dropped 4 per cent below its 1956 figure, and, if petroleum is excluded, as much as 10 per cent.

Table 40. Latin America: Exports of selected primary Commodities

(Millions of dollars at 1950 prices)

	1953	1954	1955	1956	1957[a]
Exports from the River Plate Countries:					
Wheat	190.2	235.0	306.7	228.4	214.6
Maize	63.1	128.0	26.6	53.0	41.4
Meat	129.0	136.1	152.5	217.8	200.0
Hides	108.9	103.5	112.9	132.4	130.0
Wool	381.8	246.8	255.2	328.0	250.0
Linseed oil	35.0	76.2	48.5	13.2	15.0
Total	908.0	925.6	902.4	972.8	851.0
Index	90.0	91.8	89.5	96.4	84.4
Tropical commodities:					
Coffee	1 693.7	1 341.0	1 547.2	1 658.2	1 526.5
Cacao	109.5	120.0	118.1	143.5	117.0
Cotton	461.7	596.6	563.4	634.8	394.9
Sugar	722.7	574.8	696.3	697.8	767.6
Total	2 987.6	2 632.4	2 925.0	3 134.3	2 806.0
Index	117.6	103.6	115.2	123.3	110.7
Mineral products:					
Copper	188.5	216.2	231.1	234.0	241.3
Lead	83.3	80.2	75.3	71.8	73.5
Zinc	50.1	39.8	50.1	57.9	55.2
Tin	70.9	58.7	56.9	48.3	56.4
Nitrate	52.5	67.0	56.2	49.5	51.2
Total	445.3	461.9	469.6	461.5	477.6
Index	97.6	101.2	102.9	101.1	104.5
Petroleum	1 422.1	1 534.0	1 708.6	1 941.3	2 119.3
Index	116.2	125.3	139.6	158.6	173.2
Grand total	5 763.0	5 553.9	6 005.6	6 509.9	6 253.9
Over-all index	110.2	106.2	114.9	124.4	120.5
Index (excluding petroleum)	108.4	100.4	107.3	113.5	103.3

Source: Official foreign trade statistics.
Note: Indices based on 1950 = 100. Data prior to 1953 may be found in the *Economic Survey of Latin America, 1956*, United Nations publication, Sales No.: 1957.II.G.I, p. 23.
[a] Provisional estimates.

III. SELECTED COMMODITIES

1. Coffee

The total volume of Latin American coffee exports during 1957 underwent a decline which, although not comparable in magnitude with that of 1954, is nevertheless more serious in that it coincided with a decline in foreign market prices. As usual, the drop in the area's total exports was caused by decreases in the sales of the continent's two major exporters, Brazil and Colombia, which were 14.8 and 4.8 per cent lower, respectively, compared with those of 1956 (see table 41).

Yet, when examined from the point of view of world imports, the international market shows a slightly different picture from that presented by Latin American exports. In 1957, world imports were only 2.4 per cent less than in 1956, while United States imports, which come mostly from Latin America, declined 1.8 per cent. Europe's total imports maintained the rising trend recorded during recent years and were 1 per cent higher in 1957 than in 1956. The most marked decline was thus in the imports of the "other countries" group (i.e. excluding the United States and Europe) which normally account for 8 per cent of world imports.

Although the figures for world imports are not strictly comparable with those of exports, because of the time-lag in making statistical compilations of each, undoubtedly Latin American exports declined more markedly in 1957 than was to be expected from the volume of world imports during the same year. In other words, Latin American exports are being displaced by those from other producing regions. An examination of total imports into the United States during recent years shows a steady rise in imports from Africa since 1950: Africa's share of the total rose from 4.4 per cent in 1950 to 11.8 per cent in 1956 and 14.8 per cent in 1957. The importance of this fact for the coffee economy of Latin America cannot be underestimated.

Yet Africa's increasing contribution to total United States imports is not attributable to a steady decline in the

exportable production of Latin America. Certainly, this region's total production has shown relatively big fluctuations during recent years, especially in Brazil, and at certain times—particularly during the first quarter of 1954— these major changes in the volume of exportable production have led to spectacular but brief periods of rising prices on the international market. However, in general, movements in inventories of the principal Latin American producing countries have largely offset the effect of fluctuations in production, so that the volume of export availabilities has fluctuated less than the volume of total production. In short, the firm rising trend shown by African shipments in the total imports into the United States seems to be due rather to a widening in the price differentials for various grades of coffee and to certain changes in the consumption pattern.

With regard to the first point, table 42 shows the average annual prices of three basic coffee grades in New York. During the period 1950-54, in spite of small differences, there is a certain similarity in the price investments of these three basic grades: the premium for Santos coffee (Brazilian) fluctuates between a minimum of 14 and a maximum of 25 per cent and the premium for Manizales coffee (Colombian) between a minimum of 21 and a maximum of 28 per cent above Ambriz coffee (African). During the period 1955-57, differences in prices of Manizales coffee and those of Santos coffee were 92.7 per cent and 51.3 per cent higher respectively than those of Ambriz coffee.[7]

The second aspect mentioned, changes in the consumption pattern, is related, on the one hand, to the growing preference among consumers for soluble coffee and, on the other, to the increase in the number of cups of coffee which are obtained from each pound of regular coffee. In the same table 42 it may be seen that, from 1954 onwards, the share of soluble coffee in the total of roasted coffee in the United States has been increasing and that this increase was particularly marked in 1956, the year in which the price differentials between Latin American and African coffee were biggest. Of course, it is not only the price factor which has contributed to this growing popularity of soluble coffee. Surveys carried out in the United States have shown that a pound of regular coffee produces on the average 64 cups of coffee as against 221 cups from a pound of soluble coffee.[8] But the changes which have

Table 41. Coffee: Imports, exports and stocks

(Thousands of 60-kg. bags)

	1953	1954	1955	1956	1957
Imports					
World total	34 025	30 102	33 816	37 199	36 334
United States	21 965	17 513	19 651	21 238	20 859
Europe	10 181	10 513	11 471	12 956	13 074
Rest of world	1 879	2 076	2 694	3 005	2 401
Major exporters					
Brazil	15 562	10 918	13 696	16 805	14 324
Colombia	6 632	5 754	5 867	5 069	4 824
Mexico	1 159	885	1 367	1 260	1 400
El Salvador	1 267	1 112	1 185	1 132	1 270
Guatemala	1 149	996	982	1 026	1 060
Clean coffee inventories, end of period					
In United States[a]	3 169	2 032	2 187	2 594	2 825
In Brazilian sea ports[b]	3 808	3 784	5 806	5 292	4 998
Total Brazilian Stocks[c]	6 549	8 999	12 050	8 129	12 129

Sources: Pan American Coffee Bureau, *Coffee Statistics,* (annual), New York; G. Gordon Paton, *Complete Coffee Coverage,* (daily bulletin), New York.
[a] Clean coffee held by roasters, importers and dealers. (Excluding stocks held by military.)
[b] Excluded stocks held by Government.
[c] According to Instituto Brasileiro do Cafe, *Boletin Estatistico,* Rio de Janeiro, December 1957.

[7] The differences in prices are implicit in the fact that there are three separate grades of coffee. What is stressed here, therefore, is not the differences which exist and their absolute value but their marked increase during the last two years, as compared with those of the previous period. During 1957, this difference between Brazilian and Colombian coffee prices narrowed considerably, so that for several weeks Brazilian coffee prices were slightly higher than Colombian. Again, a small rise in the price of Ambriz coffee also reduced the difference between it and the Latin American coffees.

[8] According to a commentary on the coffee market, published in *The New York Times* on 17 November 1957, reproduced in the *Weekly Letter of the Coffee Market* (Pan American Coffee Bureau, New York, 22 November 1957), which states: "Manufacturers of ground coffee have no objection to discussing the types of coffee which they combine in preparing their grades but they refuse to disclose the exact proportions. Very few manufacturers of soluble coffee, on the other hand, reveal the varieties of coffee which they use in their factories. The main reason for their reticence is that soluble coffee is largely made up of the cheapest African grades, which are generally unsuitable for preparing ground coffee because of their unpleasant taste."

Table 42. Coffee: Prices and roasting activity in the United States

	1950	1951	1952	1953	1954	1955	1956	1957
New York spot prices (Cents per pound).								
Angola-Ambriz	41.5	47.6	46.2	49.2	63.0	45.2	38.4	40.2
Santos 4	50.5	54.2	54.0	57.9	78.7	57.1	58.1	56.9
Manizales	53.2	58.7	57.0	59.8	80.0	64.6	74.0	63.9
Price differentials:[a]								
Santos 4	122	114	117	118	125	126	151	142
Manizales	128	123	123	122	127	143	193	159
Total roasted coffee (Thousands of bags)	18 416	19 051	...	...	17 601	18 813	20 263	20 315
of which								
Regular coffee:	...	...	...	...	15 549	16 490	17 029	16 863
Soluble coffee:	...	...	...	...	2 052	2 323	3 234	3 452
Percentage of soluble coffee over total roasted coffee	...	...	...	...	11.7	12.3	16.0	16.9

Sources: See table 41.
[a] Angola-Ambriz = 100.

come about in consumer tastes are not confined to the use of soluble coffee. In the preparation of regular coffee too a trend has been noticed towards the consumption of a brew containing less coffee, according to a survey conducted by the Pan American Coffee Bureau. This survey indicates that the average number of cups of coffee obtained from each pound of regular coffee was 52.3 in 1951; 52.9 in 1952; 52.8 in 1953; 62.7 in 1954; and 60.0 in 1955 and 1956.[9] It is also noteworthy that the number of cups of coffee increased substantially in 1954, as compared with previous years. As a result of these changes in consumer habits, the total volume of coffee roasted in the United States has increased in recent years at a rate less than that of population growth. In 1956, *per capita* consumption was 16.0 pounds (in terms of green coffee), which is less than in any of the years 1950-1953 when it was on the average 16.6 pounds *per capita*, or 1946-49, when it was 18.6 pounds *per capita*.

The evolution of the international coffee market in recent years does not offer any encouraging hopes for Latin American producers. After the second half of 1957, the United States market situation worsened still further to judge from the estimates of the volume of exportable world production in 1957/58. According to these estimates, exportable world production in 1957/58 would amount to 41.5 million bags, 16 per cent higher than in the previous year.

Since the effects of this fact on the quotations of Latin American coffees were outlined earlier,[10] it now remains to examine the means adopted by the producing countries to protect prices. These measures were embodied in the so-called Mexico City Agreement, signed in mid-October 1957 by representatives of Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Mexico and Nicaragua, countries whose exportable balances represented, in the trade year 1956/57, 65 per cent of the world total and 69 per cent of the exportable balances estimated for 1957/58.

Although the Mexico City Agreement is different from the other international commodity agreements now in force (for sugar, wheat and tin) in that it does not include the consumer countries or lay down regulations governing price levels, distribution of votes among participating countries, etc., it fulfils the limited purpose of preventing the pressuring of exportable surpluses from causing a general collapse in international market prices. With this end in view, the agreement prescribed the following control measures: (a) maintenance by Brazil of its policy to support the world market, in accordance with the regulations adopted in that country for the disposal of the 1957/58 crop, which govern *inter alia* the transport of coffee from the interior of the country to the ports of shipment and the foreign market, and the fixing of minimum domestic prices as necessary; (b) restriction of exports from Brazil during the period October 1957-June 1958 to a total of 11.2 million bags; (c) constitution of a reserve in Brazil during the above-mentioned period by withholding 20 per cent of the amount of coffee actually exported; (d) restriction of exports from producers of mild coffees (the signatory countries except Brazil), during the period November 1957-March 1958, to 80 per cent of quantities exported during the same period in previous years, and the constitution by the same countries, of a reserve by withholding 10 per cent of the amount of coffee actually exported between November 1957 and September 1958. Subsequently, at the world meeting of coffee producers, held at Rio de Janeiro at the end of February 1958, export quotas for the producers of mild coffees were fixed for the period April-June 1958. Thus, the control of shipments abroad by the main exporting countries was established until the end of the present trade year, 30 June 1958.[11]

Although the implementation of the Agreement presented serious monetary problems for the member countries (mainly as regards the means of financing the prescribed constitution of stocks) it undeniably fulfilled its first purpose of stabilizing foreign market prices. But these agreements are only of short duration. Moreover, quota control is not a radical solution; producing countries would have to agree upon longer-term measures for tackling successfully the whole problem of world production surpluses.

2. Cacao

About two-thirds of Latin American cacao exports come from Brazil. Although its international market position is not so decisive as in the case of coffee, the fact that it is the biggest producer and exporter in Latin America and that most of its crop is harvested after the main African crops, is of considerable significance as regards the external market, particularly at times like the present when African crops are substantially smaller than those of preceding years.

As was mentioned earlier, international cacao prices began to recover their levels of recent years approximately during the second quarter of 1957.[12] The subsequent evolution of the market accentuated the rising price trend, since the decline in the African crops was greater than had been originally estimated.[13] Although a decrease of 6 per cent is also forecast for Brazilian production in 1957/58, the other small-scale producers of Latin America do not visualize decreases in production and some of them, in particular the Dominican Republic, may record an increase.

The volume of exports from the principal Latin American producers in 1957, was 14 per cent lower than in 1956 (see table 43). The decrease was considerably greater

[9] Pan American Coffee Bureau, *Annual Coffee Statistics*, N° 20, New York, 1956.

[10] See section I of this chapter, p. 46.

[11] For illustrative purposes some indication may be given here of the permissible volume of Brazilian and Colombian exports during the trade year 1957/58. It is based on the export quotas fixed for each country and the exports effected during the months prior to the Agreement. The result obtained is compared with controlled exports during the four previous years, in terms of millions of bags:

Year (July/June)	*Brazil*	*Colombia*
1953/54	14.3	6.9
1954/55	10.8	4.9
1955/56	17.0	6.2
1956/57	14.9	4.3
1957/58	14.6	5.6

Out of the quota of 11.2 million bags assigned to Brazil for the period October 1957 to June 1958, 5.1 million had been exported by the end of January 1958 (four months' quota), leaving a balance of 6.1 million bags for the five remaining months. Out of the quota of 3.7 million bags, assigned to Colombia for the period November 1957-June 1958, 1.2 million were exported in the first three months (November-January), leaving 2.5 million bags for the five remaining months.

[12] See section I, pp. 46-47.

[13] They were 100 000 tons or 2 per cent less than those of the preceding year.

Table 43. Cacao: Imports and exports

(Thousands of long tons)

	1953	1954	1955	1956	1957
Imports					
World total	725	716	703	729	
United States	240	217	213	245	221
United Kingdom	118	134	128	71	96
Federal Republic of Germany	74	74	73	98	109
France	48	51	44	52	60
Netherlands	66	52	59	67	75
Latin American exports					
Brazil	106	117	115	133	103
Dominican Republic	24	20	22	17	24
Ecuador	22	30	25	29	27
Venezuela	17	16	16	18	15
	169	183	178	197	169

Source: Gill & Duffus Ltd., *Cocoa Market Report* No. 108, London.

in Brazilian exports (more than 23 per cent) but cannot be completely attributed to the decline in production. There appear to be two principal reasons for the low volume of exports. Firstly, minimum export prices were fixed at a time when Brazilian cacao exports showed a seasonal decline coinciding with the period of largest supplies from Africa. During the two months following the fixing of minimum prices, transactions in Bahia cacao on the New York stock exchange were almost paralysed but recovered in the following months. Secondly, the intervention of the *Banco do Brasil* in the domestic market has tended to encourage the purchase of cacao beans by local manufacturers, in order to increase exports of finished goods. As a result, during the first seven months of the year, Brazilian exports were greatly reduced and began to increase appreciably only from September onwards.

In the other exporting countries of the area—Ecuador, the Dominican Republic and Venezuela—the market situation showed no important changes. Ecuador and Venezuela exported a volume roughly equal to that of the previous year, while the Dominican Republic registered an increase of some size, which is significant only as compared with the very low exports of 1956. This increase actually only helped to bring into line Dominican exports with those of previous years.

It is not yet possible to assess how far the rise in prices of cacao beans will affect the volume of consumption or of world imports. Preliminary information for 1957 (see again table 43) reveals a decrease in United States imports which fell back to the levels of 1954 and 1955, while the imports of the Federal Republic of Germany, France and Netherlands—the most important continental European consumers—continued to rise. In the United Kingdom, in spite of the fact that imports in 1957 exceeded those of 1956, they still remained far below those of 1953-55.

Inventories of cacao beans in the United States and the United Kingdom at the end of 1957 amounted to only 9 000 and 22 000 long tons respectively, while at the end of 1956 they were 18 000 and 35 000 long tons respectively.[14]

[14] These figures refer to United States inventories in both authorized and unauthorized warehouses in New York City, according to the New York Cacao Exchange. Inventories in the United Kingdom represent the tonnage in warehouses. Information is not available in either country on stocks held by manufacturers, distributors, etc., so that in no case do the figures given represent total inventories.

3. SUGAR

In 1957, for the first time since the entry into force of the International Sugar Agreement (January 1954), the system of quotas and restrictions on exports to the world free market[15] was suspended for a period lasting from 25 January to 19 November.[16] This fact shows that, unlike what happened in the three previous years, when restrictions on exports had to be applied at the maximum limits provided for in the Agreement, the market evolved favourably for the exporting countries during 1957. Among the main causes which determined this market situation are the following: the international tension caused by the Suez conflict, which led to purchases for stocks; the situation of the Cuban inventories which fell to their lowest level of the last five years; and the production deficit in certain European countries, particularly in Eastern Europe, some of which had been assigned export quotas under the International Agreement but were unable to use them.

Although by the end of 1957 some of these factors had disappeared, there is no doubt that their influence was decisive during the first half of the year. For example, the level of Cuban inventories indicates that, at the end of 1956, they were hardly more than a third of what they were at the end of 1955 (see table 44). Even after the 1957 crop, i.e., at the end of June, total stocks were the lowest, for the last five years and 500 000 tons, or 15 per cent, lower than in 1956.[17]

This decline in Cuban stocks reflects the gradual recovery of exports from this country after the serious decline in 1954. Yet, the volume of exports in 1956 was still below that of 1953. In 1957, it fell again 1.8 per cent below the level of the previous year.

In recent years, about 55 per cent of Cuban exports have been shipped to the United States preferential market. This proportion fel to 51 per cent in 1956 and 52 per cent in 1957, not because of any reduction in shipments to the market in question, but because of the considerable increase in shipments to the free market. The greater part of the increment in exports to the free market recorded in 1956 was shipped to the Federal Republic of Germany, Japan and the United Kingdom. In 1957, on the contrary, there was a slight decline in exports to the free market.

[15] Imports of only two countries, the United States and the United Kingdom, represent approximately 50 per cent of world imports. Nearly the whole of United States imports are subject to a preferential system, in accordance with quotas fixed by the United States Department of Agriculture. About 96 per cent of these quotas are assigned to Cuba and the rest to a number of countries including the Dominican Republic, Haiti, Mexico, Nicaragua and Peru. In the United Kingdom, about 60 per cent of total imports come from the countries of the Commonwealth and are therefore protected by the regulations of the 1951 Preferential Agreement. The rest of United Kingdom imports come from the free market. Thus, from the standpoint of world imports, it may be estimated that a rough average of 40 per cent of the total volume is covered by preferential agreements and that the remaining 60 per cent is traded on the free market. It is this free market whicch is governed by the 1953 International Sugar Agreement.

[16] As a result of the changes made in the Agreement at the International Sugar Conference, held in October-November 1956, quotas and restrictions on imports are suspended when the average free-market price for a period of 17 market days exceeds the level of 4.00 dollar cents per pound and are re-established when the average price falls below 3.90 dollar cents per pound for a similar period.

[17] Table 44 shows the situation of Cuban inventories at the end of June and December of each year. The June figures are normally the highest because they relate to the period at the end of the harvest.

Table 44. Sugar: Imports, exports and stocks

(Thousands of tons, raw and refined sugar)

	1953	1954	1955	1956	1957
Imports					
World total	12 950	12 450	13 000	13 300	
United Kingdom	3 088	2 462	2 271	2 379	2 800
United States[a]	3 452	3 499	3 638	3 904	3 905
France	406	344	313	344	400
Federal Republic of Germany	326	26	222	282	500
Netherlands	240	164	286	223	250
Canada	528	595	634	663	400
USSR[b]	10	59	620	214	500
Major exports					
Cuba	5 515	4 224	4 642	5 392	5 295
Dominican Republic	558	508	575	709	800
Brazil	256	162	573	19	424
Peru	408	422	483	428	490
Taiwan	875	523	586	733	
Philippines	785	928	917	937	
Stocks					
Cuba: 30 June	3 951	4 102	3 895	3 371	2 876
31 December	1 491	1 945	1 622	659	680
United States 31 Dec.	1 595	1 748	1 812	1 729	1 725

Sources: FAO, *Yearbook of Food and Agricultural Statistics* and *Monthly Bulletin of Agricultural Economics & Statistics; Revista del Banco Nacional de Cuba.*

[a] Excluding United States trade with its territories.

[b] Excluding trade of Eastern European countries with the USSR.

The share of the remaining Latin American sugar exporters in the United States preferential market is relatively small; in general, it does not exceed 10 per cent of the total exports of the Dominican Republic and Peru, respectively.[18] In other words, about 90 per cent of exports from these two countries and all of the exports from Brazil are shipped to the free market. As may be seen in table 44, the three countries mentioned increased the volume of their exports during 1957, although only in two them, the Dominican Republic and Peru, did the increase in 1957 correspond to the rising trend which has been registered during recent years. On the contrary, Brazilian exports fluctuated widely, since Brazil's domestic consumption absorbs between 85 and 90 per cent of its total production. Hence a relatively small decline in the latter leads to much bigger reductions in its exportable balances, as happened in 1956. Furthermore, the exportable volume of Brazilian sugar in 1957 was such that special subsidies had to be granted to offset the imbalance between domestic and world market prices.

As regards world imports, stress should be laid on the active part played by three countries in increasing the total volume of sugar shipped to the free market. Total imports into the Federal Republic of Germany in 1957 are considerable greater than those of the four previous years, while those into the Soviet Union, almost negligible in 1953 and 1954, reached an unprecedented volume in 1955. In the two following years, though they were less, they continued to be considerable. As already pointed out, this may be explained partly by the fact that certain of the usual sugar suppliers of Eastern Europe were unable to meet the export quotas assigned to them under the International Sugar Agreement. Finally, nearly the whole of the increment registered in United Kingdom imports was due to larger purchases in Cuba and the Dominican Republic and, to a lesser extent, in Brazil.

[18] Of the exports from Mexico and Nicaragua the percentage shipped to the United States market is slightly higher, but the total tonnage of these exports is relatively insignificant.

4. Wheat

In the last two years, the volume of world exports of wheat and wheat flour attained levels considerably higher than those of previous years. Compared with an average of 25 million tons in the three-year period 1953-55, world exports in 1956 were 32.2 million and in 1957 approximately 30.0 million tons (see table 45). In spite of this, the level of existing wheat stocks in the principal exporting countries has not yet shown any considerable decline and the problem of large wheat surpluses continues to be one of the most important factors affecting the international wheat situation.

One of the main reasons for the increase in the volume of exports in 1956 was undoubtedly the rise in import needs following the severe winter of 1955/56 which reduced production in several European countries. This decline in production and the allocation of further resources in the United States for financing operations under the surplus disposal programme were reflected in the marked rise in exports in 1956, which, as compared with 1955, were 71.6 per cent higher in the United States, 50 per cent higher in Canada and 40 per cent higher in Australia. On the contrary, French exports declined in 1956 by 50 per cent due to a drop in production. Output in Argentina was also less in 1956 and its exports fell by 30 per cent.

European production in 1956/57 completely recovered its former levels and even showed a slight rise over that of 1954/55. Hence the import requirements of many countries of this area were less than those of the previous year. While this caused a drop of about 7 per cent in world exports in 1957, as compared with those of 1956, they were still 20 per cent higher than during the period 1953-55.

Table 45. Wheat: Exports, imports and stocks

(Thousands of tons)

	1953	1954	1955	1956	1957
Exports					
World total	25 550	23 600	25 200	32 250	
United States	7 518	6 300	7 390	12 669	12 100
Canada	9 259	6 902	6 223	9 283	6 300
Australia	2 733	1 973	2 546	3 571	
France	512	1 700	2 927	1 427	
Argentina	2 552	3 043	3 714	2 568	2 700
Uruguay	69	334	498	419	136
Major imports					
United Kingdom	4 765	4 028	5 049	5 380	4 900
Federal Republic of Germany	1 852	3 359	2 435	2 971	
Italy	1 171	266	762	644	
Netherlands	975	805	841	936	
Japan	1 720	2 226	2 333	2 341	2 250
India	1 739	202	444	1 091	
Brazil	1 658	1 646	1 855	1 497	
Stocks, July					
United States	16 493	25 420	28 196	28 114	24 712
Canada	11 567	16 738	14 424	16 874	20 956
Argentina	4 354	4 218	4 491	3 538	4 218
Australia	2 586	4 218	4 354	4 980	3 130
Total	35 000	50 594	51 465	53 507	53 017

Sources: Trade figures from FAO, *Yearbook of Food and Agricultural Statistics*, and *Monthly Bulletin of Agricultural Economics and Statistics*; stocks figures from United States Department of Agriculture, *The Wheat Situation*, WS-156, Washington.

In spite of the decrease in European demand, total exports from the United States remained at a level very close to to that of 1956, while those of Canada—the world's second biggest exporter—declined by more than 30 per cent. It therefore seems reasonable to conclude that in 1957 the United States maintained its exports at the expense of Canadian exports. As a result of the special advantages offered to importers by the United States surplus disposal programme and the success with which the United States has carried it out, Canada has adopted an export policy which may compete with that of the United States and which is based on the allocation of long-term credits. It has put this system into practice in a recent sales agreement signed with Pakistan.

As may be seen in table 45, Argentine exports during the last two years were considerably lower than in 1955. While these decreases have been determined partially by reduced export availabilities, the keen competition from sales conducted by the United States under its surplus disposal agreements have obviously played an important role. This competition has been particularly notable in a traditional market for Argentine wheat, like Brazil, and led to the three-year agreement signed between Brazil and the United States at the end of 1956. Under this agreement, Brazil undertook to purchase 1.8 million tons of wheat during the following three years, financing its purchases of those and other surplus commodities by means of a credit granted by the United States Import-Export Bank repayable in 40 years. In addition to these purchases on credit, Brazil undertook to buy not less than 130 000 tons annually for cash from the United States. The quantities negotiated for under this agreement represent approximately 50 per cent of Brazil's total wheat imports.

From the point of view of the principal world exporters of wheat (see again table 45) the most important decline occurred in the United Kingdom. Following the recovery of European production, most countries of this region reduced their total volume of wheat imports by varying percentages, a decline which was partially offset by the rise in purchases by India and a number of countries which absorb relatively small quantities of world imports.

5. Cotton

The United States cotton surplus disposal programme seriously affected Latin American cotton exports in 1957. As was pointed out before,[19] the initial effect of the programme was to lower world market prices for different types of Latin American cotton during 1956, although this decline was partly offset by an increment in the volume exported by Mexico and Peru. In 1957, prices were approximately the same as in the previous year, but the total volume of exports from the three main Latin American producer countries was considerably reduced, by 44, 40 and 32 per cent in the cases of Brazil, Mexico and Peru respectively. Nevertheless, exports from the last two countries in 1956 were the highest recorded during the last eight years and this level was due, at least in part, to the virtual stagnation of United States exports during the first six months of 1956. For this reason, it is more accurate to compare the volume of exports in 1957 with those in 1953-55, from which it appears that Mexico's and Peru's exports for 1957 were respectively 11 and 14 per cent lower than the average for the period 1953-55.

Table 46 shows that important changes took place in world cotton trade during the last two years. As regards the exporter countries, the most oustanding feature was the substantial increment in exports from the United States, which exceeded the figure originally taken to represent its equitable share of the world cotton trade.[20] The drop in prices and the unusually favourable conditions for sales effected pursuant to Public Law 480 undoubtedly stimulated the cotton trade, since they both encouraged consumption and induced the major importer countries to replenish their stocks which had fallen to very low levels in the preceding year. But the success of the United States programme meant a fall in Latin American cotton prices in 1956 and a substantial reduction in its volume of exports in 1957. In Brazil and Mexico also, it meant a reduction in cotton production and in the area sown to this crop.

Very little information is available on the position of the small Central American cotton producers (El Salvador, Guatemala and Nicaragua). Preliminary data indicate that their exports followed the same pattern as those of other exporters in Latin America, i.e., they increased quite subtantially in 1956 and then dropped sharply in 1957, although their volume in the latter year was higher than in 1953-55.

Among the importer countries, Japan continued to be the world's leading buyer of cotton. In 1956 and 1957, it

[19] See section I, p. 49.

[20] When the United States introduced its new cotton surplus sales policy, its declared intention was to recover its traditional position in the World cotton market through the sale of some 5 million bales (1.1 million tons) in the marketing year August 1956-July 1957. Actual exports in that year amounted to 7.6 million bales (1.7 million tons), thus exceeding the target by 50 per cent.

Table 46. Cotton: Exports, imports and stocks

(Thousands of tons)

	1953	1954	1955	1956	1957
Exports					
World total[a]	2 450	2 680	2 385	2 795	
United States	644	941	563	1 032	1 600
Mexico	234	259	353	422	250
Brazil	139	309	176	143	80
Peru	88	85	87	110	75
Egypt	346	288	277	235	
Pakistan	282	139	168	132	
Major imports					
France	284	313	267	283	
Federal Republic of Germany	240	285	264	292	350
United Kingdom	339	378	300	341	
Italy	152	161	139	183	
Belgium-Luxembourg	92	106	92	97	
Netherlands	70	72	74	71	
India	110	124	110	113	
Japan	484	489	441	601	620
Stocks, August 1					
United States	1 215	2 109	2 429	3 149	2 433
Mexico	39	25	58	13	17
Brazil	433	260	179	141	122
Peru	30	49	57	28	22
Egypt	179	100	133	66	95
Pakistan	87	54	56	36	50
World total[a]	3 465	4 111	4 462	4 788	4 422

Sources: FAO, *op. cit.*; stocks figures from *Quarterly Bulletin of the International Cotton Advisory Committee.*

[a] Excluding the USSR and the countries of Eastern Europe.

imported 30 per cent more than the average for the previous three years. The United Kingdom, the Federal Republic of Germany and France, which are the other major importers, also increased their total volume of imports although on a smaller scale.

One of the basic principles of the United States surplus disposal policy is that it may considerably reduce the stocks accumulated in that country and set a better balance between production and consumption. Table 46 shows that, on 1 August 1957, cotton stocks in the United States were 23 per cent less than on the same date in 1956 when they reached their peak level for the whole period in question. Production estimates for the agricultural year 1957/58 also indicate that the harvest will be the smallest for the last five years, mainly owing to the decline in cotton production in the United States. This, together with the successive increments recorded in annual cotton consumption, implies that the world market for this crop is becoming more stable. In this respect it should be noted that the Soviet Union and the countries of Eastern Europe have stepped up their rate of cotton consumption beyond that of production and will therefore have to import more in the present season. All these factors make for an improvement in the world market situation. The relative recovery in prices for some grades of fibre in recent months is also symptomatic of such improvement.

6. Wool

The successive rises in world wool consumption during the past three years led to an improvement in prices during the last season and an expansion in the volume of exports from some of the leading world exporters. Although the market was slightly weaker at the start of the 1957/58 wool season, it was favourable on the whole during 1956/57. For various reasons, the Latin American exporter countries did not increase their sales but suffered a reduction in their export volume.

It is clear from table 47 that the volume of exports from Australia and New Zealand, on the one hand, and from Argentina and Uruguay, on the other, follow very different trends. That of the first two countries shows a steady upward movement, while the export volume for the others either declined or remained virtually the same. The large volume of exports from Argentina and Uruguay in 1952/53 was due to the sale of surpluses held over from the two previous seasons.

It is evident that the export trend is connected with production volume. For instance, the British Commonwealth countries increased their output in the last five years, while that of Latin American showed little change. In addition to this relative stagnation of production in Latin America, wool exports from Argentina and Uruguay suffered from the frequent alterations in foreign exchange policy and official surrender values, which, during some periods, even interfered with the negotiation of sales abroad. Government policy in this field was obviously aimed at maintaining the competitive status of wool exports on the international market at the current rates of exchange, whenever a drop in external prices produced an imbalance between the latter and domestic prices. But the measures taken to support exports were usually short-lived. Examples of these are the various occasions on which the wool sales tax in Argentina was suspended and re-introduced, the granting of foreign exchange subsidies for specific periods in Uruguay

Table 47. Wool: Major exports and consumption

(Millions of pounds)

	1952/53	1953/54	1954/55	1955/56	1956/57
Major exports[a] (actual weight)					
Australia	1 066	1 071	1 045	1 152	1 303
New Zealand	383	390	411	407	441
South Africa	217	229	250	261	252
Argentina	462	210	231	245	217
Uruguay	206	118	109	147	96
	1953	*1954*	*1955*	*1956*	*1957*
Consumption (clean basis)					
Major manufacturing countries[b]	1 841	1 662	1 730	1 880	1 950
Others	864	932	928	1 000	
World total	2 657	2 557	2 614	2 880	

Sources: International Wool Secretariat, *World Wool Digest;* United States Department of Agriculture, *The Wool Situation,* and *Foreign Crops and Markets.*

[a] Wool season for the Commonwealth countries, July to June; for the Latin American countries, October to September.

[b] The countries included are: Australia, Belgium, Canada, Federal Republic of Germany, France, Italy, Japan, Netherlands, Sweden, United Kingdom and United States.

and, more recently, the paralysis of sales by Uruguayan exporters intent on exacting a more favourable exchange rate.

Table 47 indicates that Australia and New Zealand increased their exports during the last season, while Argentine and Uruguayan sales dropped 12 and 34 per cent respectively. The reduction in exports from the latter country is unduly large in comparison with the previous year's figure, since, in 1955/56, exports of surpluses from previous years were protected by special subsidies. In comparison with the level in 1953/54-1954/55, the drop in 1956/57 amounted to only 14 per cent.

It is also important to note certain changes that took place in the destination of wool exports from Argentina and Uruguay. Both cut their exports to the United States in 1956/57 by a much larger proportion than the decline in the total volume of exports. Argentina also sent a much smaller quantity to Japan, but increased its sales to the Soviet Union, Italy and the Netherlands. Apart from substantially curtailing its exports to the United States, Uruguay also exported less to the Netherlands, the United Kingdom and France.

In 1956, world consumption of wool exceeded the figure reached in 1953 after dropping markedly in 1954 and 1955. The figures corresponding to the main manufacturing countries show that total consumption in 1957 was greater than in the preceding year (see again table 47).

7. Non-ferrous metals

(a) *Copper*

World production of copper in 1957 registered the same figure as in 1956.[21] This may appear anomalous in view of the annual increments of 10 per cent achieved in 1955 and 1956, but it may be explained by the depressed state of the world copper market in 1957, and especially by the

[21] According to figures in the United Nations *Monthly Bulletin of Statistics,* world exports of copper castings amounted to 3.02 million tons both in 1956 and 1957.

plans for production cuts announced by groups of producers in the United States and Africa during that year. Chile did not officially take any measures in 1957 to curtail production, but its output was almost 2 per cent less than in 1956. In mid-January 1958, however, it was officially decreed that copper production in 1958 was to be approximately 90 per cent of the 1956 level, always provided that the other major copper-producing countries took similar measures.

As previously stated,[22] the copper market slump was the combined result of large increases in production in recent years, the slow growth of consumption and its decline in certain industrial sectors, and the reduction or termination by various countries of purchases for their strategic stockpiles. The result was that inventories of refined copper, both in the United States and in other countries, began to rise rapidly and, by the end of 1956, had almost reached the same level as in 1953, which was likewise a critical wear for the copper market.[23] Stocks continued to expand during 1957, however, and at the end of that year were 200 per cent larger in the United States than at the close of 1955, while in other countries they increased 73 per cent during the same period. Total stocks of refined copper rose 107 per cent between the end of 1955 and that of 1957 (see table 48).

In spite of the sharp drop in prices on the world market, and the weakening of copper demand —the original cause of the price deterioration—, the volume of Chilean copper exports was maintained at a satisfactory level in 1957, exceeding 1956 exports and reaching the peak level for the post-war period. This increment in export volume, together with the slight drop in production mentioned earlier, seems to indicate that stocks of refined copper in Chile were lower at the end of 1957 than in 1956, although the exact figures are not known.

While there has been no fundamental improvement in the copper market during the early months of 1958 in comparison with its situation in previous months, the price decline has at least been stopped. It is important to note that Chile has taken steps to expand the copper markets by authorizing the export of some manufactured goods to Eastern European countries. In mid-January 1958, according to reports, the first contract was signed for the sale of 20 000 tons of copper wire to the Soviet Union[24] and hence the minimum annual quota allocated for domestic processing, which had originally been fixed at 27 600 tons, was raised to 42 000 tons.

	Price *Dollar cents per pound*	*Production* *Thousands of short tons*
Copper	27.5	1,000
Lead	14.75	350
Zinc	12.75	550

Copper exports from Mexico, which are fairly small, were 21 per cent less than in 1956, while those from Peru increased by 16 per cent between the same years. Although complete data are not available, the drop in exports seems to have been paralleled by a decline in production. The serious drop in copper prices led to another phenomenon which may have very unfavourable repercussions on Latin American exports: the renewed demands of United States producers for a change in the system now governing copper imports. United States legislation provides for an import tax of 2 dollar cents per pound, but the law has been suspended for consecutive periods (at the moment until 30 June 1958), provided that the price of copper on the United States domestic market does not fall below 24 dollar cents per pound during any calendar month. This did not actually happen until the early months of 1958, but the price on the United States market has already come very close to the minimum level (24.5 dollar cents per pound in the first three months of 1958).[25] Among the latest data, one outstanding feature was the bill submitted to the United States Congress in mid-May 1958 proposing a system of subsidies for the production of certain minerals, including copper, lead and zinc.[26] Under this scheme guarantee prices would be fixed for a specific level of production for each metal, and producers would be paid a subsidy representing the difference between the guarantee and market prices. The guarantee prices and the subsidized output figures proposed in the bill are as follows:

(b) *Tin*

The problems of the international tin market are not due to excessive production but rather to stagnation in consumption as a result of technological innovations in the use of tin. In recent years, surplus production created no selling problems since it was absorbed by the purchases of the United States, United Kingdom, Canada and other countries for their strategic stockpiles. Nonetheless, in 1957, these countries stopped all purchases and two of them—Canada and the United Kingdom—informed the International Tin Council of their intention to sell part of their strategic

[22] See section I, p. 50.

[23] As indicated in table 48, at the end of 1953, stocks of refined copper in countries other than the United States were almost double those held at the end of each of the three preceding years. The situation of Chile, which was one of the countries with the largest stocks, was normalized only when the United States bought 100 000 tons of Chilean copper for its strategic stockpile.

Table 48. Non-Ferrous metal: Exports and copper stocks

(Thousands of tons)

		1953	*1954*	*1955*	*1956*	*1957*
Exports						
Copper:	Chile	319	375	412	430	456
	Mexico	88	85	80	79	62
	Peru	32	38	41	44	51
Tin:	Bolivia	35	29	28	27	28
Lead:	Mexico	207	204	185	156	169
	Peru	106	107	107	121	119
Zinc:	Mexico	339	347	370	371	395
	Peru	98	113	147	144	147
Copper stocks						
United States		81	43	55	110	164
Others		254	164	145	212	251
World total[b]		335	207	200	322	415

Sources: Yearbook of the American Bureau of Metal Statistics, New York, June 1957; *American Metal Market,* New York, 18 March, 1958; *Statistical Bulletin of the International Tin Council,* March 1958.

[a] Refined copper stocks, end of period.

[b] Excluding Australia, Japan, Norway, Sweden the USSR and Yugoslavia.

[24] *American Metal Market,* New York, 8 February 1958.

[25] In mid-April 1958, the United States Government announced its decision not to request the suspension of the law for a new period, which means that the copper import tax will be automatically re-introduced as from July 1958. The rate to be established eventually will be 1.8 cents per pound due to the tariff reductions made under the General Agreement on Tariffs and Trade (GATT).

[26] According to information sent by wire and published in *El Mercurio,* Santiago, Chile, 23 May 1958.

stockpiles to private consumers. In the United States, the transfer of the Texas refinery to private enterprise at the beginning of 1957 meant that Bolivian tin would no longer be processed in that refinery for the United States strategic stockpile. Thereafter Bolivian exports went to swell the United Kingdom's supplies of tin for sale. Furthermore, the Soviet Union appeared on the scene as on exporter of tin to European markets and contracts were signed through the London Metal Exchange for purchases of tin from that country.

In spite of all these drawbacks, the deterioration in tin prices on the world market in 1957 was not as severe as that in prices of the three non-ferrous metals, owing to the purchases made by the Manager of the Buffer Stock set up under the International Tin Agreement.[27] Although efforts to guarantee minimum price levels on the world market have been fairly successful, the problem of surplus production is still unsolved. Apart from their effect on world market prices, the purchases effected for the Buffer Stock have resulted in the concentration of surpluses in the Buffer Stock instead of in the producer countries themselves. For this reason, tin inventories in the United Kingdom[28] which, at the beginning of March 1957, had amounted to scarcely 363 tons, soared during subsequent months, reaching 12 182 tons at the end of the year and 17 985 tons by 1 March 1958.[29]

During the last months of 1957, Buffer Stock operations had an important influence on the market and contributed decisively to maintaining tin prices near the minimum level laid down in the Agreement. Nevertheless, also at the end of that year, the International Tin Council decided that the activities of the Buffer Stock should be supplemented by the introduction of export quotas for producer countries, in view of the ever-increasing gap between production and demand, and accordingly fixed the quotas for the first half of 1958.

Bolivia is the only Latin American tin exporter. Since 1954, its tin production and exports have been declining yearly as a result of inflation, the organizational problems arising from the transfer of the mines to State ownership, the gradual exhaustion of the richer deposits and a number of other factors connected with the technical and administrative aspects of mining. Although the Government has already initiated a reorganization programme for the *Corporación Minera,* whch comprises all the nationalized mines, it has not yet succeeded in pushing production up to levels comparable with those of 1953 and preceding years. Thus the volume of exports during 1954-57 fluctuated only slightly (see again table 48).

[27] The International Tin Agreement authorized the establishment of a Buffer Stock through contributions in money and metal from producer countries. Floor and ceiling prices of 640 and 880 pounds sterling per ton respectively were originally fixed as the limits of the price scale within which it was hoped to stabilize tin quotations. This scale was modified in March 1957 when it was divided into three price sections and the floor price was raised: the Buffer Stock Manager is permitted to buy tin in the lower third which ranges from 730 to 780 pounds sterling per ton, but may neither buy nor sell at prices in the middle third of 780 to 830 pounds per ton, unless the International Tin Council decides otherwise, and he may sell in the top third of 830 to 880 pounds sterling per ton.

[28] Most of these inventories are regarded as belonging to the Buffer Stock.

[29] According to information in the *American Metal Market,* New York, 11 March 1958.

(c) *Lead and zinc*

Although the United States has not suspended all purchases of lead and zinc for its strategic stockpiles, the monthly volume of such purchases in 1957 was much smaller. Moreover the motor vehicle and building industries, which represent the greater part of lead and zinc consumption in the United States, have been more or less at a standstill in recent years. The weakening in lead and zinc demand has not been counterbalanced by a substantial reduction in world production which, on the contrary, in 1957 exceeded the levels attained in 1956. In these circumstances, lead and zinc prices showed a persistent downward trend in 1957, although the leading Latin American exporters of these metals—Mexico and eru—succeeded in maintaining their export volume at much the same level as in 1956 (see again table 48).

Nevertheless, the major concern of the Latin American producers is not the fall in prices which has taken place so far but the renewed pressure on the part of certain groups in the United States for the adoption of measures to protect domestic production of these two metals. Such measures were set forth in the bill designed to establish a system of subsidies for the production of copper, lead and zinc, referred to earlier in this chapter.[30]

8. Petroleum

Venezuelan exports of crude petroleum and derivatives in 1957 were 11.5 per cent more than in 1956. This increment was not, however, solely attributable to incidental factors connected with the Suez crisis, although the interruption of petroleum supplies from the Middle East for several months naturally increased demand for supplies from other regions, among which the nearest (from the standpoint of the European importer) are the Gulf of Mexico and the Caribbean. It is important to note, however, that both production and exports of Venezuelan petroleum have shown a steady upward trend during the last five years, as is borne out by the 1957 figures which are 55 per cent above those of 1953 (see table 49).

Colombia and Mexico export far less than Venezuela,

[30] See 7 (a), last paragraph.

Table 49. Petroleum: Exports and imports

(Millions of cubic metres)

	1953	1954	1955	1956	1957
Exports:					
Venezuela:					
Crude	77.7	84.0	93.9	107.4	121.5
Derivatives	18.7	20.1	23.5	27.2	28.5
TOTAL	96.4	104.1	117.4	134.5	150.0
Mexico: TOTAL	2.5	3.8	4.5	4.2	2.5
Colombia: TOTAL	5.1	4.8	4.0	4.7	4.3
Imports:					
United States:					
Crude	37.6	38.1	45.4	54.3	62.8
Derivatives	22.4	23.0	27.0	29.2	32.7
TOTAL	60.0	61.1	72.4	83.5	95.5

Sources: Official trade statistics for the Latin American countries. United States Statistics from *Petroleum Press Service,* London.

although petroleum constitutes at least 10 and 6 per cent respectively of the total value of these countries' exports. Mexico's exports have been rising steadily over the last five years, and in 1957 were almost double their volume in 1953. Colombian exports, on the other hand, which reached a peak of 5.1 million cubic metres in 1953, declined thereafter, and, in 1957, were 15 and 8 per cent less than in 1953 and 1956 respectively. This trend was partly the result of the relatively slow development of production and partly of the rapid growth in domestic consumption. In recent years, Colombia has encouraged the expansion of installed capacity for refining crude petroleum to such a degree that consumption of derivatives is now mainly satisfied by domestic production instead of by imports.

Although petroleum—as regards both production and export—has its own special characteristics which clearly distinguish it from other staple Latin American export items, exports of this commodity to the United States are threatened by the adoption of special protective measures in that country, as in the case of some non-ferrous metals.

This protection takes the form of requesting importing companies to restrict their imports by agreed quotas. The Trade Agreements Extension Act (1955) required the Director of the Office of Defense Mobilisation to advise the President whenever he "has reason to believe that any article is being imported into the United States in such quantities as to threaten to impair the national security". In 1955, importing companies were requested to restrict their imports, but it was not held that imports up to the middle of 1956 constituted a threat to national security. Imports scheduled for the second half of 1956 and the first half of 1957 were, however, considered such a threat, but the Suez incident occurred before any limits were imposed. During March and April 1957, importers put forward plans for imports totalling 971 000 barrels per day for Districts I to IV (i.e., the area east of the Rocky Mountains), or about 16 per cent of the expected output in the same districts, compared to 12.5 per cent in the second half of 1956.

On the recommendations of the Office of Defense Mobilisation, a Special Committee to Investigate Crude Oil Imports at the highest level was established. This Committee reported in July that the proposed imports "threaten to impair the national security" on the grounds that they would discourage domestic production and cause a marked decline in domestic prospecting and development.[31] An import limitation plan was proposed, taking "important foreign policy aspects" into account. For the period July 1957 to June 1958, companies were requested to import 10 per cent less than the average of the three years 1954-56 (with special provision for new importers). This involved a reduction of 21 per cent in proposed import schedules.[32] The Committee recommended that, unless importing companies complied voluntarily, the President should find that a threat existed to national security. District V (the Pacific region), at first excluded as a deficit area with declining output, was brought under the scheme later. Residual fuel oils were excluded from the scheme.

Table 49 shows that the total of 60.0 million cubic metres attained by imports into the United States in 1953 rose to 95.5 million in 1957, which constitutes an increment of 59 per cent. The increase over the 1956 level amounted to 14 per cent.[33]

IV. EVOLUTION OF EXPORTS BY COUNTRIES

Total exports from Latin America in 1957 remained at approximately the same level as in 1956 despite the sizeable drop in the prices of most primary commodities. (See table 50.)[34] Obviously, this was the net result of changes in the value of exports from each of the 20 Latin American countries. Hence, it involves numerous and very deep-lying differences among the countries concerned, whether their exports are similar or different. Before examining the situation by countries, a general appreciation should be made of the most important causes which determine the aggregate value of Latin American exports. The increase in volume and the higher prices of petroleum exports from Venezuela and sugar exports from Cuba offset the decreased value of coffee exports from Brazil and Colombia, cotton from Mexico and Peru, copper from Chile and wool and wheat from Uruguay.

As has been pointed out, Venezuela is one of the countries which registered a substantial increase in the value of its exports, both as a result of the increased volume of its shipments of petroleum and derivatives, which constitute 94 per cent of its total exports, and of the rise in prices of those commodities since the beginning of 1957. To a certain extent, Venezuela is an exceptional case in Latin America, being the only country whose exports have shown a steady rise during the last five years. It has been caused not only by the constant increase in the volume of petroleum exports but also by the complete lack of downward fluctuations in petroleum prices. At the same time, it is significant that the increase in petroleum exports was not determined exclusively by the favourable world market situation during the first quarter of 1957. Of course, in order to meet greater demand, petroleum output expanded from an average of 2.5 million barrels per day in the second half of 1956 to an average of 2.9 million barrels per day in the first half of 1957. However, once petroleum

[31] The report is published in the Committee on Ways and Means, "Foreign Trade Policy", Washington, 1958, pp. 1079-1087. The Chairman of the Committee was the Secretary of the Interior, and the members were the Secretary of State, the Secretary of the Treasury, the Secretary of the Interior and nominees of the Secretaries of Defense and of Labor.

[32] The Committee argued that even consumers would benefit from the restrictions despite the fact that "the low cost of imported oil is attractive". It reached this conclusion on the grounds that imported supplies could be cut off or in an emergency and "might well be diminished by events beyond our control". This vulnerability could mean that petroleum would become dearer or unavailable.

[33] United States policy to restrict imports of crude petroleum is obviously in contradiction to the large-scale and growing investments made, during the last two years, in the Venezuelan petroleum industry, mainly by United States investors. The explanation of this contradiction would seem to lie in the fact that these restrictions are only a transitory measure adopted in view of the falling-off in the demand for petroleum in the United States. It is felt, on the other hand, that long-term demand in the United States will maintain the annual growth rate of 4 per cent registered in 1951-56. Again, it is important to point out that the so-called 'independent producers" in the United States—precisely the sector which has been demanding restrictions on imports—are increasing their share in investments in Venezuela, a fact which may in the future have a mitigating effect on the pressure at present exercised on behalf of restrictions.

[34] Countries are grouped in this table according to the commodity which represents over 40 per cent of the country's total exports. "Mixed exports" are those among which no single commodity reaches this percentage.

Table 50. Latin America: Value of exports by countries

(Millions of dollars)

Exporter countries[a]	1953	1954	1955	1956	1957	Percentage variation 1956/57
Coffee						
Brazil	1 540	1 558	1 419	1 482	1 392	− 6
Colombia	622	670	597	613	513	−16
Costa Rica[b]	79	85	82	65	84	29
El Salvador	94	105	106	122	142	16
Guatemala	93	101	109	123	114	− 7
Haiti	38	56	35	47	27	−43
Nicaragua[c]	55	63	80	66	65	− 2
TOTAL	2 521	2 638	2 428	2 518	2 337	− 7
Sugar						
Cuba	669	558	595	686	810	−18
Domínican Rep.	103	121	115	122	161	32
TOTAL	772	679	710	808	971	−20
Bananas						
Ecuador	98	129	121	118	135	14
Honduras	72	57	52	75	72	− 4
Panama	40	67	71	63	70	11
TOTAL	210	253	244	256	277	8
Wheat and livestock products						
Argentina	1 099	1 029	928	944	975	3
Uruguay	282	263	195	223	128	−43
TOTAL	1 381	1 292	1 123	1 167	1 103	− 6
Metals						
Bolivia	65	74	89	80	72	−10
Chile	335	355	484	485	410	−15
TOTAL	400	429	573	565	482	−15
Mixed exports						
Mexico	603	667	807	874	732	−16
Paraguay	31	37	39	36	33	− 9
Peru	230	256	276	317	328	4
TOTAL	864	960	1 122	1 227	1 093	−11
Total 19 countries	6 148	6 251	6 200	6 541	6 263	− 4
Petroleum						
Venezuela	1 514	1 673	1 904	2 218	2 494	12
GRAND TOTAL	7 662	7 924	8 104	8 759	8 757	0

Sources: Figures based on International Monetary Fund, *Balance of Payments Yearbooks*. Figures for 1956 and 1957 based on partial estimates by ECLA.
Note: These statistics do not always coincide with those published in the national trade accounts previously used by ECLA.
[a] The countries were classified by chief exports.
[b] Exports of bananas are almost as large as those of coffee.
[c] Exports of cotton are almost as large as those of coffee.

shipments from the Middle East returned to normal, Venezuelan production fell back to its former levels, an average of 2.6 million barrels per day being recorded in the second half of 1957. In other words, the additional stimulus to the demand for Venezuelan petroleum resulting from the blocking of the Suez Canal was only temporary and, to a certain extent, merely supplemented the expansion which has already been taking place in extraction during recent years. The fact that, whereas in 1956 1 500 new wells were drilled, the figure had risen to 1 860 in 1957 also bears witness to this expansion.

This growth is not only to be observed in the petroleum industry. Production and exports of iron ore —a relatively recent activity in Venezuela— show an even more remarkable rate of increase: exports rose from barely 2.0 million tons in 1953 to 7.8 million in 1955 and 15.4 million in 1957.

Cuba, more than 80 per cent of whose sales abroad consist of sugar and cane derivatives, increased the value of its exports in 1957 by approximately 18 per cent as compared with 1956. This increase in total value largely reflects the rise in sugar prices, both on the free market and on the preferential market of the United States. The remaining export commodities—tobacco, certain mineral products and coffee—did not undergo important changes, although their relative share in total exports declined slightly as a result of the increase in sugar sales.

The value of exports from the *Dominican Republic* in 1957 was 32 per cent higher than in 1956 and was the highest for the last five years, This increase was basically due to the increase in sugar and cacao prices in the years mentioned, but the fact that the volume of exports of both commodities rose was also a contributing factor. The effect of the rise in sugar prices was greater in this country because most of its exports are shipped to the free market.[35] The increase in the volume of cacao exports in 1957 partly reflects the sale of balances accumulated in 1956, when such exports declined substantially. By contrast, there was a sharp drop in the value of coffee exports due, partly, to price reductions but largely to the decrease in the volume exported.

Although sugar only occupies second place among exports from *Peru*, the increase in sugar prices, which has already been mentioned and also an increase in the volume exported[36] largely offset the decline in the value of exports of cotton and non-ferrous metals. Total exports from Peru in 1957 were 3.5 per cent higher in value than in 1956. Although this increase is relatively small, it is significant because of the unfavourable situation of other staple export commodities. In fact, foreign shipments of cotton declined substantially as compared with 1956, although part of this decline was offset by a slight increase in prices, particularly of long-staple cotton. As regards non-ferrous metals—copper, lead and zinc—there was no decline in the volume exported but a sharp drop in prices. The decreases in the export value of the aforesaid commodities were compensated by increases in the export value of sugar already mentioned and other increases of varying amounts in exports of petroleum, iron ore, wool and coffee.

Bananas are the most important item exported by *Ecuador* and, together with coffee, have represented in recent years about three-quarters of its total exports. The increment of 14 per cent in the total value of exports from this country in 1957 was largely due to the increased volume of exports of these two commodities and to the rise in the prices of cacao, Ecuador's third biggest export. As in the case of the countries already examined, the value of Ecuadorian exports in 1957 was the highest in the last five years as a result of the constant expansion of banana exports during this period. They now bring in more than

[35] As pointed out in section I, p. 48, average free-market sugar prices in 1957 were 50 per cent higher than in 1956, while on the United States preferential market the increase in average prices between the two years was 4.1 per cent.
[36] Peruvian exports too were chiefly channelled into the free market for sugar.

50 per cent of Ecuador's foreign exchange as compared with only 8 per cent before the war.

Among the countries which depend basically on coffee exports, *Brazil* is the most important because of its large share in total Latin American exports. In 1957, the value of Brazilian exports was 6 per cent less than in 1956 and the lowest in the last five years. Although most of the reduction in the value of exports was due to the decrease in the volume of coffee sold abroad, the marked decline in cotton shipments was also a decisive factor. The export volume of cacao beans also fell considerably but this decline was partially offset by the increase in prices abroad and also by the rise in exports of manufactured cocoa. Sugar exports, which were practically negligible in 1957, attained their highest volume in the last five years. They also benefited from the substantial rise in foreign prices as all Brazilian sugar exports are shipped to the free market. In addition, there were substantial increases in exports of other secondary commodities, especially manganese, iron ore and wood. In short, the increased exports of these commodities offset by about one-third the losses in coffee and cotton earnings.

Total exports from *Colombia*, which depends on coffee even more than Brazil, were 16 per cent less in 1957 than in 1956 and the lowest for the period 1953-57. Although the decrease in the volume of coffee legally exported was only 6 per cent (in Brazil it was 17 per cent), the fall in coffee prices in Colombia was 14 per cent, while in Brazil they fell by only 2 per cent.[37] Petroleum exports (about 12 per cent of the whole) also were reduced in volume but this decrease was offset by the rise in prices. The large share of coffee in total Colombian exports—more than 80 per cent—makes the national economy extremely vulnerable in periods like the present when the world coffee market is going through a depression. Although, as a result, the need for diversifying exports has become pressing, little progress has been made in tris ports has become pressing, little progress has been made in this direction.

In *Argentina* the value of exports in 1957 was 3 per cent higher than in 1956, the recovery trend noted during the previous year thus having been maintained, but it is still lower than in 1953 and 1954. Increases were recorded in the value of wheat and other grain exports. (except maize) as a result of larger shipments rather than higher prices. The decrease in the maize crop and the consequent reduction in the exportable balance frustrated hopes that the volume of exports of this grain would rise.[38] The export value of meat and oleaginous commodities was higher, in the latter case due to a substantial increase in volume. By contrast with these commodities, declines were registered in the export values of wool, hides, quebracho extract and other secondary items.

In 1957, Argentina apparently had little difficulty in disposing of its basic export commodities on foreign markets or at any rate less difficulty than producers of non-ferrous metals, cotton and coffee. Of course, exports of wheat from United States surpluses had a somewhat limiting effect on Argentine wheat markets, but this occurred during a period when the exportable balances of this grain in Argentina were relatively low and hence there was no excessive accumulation of unsold stocks.[39] In the case of wool—a commodity which was exported less than in the previous year—there was no problem of lack of markets. On the contrary, exporters held back sales in order to benefit from possible changes in official surrender values for exports. Furthermore, two other circumstances improved still further the prospects for Argentine exports: the final signing of the multilateral agreements which constitute the so-called "Paris Club", and the resumption of trade agreements with the countries of Eastern Europe. The sending of an official mission to this group of countries at the beginning of 1958 to negotiate for the utilization of a balance of approximately 30 million dollars owed to Argentina will probably mean the renewal of exports of wools, hides, vegetable oils and other commodities to the countries in question in quantities larger than the reduced trade figures recorded in 1957.

Exports from *Uruguay* underwent an unprecedented contraction; in 1957 their value was 42 per cent less than in 1956 and thus the lowest for any year since the war. Nearly all staple export commodities were affected by the contraction, including meat. Even though, in the first nine months of 1957, meat exports showed a slight increase over 1956, this was due to the unusually low levels of such exports in 1956 and 1955. It is important to stress that the problems of Uruguayan exports in 1957 are basically related to the country's exchange policy. The imbalance between domestic and foreign prices at the official exchange rate has made in necessary to grant subsidies or special exchange rates for staple exports, mainly wool. Even so, wool exports remained low during most of 1957 and towards the end of the year sales were almost paralysed because exporters felt that the exchange rates applied to wool exports were inadequate. Exports of wheat and, in general, of all the other staple export commodities were similarly affected.

The total value of *Chile's* exports in 1957 was 15 per cent less than in 1956, as a result of the slump in copper prices. Although there was a slight increase in the volume of exports, this was not enough to offset the sharp drop in world prices. Exports of nitrates and iodine declined in value despite the larger volume exported, whereas those of iron ore showed an increase of over 40 per cent in value and volume. There was little change in exports of certain agricultural commodities (which were anyway a very small proportion of the total), although they may rise in the near future as a result of the recent Government decision to exempt such commodities from all export taxes.

The deterioration of tin, lead and zinc prices reduced the value of *Bolivia's* exports in 1957 to 10 per cent below their 1956 level. As was described earlier,[40] the operations of the Buffer Stock, set up under the terms of the International Tin Agreement, had a steadying effect on the downward trend in tin prices and, at least until the end of 1957, managed to prevent them from falling below the minimum level fixed by the Agreement. Yet Bolivia is still in a very precarious position, not only because its tin production continues to be very low, but also because lead

[37] As was pointed out in section I of this chapter, the relationship between Colombian and Brazilian coffe prices changed during the greater part of 1956; the traditional premium of the former over the latter increased considerably.

[38] For this purpose, at the beginning of the year the Government increased prices guaranteed to the producer, encouraging cattle farmers to use wheat instead of maize for fattening livestock.

[39] In addition to normal operating stocks, it has been the Government's policy in recent years to maintain a reserve of one million tons to meet emergency needs.

[40] See section III, 7(b).

and zinc exports will probably be even more affected if the United States introduces quantitative import restrictions or raises the customs duties on these two metals.[41] Exports of crude petroleum are not large enough to merit detailed consideration as yet, but they are expected to reach a significant level when the pipeline extending to the Chilean port of Arica has been completed.

Although its exports are more diversified than those of many other Latin American countries, *Mexico's* exports recorded a decline of 16 per cent in comparison with their value in 1956. This reduction was chiefly due to the smaller volume of cotton exports and the drop in prices of non-ferrous metals. There was also a decrease in petroleum exports, only partly offset by the rise in prices for this fuel. Coffee, which has become Mexico's second most important export item, registered a moderate increase in volume, which served to compensate for lower prices. The volume of sugar and cacao exports increased substantially and their value even more so, owing to an improvement in prices for both commodities. Yet their share of total exports was negligible.

V. PROSPECTS FOR 1958

During the first four months of 1958, the downward trends which had prevailed during 1957 on the world market for most primary commodities exported by Latin America were extended to others, and this development foreshadows a further deterioration in the region's trade this year. Indeed, a cursory glance at the trends noted during these first four months of 1958 reveals that the depression in prices and/or the contraction in the volume exported persisted in respect of nearly all the commodities shipped from the region. This is true even of a commodity like petroleum which had an excellent market in 1957. As pointed out in section IV,[42] Venezuelan petroleum production in the second half of 1957 fell off appreciably as compared with the first half of that year. Venezuelan exports declined during the initial months of 1958, and there is the additional fact that restrictions on imports into the United States have been intensified. The re-establishment in November of the quota system in respect of sugar exports for the free market means a reduction in the volume of Cuban exports and an even greater decline in its foreign currency earnings under this head, since sugar prices have been steadily falling. The coffee-producing countries have succeeded in stabilizing coffee prices, but they are accumulating production surpluses which may constitute a threat to the maintenance of present levels, once the existing system of export restrictions established by the Mexico Agreement comes to an end. Although the effort to arrest the decline in the prices of non-ferrous metals has been successful, there is some uncertainty about the final form which the protectionist measures in the United States will take in respect of copper, lead and zinc. There is no such danger for tin,[43] but this commodity is now subject to the export quotas fixed at the end of 1957 for the main producing countries as part of the policy of maintaining the minimum price level established by the International Tin Agreement.

The position of two other major export items—cotton and wheat—will depend for the most part on the relationship during the current year between Latin American export balances and United States surplus disposal, which is continuing with undiminished intensity. Thus, if Latin American crops are good, the problem of unmarketable surpluses will assume even greater significance than in 1957.

The only important commodity which does not follow the generally unfavourable trend in Latin American primary commodities is cacao, prices of which have maintained the high level reached at the end of 1957. Yet, even if the volume and prices of cacao exports are exceptionally good, they cannot offset to any appreciable extent the decline in the exports of other commodities.

It seems that the problem of the gap between world output and world consumption of primary commodities is widening. Of the two possible ways of closing this gap, a resumption in the previous strong upward trend of world consumption would be far preferable to restrictions on output. The increase in consumption would of course be sufficient to replace the accumulation of inventories which sustained markets up to 1956 and 1957. Unless this can be achieved, there will be mounting pressure on primary producers to limit their output, as oil, tin and copper corporations (and farmers in the United States) have already done. But, in view of the world's needs for food and manufactures, this is surely not the best solution.

[41] See section III, 7(c).

[42] See the references to Venezuela at the beginning of section IV.

[43] The quotas fixed for Bolivia for the period 15 December 1957-30 September 1958 are equivalent to an annual rate of approximately 20 000 tons, a figure which compares very unfavourably with the annual average of 28 000 tons for the period 1954-57.

Chapter III

THE FLOW OF CAPITAL

INTRODUCTION

While most exports have shown little expansion in the recent past—and indeed many of them slumped severely in 1957—another source of foreign exchange, the inflow of capital, has grown, particularly in each of the past two years.

The expansion started from a low level. During the depression of the 30's and the Second World War, the flow of capital was a mere trickle. Since 1946, in spite of occasional declines, its trend has been definitely upwards.[1] It must be stressed, however, that it still plays a relatively limited part in the area's receipts of foreign exchange and in its economic development.

These are generalizations about the area as a whole. Broadly speaking, they are true for most individual countries as well, but they require qualification in some cases. For example, the capital invested in Venezuela's petroleum industry paid for a large part of its imports over several years and, looking at the problem from another aspect, these receipts also played the major role in Venezuela's economic growth. On the other hand, the inflow of foreign capital into Argentina was very small indeed until 1955, but a fairly strong recovery took place in 1956 and 1957.

To summarize what will be described more fully below, the explanation of the recent rise is to be found in developments both outside and inside the region. Until very lately, prosperity in the United States, the chief supplier of capital, was one main influence, and the most important economies of Western Europe were able to devote part of their rising output to overseas investment, aimed at expanding production of primary commodities, for which demand and prices were moving upward. In such investment Latin America had its share. National or international banks also played a growing part. At the same time, internal developments in Latin America have been favourable to foreign investment. There have always been opportunities for foreign investment to develop the continent's huge natural resources. Domestic markets for manufactures are now providing a widening field for investment as well. Recently some systems of foreign exchange have become more favourable to the foreign investor, and developments in the monetary position of a number of countries have also stimulated the inflow of capital.

The evolution of the gross inflow of capital during the last decade is shown in table 51.[2] It will be seen that this evolution was neither steady nor smooth. Receipts periodically reached new peaks and then fell back once more. Nevertheless, it is clear that the long-term trend is upward: the average level of receipts in 1956-57 was over three times as high as in 1947-48.

Direct private investments, particularly in petroleum, have usually accounted for most of the capital inflow, and movements in this type of investment dominate both the trend and the short-term fluctuations. For example, they caused the decline in total gross receipts in 1953-54, and their contribution was decisive in the huge increase over the past two years. But in 1953 there was a sharp increase in official loans, which were then maintained at higher levels than previously though they seem not to have continued to expand. Finally, medium-term private credits have been more abundant than in the early post-war years, and this is another reason for the rise in the inflow of capital. Such loans and credits also help to check the fluctuation in total capital receipts, because of their relatively small variation from one year to the next. In contrast, short-term capital movements are highly unstable: there have been frequent changes not only in their amount but also in their

[1] However, it must be noted in this respect that the private investment of the United States abroad was less at the end of 1955 than at the end of 1930. Direct investment was larger, but long-term portfolio investment was less than half that of 1930. Western European private investment may very well also have fallen during this period.

Table 51. Latin America: Gross inflow of capital and its major components, 1947-57[a]

(Millions of dollars)

Year	*Direct private investment*	*Long-term and medium-term private credits[b]*	*Net short-term private capital outflow[c]*	*Official loans*	*Official donations*	*Total gross inflow*
1947 . .	280	—	174	110	24	588
1948 . .	472	—	—	60	9	541
1949 . .	502	—	—	122	26	650
1950 . .	115	—	52	88	13	268
1951 . .	410	140	50	220	20	840
1952 . .	640	80	170	200	20	1 030
1953 . .	320	70	—	500	30	920
1954 . .	170	110	—	410	40	730
1955 . .	330	90	40	590	60	980
1956 . .	800	110	100	450	80	1 540
1957 . .	1 250	293	67	530	100	2 240

Sources: Data published by the International Monetary Fund in *Balance of Payments Yearbooks*. For 1956 and 1957, ECLA estimates.

Note: Statistics of capital movements are defective, especially those relating to short-term private capital.

[a] Excluding re-investment of profits by foreign companies domiciled in Latin America.

[b] Including net figures for medium-term equipment credits, i.e. the net amount of foreign exchange available after payment of amortization annuities deriving from such credits.

[c] These figures show the *net* inflow of funds under this head because of the lack of statistics. In the years for which no figure is given here, there was a net outflow (see table 52).

[2] The gross inflow of capital includes official donations which are made for relief or development purposes. These grants are of a non-current and financial nature. Again, some of the donations granted in the past have been recently converted into loans because of an improvement in the balance of payments of the receiving country.

direction. Such transactions have not followed any noticeable trend and in many cases they caused violent fluctuations in the available supply of foreign exchange.[3]

Table 52 shows that in recent years there has also been a steady increase in the capital outflow. The highest outflow in a single year actually occurred many years ago, in 1948. This was due to the repurchase by Argentina and Brazil of foreign investments such as railways. Leaving aside these special transactions, which were financed with inconvertible currencies accumulated during the war, the capital outflow appears to have grown very quickly indeed. This was primarily due to the rising burden of the amortization payments on previous imports of capital. Comparing tables 51 and 52, it can be seen that amortization payments in 1956 were not more than 20 per cent less than the sums received by Latin America in new medium-term official loans and private credit.

The total gross flows in both directions are compared in table 53. The fluctuations in the net difference were wider than those in the gross flows. In fact, gross receipts and outlays often moved in opposite directions. A number of peaks can be seen, and it is noteworthy that each has been higher than the previous one. The period 1956-57 is by far the highest of these peaks. Net receipts climbed sharply after 1955, the inflow rising faster than the outflow, reflecting the rise in direct private investment. In 1956 and 1957 taken together, they averaged over 1 350 million dollars or some 15 per cent of the value of Latin American exports. However, just as in the whole period 1946-55, in 1956 and 1957 Venezuela received a relatively much larger proportion of net capital receipts than the other Latin American countries. If the net inflow of capital into Venezuela is excluded, average annual capital receipts attained the net figure of 850 million dollars in 1956/57. This also represented 15 per cent of Latin America's exports, excluding Venezuela's.

The growth of financial receipts was more rapid in Latin America than in most of the other capital-importing regions. During 1950-52, less than 10 per cent of total net United States exports of capital went to Latin America. In contrast, the corresponding figures for 1955 and 1956 were 19 and 20 per cent.[4] However, the share of Latin America in United States capital investment is still rather less than its share of United States trade: in the same two years, it bought 23 and 22 per cent of the exports and provided 30 and 29 per cent of the imports of the United States.

Detailed data are lacking on the capital flow out of other countries, but it appears that political difficulties in Asia and the Middle East have caused many Western European countries to concentrate more of their resources in Latin America; in fact there were important cases in which capital was transferred there from other regions. It also appears that, at least for the time being, there has been no substantial shift in the geographical distribution of European investment in favour of Africa.[5]

The next step in the analysis is to consider separately different types of private and official movements. Finally, the effects of capital movements in 1957 on the area and on individual countries will be assessed and the respective roles of United States and Western Europe in the supply of capital to Latin America compared.

[3] As will be seen below, short-term capital movements cover two fundamentally different types of transaction which cannot be separated because of the lack of sufficiently detailed statistics: (i) short-term commercial credits are rather stable in the short run and have tended to increase in the long run; and (ii) short-term capital movements of a non-commercial nature, mainly speculative, have been highly erratic and partly responsible for the wide fluctuations in the total.

Table 52. Latin America: Gross outflow of capital and its major components, 1947-57

(Millions of dollars)

Year	Long-term private capital[a]	Amortization and repayment of official debts	Net short-term private capital outflow[b]	Total gross outflow
1947	18	93	—	231[c]
1948	24	96	9	838[d]
1949	5	84	87	177
1950	29	165	—	194
1951	15	105	—	120
1952	15	85	—	100
1953	21	180	139	340
1954	47	253	70	370
1955	32	318	—	350
1956	40	450	—	490
1957	..	...	—	(580)

Sources: See Table 51.
Note: Statistics of capital movements are defective, especially those relating to short-term private capital.
[a] Including mainly the purchase of United States securities by Latin Americans.
[b] See table 51, note c.
[c] Including 120 million dollars for purchases of foreign-owned investments in the area.
[d] Including 670 million dollars for purchases of foreign-owned investments in the area.

Table 53. Latin America: Net inflow of capital, 1947-57

(Millions of dollars)

Year	Gross capital inflow	Gross capital outflow	Net capital inflow
1947	588	231	357
1948	541	838	−297
1949	650	177	473
1950	268	194	74
1951	840	120	720
1952	1 030	100	930
1953	920	340	580
1954	730	370	360
1955	1 110	350	760
1956	1 540	490	1 050
1957	(2 240)	(580)	(1 660)

Sources: See Table 51.
Note: Statistics of capital movements are defective, especially those relating to short-term private capital.

I. MOVEMENTS OF PRIVATE CAPITAL

1. Direct investment in Latin America

This is very much the history of United States investment in petroleum. From the end of the war until 1952, the bulk of direct investment in Latin America came from

[4] If Venezuela is excluded, the capital received by Latin America from the United States represents 7, 18 and 14 per cent of United States exports of capital to all countries of the world in 1950-52, 1955 and 1956 respectively.

[5] Foreign investment in the Belgian Congo tended to increase in recent years. But, on the other hand, the flow of capital to the Union of South Africa and to the French territories was smaller in 1956 than in 1955 excluding military transfers to Algeria. The special fund for the development of Africa, established under the Rome Treaty on the European common market, is not yet in operation.

the United States. At this time, the United States was the only country which had a great amount of savings available and part of these were attracted to Latin America by its petroleum resources. In response to the rising demand for petroleum, the United States companies developed new sources of supply especially in countries such as Venezuela, where exchange and economic policy have favoured foreign investment. From 1952 on, however, United States investment in petroleum ceased to dominate the flow of private capital to quite this extent. There were also large North American investments in the manufacturing industries and in the production of metals. The market for metals is highly sensitive to short-period movements in economic activity by contrast, for example, with petroleum, and the Korean war boom stimulated investments in new economic and geographical areas. These types of investment will be discussed at greater length below. Moreover, investment by European countries started to become significant.

Private direct investment in Latin America slackened in 1953 and 1954. This decline was due to two factors: firstly, the change from boom to recession in the United States reduced the incentive and the financial resources for investment overseas; secondly, it was a reaction to the crisis which had affected the region's balance of payments in 1952 and to the countermeasures which many countries had adopted. But it was also due to the fact that earnings in the petroleum industry had now reached a level which allowed it to finance the greater part of its development projects by reinvesting its profits instead of importing fresh capital. During this period, investment from the Federal Republic of Germany revived in some countries after a long period of complete stagnation. Still, they were not nearly sufficient to offset the decline in capital receipts from North American sources.

As a result of the conjunction of favourable, but partly exceptional, circumstances, the upward trend of foreign investment reappeared in 1955 and then accelerated rapidly. The most important reason is that there was once more a huge, and yet almost certainly temporary, increase in investment in the petroleum industry (see table 54). The lasting strength of the petroleum market, together with the implications of the Suez Canal crisis, induced petroleum companies to extend their activities in Venezuela still further when the Government offered new concessions. The net inflow of United States funds for the payment of exploration rights, which exceeded 300 million dollars in 1956, appears to have been larger in 1957, and this was additional to what could be financed out of profits on current operations. The scale of investment in 1957 appears rather curious in view of the curb on imports in the United States and the increasing competition from Middle East producers. It can be explained by the confidence producers feel in the long-run prospects of petroleum and the fact that investment normally takes several years to yield results.

Apart from United States producers, United Kingdom and Netherlands firms have recently invested heavy sums in Venezuela and are continuing to do so. There were also foreign investments in the petroleum industries of other countries, namely, Peru and Bolivia, although these were not nearly on the same scale. In some Latin American countries, including those as important as Argentina, Brazil, Chile and Mexico, petroleum development is reserved exclusively for the national Government.

Table 54. Latin America: United States investment by industries (excluding re-investment), 1954-57

(Millions of dollars)

Industry	*1954*	*1955*	*1956*	*1957*
Petroleum — Total for Latin America	−22[a]	49	365	580
Petroleum — Venezuela	7	24	333	480
Mining and smelting	17	6	50	75
Manufacturing	24	60	76	185
Other	68	26	121	160
TOTAL	88	141[b]	612	1 000

Sources: United States Department of Commerce, *Survey of Current Business*, August 1956 and August 1957. ECLA estimates for 1957.

[a] Local profits exceeded investment and made some outward remittances of capital possible.

[b] The total figure for 1955 has been revised to 193 million dollars in the August 1957 *Survey of Current Business*. New figures on investment by industry are not yet available.

Less rapid, but probably of greater long-term significance, is the increasing foreign investment in the manufacturing industries of Latin America. This trend affects more countries. It also constitutes an innovation to some extent. In the past, Latin America's manufacturing industries attracted relatively less foreign capital than other economic sectors or than their prototypes in other regions. But, because of economic development, the pattern of consumer purchases changed in most Latin American republics, and the demand for manufactures increased rapidly. In many cases, moreover, supplies of imports were blocked by tariffs, controls or discriminatory exchange rates, and yet lack of capital, or technical and managerial inexperience, often prevented domestic producers from taking advantage of these opportunities. Such circumstances, which are not likely to disappear in the near future, were in themselves attractive to foreign manufacturers. Furthermore, during recent years many Latin American Governments have provided special and often very strong incentives to encourage foreign firms to set up factories, for example in Argentina, Brazil and Chile.[6]

Developments abroad were simultaneously encouraging some foreign firms to invest in Latin America. During the past few years, both in some of the West European countries and the United States, the markets for motorcars and for some mechanical and chemical products either only expanded slowly or showed signs of being at least temporarily saturated. Manufacturers therefore found it a good deal less attractive to invest in these sectors. But profits remained high. Consequently, as import restrictions simultaneously became more severe in Latin America, often on these very items, many firms decided to use part of their funds to establish plants in this area.[7]

The Federal Republic of Germany is the most striking example of this. In 1956-57, its investment in eight re-

[6] See the chapters on the respective countries in Part Two. It is interesting to note that these are countries which exclude foreign investment in petroleum.

[7] Political reasons also explain the rising trend of investments in the manufacturing industry. In many cases foreign investors wished to link their activities with those of the economic community involved and, in a more general way, with the nation's life. Moreover political opposition to foreign capital is often reduced when it provides employment on a large scale or is used to produce goods for the home market, and these are conditions typical of investment in secondary rather than primary industry.

publics[8] reached the equivalent of an annual average of about 32 million dollars as against 11 million dollars for the period 1952-55.[9] The Federal Republic's economy has had a very favourable balance of payments in contrast with that of the other countries of Western Europe. Moreover, France and the United Kingdom traditionally make the bulk of their investment abroad in the franc and sterling areas respectively. Japan's direct investments in Latin America have been relatively small until now, but this appears likely to change in the very near future. Since the end of the Second World War political circumstances have arisen that have induced Japanese investors to pay more attention to Latin America by comparison to Asia, their conventional area of operations. In Brazil, for example, 40 investment projects are apparently in advanced stages of study. (In some cases these projects are linked with the settlement of Japanese immigrants.)

Brazil has been the favourite country for foreign investors in manufacturing, followed by Mexico, Peru and recently Chile and Cuba. The total inflow of capital from the Federal Republic of Germany into Brazil reached approximately 50 million dollars in 1956 and 1957 as against 33 million during the period February 1952 to December 1955. The motor vehicle industry appears to be receiving a good deal of the Federal Republic's capital. In addition, United Kingdom, French, Italian, and United States enterprises have recently shown interest in this sector. Argentina and Venezuela had previously been relatively unsuccessful in attracting manufacturers, but 1957 saw a noticeable change in these cases.

In the other sectors, investment has not been so great, taking the region as a whole. Investment in agriculture, chiefly United States investment in bananas, has, however, been important for some countries, especially in Central America and Ecuador. Negotiations have taken place which may also lead to investment in the lumber industry in Chile and the coffee industry in Brazil to facilitate exports suitable for manufacture of soluble grades. In Cuba, on the other hand, United States companies have been selling sugar properties to local investors.

Some increase took place in investment in utilities in recent years, but it was very small and affected chiefly the countries in Central America and the Caribbean, especially Cuba. In many countries of South America, tariffs have been too low to attract foreign capital. This is partly a result of official stabilization policies and also of the fact that, in times of price inflation, a regulated tariff tends to lag behind the general price level simply because of the unavoidable delays in changing it.

One quite new development has been substantial investment in the distribution sectors of Colombia, Mexico and Venezuela. For the most part this was effected in association with local capital, and the subsidiaries concerned concentrated much of their attention on handling locally-made commodities.

Markets improved in 1955 and 1956 for some minerals, mainly copper, iron ore and manganese, and these improvements, together with some new fiscal incentives, encouraged foreign investment in mining. Although markets weakened in 1957, investment in the mines of Brazil, Peru and Chile remained high. But it appears to have consisted mainly of the completion of programmes started in earlier years. The steep decline in metal prices naturally did not encourage companies to start on new large-scale projects.

By the year's end, the United States recession did not appear to have had serious consequences in other fields of investment. In petroleum and manufacturing, at least, the long-term outlook was still the main consideration of investors. Still there is no doubt that any severe or prolonged depression in world trade and a contraction in the profits of enterprises in the industrial countries would profoundly affect Latin America's private capital receipts,[10] as has happened in the past, especially during the slump of the 'thirties.

Although the inflow of private capital is considerably affected by general long-term and short-term economic conditions inside as well as outside Latin America, other influences should not be overlooked. The current political climate in the receiving country, or even its political history, influences investment decisions. Other factors taken into account by those considering investment in foreign countries are the foreign exchange systems and fiscal arrangements.

Some of the measures taken by the Governments of capital-exporting nations have undoubtedly constituted a source of satisfaction to investors. The United States Economic Co-operation Act of 1948 had already established a scheme under which investment could be insured against the dangers of expropriation, inconvertibility and the impossibility of transferring funds, and the Mutual Security Act of 1956 added war risks to this list. But the United States insurance programme is applicable only when a bilateral agreement with the capital-importing country has been concluded. Since such agreements implicitly limit the local Government's powers in the field of exchange policy, various Latin American republics, e.g. Argentina, Brazil, Chile and Mexico, have not yet signed one, although negotiations are still in progress.[11] The scheme has mostly been applied to investment in other developed areas. At the end of 1957, the total value of contracts insuring United States investments in all under-developed countries did not exceed 35 million dollars, and in Latin America, insurance cover totalling 9 million dollars had been provided only for investments in two countries: Guatemala and Peru. At the same date, however, the applications pending for investment guarantees in Bolivia, Colombia, Ecuador, Guatemala, Haiti, Paraguay and Peru amounted to 70 million dollars.[12]

[8] Argentina, Brazil, Colombia, Chile, Ecuador, Peru, Uruguay and Venezuela. Based on information provided by the Government of the Federal Republic.

[9] During the entire period 1952 to 1957, Latin America as a whole received about 120 million dollars in direct investments from the Federal Republic of Germany, or 30 per cent of the world total invested by that country. Its positive trade balance is partly attributable to its distinctly liberal export credit policy, thanks to which it has been able to regain markets lost as a result of the Second World War.

[10] Speaking at the International Industrial Development Conference in San Francisco, October 1957, the Vice-President of the United States pointed out, in connexion with the proposed extension of the Reciprocal Trade Agreement, that an enlargement of trade was necessary if the flow of private United States investment overseas was to be soundly based. He added that his Government intended to stimulate private investment abroad.

[11] In the case of Colombia the agreement only covers the risk of inconvertibility.

[12] This is still small in comparison with the total insurance cover provided under the scheme. See Raymond F. Mikesell, *Promoting United States Private Investment Abroad,* National Planning Association, Washington, Planning Pamphlet No. 101, October 1957; and International Co-operation Administration, *Investment Guaranty Handbook,* Washington, September 1957.

The co-operation of private investors in the development of the economically less advanced countries has been encouraged by the increasing use of another device: projects involving both foreign and domestic capital often find a more favourable political climate than those financed exclusively by foreigners.

Foreign capital has in the few past years been accorded somewhat more favourable treatment in exchange systems than hitherto. Controls on remittances of profits have been gradually relaxed in various Latin American countries and, in many cases, Governments were prepared to guarantee that earnings on certain types of investment would be convertible into foreign exchange. But further measures of this sort will depend to a large extent on how the general economic situation develops.

In the field of taxation, several discouraging factors still exist, although certain changes tending to promote foreign investment have recently been introduced. Tax legislation, and especially the high rates fixed, are in several cases the product of economic, social and political conditions which change slowly if at all.[13] Another bar to the flow of capital is double taxation. This is a subject which has been much discussed, but so far the only general agreement which has been concluded by a Latin American country is that between Honduras and the United States, signed in Washington, on 25 June 1956. This convention follows the general pattern of other similar international agreements. Its main feature is that the amount of the tax payable in Honduras by a United States investor on income originating in Honduras can be deducted from his United States tax liability. Latin American republics which are currently negotiating double tax agreements with the United States include Chile, Cuba, Mexico and Peru. The two last countries apparently contemplate deferring part of their taxes on the income of a branch of a United States corporation until such income is transferred abroad, the purpose being to encourage re-investment of profits. A treaty recently signed between the United States and Pakistan contains another interesting feature which may act as a precedent for agreements with Latin American countries. According to a provision of this treaty, which still awaits ratification by the United States Senate, a United States company would be authorized to deduct from its domestic taxes the full tax which would be due under normal Pakistan taxation procedures, even though Pakistan may in fact have exempted the company concerned from all or part of this liability as a special investment incentive.[14] The United Kingdom recently made a unilateral decision to eliminate double taxation, without waiting for further international agreements. These fiscal developments have a great potential significance for the future course of direct investment.

Another method of placing private investment overseas is to purchase the shares of foreign corporations. In the past few years, United States residents have bought a large volume of shares in European companies. But few Latin American shares have been bought by residents of the United States or of other foreign countries.[15] One explanation is that the New York Stock Exchange does not list the securities of any Latin American company, while it lists those of many other foreign corporations.[16]

2. Long-term and medium-term loans from private sources

In the past, especially prior to 1929, bond issues in the United States and Western Europe were important sources of private capital for Latin America. From the beginning of the Second World War until very recently such issues have been completely suspended. There were some cases of default; private lenders felt unable to protect their investment fully because they had little control over the use to which they were put; and, above all, the economic situation of many countries and their exchange systems were radically transformed during the war.

Developments in 1957 suggest that bond issues may once more become a method of financing investment outlays in those Latin American countries with freely convertible and stable currencies. In the past few months, a Mexican newsprint mill has prepared a bond issue of 7 million dollars, and an issue totalling 2 million dollars will soon be made to finance the development of public utilities in Panama. The amounts involved are, however, small and the use of bond financing will be limited so long as present monetary and financial conditions continue. Besides, medium-term equipment credits and official development loans are in part a substitute for bond issues, since they also provide capital for long-term investment in sectors where this form of finance used to be common.[17]

While bond issues have almost been eliminated by balance-of-payments difficulties, medium-term credits have been stimulated by them up to a point. These credits began to be granted in volume around 1953. They were made available to various South American countries whose capacity to import was hardly sufficient to pay for the materials, fuel and spare parts needed to sustain current economic activity. They therefore had little to spare for purchasing new capital goods, although their fast economic growth strongly encouraged the demand for equipment. At first, European suppliers were the only ones to grant credit of this sort, but later North American and Japanese exporters joined them. In the past three years, medium-term credits have been extended to a growing number of Latin American republics, including those which are actually in a position to pay cash for the equipment, and there has been a tendency to lengthen the period of repayment.[18]

[13] If foreign investors obtain a sizeable share of a nation's resources indefinitely or for a very long time, this may cause a feeling of frustration in the country concerned, especially when the yield of those resources is high in relation to the original investment. Heavy taxation is often then an alternative to expropriation.

[14] Normally, under these agreements, the United States tax is reduced only by the amount of the foreign tax actually paid. This means that a capital-importing country can hardly attract more capital by a special fiscal concession, since the rise in the tax payable in the United States offsets the concession.

[15] It should be noted that, in October 1957, all exchange controls were removed from transactions in foreign securities by residents of the Federal Republic of Germany.

[16] During a visit to Latin America in 1957, the President of the New York Stock Exchange outlined the conditions which have to be satisfied before securities are listed, and said that the sale of common stock in New York could be an important source of capital (see *El Mercurio,* Santiago, Chile, 12 November 1957).

[17] As a means of remedying possible monetary and financial instability, recourse is had to the compensatory clause in respect of deferred payments. See the article on this subject in the *Economic Bulletin for Latin America,* Vol. II, No. 2, pp. 73-81.

[18] For example, in the case of equipment for the Chilean railways, a contract negotiated with Italian suppliers in 1957 and worth 33 million dollars provided for repayment over 11 years, whereas the equipment will be fully delivered by the end of 1961. Yet there appears to be a consensus of opinion among Govern-

There are cogent economic arguments to justify these developments. Imports of goods financed in this way permit countries to make investments which need some years to mature but afterwards have a high physical and monetary yield, making it possible for them to finance the amortization. These credits can be compared to advances granted by banks inside a country for equipment or modernization programmes, when an increase in the firm's capital or a long-term bond issue would be inadvisable or perhaps impossible. Private banks or exporters in exporting countries are thus often able to refinance medium-term equipment credits and, in some cases, this can be done through an official bank specially created for the purpose (for example, the *Banque Française du Commerce Exterieur)*.[19] But amortization of an international debt raises other problems. It is not sufficient for the borrowing corporations to earn enough locally to pay the annuities; sufficient foreign exchange has also to be acquired by the country concerned. For this reason, this type of transaction is mainly adopted where imports of capital goods will make it possible to produce either more exports or more substitutes for imports. In such cases, the economic rationale is even stronger. The exporting country can often afford to wait for payment, and a number of Governments, such as those of the United Kingdom and the Federal Republic of Germany, have established institutions to insure lenders against the failure of importers to repay the credit either because of the commercial failure of the firm or the country's lack of foreign exchange.[20] There is now fairly keen competition among exporters for business which can be financed in this way.

In 1957, the upward trend in this type of credit continued in Latin America as a whole and in most republics of the area. Mexico, Chile and Peru, for example, were able to defer payments on a higher proportion of their machinery imports, and have had new factories built by foreign enterprises without an immediate cost in foreign exchange. The most striking developments have taken place in Argentina and Brazil. By means of a system of tenders, Argentina obtained, during 1957, credits amounting to 300 million dollars, of which only part has yet been used. Under Act 1807, Brazil registered applications for medium-term financing (at a favourable exchange rate) reaching a value of nearly 500 million dollars, although the credit actually used during the year was again a good deal smaller.

These credits will be a strong help to the economic growth of the countries concerned. But on such a scale they involve heavy commitments of foreign exchange. The annual redemption charge will increase in Argentina by about 45 million dollars in the near future. In Brazil, amortization charges will rise to well over 100 million dollars per annum, i.e. more than 10 per cent of the total capacity to import.

Obviously, the capacity of a country to receive credits is limited by its capacity to reimburse them. Moreover, from the point of view of the lending countries there are other limitations to the increase in medium-term equipment loans. Since exporters nearly always have to find the necessary credit from sources outside their own balance-sheets, such investment is vulnerable to changes in official policy. To begin with, some exporting countries find that this type of export strengthens inflationary pressures. In August 1957, the Central Bank of the Federal Republic of Germany announced that henceforth it would cease to purchase medium-term export drafts. General anti-inflationary financial policies, such as those recently pursued in France and the United Kingdom, are likely to make it still more difficult for suppliers to find the capital which they need. Its availability also depends on general economic developments. If a worldwide economic recession were to appear, commercial transactions based upon medium-term credits would seem very insecure as a field of investment.

3. The outflow of long-term private capital from Latin America

If amortization payments, which are responsible for the bulk of the outflow on capital account, are excluded, the export of long-term capital from Latin America is at present relatively small. Shortly after the war, several large privately-owned assets, for example, the Argentine railways, were bought by Latin American republics, but since then such payments have become insignificant. Gross disinvestment by foreign individuals or corporations also appears to have been a good deal less important in the past few years than in 1952-54, no doubt for the same reasons that gross investment increased.[21]

Of the various types of transactions covered in this section, only the export of capital by Latin American residents seems to have continued to cause any appreciable loss of foreign exchange. While direct investment abroad by Latin American residents has always been rather low and concentrated in fields ancillary to foreign trade, such as banking and insurance, purchases of shares and bonds in United States corporations are quite common, especially in Mexico and the Caribbean countries. The relevant available statistics show an annual average outflow of funds from Latin America of 30 million dollars during the period 1955-57, but this is not all long-term capital. A high, although unknown, proportion of the purchases of securities made by residents of Brazil, Chile and other South American republics should really be excluded from this amount, since they can be regarded as short-term or medium-term capital movements. In fact a large part of these purchases are intended to protect private funds which are waiting for domestic investment opportunities against depreciation of the national currency. When suitable opportunities occur and offer higher rates of profit than foreign securities, allowing for any anticipated exchange depreciation, these are sold and the sellers repatriate and invest the proceeds in their own countries.

Although the amount of United States shares and bonds bought each year by Latin Americans appears to be of limited importance in comparison with amortization payments and *a fortiori* with the gross inflow of capital, the cumulative purchase of equity holdings over a long period has been considerable. According to unofficial estimates, Latin Americans now hold a little over 700 million dollars worth of United States securities. This figure must include equity assets belonging to Latin American official banks, which should be counted as part of their foreign exchange re-

ments of capital exporters that it would be unwise to allow periods of repayment to be increased indefinitely by competition for orders.

[19] Recently the Export-Import Bank also increased its refinance of this type of credit considerably.

[20] Similar arrangements are also available for short-term credit. Since August 1957, the United Kingdom has ceased to make these facilities available in the case of trade with Colombia.

[21] It should be borne in mind, however, that statistics on the outflow of private capital are notoriously defective.

serves. Nevertheless private holdings certainly represent more than half of this total. Latin America is thus deprived of the use of an appreciable amount of its savings. It must be emphasized, however, that the present total value of United States shares in the hands of residents in Latin America is partly due to the exceptional rise in stock exchange quotations in the United States since the post-war period. When these shares are repatriated—if they ever are—the net agains of the Latin American country concerned may be considerable. From this point of view, the financial operation in question therefore has certain advantages.

4. Short-term private capital movements

During the last decade, short-term private capital movements were usually erratic and sometimes had very unfavourable effects on the capital accounts of countries in the region. The main reason appears to have been the great instability of purely financial transactions. Commercial credits also varied, but their fluctuations were much less important at least over the short-term.[22] It is, however, at present impossible to distinguish between these two types of capital movement from the statistics available, which are in any case very unreliable, and only general remarks will therefore be made about the trend and significance of each.

The level of short-term commercial credits depends to a very large extent on current exports and imports and on foreign exchange reserves. In the immediate post-war period, the total commercial credits granted by Latin America exceeded those received. This was possible because of the strong external position of many countries. Afterwards, when the situation changed completely, the balance of financial transactions under this heading led to an increase in the external liabilities of Latin America. Owing to its short-term nature, the net annual inflow of this sort of capital is usually not great and it changes rather slowly from one year to another. During the past two years special circumstances in Argentina provoked a big increase. In 1956, many of Argentina's suppliers agreed to cease using the "import prepayment" system which had been applied since 1950 to a high proportion of Argentine imports because of the failure to pay current trade debts. As a result, short-term Argentine commercial assets were freed for repatriation. Furthermore, in 1957, various United States bankers decided to re-open lines of credit to Argentina, and this decision alone meant a rise of about 5 per cent in Argentina's capacity to import.

During the past ten years, short-term capital movements of the other kind, i.e. those which are independent of commercial transactions, have fluctuated violently. One, although not the most important, explanation lies in political developments. There was a net outflow of short-term capital after the war because funds, which had been lodged in Latin America to avoid war risks, were repatriated. Countries such as Argentina, Mexico and Uruguay were affected by this outflow, which does not appear to have been very great compared to total external payments. There were also sudden inward movements of capital during the Korean hostilities, and again during the Suez crisis, but these were only transitory and were quickly reversed. Exports of short-term capital from many countries in Western Europe continue to be restricted and Latin American republics are no longer so popular as places of refuge for "hot" capital.

A commoner reason for speculative movements of short-term private capital in recent years has been the desire to escape the consequences of currency depreciation or to take advantage of differences in interest or exchange rates. For example, a considerable amount of capital fled from Mexico to the United States before the devaluation of the peso in April 1954, and then returned afterwards.

As regards Latin America as a whole, the net inflow of total short-term capital flows in 1955 was in distinct contrast to the outflow registered in 1954 (see again tables 51 and 52). Furthermore, net receipts in 1956 and 1957 were larger than in 1955. Two of the main causes of this favourable evolution were the establishment of more liberal exchange systems and the application of anti-inflationary measures in various countries, such as Argentina, Bolivia, Chile, Colombia and Paraguay. Controls on short-term private capital movements, however strict, usually fail to block completely the flight of funds, when the internal economy is under strong inflationary pressures. Conversely, any progress towards monetary stability tends to strengthen confidence. It encourages owners of capital to keep funds in the country or to repatriate those which were earlier transferred abroad in fear of currency devaluation. The trend is particularly apparent when, as has usually been the case, the anti-inflationary policy includes a tighter control on bank credit, for this reduces the money available for transfer abroad and, indeed, residents are often forced to repatriate some of their capital lying overseas.[23] Movements of this type have been important for Brazil and Chile.

The very nature of speculative private capital movements rules out the possibility of saying much about their prospects. But developments since 1955 have enabled short-term capital to provide a growing share in the capacity to import of Latin America as a whole and of many individual countries in the region.

II. Movements of official capital

Loans and donations granted by Governments and international organizations are a relatively new source of capital for Latin America. Before the war, such transactions were on a small scale but they have been important during the past decade, especially since 1953. Financial co-operation not only between individual countries, but also through the United Nations and its specialized agencies, has now become an outstanding feature of the world economy. Still, official investment is not yet nearly large enough to supplement private capital, especially in sectors which private investors are reluctant to enter, and to create a total inflow of capital adequate for Latin America's development needs.

In 1953, the net inflow of official capital, most of which

[22] Short-term commercial credits do not include here foreign debts which were not paid when due. The accumulation of such debts shows, *a posteriori,* the inadequacy of total external receipts and exchange reserves to finance external expenses. It can be considered a compensatory capital movement outside the scope of this chapter (see Part Three).

[23] One particular anti-inflationary weapon, which has become increasingly popular in recent years in Latin America, has some special significance in this connexion. This is the requirement that importers make prior deposits on overseas purchases, the effect being to tie up their capital for several months. Yet, in some cases, importers have been successful in shifting part of this burden on to their suppliers by insisting that they cannot make purchases without some form of financial assistance. The effect is to increase the inflow of short-term capital.

comes from the United States, helped to relieve balance-of-payments difficulties in the region, and partly made up for the low level of receipts from private sources. In 1954 and 1955 it fell back, however, while in 1956 there was no net inflow, because the amortization burden on earlier loans was rising, while new loans were being granted at about the same rate. In 1957, the situation remained much the same as in the preceding year.

There is now some prospect, however, that official capital will henceforth flow more freely and make a net positive contribution to the region's resources. Export-Import Bank officials have indicated that this institution will expand its operations in the years ahead.[24] The newly-created International Finance Corporation will specialize in investing capital in private ventures, although for the time being the resources of this Corporation are not large enough to permit a heavy programme of operations. Lastly, a Development Loan Fund of 300 million dollars was established by the United States Congress in 1957 for investment in projects that could not satisfy the requirements of other agencies.[25]

1. Government capital

Nearly all Government capital has come from the United States. It consists of loans obtained from the Export-Import Bank in Washington, of credits granted to finance the buying of United States agricultural surpluses and of donations and special loans under the foreign aid programme of the United States Government. Some Latin American republics also received large operating credits from European countries and Japan as part of bilateral trade agreements, but in the last few years the progressive return to private trade and to multilateralism has virtually eliminated this type of credit. Certain European countries have also granted a number of Latin American republics special refunding loans to help them solve the difficulties arising from the accumulation of unpaid debts, so as to permit the resumption of normal trade. Furthermore, as has been pointed out above, official institutions, mostly in Europe, have insured, and others have refinanced, the medium-term equipment credits granted by private banks and exporters.[26]

The primary purpose of the Export-Import Bank is to promote the international trade of the United States. At the same time the Bank's operations in fact contribute to the capacity to import and to the economic growth of Latin America. Most of its loans are of a long-term character. They have to be spent on equipment made in the United States; they have to be used to develop a well-defined economic activity; and their amount is carefully calculated in the light of amortization possibilities, after the general economic situation of the prospective debtor has been taken into account. Its funds have benefited a wide variety of industries, but until now the Bank has tended to grant only a small amount of loans to Government enterprises in industries which might be suitable for private investment, if United States companies were permitted to enter them, e.g. the petroleum and electric power industries.

In comparison with the preceding year, 1957 saw a decline in new authorizations by the Export-Import Bank, but there was a sharp increase in disbursements (see table 55). Still, the undisbursed balance of the development credits already granted[27] amounted at the end of the year to approximately 647 million dollrs, while the outstanding debt of Latin America to the Bank reached 713 million dollars; there is therefore one certain source of capital in 1958 and later years. In 1957, the long-term capital Latin America actually received from the Bank for development purposes rose to some 181 million dollars, whereas the redemption payments on this type of loan reached 80 million dollars, giving a net inflow of 101 million dollars, compared to a net outflow in the previous year.

The experience of 1957, together with more recent events and official statements, appear to indicate that, after having increased the authorized amount of development loans earlier, this Bank is now entering upon a new stage in its operations and expanding its effective disbursements. In his 1958 budget message to Congress, the President requested a 2 000 million dollar increase in the Bank's lending authority, because its existing authority of 5 000 million dollars is expected to be exhausted some time in 1959. Although a rise in disbursements could benefit all the countries of the

[24] In June 1957, the mandate of this Bank, which would have expired in 1958, was extended to 1963.

[25] A Special United Nations Fund for Economic Development, with resources amounting to 100 million dollars, was also established by the General Assembly in 1957, but its activities will be limited at first to enlarging the scope of the United Nations Technical Assistance Programme. The Assembly decided that, if its resources increase to a level which permits it "to enter into the field of capital development", its functions should be reviewed (resolution 1219 [XII], adopted on 14 December 1957).

[26] The Venezuelan Government announced in 1957 that it proposed to make development loans to various countries in Latin America but this programme has not yet taken definite shape.

[27] Most of the outstanding loans have been granted since the end of 1954.

Table 55. Latin America: Loans from the United States Export-Import Bank, 1950-57

(Millions of dollars)

	1950	1951	1952	1953	1954	1955	1956	1957
New authorizations	188	131	156	311[a]	153	220	420	250
Disbursements for development purposes	50	37	97	98	108	73	75	181
Disbursements for balance-of-payments purposes[b]	24	92	5	300	—	45	—	53
Total disbursements	74	129	102	398	108	118	75	234
Amortization payments	−46	− 39	− 43	− 46	− 85	−118	−130	−130
Net receipts by Latin America	28	90	59	352	23	—	− 55	104

Sources: Eximbank reports. For 1957, ECLA estimate.
[a] Including a loan of 300 million dollars to Brazil for balance-of-payments purposes.
[b] These disbursements were made to fund unpaid debts.

region, it might be especially significant for Argentina. Until 1954, this country received practically no development loans from the Bank. Since then it has obtained two, one of 100 million and the other of 60 million dollars. The disbursements made on these loans were small up to the end of 1957.

Apart from the long-term development loans, the Export-Import Bank has granted special medium-term credits to various countries. These credits—few in number but large in amount (see again table 55)—were for a different purpose: to consolidate unpaid debts to United States traders so as to permit normal trading and financial relations to be resumed.

These trade debts emerged during the balance-of-payments crises which affected various Latin American countries in one year or another. Between 1946 and 1950 it was possible to finance deficits in the balance of payments out of the exchange reserves which had accumulated during the war. By 1952, the reserves were no longer more than barely adequate for essential needs, and fresh deficits made it difficult for countries to meet their external obligations. Although import controls were strengthened in order to check the rise in unpaid commercial debts, in a number of cases these still mounted alarmingly, and it became clear that they could be paid off quickly only by cuts in imports so drastic that internal economic activity would be severely affected.[28] The countries involved therefore tried to consolidate their debts and to obtain from the Governments of the United States and other creditor countries funding loans which could be paid off over a period of years.[29] In 1953, Brazil consolidated its sterling arrears with the United Kingdom and obtained from the Export-Import Bank a 300 million dollar medium-term credit to pay off United States traders, besides securing a further funding loan from the same Bank in 1955 for a sum of 45 million dollars. Western European countries and Japan agreed in 1957 to consolidate the debts due by Argentina on various bilateral accounts. Through the so-called "Paris Club" agreement, unpaid obligations amounting to approximately 360 million dollars were converted into a ten-year loan by the European Governments concerned. In 1957, Colombia obtained from the Export-Import Bank two refunding credits, totalling 60 million dollars, and changed short-term private arrears into medium-term official debts.[30] These credits had strong and favourable impacts on the external position of the countries involved. Of course refunding loans did not increase the total amount of foreign exchange available to finance imports, but they prevented a steep decline, since they spread debt payments over a period of several years.

The United States programme for disposing of surplus agricultural commodities is primarily designed to clear inventories of products bought under the price support programme. Since the payment in dollars involved at the time of purchase is only partial or nil, it is equivalent to lending foreign exchange to the buyers to enable them to make the purchase. Usually the receiving country pays for most of what it receives in local currency, these transactions being known as "special" sales.[31] Like any other inflow of capital, it enables the receiving country to import more than it exports, and is thus attractive to countries suffering from balance of payments difficulties and dependent on imports of staple foods which the United States can supply. So far the Latin American recipient countries and the main agricultural commodities involved have been the following: Argentina (fats and oils); Bolivia (wheat and flour); Brazil (wheat, fats and oils); Chile (wheat, fats and oils); Ecuador (fats and oils); Mexico (feed grains); Paraguay Colombia (wheat and flour); Ecuador (fats and oils); Mexico (feed grains); Paraguay (wheat and flour); and Peru (wheat and flour).

Three countries—Venezuela, Cuba and Mexico—which have relatively strong currencies and which made large purchases of United States farm products, did so under normal commercial procedures, while five countries—Argentina, Bolivia, Brazil, Chile and Colombia—whose external balances have been weak in recent years, obtained most of the "special" disposal sales which do not require settlement in dollars. More than half of the total has benefited one country: Brazil. As can be seen in table 56 the agreements covering agricultural supplies which are to be sold against national currencies have covered greater amounts each year.[32] Their significance in individual cases may be illus-

[28] The non-payment of due obligations is of course a very unsatisfactory way of compensating a deficit in the balance of payments, since the debtor resorts to it unilaterally. In fact, suppliers have sometimes suspended deliveries to the debtor country or added a premium to their prices to cover the risk of default.

[29] In the case of Argentina, it was already necessary for the Bank to grant a credit of 100 million dollars for this purpose in 1950 which was disbursed mainly in 1951.

[30] Private lenders have also granted medium-term credits. In 1954, Brazil obtained a 200 million dollar credit from private United States banks, which also provided Colombia with 27 million dollars in 1957. Moreover, private exporters of European countries accepted amortization arrangements which involved postponement of the payment of over 30 million dollars of Colombia's trade debts. (United States exporters also accepted amortization arrangements, but the debt to them was nearly all repaid during the year.)

[31] Transactions under the surplus disposal programme fall into two broad groups. The first, and most important, includes exports under grants, donations, barters and, above all, sales settled in local currencies, according to title I of United States Public Law 480 which came into effect in July 1954. These are the "special" transactions. The second group involves credit sales where dollar payments are required. In the years 1956-57, the sales settled in local currencies represented 71 per cent of the Latin American total. Barter transactions and dollar credit sales accounted for 10 and 3 per cent respectively of the total exports to Latin America under the programme. Grants and donations of surpluses are included under the head of "donations".

[32] The sales to Latin American countries under title I represented 7 per cent of the world total up to the end of 1957, although the value of agreements represented 15 per cent of their corresponding world total.

Table 56. Latin America: United States surplus sales against payment and loans in national currencies[a]

(Millions of dollars)

	Total sales agreed	*Actual sales made[b]*	*Loans contracted in national currencies of the importing countries*
First 6 months 1955	22	...	14
Fiscal year 1955/56	124	70	89
Fiscal year 1956/57	167	69	142
Last 6 months 1957	23	...	16
Total up to December 1957	341[c]	...	261

Source: Based on a statement by the Secretary of Agriculture to the United States Senate Committee on Agriculture and Forestry, 17 January 1958.

[a] Under Public Law 480, Title I.

[b] This differs from the previous column partly because agreements cover a period of time (in some cases several years), but also because they may lapse (as in the case of the agreement with Brazil in respect of transactions in 1957) without being completely fulfilled.

[c] Market value f.o.b. United States ports (306 million dollars), plus ocean freight financed by the Commodity Credit Corporation (35 million dollars).

trated by the fact that, in 1957, surplus sales to Chile represented approximately 6 per cent of its capacity to import.[33] However, the United States programme is leading in some cases to a decrease in the prices and volumes of exports by Latin American countries which sell the same commodities in the world's markets.[34] Against the foreign exchange advantages accruing to some Latin American countries under the programme must be set the loss sustained by others.

Apart from their balance of payments effects, transactions under this programme present another aspect, which will be discussed here only briefly. A high proportion of the proceeds in local currencies is lent by the United States Government to the buying countries for approved investment projects. Some loans have to be repaid in dollars or strategic items, while others can be amortized in local currencies over a period of up to 30 years. All Latin American republics which have received "special" shipments have benefited by such loans, which indeed may be considered as development loans. Up to December 1957, the authorized loans (worth an equivalent of 261 million dollars) accounted for 76 per cent of the sales covered by agreements with Latin American countries. This proportion is well above the 55 per cent which the United States has lent to the world as a whole since the "special" programme was started. The majority of the local loans in Latin America went to Brazil, reflecting its heavy purchases of commodities under this scheme. If Chile, Colombia and Argentina are included, the four countries received nearly 90 per cent of the total. Over the short and medium term such loans are undoubtedly of great assistance to the beneficiary. But in the long run their amortization may give rise to payments difficulties if the total amount of the debt thus contracted is not kept within reasonable bounds.

While more than 41 per cent of all loans authorized by the Export-Import Bank during the last decade, and approximately 7 per cent of the local currency sales under the surplus programme since it started went to Latin America, this area has received only a very small share of the donations and loans granted by the United States as military or economic aid, namely, 2 per cent of the world total from the end of the war until 30 June 1956. In contrast to other areas, the main channel of official capital flow between the United States and Latin America is the Export-Import Bank. Economic aid and military aid amounted to about 70 million and 100 million dollars respectively in 1957. The former consisted partly of technical assistance,[35] which is not strictly a capital inflow but rather a donation of current services which would probably not have been bought but for the programme. Although grants and loans under this head continued to rise in absolute value in 1956 and 1957, they were still rather small compared to other types of flow considered in this chapter.

In some individual countries, however—Bolivia, Guatemala and Haiti, for example—United States economic aid was very significant. Grants of food to Bolivia represented more than 20 per cent of the capacity to import in 1955 and 1956 and a still higher proportion in 1957. Because of this aid, the grave economic situation of Bolivia was alleviated and it could continue in 1957 its efforts to re-establish internal monetary stability.

In November 1957, the United States Congress approved the creation of a Development Loans Fund. The Fund's activities will not be closely linked with the country's foreign trade as in the case of the Export-Import Bank and the surplus disposal programmes. The new organization is intended to promote the growth of the less advanced countries, especially as regards social facilities and basic capital. But in one respect it will follow the practice of the Export-Import Bank: no loans will be granted to national petroleum industries.[36] The resources of the Fund for the first year of operation will amount to 500 million dollars, including 300 million dollars of initial capital. The President of the United States has already asked Congress for further resources totalling 625 million dollars for the period 1958/59.[37]

Although, in the cases cited above, European Governments have extended short-term or medium-term loans to Latin America for financing bilateral trade or amortizing unpaid debts, and are of course also making investments indirectly via international organizations, the United States has been the region's only direct source of long-term Goverment capital. Most Governments of Western Europe have concentrated this type of investment in their own overseas territories, and it is not the policy of the Government of the Federal Republic of Germany to make loans to other Governments.[38]

The establishment of the Development Loans Fund, and the planned increase in the disbursements of the Export-Import Bank, do not mean any change in the basic policy of the United States regarding the respective roles of private and official capital. The principle that private capital must shoulder most of the burden of financing economic growth was re-affirmed by United States officials during the Organization of American States Conference held at Buenos Aires in September 1957. Likewise the United States Government continues to hold that more private funds would be invested in overhead facilities, such as transport and electricity, if public policy in the under-developed countries enabled them to become remunerative.[39]

2. Movements of capital through international organizations

Within the framework of the United Nations there are three institutions providing financial assistance to Member States: the International Bank for Reconstruction and Development, the International Finance Corporation (IFC) and the International Monetary Fund (IMF). The activities of the Fund will not be studied in this chapter but in

[33] It should be borne in mind, however, that a small fraction of the local currency counterpart is used by the United States embassy in current expenditures, and thus the whole of this local currency payment cannot be considered a saving in foreign exchange.

[34] See chapter II.

[35] Military aid is not taken into account in this chapter. It is connected with imports of military equipment or services, which are in most cases secret and of limited economic significance.

[36] According to statements made in March 1958 by a director of the Fund at a meeting of the Inter-American Economic and Social Council and published in *El Mercurio,* Santiago, Chile, on 7 March 1958.

[37] As of March 1958, firm requests for loans amounted to 1 500 million dollars, of which 20 per cent originated in Latin America.

[38] A statement by the Minister of Economic Affairs of the Federal Republic in Washington, published in *The New York Times* on 25 March 1958.

[39] Statement made by the Under Secretary of State for Latin America at the beginning of October 1957, reproduced in *La Nación,* Santiago, Chile, on 11 October 1957.

Part Three.[40] A credit granted by this institution is intended to assist a country during temporary deficits in its balance of payments and may be considered to be a financial movement of a compensatory nature. Suffice it to say here that, in 1957, the operations of the Fund expanded in Latin America as well as in the rest of the world, but not enough to prevent severe losses of reserves in some countries, and the adoption of Government measures to restrict imports in a number of others.

In several respects, the loans of the International Bank are similar to those granted by the Export-Import Bank.[41] For example, the International Bank limits its lending to the estimated cost of the imports required for each project[42] and usually does not grant credits under the following conditions: if the borrowing country can obtain funds from private sources under reasonable conditions; if its repayment capacity is regarded as insufficient; or if the service of the external debts has been suspended unilaterally. Nevertheless there are important differences between the two banks. Firstly, while the loans of the United States institution must be spent on United States exports, a borrower can freely use the proceeds of International Bank loans to make purchases in any member country. Secondly, the resources of the International Bank are smaller than those of the other bank, especially if the planned increase in the latter's lending authority is taken into account. But the resources of the International Bank are also expanding. Apart from its capital stock, it obtains further funds from bond issues in the world's financial markets.[43] In 1957, these issues were considerable, amounting to almost a quarter of the total bonds already sold. Financial markets which have already been used, such as Switzerland, are taking up new issues, and the Federal Republic of Germany recently became a fresh source of finance. These developments may mean an increase in the rate at which loans are granted by the Bank, an improvement in which Latin America may share. Up to now, the disbursements made by the International Bank to countries in Latin America do not represent a high proportion of the region's gross capital inflow and they have recently declined. After having risen to 100 million dollars in the calendar year 1956, they appear to have fallen back to 70 million in 1957. If amortization payments are taken into acount, net receipts probably did not exceed 45 million dollars in 1957 as against 65 million and 80 million in 1955 and 1956 respectively. Judged against the Bank's total operations, however, these figures do not seem so small. Latin America's share in all its disbursements, which averaged only 5 per cent in the early years (1946-49), reached 25 per cent for the period 1950-55, although the figure for 1956/57 appears to have been a little lower (see table 57). Since the end of the war until now, Latin America has received altogether an effective gross sum of approximately 600 million dollars from this source, which enabled all the countries of the area, except Argentina,[44] Bolivia, Cuba, the Dominican Republic and Venezuela, to make a number of key investments, especially in transport and the production of electricity.

According to the information available, the investments of the International Finance Corporation in Latin America do not yet exceed a few million dollars. This affiliate of the International Bank, which started operations in 1957, is composed of 49 member countries, and its capital amounts to 91 million dollars. The types of investment which are eligible for financing by the IFC are restricted to private and well-managed enterprises, principally in the less developed regions. Government participation may actually rule out IFC finance, if this participation is "of a significant extent". Investments are made in association with private capital and often carry a right to participate in profits. If the profits appear insufficient to attract private capital, the enterprise is not considered eligible. The Corporation intends to concentrate on industrial sectors in its early years. The usual term of its investment is between 5 and 15 years, but its policy is to try to circulate its funds more quickly by selling assets to private investors, if it can obtain a reasonable price for them.[45]

III. COMBINED RESULTS OF RECENT CAPITAL MOVEMENTS

The inflow of private capital increased in 1957 and official capital movements showed a considerable positive balance, whereas in the preceding year amortizations under this head had almost entirely offset receipts. Consequently, the total net inflow rose steeply as it had done in 1956. This positive balance of the capital account, provisionally estimated at 1 660 million dollars, exceeded the total remittances of profits and interest abroad for the first time since

[40] See the chapter entitled "Pressures on the balance of payments".

[41] See section II, 1. Refer also to the International Bank publication *The World Bank, Policies and Operations,* June 1957, especially chapter 5, "Major operational policies", pp. 37-53. It must be added that, according to the Bank's President, its officials are determined to keep its procedures flexible.

[42] The reason for this limitation is that it "is a practical way of assuming that (countries) will mobilize their own resources to meet a substantial part of the cost" (*op. cit.,* p. 46).

[43] In recent years new funds have also been raised by selling items in its loan portfolio to private investment institutions in the United States and elsewhere.

[44] Argentina joined the Bank only in 1956.

[45] International Finance Corporation, *Booklet on Policies and Procedures,* Washington, September 1956.

Table 57. Latin America: Loans granted by the International Bank for reconstruction and development, 1950-57

(Millions of dollars)

	1950	1951	1952	1953	1954	1955	1956	1957[a]
New authorizations	53	85	54	30	100	123	73	80
Disbursements	39	57	66	60	69	78	100	70
Amortization payments	—	—	— 1	— 2	— 7	— 13	— 20	—25
Net receipts	39	57	65	58	62	65	80	45

Source: Based on official reports of the International Bank. Annual statistics given here relate to calendar years, while the Bank's annual reports cover the period 1 July-30 June.

the war. Nevertheless, these recent developments are not quite so promising as they appear to be.

In the first place, if Venezuela is excluded, the net inflow of capital into Latin America in 1957 does not work out at more than 901 million dollars, or 45 per cent less than the figure given in the preceding paragraph. Moreover, almost 77 per cent of the rise in the net financial receipts between 1955 and 1957, which altogether amounted to about 1 127 million dollars, can be put down to the increase in the flow of capital to Venezuela, due mainly to purchases and exploitation of new petroleum concessions (see table 58). So the improvement in the capital account of Latin America reflects to a very large extent the results for a single industry in a single country. Moreover, the inflow into Venezuela will hardly be maintained indefinitely at quite this level. Petroleum concessions are granted only at long intervals, and in Venezuela the sale of exploration rights which took place in 1956 and 1957 was the first to have any importance since 1948. In the next few years continued heavy investment will be necessary to finance exploration and the drilling of new wells, but a decline in total investment seems inevitable.[46] During the last quarter of 1957, there was already some decline, and past experience suggests that, in the Venezuelan petroleum industry, re-investment of profits can finance a growing proportion of the total capital requirements, unless this total climbs very rapidly as it did in 1956 and 1957.[47] Again, if the present stagnation of petroleum demand were to continue for any length of time, there would presumably be a sharp decline in investment in this industry, even in long-term investment.

Secondly, the increase in the region's net capital receipts was partly due to the improvement in short-term capital movements from 1955 onwards. During the last three years there has been a net inflow of such capital, in contrast with the net outflows registered in 1953 and 1954. This development was undoubtedly favourable to Latin America, but it too could hardly be completely maintained, and in fact there was a decline in 1957. Much of the inflow can be put down to the repatriation, in a few countries, of funds which had previously fled from the region. The improvement in relation to 1957 is also due to the progressive elimination of the system of prepayment for Argentine imports.

The were also increases in the capital contributed which had a wider impact and seemed likely to be more lasting. Direct investment in industries other than petroleum rose by 340 million dollars between 1955 and 1957 (see again table 58), medium-term credits grew rapidly and disbursements by official institutions, mainly the Export-Import Bank, were accelerated in the latter year.

While a very high proportion of the direct investments in 1957 was concentrated in Venezuela and provided this country with foreign exchange amounting to 33 per cent of its earnings from exports, the remainder of the region's inflow of capital was distributed among a number of individual countries. The case of Argentina was particularly striking: in 1957 the net inflow of capital represented 14 per cent of the export receipts as compared with only 4 per cent in 1955. This was partly due to a rise in short-term and medium-term credits, but there were also some increases in direct private investment and in disbursements by official institutions. In Brazil, Chile, Colombia, Cuba, Mexico and Peru, the gross inflow of capital rose a good deal in comparison to the levels of 1956, mainly because of the growth of private direct investment in manufacturing and the mining industries, the expansion of medium-term credit or the increase in the flow of official funds, such as those associated with surplus agricultural commodities. But, on the other hand, amortization payments rose steadily too and, all in all, the net inflow of capital increased a good deal less than the gross inflow in relation to 1956. Although little information is available about the situation in other Latin American republics, it seems that in 1957 net financial receipts were also not very different from the 1956 figures for most of them. In some of the Central American and Caribbean countries fairly substantial outflows of short-term private capital seem to have been registered.

The distribution of capital inflow by exporting countries also reflects the rise in investment in the petroleum industry of Venezuela. United States companies are responsible for the bulk of this. In the past two years, however, there has been a much larger net inflow of capital from Western Europe than before (see table 59). Western Europe accounted for 17 per cent in 1956 and 24 per cent in 1957 of the net supply of capital resources to Latin America, if the petroleum industry is excluded (see table 60). This was mainly attributable to higher levels of investment in manufacturing, and to rising medium-term equipment credits. According to available data, the annual average attained by the Federal Republic of Germany's direct investment in five countries—Argentina, Brazil, Chile, Peru and Uruguay—was probably 60 per cent higher in 1956-57 than in 1955. Similarly, United Kingdom investment in these same countries seems to have risen quite rapidly in recent years.[48]

[46] The new concessions oblige the companies concerned to invest large sums over a short period in exploration regardless of the immediate market prospects. It is estimated that 1 500 wells will be drilled in 1958 as against 1 860 in 1957, which was a record. This figure for 1958 would still be slightly higher than the number drilled in 1956 (*Oil World*, 15 February 1958). It should be recalled in this connexion that much of the development is attributable to the "international independents", which do not have the financial resources of the older companies and consequently, having paid for concessions, are compelled to develop them intensively so as to recoup their capital as quickly as possible.

[47] Petroleum production may not be quite so profitable for a time.

Table 58. Latin America: Recent trends in the net inflow of capital and its major components

(Millions of dollars)

	1955	1956	1957[a]
Direct investment in petroleum industry {Total for Latin America	70	500	650
{Venezuela	40	450	580
Direct investment in other industries	260	300	600
Short-term private capital movements	40	100	67
Other capital movements[b]	390	150	343
Total Latin America	760	1 050	1 663
Venezuela	60	383	62
Total Latin America excluding Venezuela	700	667	901

Sources: Based on data published in the IMF *Balance of Payments Yearbooks*. Partly ECLA estimates.

Note: Statistics of capital movements are defective, especially those relating to short-term private capital. Re-investment of local profits, an important source of capital, especially for the petroleum industry, is excluded.

[a] Preliminary estimate by ECLA.

[b] Including all long-term and medium-term capital movements, net of amortization payments.

[48] On account of statistical difficulties, no figures can be given for United Kingdom direct investment in the Latin American

Table 59. Latin America: Distribution of the net inflow of capital by sources

(Millions of dollars)

Source	*1955*	*1956*	*1957*
United States	610	780	1 215
Western Europe	85	190	400
International Bank	65	80	45
TOTAL[a]	760	1 050	1 660

Sources: ECLA estimates, based on data published in the IMF *Balance of Payments Yearbooks,* and official statistics provided by the countries concerned.

[a] Including inflow from areas other than those shown.

Table 60. Latin America: Distribution by sources of net inflow of capital excluding direct investment in the petroleum industry

(Millions of dollars)

Source	*1955*	*1956*	*1957*
United States	550	390	635
Western Europe	75	80	330
International Bank	65	80	45
TOTAL[a]	690	550	1 010

Sources: ECLA estimates, based on data published in the IMF *Balance of Payments Yearbooks,* and official statistics provided by the countries concerned.

[a] Including inflow from areas other than those shown.

Despite the expected decline in United States investment in Venezuelan petroleum, Western Europe's share may cease to rise or, at least, to rise dramatically. United States official investment is expected to increase. Moreover countries such as Belgium, France and the United Kingdom plan substantial investments in Africa; the Governments of some African countries or dependent territories are contemplating the possibility of issuing bonds for the first time in the Western European financial markets; and the establishment of a European common market will mean increased official investment in Africa and more opportunities for private capital as well (besides tying up more capital in Europe itself). Yet the shift of European investment away from Latin America may not be as drastic as these considerations would indicate since certain types of investment—for example, in the manufacture of motor vehicles—will still be more profitable in Latin America.

In any event, it appears very doubtful whether in the next few years the net total of financial resources received by Latin America from all the developed areas will be kept up to the record level reached in 1957. The most favourable outcome which could be reasonably expected is that an expansion in private investment in the manufacturing industries and a rise in development loans and medium-term credits would increasingly offset, although not completely, the inevitable decline in investment in the petroleum industry.[49] But developments will be much less favourable unless general economic conditions in the industrial countries improve and international official financial co-operation is strengthened.

It is true that just as the rise in the total in the past two years chiefly affected Venezuela so will any decline. Other countries may generally experience a continuation of the upward trend. But this is a trend in a relatively low figure. If investment in the Venezuelan petroleum industry is excluded, but this time re-investment of profits is included the total net inflow of capital from all countries and international organizations was about 1 100 million dollars in 1957. This amount, which was far greater than in any other post-war year, did not represent much more than one-tenth of total investment in Latin America (excluding Venezuela)[50] and is still inadequate for the task of developing the great economic potential of the region. Since Latin America's capacity to save is limited, mainly because of its low level of income, investment continues to be too low to make possible a rapid and self-sustaining rate of growth. In fact even the level of internal investment actually undertaken in recent years has severely taxed the resources of the region. Development programmes have produced inflationary strains which have made it very difficult for some Governments to carry them out. The pressure of development on limited resources shows itself in particular in the form of a chronic weakness in the balance of payments. The result of heavy internal investment is an import surplus, since domestic savings cannot cover it fully. Again, since the inflow of capital is insufficient for the purpose, this surplus has been financed, in some countries, by reducing reserves of gold and foreign exchange to very low levels and, in others, by running up trade debts. In both cases the results include periodic foreign exchange crises, speculation against the currency and an outflow of private capital.

Foreign investment is also concentrated in a rather narrow area of operation at present and is not playing any great part in developing the economic and social infrastructure on which further economic growth must be based. This is because of the nature of the sources of funds. Private investment, the main source, is only incidentally concerned with developing social services or food production for the home market. The Export-Import Bank and the International Bank loans are only helpful in meeting direct import requirements and are often small for investment in agriculture, schools, hospitals, roads, water supplies, sanitation and other community services.[51] Foreign private capital is certainly available for the petroleum industry, but only on terms which mean a high outflow of profits. If a country attempts to develop the equity in these resources for itself, it finds that loans are not available, and similar difficulties apply to financing the development of electric power supplies. Certain distortions are therefore imparted to the pattern of development, which limit the region's economic growth.

Chronic economic difficulties, due to countries trying to force the pace of development without adequate foreign financial assistance, are greatly increased if exports fail to rise and still more if they decline. The situation in 1958 is that, because of declining exports, many countries are finding they have to take measures to reduce imports. Since

countries mentioned. The publication entitled *United Kingdom Balance of Payments White Papers* (London, Her Majesty's Stationery Office), although the most reliable sources for such data, groups different kinds of capital movements under the same head.

[49] During the last quarter of 1957, there was a decline in the total outflow of private capital in the United States but an increase in Government grants and loans abroad.

[50] This total may be provisionally estimated at about 9 500 million dollars in 1957.

[51] Such investment also raises incomes, and thus indirectly stimulates the demand for imported consumer goods and capital goods for other industries.

purchases of materials and fuels already account for a large share of their total imports, this cut is inevitably transferred to a large extent to capital goods. The decline in Government revenues from exports often means that social investment and the development of basic resources are particularly affected, including investment in buildings and other capital goods which can be locally produced. This postpones the day when structural weaknesses will be remedied. In some cases—notably Colombia and Chile—a general deflationary programme is being attempted.

Such measures will affect the exports of the United States and Western Europe. It is thus possible that the decline in world trade may once more develop cumulative tendencies, a recession in the industrial countries leading to a recession in the primary producers, which would in turn have repercussions on the industrial countries, and so on. Already, at the beginning of 1958, the decline in domestic orders for capital equipment in the United States, which is in large measure responsible for the recession there,[52] is being aggravated by reductions in orders from Latin American countries are facing a critical setback to primary-producing areas including Latin America.

The reasons for increasing international investment become particularly cogent under such circumstances. Capital goods industries are partly idle in the United States, while their development plans, in the region's most severe post-war economic crisis, because of lack of means to buy these very goods.

The flow of private investment cannot be relied on to quicken spontaneously, and to transfer surplus savings from the industrial countries to primary producers. The economic atmosphere is discouraging to new investment in the export industries. In addition, direct investment in secondary industries by foreign firms is in some cases hampered by the declining profits from their domestic operations, as well as by the worsening economic prospects in many countries of the region which lead investors to fear that they will have to remit profits at unfavourable rates of exchange. The capital to tide Latin America over recessions such as the current one can only come from official sources. The resources of the International Monetary Fund appear to be inadequate to enable countries in the region to maintain their imports in a "temporary disequilibrium", if this disequilibrium is general, severe and lasts for more than a few months, or to prevent them from adopting policies which lead to a reduced rate of growth. If the other credit agencies were to accelerate their rate of lending in a recession this would check the cumulative tendencies that might otherwise appear; and if their lending policies became less restrictive, these agencies could contribute substantially to much-needed basic social and economic development.

[52] See chapter I.

Chapter IV

THE CAPACITY TO IMPORT

INTRODUCTION

The expression "capacity to import", as used in ECLA publications, means the total foreign exchange receipts from exports, from the inflow of capital and from service transactions. It is intended to show the foreign exchange that a country, or a region, has available to spend in a year, *without* having to rely on "compensatory movements" of capital, such as drawing on gold reserves, borrowing from the International Monetary Fund, or running up trade debts through failure to meet them when they are due. A series of estimates of the capacity to import can, like many series in economics, be measured in current prices (e.g. in terms of current dollars). Alternatively, it can be measured in constant prices, in which case it allows for movements in the prices of imports, and shows how much more or less can be bought in *volume* of goods as compared with earlier years.

Yet this concept, whether expressed in terms of current or constant prices, does not meet all analytical requirements. For some purposes it may be desirable to exclude the inflow of capital. It can be argued that a person's "capacity to spend" is only his current income and should not include what he borrows, since sooner or later he has to keep his spending within his income, if he is to avoid bankruptcy. The analogy of this argument on the plane of national economics is that the capacity to import should exclude the inflow of capital, since this inflow creates liabilities which are a lien on future earnings of foreign exchange. Since it is important to see what is happening to the total foreign exchange arising out of purely current transactions, another concept is used in this chapter, namely "the current capacity to import", which excludes the inflow of capital and shows how much can be spent without adding to liabilities.

But this concept too is open to misinterpretation. If a person who borrows uses the loan to increase his earning power, e.g. by buying tools with the proceeds, he may be able to increase his income by more than the interest payments on the loan. Similarly, foreign investment—especially in so far as it represents imports of capital goods—enables the production of either exports or substitutes for imports to be increased. This in turn raises the prospective net supply of foreign exchange in the future, including the foreign exchange earnings needed to pay the profits and interest on the investment. So a country, like a person, can spend more than it earns without impoverishing itself. Consequently, the original definition of "capacity to import" is retained here, but it is renamed the "total capacity to import" to distinguish it from the more limited concept.

This is not merely an academic problem of selecting the best definition for a category of economics. A judgement of recent developments in Latin America depends very much on which concept is felt to be more appropiate. As will be shown in this chapter, the *current* capacity to import has ceased to expand. This reflects the slowness with which export earnings have grown in recent years.[1] A comparison of 1947 with 1955 shows that the expansion in the total capacity to import was due to increases in export earnings, mainly in fact to export prices. These increases outweighed the steadily rising outflow on the service account,[2] and capital movements were notable rather for their fluctuations than for their trend. From 1955 to 1956, the current capacity to import continued to rise because of larger volumes of exports, but the inflow of capital contributed about as much to the rise in the total capacity to import. In 1957, the increase in the total capacity to import was almost wholly due to the rise in the inflow of capital.[3] This change from relying on expanding exports to relying on increasing investment as the means of financing the growth of imports has far-reaching implications for Latin America.

This chapter starts with an examination of service transactions and the terms of trade, which is followed by a general picture showing the development of the capacity to import—in both the senses described above—and finally its implications for individual countries.

I. SERVICE PAYMENTS AND RECEIPTS

The remittances of profits and interest on foreign capital, especially in Venezuela, and, to a much lesser extent, the payments, covering various non-financial services, were responsible for a chronic and growing deficit in the service account. So far the increasing amount of foreign exchange obtained from national merchant fleets and, above all, from foreign travel has covered only a fraction of the heavy expenses incurred under the heads mentioned above. This is true not only for the area as a whole but also for most individual Latin American countries. Only in Mexico (from the tourist industry) and Panama (income from the Canal) were permanent surpluses of sizeable importance recorded in the service account. In 1956, the rise in Latin America's deficit was halted, mainly because of the growth of tourist travel in Mexico and the Caribbean countries and the

[1] See chapter II of this part of the *Survey*.

[2] There was a large deficit in service transactions, even if —as in this *Survey*—a high proportion of the payments abroad is excluded and transferred to the merchandise account, the imports being calculated on a c.i.f. basis. In the case of Latin America, most of the freight and insurance on imports is paid to foreign companies. The presentation of the import data on a c.i.f. basis is justified by the fact that it is impossible, for the time being, to obtain complete information on the f.o.b. values in 1957. Besides, changes in freight rates are reflected in the variations in the unit value of imports c.i.f., as will be discussed more thoroughly in section II of this chapter dealing with the terms of trade.

[3] See chapter III.

marked in the rate of increase of remittances of profits from Venezuela, where some part of these was needed to purchase concessions.

1. Remittances of profits and interest

The net payments made by Latin America under this head are almost equal to gross payments. According to the data available, gross receipts were very small. During the past three years they did not exceed 20 to 30 million dollars on the average and hardly represented 2 per cent of the gross outlay. The annual yield from Latin American investments in foreign countries, mainly securities, was almost certainly larger. But it seems that a high proportion of the dividends was added to the principal or used directly by the owners to pay for various expenditures abroad (travel, purchases, etc.).

As can be seen in table 61, the gross outflow of exchange to finance remittances of profits and interest almost doubled between 1947 and 1957. The significance of this trend is clearly illustrated by the following fact: whereas remittances absorbed 10 per cent of export earnings in the immediate post-war period, this proportion reached 14 per cent during the last three years. It must also be stressed that, between 1947 and 1955, payments for financial services were on the average twice as much as the net inflow of capital. In this connexion a complete change took place in 1957, since capital receipts exceeded the transfers abroad of profits and interest. But this situation was entirely the result of an unusual expansion in the net inflow of capital and it is unlikely to continue in the near future.

The increase of approximately 660 million dollars in remittances of profits and interest between 1947 and 1957 was due in the proportion of about 70 per cent to the rise in income transfers made by the foreign petroleum companies established in Venezuela. Venezuela received more foreign private capital during the past decade than any other Latin American republic, and its disbursement of foreign exchange in payment of dividends abroad now accounts for about 50 per cent of the total Latin American outlay under the head of remittances of profits and interest.

As a result of an active re-investment policy and the high productivity of the petroleum wells, the net earnings of the United States petroleum producers in Venezuela grew steadily, and represented, in 1956, approximately 40 per cent of the book value of total United States investment in the Venezuelan petroleum industry.[4] For these reasons transfers of profits showed the considerable increase mentioned above. By contrast, it became progressively less necessary to resort to new capital, and the net inflow of funds from abroad declined, except in cases where extraordinary development expenses were incurred, for example, in purchasing concessions, as occurred in 1956 and 1957. Yet actual remittances of income in payment of dividends to shareholders did not decline in the last two years. On the contrary, they were increased somewhat due to the rise in the output and market price of petroleum products.

[4] It must, however, be emphasized that as a rule the book value is lower than the replacement value. The real rate of net profit is therefore correspondingly over-estimated. Apart from the United States companies, there are also European petroleum companies in Venezuela, including one very large one. Still, the United States corporations taken together are responsible for the great majority of output. Remittances made by those corporations in 1956 represented approximately 73 per cent of the total transfers by all foreign petroleum producers in Venezuela.

Although in order of magnitude they hold second place within the Latin American total, profits on capital invested in mining have so far been much smaller than those deriving from the petroleum industry (see table 62). Transfers to the United States under this head amounted in 1956 to 120 million dollars, no more than 13 per cent of the Latin American total. Likewise, the financial yield in this sector was considerably less than in the petroleum industry. For example, the annual earnings recorded in 1956 represented approximately 8 per cent of the book value of total investment in Latin America. It is very likely that this rate, as well as the amount in absolute terms of the transfers abroad, fell in 1957 owing to the drop in world prices for many metals, especially copper. Just as in the case of the petroleum industry, remittances of profits from mining were concentrated in a few republics: Mexico, Peru and especially Chile. In Chile, remittances usually exceeded net capital receipts by a large amount. In 1957, remittances and receipts appear to have been approximately equal, because of smaller earnings and of the expansion in the investment made by the copper companies.

Foreign exchange outlays in respect of the transfer of profits accruing from investment in manufacturing are distributed more evenly among the individual countries of Latin America, and so far they have been of little importance to any of them. In Brazil and Mexico, whose payments were the largest within the area, they amounted during the past three years to no more than an annual average of 14 million dollars. The main reason was not the low financial yield of the activities concerned but the high rate of reinvestment. As was already pointed out, a great expansion in foreign manufacturing industry in Latin America occurred in recent years, which was financed not only by means of fresh funds received from outside but also by reinvesting a large proportion of earnings.

Before the Second World War, foreign investment in

Table 61. Latin America: Gross remittances of profits and interest[a]

(Millions of dollars)

	1947	1951	1955	1956[b]	1957[b]
Latin America, excluding Venezuela	—390	—490	— 500	— 560	— 595
Venezuela	—290	—450	— 530	— 690	— 750
Total, Latin America	—680	—940	—1 030	—1 250	—1 345

Source: International Monetary Fund, *Balance of Payments Yearbooks.*
[a] Excluding re-investment of profits.
[b] ECLA estimates.

Table 62. Latin America: Remittances of income by United States companies, by industries, 1955-56

(Millions of dollars)

	1955	1956
All industries	680	840
Petroleum	438	530
Mining and smelting	103	120
Manufacturing	59	53
Other industries[a]	79	137

Sources: 1955: United States Department of Commerce, *United States Investments in the Latin American Economy.*
1956: United States Department of Commerce, *Survey of Current Business,* August 1957.
[a] Including agriculture and public utilities.

public utilities—especially railways and power—accounted for rather a large part of the Latin American total. Remittances of profits under this head were therefore relatively small. Since then the repurchase of railways in Argentina, together with special circumstances such as inflationary pressures and the application of a rather restrictive tariff policy in various Latin American republics, have changed the picture considerably. In Latin America, the share of direct foreign investment in public utilities has tended to shrink, and in several countries the rate of earnings in the economic sectors concerned has become smaller than in any other industry. Besides, in those republics where the annual yield did not decline, re-investment was sizeable in the past two years, so that the transfer of profits abroad did not reach high figures. Thus in Cuba, where investments in public utilities are larger than in any other Latin American republic, remittances by the foreign companies concerned did not exceed 20 million dollars in 1956, a figure which represents a little less than 6 per cent of the book value of the total investment.

The great majority of the profits from direct foreign investments in Latin America was transferred to the United States and almost all the rest to Western Europe. There are two reasons for this uneven distribution. Firstly, United States direct investments were and continue to be much larger than those of other capital-exporting countries. Secondly, private investment by Western Europe in Latin America is concentrated mainly in those industries (manufacturing and public utilities) in which remittances of profits were relatively small during the past few years due to the various circumstances already mentioned.

As regards the payment of interest, the picture is rather different from that of the transfer of profits. A higher proportion of those payments went to Western Europe, although here too the United States received the biggest share. As a result of the increasing amount of credit granted to Latin America, remittances of interest have grown steadily in the recent past and, in 1957, accounted for about 20 to 25 per cent of the total service of interest and profits on the external debt. Some outlay has still to be made for the servicing of old bond debts, but the heaviest expenditure arises from the loans obtained during the last eight years. The rate of interest of long-term official loans rose somewhat in 1956 and 1957. As an average it has now reached 5 per cent as against 4.25 and 4.5 per cent some years ago. The rate of interest for medium-term equipment credit is a little higher, varying between 5 and 6 per cent, in spite of the shorter period of redemption, probably because such credit does not always benefit from special guarantees and financing from official sources. On the other hand, the loans funding trade debts usually have a low yield—for example, no more than 3.5 per cent in the case of the 10-year consolidation credit granted by some European countries to Argentina—doubtless reflecting a general recognition of the limited capacity of countries in such difficulties to pay high rates of interest.

Brazil is the Latin American country which pays the largest amount of interest abroad annually; it reached about 75 million dollars in 1957, i.e., approximately 28 per cent of the total for Latin America. The Brazilian foreign debt, excluding direct investment and including recent loans for development and balance-of-payments purposes together with old bond issues, totalled about 1 700 to 1 800 million dollars at the beginning of 1957. Therefore its average yield in the last year was 4.4 per cent. The corresponding outlay of foreign exchange absorbed 7 per cent of the capacity to import.

In Argentina, remittances of interest were half those of Brazil. In 1957 they amounted to 35 million dollars, or 3 per cent of the total supply of foreign exchange. In this country, however, there is an unfavourable aspect, quite unrelated to the relative or absolute magnitude of the expenditure involved: for the time being, payments of interest are chiefly for the servicing of refunding loans. In this respect, the experience of Mexico, Peru and other Latin American republics is quite different; there, most transfers of interest derive from medium-term and long-term development loans.

Even if amortization annuities are included, there is little doubt that the servicing of loans resulted in smaller loss of foreign exchange in the long run than the transfer of profits from direct investment (average figures only being taken into acount here). Under present circumstances, the total interest and amortization on foreign loans range during the period of reimbursement from a maximum of 15 per cent to a minimum of 10.5 per cent annually, over a term of 10 years. During the period immediately following the placing of a direct investment, the annual yield on it is likely to be lower. Moreover, there are cases in which direct private investment is unsuccessful, and the result is a net loss for the private investor. But the experience of Latin America shows that assets and earnings usually grow at a swift pace and the yearly remittances of profits tend to exceed the original amount of invested capital in some cases. Again, there is no time limit to the process of self-expansion of a direct investment, since this kind of financial venture is usually of indefinite or very long duration.[5] Another fact, which is closely linked to those mentioned above, is that remittances of profits tend to be larger than the amount of fresh capital received from outside.[6]

2. Non-financial services, excluding the tourist industry[7]

In Latin America as a whole, the external transactions covering non-financial services as defined above produced a small net inflow of foreign exchange during the past ten years (see table 63). The main factor responsible for this was the increase in gross shipping receipts, which were concentrated almost exclusively in Argentina, Brazil, Chile, Colombia and Venezuela. The Argentine merchant fleet ex-

[5] Sometimes, however, earnings are partly stopped by official measures and taxation, or foreign assets are expropriated.

[6] This should not be taken as implying that direct foreign investment therefore contributes little to the balance-of-payments problem. Although it creates a burden of remittances, it also leads to an expansion of the capacity to export and/or to the replacement of imports by domestic production. In addition, the effects on the balance of payments should not be the only considerations taken into account in this connexion. The United States Department of Commerce has recently published a far-reaching statistical and analytical study on some aspects of the significance and the role of United States investments in the Latin American domestic economy. (See *United States Investment in the Latin American economy,* Washington, United States Government Printing office, 1957.) Lastly, emphasis must be laid on the need for any analysis of the significance attaching to the high yield of direct private investment to take into account on the other hand the risks often inherent in such financial operations.

[7] See footnote 2.

Table 63. Latin America: Non-financial services, excluding the tourist industry, for selected years

(Millions of dollars)

	1947	1951	1955	1956	1957
I. Total.	+ 70	+ 90	+ 60	+ 60	+ 70
II. Residents' receipts from shipping and air transport. . .	+120	+230	+230	+270	+270
III. Total, excluding item II.	− 50	−140	−170	−210	−200

Source: International Monetary Fund, *Balance of Payments Yearbook.*

panded rapidly in the post-war years and since 1950 its current gross income has represented between 20 and 30 per cent of the total freight paid for imports. In Colombia, the percentage of freight expenses saved as a result of the development of the *Flota Gran Colombiana* and other national shipping companies is somewhat higher. Elsewhere progress was made in the same direction, but later and at a slower pace.

During the past few years, national airlines have also expanded in many Latin American republics. Apart from the State-owned corporations of long standing, newly created private companies entered the field of international transport, although they concentrated mainly on domestic traffic. Such was the case especially in Brazil, Chile, Mexico, Peru and Venezuela. Total air traffic—passenger and freight—has increased very much in the recent past and, according to such little information as is available on the matter, it does not seem that the expansion of the Latin American airlines noticeably reduced the traffic volume of the foreign companies operating in Latin America. Consequently it did not bring about a reduction in foreign exchange outlays but prevented them from rising more rapidly. In the most favourable cases, the actual amount of savings in exchange does not appear to have exceeded 0.5 per cent of total external payments. Besides, capital expenditure in foreign exchange is very high in this sector.

If the gross receipts accruing to residents of the various countries under the head of shipping and air transport are excluded, a net deficit will be observed (see again table 63). This deficit has increased progressively during the last decade owing to the rise in economic activity and living standards. In fact, the trend is common to almost all Latin American countries, the main exceptions being Mexico and Panama, whose net receipts, however, substantially offset the negative balance resulting from the transactions recorded in the rest of Latin America.

The sources, listed in order of importance, of net expenditure in the non-financial services sector are diplomatic and military missions abroad, insurance and commissions, film rentals, management fees[8] and patent and registered trade mark royalties in the republics where manufacturing plays an important role in the national economy, for example Argentina, Brazil and Mexico. But the significance for individual countries of the net outflow of foreign exchange under these heads must not be exaggerated. In very few cases did the total exceed 6 per cent of export earnings. It should also be pointed out that even in Brazil film rentals during the past two years amounted to only some 12 million dollars, i.e., less than 1 per cent of the aggregate value of commodity imports. During 1957 some countries, such as Chile and Colombia, reduced the amount of Government expenses abroad. Obviously any saving of foreign exchange is welcome when the capacity to import is affected by a sharp downward movement. Yet it is also clear that, due to the relatively small amount involved, a cut in payments for non-financial services cannot by itself remedy a severe decline in the supply of foreign exchange.

On the other hand, the local output of certain non-financial services, excluding transport, expanded rather steadily during the last decade. Such was the case, for example, in the insurance business, although most re-insuring transactions are still made in traditional markets, especially in London. Likewise, progress was registered in film production in various Latin American republics. National producers in Argentina and Brazil have secured an appreciable share of the domestic market and in some years their film exports have been considerable. The most remarkable development took place in Mexico, where production for the Latin American and indeed for the world market increased substantially. Mexico is the only Latin American country where film royalties bring in a net, although small, amount of foreign exchange. Mexico and Panama are the only Latin American republics which obtain net receipts of foreign exchange from their total non-financial service transactions, excluding the tourist industry and transport.

In 1957, these receipts amounted to 30 million dollars in Panama and to a slightly higher figure in Mexico. The net total of foreign resources obtained by these two countries through the transactions mentioned above represented approximately a quarter of the net expenditures recorded elsewhere in Latin America, which may be estimated at 260 million dollars. In Panama, the royalties paid by the United States Government under the Canal treaty—approximately 12 million dollars yearly—and the provision of various private services in the zone surrounding this inter-oceanic waterway—which amount to about 15 million dollars—are the main sources of service receipts.[9] In Mexico, the same role may be attributed to the remittances made by Mexicans working in the United States, especially in agriculture near the border, and, to a much lesser extent, to the renting of Mexican films abroad.

3. Foreign travel receipts and payments[10]

Since the end of the Second World War, the gross receipts obtained by Latin America from foreign travel have grown very rapidly and uninterruptedly. As can be seen in table 64, they reached about 770 million dollars in 1957 as compared with 216 million dollars in 1947. This means an increase of 256 per cent in one decade. It must also be stressed that Latin America's share in the total expenditure on foreign travel by United States residents was exactly the same in 1956 as in 1948 (see table 65).

[8] Especially in Venezuela, where the contribution of foreign technicians is relatively greater than elsewhere in Latin America.

[9] It is common knowledge that the merchant fleet registered in Panama is very large, but it actually belongs mainly to foreign investors. Exchange receipts under the head of taxes and various fees paid by the shipping companies to the Government of Panama were apparently only 529 000 dollars in 1956. The tax treatment accorded to these companies is very favourable indeed and, together with other special circumstances, explains the extraordinary development of the merchant fleet flying the Panamanian flag.

[10] Foreign travel includes the tourist industry, business trips and border expenditures by United States citizens in Mexico.

Table 64. Latin America: Foreign travel receipts and expenditures, 1948-57

(Millions of dollars)

	1948	1951	1955	1956[a]	1957[a]
I. *Gross receipts*					
Latin American total .	216	331	575	644	770
Receipts by Mexico. .	147	271	445	509	590
Latin American total, excluding Mexico. .	69	60	130	135	180
II. *Gross expenditure*					
Latin American total .	164	268	435	493	540
Expenditures by Mexico	50	99	182	213	240
Latin American total, excluding Mexico. .	114	169	253	280	300
III. *Net receipts or expenditures*					
Latin American total .	52	63	140	151	230
Receipts by Mexico. .	97	172	263	296	350
Latin American total, excluding Mexico. .	— 45	—109	—123	—145	—120

Sources: International Monetary Fund, *Balance of Payments Yearbooks*, and data provided by the *Banco de México*.
[a] ECLA estimates.

Table 65. United States: Residents' travel expenditures abroad (less transport), by countries and regions

(Percentages of total)

	1947	1948	1955	1956
Mexico	24	23	22	22
Caribbean area and Central America	9	8	9	9
South America	2	3	2	3
Total Latin America	35	34	33	34
Canada	42	42	26	25
Europe and Mediterranean	19	20	37	37
Other countries	4	4	4	4
TOTAL	100	100	100	100

Source: United States Department of Commerce, *Survey of International Travel* (1957 supplement), Washington, D. C.

United States expenditures in Latin America rose at the same rate as total outlays in all parts of the world (51 per cent), which merits attention, since travel from the United States to Europe increased considerably. These developments took place at the expense of Canada, whose share declined sharply from 1948 to 1956.

Latin America's gross expenditures rose steadily too, but a little less than its gross earnings: approximately by 219 per cent during the same period. As a result, the small surplus shown in the foreign travel account during the post-war years grew progressively. It is now four times as great as it was ten years ago and represents 3 per cent of the total value of commodity exports, as compared with less than 0.5 per cent in 1948.

This favourable trend for Latin America as a whole was primarily due to long-term developments in Mexico. To a lesser extent, it was also the result of the recent expansion in the tourist industry in the Caribbean and Central American countries and transformed the deficit in their respective foreign travel accounts into a surplus. On the other hand, in most South American republics there was little or no improvement in tourist receipts, while expenditures abroad followed an upward trend. Therefore the deficit which is usually recorded in these republics grew in the recent past. Yet the deterioration was smaller in scope than the improvement in the Caribbean area. This explains why the net outlay by tourists in Latin America, excluding Mexico, declined somewhat after 1955 (see again table 64).

The increase in foreign travel in Mexico is striking. Since the period immediately following the war, that country's gross earnings have grown at the annual rate of 20 per cent and now account for more than two-thirds of the Latin American total, while its gross expenditures represent only 44 per cent. Thus net receipts have been growing steadily and, in 1957, reached a figure three times higher than in 1947. This has had important repercussions on Mexico's external position, as is illustrated by the fact that during the past three years the surplus in the foreign travel account contributed an average of 22 per cent to the increase in Mexico's current capacity to import. There is no doubt that, during the last decade, balance-of-payments difficulties were less acute in Mexico than elsewhere in Latin America largely because of the additional exchange resources provided by foreign travel.

It must be stressed that about 67 per cent of Mexico's total receipts came from border expenditures by United States residents during short trips to Mexican territory (see table 66). This is a very special circumstance, which shows the importance of the role played by Mexico's geographical situation in the developments described above. In addition, apart from the natural proximity of the United States—a wealthy country where *per capita* income rose from an average of 940 dollars in 1940 to about 2 000 dollars in 1957—in the regions of the United States relatively close to Mexico the rates of population growth and economic expansion have been well above the national average. The number of potential travellers has therefore grown there at a faster rate than in the United States as a whole.

Other factors, quite apart from these geographical advantages, have contributed to the extraordinary expansion of the tourist industry in Mexico. In the first place, Mexico carried out a vigorous and effective travel promotion programme, the success of which was helped by its natural attractions. As regards transport, ease of access by motor car has undoubtedly contributed very largely to the increase in foreign travel. About 85 per cent of United States tourists travel by car. Improved roads and the existence of the Pan-American Highway enabled United States tourists to extend their car journeys into Mexico. To these physical facilities must be added the removal of administrative difficulties which sometimes slow down transport. Immigration and customs red tape has been progressively eliminated, and

Table 66. Mexico: Geographical distribution of travel receipts, 1956-57[a]

(Millions of dollars)

	1956	1957[a]
Border receipts	362	400
Receipts in other parts of the country	147	190
TOTAL	509	590

Source: Banco de México, Department of Economic Studies.
[a] ECLA estimates.

a tourist card is currently accepted in lieu of a passport or visa.

Lastly, there was a very great improvement in transport and hotel facilities. Many large hotels, which are in a position to supply a variety of auxiliary services, have been built since the end of the war and a growing number of motels are under construction.

Most of the factors noted in the case of Mexico also explain the expansion of travel towards the Caribbean area.[11] Gross receipts here have not reached the impressive amount recorded in Mexico, but can be compared with the latter if border traffic is excluded. Post-war commercial aviation brought the areas in question closer together, and brought a saving in time at a reasonable cost. Before air transport services linked the United States and the Caribbean, ships took several days to get to their destination, thus limiting the potential market as well as the length of stay.

For several years, tourists have provided the exchange margets in Haiti and the Dominican Republic with net receipts which supplement the capacity to import to an appreciable extent. On the other hand, until recently, travel accounts in Cuba, in spite of its growing receipts, showed a slight deficit due to the large amount of exchange spent abroad by Cuban travellers. In 1956 and 1957, this situation was changed and a surplus was recorded, but it is still very small and does not represent more than 1 per cent of the value of commodity exports. Travel expenses by Venezuelan citizens have doubled between 1953 and 1957, and at the present time only about 50 or 60 per cent of them are financed by gross tourist earnings, although these have grown considerably in the recent past, thanks to a striking improvement in Venezuelan hotel facilities. All the Caribbean republics mentioned above have to compete with Puerto Rico and various islands of the British West Indies, especially Jamaica, whose recent efforts to promote the tourist industry have been very successful indeed.

As was mentioned earlier, in most of the South American republics either a small increase or stagnation was the main feature of their gross tourist receipts, while expenditures abroad by citizens of these countries expanded steadily. In Brazil, for example, foreign travel earnings rose from only 5 million dollars in 1948 to 9 million dollars in 1956, while the corresponding annual figures for expenditures by Brazilian travellers are 20 million and 43 million dollars. Likewise, in 1956 foreign travellers spent approximately 6 million dollars. Likewise, in 1956 foreign travellers spent approximately 6 million dollars in Chile, a figure almost equal to that of the period 1950-52. Expenditures by Chilean tourists amounted to 11 million dollars in the same year, as compared with 5 million in 1950-52.

During 1957, there was evidence of an expansion in foreign travel towards South America. Argentina, Brazil, Chile and Peru, considered as a group, received 28 per cent more tourists than in 1956, and for South America as a whole the rate of increase was 19 per cent. This trend was due partly to the promotional efforts made by foreign carriers and also to the activity of private firms in the countries concerned, as was revealed at the Fifth Brazilian Congress on the Tourist Industry held at Minas Gerais in September 1957.

Foreign travel may undoubtedly be regarded by the South American republics as an important factor in their external economic position in the future. Receipts from this source could alleviate balance-of-payments difficulties, if the export trade decreased or did not increase satisfactorily, as was the case in 1957. Unlike most commodities sold abroad by South America, the income-elasticity of demand in the tourist industry appears to be high. Moreover, even if *per capita* income outside the region does not expand, international travel is likely to develop in the coming years as a result of the advent of the jet plane age. Transport capacity will then be much larger than now and fares will be relatively lower. At the same time, the new jets will fly at such high speeds that the farthest countries will hardly take longer to reach than nearby areas today. Thus a mass travel market for the South American republics could develop, provided that they compete actively with the regions which are also distant from the United States, such as Western Europe, Africa and the Pacific Islands. One condition for this expansion is the enlargement and modernization of hotel facilities. In this respect it must be pointed out that, since the tourist industry will not be confined in the future to wealthy people, tourists' requirements will not be exactly the same as in the past. Hence the fact that until now the investments made by the South American countries in tourist equipment have been relatively small may be regarded as a potential advantage, although it is at present a handicap.[12]

II. THE TERMS OF TRADE

Summary

Although all the Latin American republics export mainly primary commodities and import a high proportion of manufactured goods, it is difficult to generalize about the evolution of the terms of trade, especially as far as the decade 1947-56 is concerned. Firstly, the structure of imports varies more or less within the area according to the degree of industrialization in each country, and to the volume and power production. Secondly, and above all, market conditions and price trends for some primary commodities, for example petroleum, are different from those which are usually observed in the case of such commodities. These peculiarities may be multiplied or strengthened by abnormal economic, social or political circumstances. Clearly enough, the decade 1947-56, which started in the post-war period and included the Korean hostilities, produced many circumstances of that kind.

Yet it is possible to observe certain common features in the short-term movements and in the trends of the terms of trade in the Latin American republics during the years 1947-56. In addition, it seems that there is greater uniformity since 1954, probably because general conditions were less abnormal and followed more closely the usual cyclical pattern of international economics. No doubt the Suez crisis deeply affected the play of economic forces, but its impact was transitory in most cases, as is shown by the experiences of 1957.

This section will first deal briefly with the terms-of-trade situation during the decade 1947-56. Afterwards, the situation in 1957 will be described in comparison with previous developments.

[11] A specific factor which may be mentioned is the increased year-round travel by United States citizens to Florida. Some of the million travellers who visit this State each year can be attracted to the nearby islands. Thus the increase in the number of visitors to Florida stimulates Caribbean travel.

[12] But tourist development must not be studied only by itself without regard to the questions created by the growth of other economic sectors. As savings and available physical resources are rather scarce in Latin America, the relative advantages and disadvantages for the national economy of any investment projects such as hotels and mountain roads have to be carefully weighed.

Table 67. Latin America: Export and import unit values and terms of trade, 1947-56

(Annual figures, 1950 = 100)

	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956
Export unit value	89.0	96.6	90.3	100.0	118.1	112.3	107.5	114.7	108.0	105.9
Import unit value	94.0	105.0	105.9	100.0	115.2	119.2	107.5	107.6	107.0	110.8
Terms of trade	94.6	92.0	85.3	100.0	102.5	94.2	100.0	106.6	101.0	95.6

Source: Based on foreign trade statistics published by the Latin American countries.

1. Developments in 1947-56

Over the short term, one widespread characteristic of the terms of trade in Latin America has been the wide range of their variations from one year to another. This can be seen in table 67, which gives annual figures relating to the area as a whole. It is also clearly illustrated in figures VI and VI-A for some Latin American republics, selected in such a way that each of them represents a group of countries exporting mainly the same kind of primary commodities. If the individual movements are compared, it will be seen that the terms-of-trade instability was greater in republics selling certain agricultural commodities than in countries which export metals, such as Chile. Among the former, Brazil, a coffee-exporting country, and Argentina, which exports wheat, meat and wool, showed the widst annual fluctuations. Chile comes next, followed in decreasing order by Honduras (which sells bananas); Mexico (whose exports are more diversified than elsewhere and distributed rather evenly between minerals and agriculturals); and Cuba. In the case of Venezuela, an exporter of petroleum, the yearly variations may be regarded as comparatively smooth.

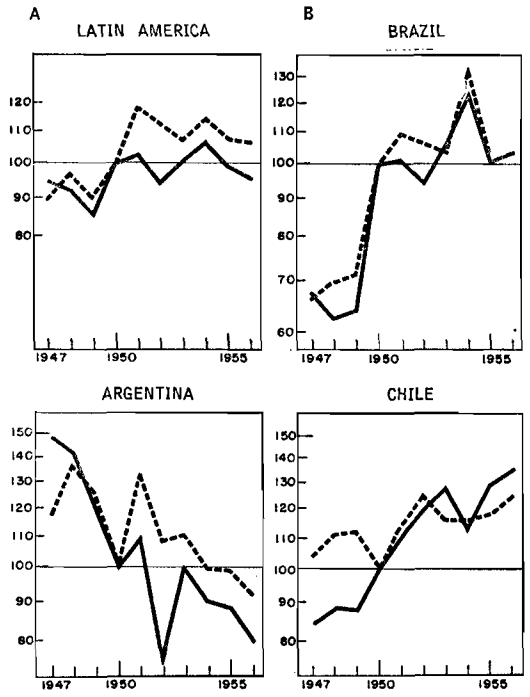
The behaviour of export prices was mainly responsible for the instability of the terms of trade over the short term. Generally speaking, import prices recorded smaller fluctuations. In many cases, the export unit values and, with some delay and less elasticity, the import ones, moved in accordance with cyclical variations which affected the industrial countries, especially the United States. On the whole, it can be said that the experience of the decade 1947-56 to some extent confirms the well-known and usual pattern, according to which the prices of primary commodities are more vulnerable to the vicissitudes of the economic cycle than those of manufactured goods. Latin America's terms of trade tended to improve during the booms and to worsen in the periods of recession. The terms of trade reached peak figures in 1948 and during

Figure VI

LATIN AMERICA: UNIT VALUES OF EXPORTS AND TERMS OF TRADE FOR THE REGION AS A WHOLE AND SELECTED COUNTRIES, 1947-56

(Indexes 1950 = 100)

Semi-logarithmic scale



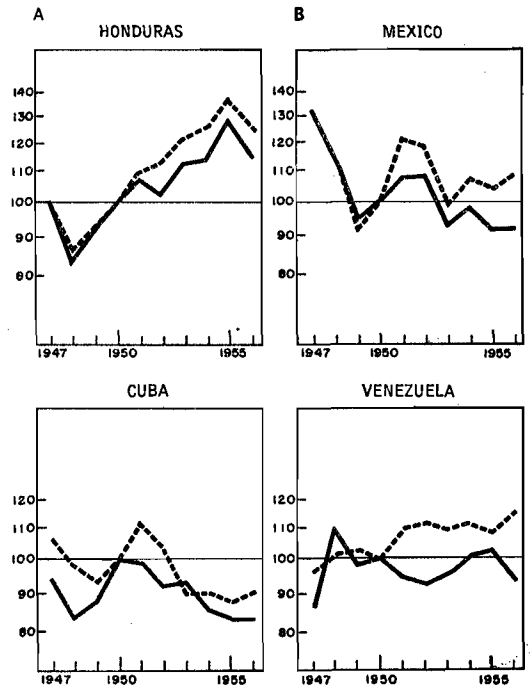
A. Export unit value. *B.* Terms of trade.

Figure VI-A

LATIN AMERICA: UNIT VALUES OF EXPORTS AND TERMS OF TRADE FOR SELECTED COUNTRIES, 1947-56

(Indexes 1950 = 100)

Semi-logarithmic scale



A. Export unit value. *B.* Terms of trade.

the boom accompanying the Korean hostilities, while they declined in 1949 and again in 1952 when inventory disinvestment took place.

The year 1954 was an exception, because coffee prices soared, owing directly or indirectly to various extraordinary factors such as a marked decline in Brazilian production because of the weather, and a completely wrong assessment of future short-term movements in supply. For most other Latin American republics 1954 was a year of slight improvement in the terms of trade, due to the favourable influence of Europe's continuing prosperity on world demand for many primary commodities. On the other hand, an example of an accelerated rise in import unit value which was not associated with cyclical movements can be found in the year 1956. This was caused by the Suez crisis and took place in those republics, such as Argentina, where petroleum accounts for a large proportion of total purchases abroad.

It can be seen that, apart from extraordinary developments, there was, during 1955 and/or 1956, a general tendency for export unit values to decline, although economic activity expanded in the industrial countries. This is mainly due to factors which have been discussed,[13] and reflects deep-lying changes in the long-term trend of the terms of trade in the countries concerned.

At this juncture it is advisable to examine the long-term trend of the terms of trade during the period under review, starting with Latin America as a whole and then proceeding to each of the twenty Latin American republics (see tables 68 and 69 respectively). It will be seen that, in Latin America as a whole and in 18 of the 20 republics, the annual average for the years 1954-56 exceeded the corresponding figure for 1947-49.[14] By contrast, it declined a little in Cuba and underwent a serious decline in Argentina.

In the case of the long-term evolution of the terms of trade, export unit values have usually had a decisive influence as well (see again tables 68 and 69). In the seven countries where they rose by more than 50 per cent, the increase in the terms of trade was also greater than this percentage, while import unit values showed little upward or downward change. All those countries export coffee, the price of which increased on the average by 100 per cent between 1947-49 and 1954-56, i.e. much more than that of any other primary commodity. The improvement in the terms of trade was a little less in the republics whose sales abroad consist chiefly of copper (Chile) or bananas (Honduras and Panama), and very small indeed in the countries which export lead and cotton (Mexico and Peru) or meat and wool (Uruguay). Again, the deterioration observed in Cuba and Argentina was mainly due to a fall in the prices of their main export commodities, namely sugar and wheat respectively. In Venezuela alone fluctuations in the price of exports—practically only petroleum—were offset by those in the import unit values so that the terms of trade hardly rose.[15]

The fact that during the decade 1947-56 the terms of trade of almost all Latin American republics improved over the long term, often very substantially, is to a large extent the result of special circumstances rather than of basic economic forces. Besides, it must be stressed that the terms of trade, after having reached a peak during the boom accompanying the Korean hostilities, ceased to improve, although in general (yearly variations being excluded) any deterioration was not enough to offset the improvement which had taken place previously (see again table 68).

As regards the trend of export prices, the part played by the aforesaid special circumstances has already been described.[16] Variations in import unit values were much less uniform and narrower in scope than those of export unit values (see again tables 68 and 69). This was due to the influence of numerous factors which were very often in

[13] See chapter II of this part of the *Survey*.

[14] Bolivia, Mexico, Nicaragua, Paraguay and Uruguay are not listed in table 69 because of statistical difficulties, chiefly relating to the conversion rate in the case of multiple exchange systems or special export duties. But available information on the prices of the main exported and imported commodities at least justifies the assertion that those countries' terms of trade improved slightly.

Table 68. Latin America: Export and import unit values and terms of trade, 1947-48 and 1955-56

(1950 = 100)

	Annual average	
	1947-48	1955-56
Export unit value	92.8	107.0
Import unit value	99.6	109.6
Terms of trade	93.3	97.7

Source: Based on foreign trade statistics published by the Latin American countries.

Table 69. Latin America: Changes in terms of trade and in export and import unit values between 1947-49 and 1954-56

(Percentages)

	Terms of trade	Unit value of exports	Unit value of imports
Countries with an improvement of more than 50 per cent			
El Salvador	105	106	1
Guatemala	86	92	3
Costa Rica	70	76	5
Brazil	68	62	— 4
Ecuador	68	46	—13
Colombia	62	84	14
Haiti	56	53	2
Countries with an improvement of less than 50 per cent			
Chile	45	58	9
Honduras	30	41	8
Panama	29	35	5
Dominican Republic	7	9	2
Peru	3	—	— 3
Venezuela	1	13	12
Countries with a deterioration in the terms of trade			
Argentina	— 37	— 24	20
Cuba	— 5	— 10	— 5

Source: Based on foreign trade statistics published by the Latin American countries.

[a] Bolivia, Mexico, Nicaragua, Paraguay and Uruguay are not listed here for reasons which are indicated in the text.

[15] The rise in the import unit value index was partly the result of the growing weight in total imports of commodities, such as luxury durable consumer goods and special food products purchased abroad, the prices of which tended to increase more than those of other goods. This effect is due to the use of Paasche unit value indices.

[16] See chapters I and II.

opposition to one another. The prices of the manufactured products purchased in the United States tended to increase rather steadily over the decade by approximately 11 per cent). By contrast, imports from Western Europe were cheaper on the average in 1954-56 than in 1947-49, owing to the impact of the devaluation of the pound and many other European currencies in September 1949[17] and in spite of the continuing rise recorded by prices in that region since 1953. Moreover, there was in some cases a shift to cheaper European sources of supply. These developments help to explain why, in Venezuela and Colombia, whose imports continued to come chiefly from the United States, unit values increased noticeably. On the other hand, in Brazil, whose orders were already directed more towards Europe, there was a further shift away from the United States and import prices tended to fall.

Still, the above explanation is not in itself sufficient. Changes in both the composition of purchases abroad and in their relative price structure must also be taken into account, to explain the sometimes capricious changes in import unit values. For example, in Argentina the prices of commodities (petroleum and metals), which have accounted for a growing proportion of imports, rose relatively more than those of goods which tended to play a lesser role in total purchases abroad. On the other hand, if Brazil's imports in 1947-49 are compared with those of 1954-56, it will be seen that, during the latter period, it imported relatively more wheat, a commodity which became cheaper in the meantime, while there was an increase in the price of other commodities—especially machinery—whose importance in relation to total imports declined.

Other factors have had an influence on the evolution of import prices, among which might be mentioned the changes in the relative prices of the commodities which have been supplanted by national goods during the decade under review and the impact of freight on the c.i.f. unit value.

2. Terms of trade in 1957

The experience of 1957 confirms in general the story of the decade 1947-56 as regards the instability of terms of trade in the short run (see table 70). But this instability was due to a larger extent than previously to the changes in import unit values, the contribution of export price variations having become less decisive in several cases.[18]

Paradoxically, at a first glance the Suez crisis caused, during the first half of 1957, a deterioration in the terms of trade both of Venezuela, whose exports consist almost exclusively of petroleum, and of the Latin American re-

[17] Conversely, the devaluation of the Argentine peso at the end of 1949 certainly contributed to the decline in Argentina's export unit values.

[18] It must be noted, however, that changes affecting the quarterly figures relating to import unit values are usually higher than those affecting the yearly figures due to seasonal factors.

Table 70. Latin America and selected countries of the region: Export and import unit values and terms of trade, 1955-57

(1950 = 100)

	Annual figures			*Quarterly figures*					
				1956		*1957*[a]			
	1955	*1956*	*1957*[a]	*3rd*	*4th*	*1st*	*2nd*	*3rd*	*4th*
				Export unit value					
Argentina	99	88	84	*89*	86	85	85	*82*	84
Brazil	103	102	104	*105*	106	105	104	*103*	104
Chile	151	167	137	*168*	163	145	136	*129*	137
Cuba	88	91	112	*90*	96	114	119	*104*	108
Honduras	135	126	...	*128*	119	130	...	...	...
Mexico	105	104	103	*96*	98	118	124	*90*	92
Venezuela	112	108	107	*109*	107	106	107	*108*	109
Latin America	108	106	106	*105*	106	109	110	*104*	104
				Import unit value					
Argentina	112	117	109	*112*	110	111	113	*105*	109
Brazil	102	99	103	*91*	101	99	115	*95*	102
Chile	114	121	119	*136*	125	111	124	*123*	119
Cuba	106	108	110	*106*	106	111	108	*110*	109
Honduras	106	110	...	*106*	105	107	...	...	...
Mexico	114	118	110	*121*	118	118	114	*105*	104
Venezuela	109	115	120	*114*	115	126	120	*118*	118
Latin America	107	111	111	*108*	111	112	114	*108*	111
				Terms of trade					
Argentina	88	75	77	*79*	78	77	75	*78*	77
Brazil	100	103	101	*115*	105	106	90	*108*	102
Chile	132	138	115	*124*	130	131	110	*104*	115
Cuba	83	87	102	*85*	91	102	110	*95*	99
Honduras	128	120	...	*121*	113	122	...	...	...
Mexico	92	87	93	*83*	83	101	108	*85*	88
Venezuela	103	94	89	*95*	93	84	89	*92*	92
Latin America	101	95	95	*97*	95	97	96	*96*	94

Source: Based on official foreign trade statistics of each country.
[a] Partly estimated.

publics, such as Argentina and Brazil, which import large quantities of this fuel. Actually Venezuela expanded its total sales very much, but the biggest growth was recorded in deliveries of crude petroleum to the United States and Western Europe which reduced the share of commodities such as refined petroleum, the price of which recorded a more rapid increase than that of crude, thus helping to lower the average unit value of petroleum exports. In the petroleum-importing countries of Latin America, the rising prices of petroleum products, together with steady upward pressure on tanker freight rates, made imports temporarily dearer on the average.

Still, export prices continued to be dominant in the short-term evolution of the terms of trade. For example, the quarterly declines in the terms of trade of Chile (see again table 70) were mainly due to successive downward movements in export prices. The market conditions for the principal commodity sold by Chile, namely copper, deteriorated more and more as a result of the various downward pressures described above.[19] In Mexico too, the fall in the export unit value during the third quarter, caused by the lower prices for cotton, lead, zinc and copper, led to a deterioration in the terms of trade of more than 20 per cent in relation to the preceding quarter, although the terms of trade for the year as a whole improved mainly owing to a drop in the price of maize imports. Peru sells the same commodities, but, in addition it exports large amounts of sugar, the price of which fluctuated very much during 1957, although it rose on the average. As a result, the export unit value in Peru changed very little from one quarter to another, the downward movements of some prices being more or less completely offset by rises in others.

This very instability in the price of sugar was responsible for the violent fluctuations in the terms of trade which took place in Cuba during 1957. As can be seen in table 70, there was a definite upward movement in the first half of the year while, in the second, the terms of trade tended to worsen.

In several other cases, the terms of trade were lower at the end than in the first months of 1957. Moreover, the impact of the Suez crisis on prices and on sea freight rates was felt for a longer period at the beginning of this year than at the end of 1956. Therefore any comparison between the yearly averages of 1957 and the corresponding figures for 1956 may be misleading, so far as trends are concerned. The story of a single year is probably too short to have decisive long-term significance. Still, if tentative conclusions concerning the trend are to be drawn, it is necessary at least to distinguish it from the purely fortuitous facts, and from circumstances the effects of which were not felt for some months.

In view of this necessity, it is useful to compare the export and import unit values and the terms of trade for the third quarter ony of 1957 with the corresponding data for 1956. It will be found that, in Latin America as a whole and in all the economically more important countries, except Cuba and Mexico, the terms of trade worsened between these two periods. It must be added that the improvement in Cuba was due almost exclusively to the extraordinary—and partly transitory—rise in the price of sugar, while in Mexico it was very slight, and resulted mainly from the fall in the average price of imports.

No doubt the economic recession which started in the United States was partly responsible for the deterioration in the terms of trade of Chile and Honduras. In the case of Brazil, another factor—perhaps more important—contributed to this decline. In anticipation of the establishment of the new *ad valorem* tariff, there was a marked increase in imports of certain goods (special metal products and machinery), the price of which had risen more rapidly in the recent past than that of goods whose relative importance within the total tended to decrease. The impact of this on the terms of trade, together with the drop in the price of coffee, more than offset the consequences of the striking upward movement recorded by the price of cacao. On the other hand, it was the United States surplus disposal programme, through its depressive effects on the market for wheat, which helped to weaken the terms of trade in Argentina. In Mexico's case, its main effect was to reduce the volume of cotton exported.

The fact that the price of petroleum is usually more resistant than those of other primary commodities to the cyclical fluctuations of the economy was a relatively stabilizing factor in Venezuela. This price did not fall below the level it had attained immediately after the beginning of the Suez crisis. But Venezuela's terms of trade were, in the third quarter of 1957, slightly below the 1956 figures, almost exclusively owing to an increase in import unit values.

The tendency of the terms of trade to worsen in several Latin American countries during the declining phase of an economic cycle is not new; it was already observable during the decade 1947-56.[20] A less traditional feature of the picture in 1957 is the scale of the decline which affected export unit values in Argentina, and above all in Chile, in part independently of the recession in the United States. More striking still was the continuing rise in many import prices long after the export prices began to drop.

If these new developments are considered together with the fact that, in contrast with past experience, the terms of trade of some republics, such as Argentina, Honduras, Mexico and Venezuela (see again table 70) deteriorated in 1956 when the economic boom spread over the whole world, it seems possible to draw the following conclusion: in the past two years the cyclical fluctuations of the terms of trade were, in many cases modified by the impact of a long-term downward movement. Therefore, recent developments often involved a complete change in relation to the upward trend observed between 1947-49 and 1954-56. This may mean that the historical deterioration in the terms of trade of primary producers is re-appearing.

During the decade following the Second World War, very special circumstances more than offset the influence of such a historical trend. As regards primary commodities, some of the factors which forced prices up have already been mentioned, at least so far as meat, sugar, coffee and copper are concerned. More generally, the fact that *per capita* income in many European countries had fallen to a very low level in the post-war period later led to a relatively swift increase in the demand for some primary commodities (e.g. cacao, coffee, bananas) when incomes recovered. Again, demand for metals was strengthened by re-armament programmes. For many primary commodities,

[19] See copper price trends in chapter II, section I, and especially in section II, *7(a)*.

[20] See sub-section I of this section.

inventory-building of various types also helped to sustain demand.

Manufactured goods showed some abnormal tendencies too. The rapid conversion of armaments industries into civil industries in the United States as well as the exceptionally swift recovery of production in the Federal Republic of Germany helped to reduce the pressure of demand on the market for capital goods. Furthermore, the devaluation of most national currencies in Western Europe in 1949 helped to lower for a while the prices (in terms of dollars) of commodities exported from this area.

It is scarcely necessary to stress the fact that all the factors referred to above, which, together with their favourable repercussions, led to a temporary improvement in Latin America's terms of trade, have ceased to have any effect.

III. THE CAPACITY TO IMPORT

Summary

So far in this part of the *Survey* the components of the capacity to import and the external influences affecting them have been reviewed. A summary can now be made of the capacity to import. This capacity, calculated here on a c.i.f. basis, represents the supply of foreign exchange available to finance imports, including freight and insurance. From another point of view, it also represents the net amount of receipts from abroad, which accounts for a high proportion of total demand in Latin America, since it is usually a significant proportion of the income from internal sources. In short, the evolution of the capacity to import contributes very much to short-term variations in Latin America's economic activity as well as to its long-term development.

In this *Survey*, a distinction is made between the current and the total capacity to import, the former excluding capital flows.[21] The following pages contain a brief analysis of the trend of both during 1947-56. The developments which occurred in 1957 are described at the end of the section.

1. TREND DURING 1947-56

Latin America's current capacity to import grew uninterruptedly between 1947 and 1956, except in 1949 and 1952 (see table 71). The slight decline recorded in 1952 happened after a very marked increase, and in 1954 the capacity to import exceeded its previous record level. The high rate at which the capacity to import expanded over the decade as a whole may be illustrated by the fact that the peak figure reached in 1956 by the current exchange availabilities for the payment of imports was 43 per cent higher than in 1947.

The story was sometimes different for individual countries, but as a whole the trend was steadily upward in most of them. Argentina, Cuba and Panama were the only exceptions. As can be seen in table 72, the most important increases in current capacity between 1947-49 and 1954-56 took place in Colombia, Ecuador, Mexico, Peru, Venezuela, and some Central American countries. The lowest increases (less than 30 per cent) were in Brazil, Bolivia and Paraguay.[22]

[21] See the introduction to this chapter for definitions and further details.

[22] Whether increases in the capacity to import were sufficient in relation to the economic needs of the countries concerned or to external equilibrium requirements is a question which will be discussed in the chapters of Part II which deal with certain countries and in Part III, where the balance of payments is analysed.

Table 72. Latin America and Latin American countries: Current capacity to import. Total capacity to import. In current and constant value: Variations between 1947-49 and 1954-56

(Percentage changes)

	Current capacity	Total capacity[a]	
		Current values	Constant values[b]
Total Latin America	30	32	23
Countries whose total capacity to import (at current values) increased			
Bolivia	21	57	...
Brazil	29	36	42
Chile	61	56	44
Colombia	107	103	78
Costa Rica	108	88	80
Dominican Republic	81	75	72
Ecuador	133	115	147
El Salvador	111	119	117
Guatemala	48	72	67
Haiti	38	40	43
Honduras	61	64	52
Mexico	59	85	...
Nicaragua	250	264	...
Paraguay	14	7	...
Peru	81	103	110
Venezuela	97	46	30
Countries whose total capacity to import (at current values) decreased			
Argentina	—28	—23	—35
Cuba	— 7	— 0	5
Panama	—12	— 9	—14
Uruguay	4	— 1	...

Source: International Monetary Fund, *Balance of Payments Yearbooks.*
[a] Current capacity plus net flow of capital.
[b] For the reasons given in table 69, changes in constant values of the capacity to import of Bolivia, Mexico, Nicaragua, Paraguay and Uruguay are not shown in this table. Available import price indices contain a wide margin of error.

Table 71. Latin America: Current and total capacity to import and its major components, 1947-56[a]

(Current values in millions of dollars)

	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956[b]
Exports of goods	6 010	6 610	5 568	6 646	7 807	7 103	7 660	7 924	8 104	8 749
Net balance on service account	— 580	— 678	— 685	— 615	— 787	— 790	— 820	— 829	— 830	—1 040
Current capacity to import	5 430	5 932	4 883	6 031	7 020	6 313	6 840	7 095	7 274	7 709
Net flow of capital	357	— 297	473	74	720	930	580	393	760	1 050
Total capacity to import	5 787	5 635	5 356	6 105	6 740	7 243	7 450	7 488	8 034	8 759

Source: International Monetary Fund, *Balance of Payments Yearbooks.*
[a] Including inter-Latin American trade transactions.
[b] Partly estimated by ECLA.

Table 73. Latin America: c.i.f. capacity to import and its major components. Yearly figures for 1954, 1956 and 1957[a]

(Millions of dollars)

	Exports of goods			*Net balance in service account*			*Current capacity to import*			*Net flow of capital*			*Total capacity to import*			*Total capacity to import in constant values (1950 dollar prices)*		
	1954	1956	1957	1954	1956	1957	1954	1956	1957	1954	1956	1957	1954	1956	1957	1954	1956	1957
A. *Latin America*	7 924	8 812	8 757	—829	—1 040	—1 046	7 095	7 709	7 711	393	1 050	1 663	7 488	8 759	9 374	6 957	7 932	8 445
B. *Countries whose total capacity to import increased in 1957 in relation to 1956*																		
Argentina	1 029	944	975	8	—	— 1	1 037	944	974	27	135	145	1 064	1 079	1 119	964	924	990
Colombia	670	613	513	— 49	— 30	— 34	621	583	479	61	13	119	682	596	598	602	516	520
Costa Rica	85	65	84	— 6	7	12	79	72	96	— 1	6	9	78	78	104	72	71	90
Cuba	558	686	810	— 23	— 27	— 54	535	659	756	43	50	47	578	709	803	553	672	736
Ecuador	129	118	135	— 21	— 30	— 29	108	88	106	15	4	4	123	92	110	123	82	105
El Salvador	105	112	142	— 10	— 13	2	95	99	144	— 5	1	— 22	90	100	122	83	89	104
Guatemala	101	123	114	— 15	— 8	— 4	86	115	110	— 3	30	48	83	145	158	76	132	141
Nicaragua	63	66	65	— 7	— 7	— 7	56	59	58	10	—	29	66	59	87	67	56	80
Peru	256	317	328	— 28	— 20	— 25	228	297	303	34	60	64	262	357	367	262	336	352
Dominican Republic	121	122	161	— 6	— 2	—	115	120	161	— 5	3	— 26	110	123	135	102	112	115
Venezuela	1 673	2 218	2 494	—552	— 841	— 889	1 121	1 377	1 605	7	383	762	1 128	1 760	2 367	1 005	1 517	1 956
C. *Countries whose total capacity to import declined in 1957 in relation to 1956*																		
Bolivia	74	80	72	— 13	— 7	— 6	61	73	66	19	16	21	80	89	87	78	98	84
Brazil	1 558	1 482	1 392	—141	— 185	— 219	1 417	1 297	1 173	98	133	189	1 515	1 430	1 362	1 439	1 454	1 322
Chile	355	485	410	— 55	— 109	— 100	300	376	310	32	10	64	332	386	374	287	319	314
Haiti	56	47	27	— 3	8	7	53	55	34	— 2	3	— 3	51	58	31	47	51	26
Honduras	57	75	72	— 12	— 13	— 11	45	62	61	5	2	3	50	64	63	45	61	59
Mexico	667	874	732	111	195	241	778	1 069	973	60	180	210	838	1 249	1 183	768	1 059	1 074
Panama	67	63	70	19	52	49	86	115	119	— 6	2	— 20	80	117	99	77	109	89
Paraguay	37	36	33	— 2	— 4	— 1	35	32	32	— 2	1	—	33	33	32	33	36	31
Uruguay	263	223	128	— 24	— 6	23	239	217	151	6	16	21	245	233	172	265	211	151

Source: Based on International Monetary Fund, *Balance of Payments Yearbooks.*

[a] Some of the 1956 and 1957 figures are ECLA estimates.

Note: The differences which may be observed between the figures for Mexico and Cuba in this table and those which appear in the chapters relating to these countries in Part Two of *Survey* are due to the fact that new data were obtained after Part One was prepared and published. Lack of time precluded the adjustment of these data before printing but this will be done in the next issue of the *Survey.*

In most Latin American republics, the rise in exports in 1947-56 was the factor responsible for the improvement in the current capacity to import, a rise partly offset by the increasing deficit in the service account. In Mexico, the tourist industry and other service receipts also helped to expand the net supply of foreign exchange.

The growing amount of external receipts obtained from commodity sales was due, in turn, primarily to the rise in export prices, which was very considerable in Brazil and Colombia but much smaller in Chile. The drop in the value of Argentine sales abroad was mainly the result of the fall in export prices. The only countries in which the volume of sales played a decisive role were the Dominican Republic, Mexico, Peru and Venezuela. In the other countries the export quantum either decreased steadily, as in Argentina, Bolivia and Brazil, or changed relatively little. Thus, generally speaking and for the decade as a whole, some Latin American republics were able to derive more foreign exchange from their current transactions, despite the fact that in many cases economic policy hampered their primary production in favour of manufacturing, or caused a growth in the domestic consumption of traditional exports. However, for some commodities, notably coffee, the smaller volume of exports explains the rise in prices to a large extent.

For Latin America as a whole and for many individual republics the expansion in net capital receipts had a noticeable impact on the total supply of foreign exchange available to pay for imports. Because of this, the total capacity to import rose more rapidly than the current capacity in Brazil, Mexico and Peru (see again table 72). In Brazil, for example, the respective rates of growth were 36 and 29 per cent between 1947-49 and 1954-56. The changes in the capital account in Argentina partly counteracted the effects of the drop in export receipts, and total capacity to import declined less than current capacity. But those changes, instead of implying an increase in capital receipts as in most other Latin American republics, meant a reduction in the outflow of funds, which had been extraordinarily large owing to the repurchases of foreign-owned railways. So far as Venezuela is concerned, it is rather surprising, at first glance, that its total capacity to import expanded much less than its current receipts. This is partly because of the period chosen. During the years 1947-49, large new investments, with fresh funds from outside, were made in the petroleum industry, while in 1954-55 development expenses were met mainly by re-investing profits. Not until 1956 did capital flow in again on a large scale to pay for new concessions.

Since import prices usually rose only moderately between 1947-49 and 1954-56, the real purchasing power abroad of many Latin American republics expanded nearly as much as the capacity to import in current prices (see again table 72). In fact, in five cases, import prices actually fell, according to the indices. There were Brazil, Cuba, Ecuador, Nicaragua and Uruguay. In the case of Cuba and Uruguay, this meant that the capacity to import in real terms actually rose, despite a decline in current-price estimates.[23] In general, the upward movement of import prices offset to a greater or lesser extent the favourable effect of the rise in export prices. In some republics, such as Mexico and Venezuela, purchasing power abroad failed to grow at the same rate as export volume, because of the deterioration in the terms of trade.[24]

[23] For statistical reasons, the decline in the import unit value in Cuba may well be overestimated.

2. Evolution in 1957

At a very early stage of analysis, a comparison of Latin America's total capacity to import in 1957 with the level of 1956 shows the continuation of the upward trend observed during the decade 1947-56, and might be interpreted as meaning that the situation was favourable during the past year. In relation to 1956, the total supply of foreign exchange available to finance imports of goods increased by 7 per cent, reaching a new peak figure almost one-third higher than that of 1954 (see table 73). The total capacity to import in constant prices also increased, in approximately the same proportion since no significant changes were registered in the import unit value index. Yet when the factors of this evolution and the developments in many individual republics are analysed, it appears that there was a deterioration in several aspects of the Latin American external position. Downward pressures affecting economic activity in some industrial countries, mainly the United States, contributed to this deterioration. Undoubtedly the impact would have been more serious, if special transitory conditions had not had an offsetting influence.

The improvement in the total capacity to import was practically entirely the result of the expansion in the capital inflow, which is unlikely to be maintained in the near future for the reasons given earlier.[25] The deficit recorded in the service account, together with the stagnation in export value, meant that current capacity remained at the same level as in 1956 at both current and constant prices. In 1956, certain export prices had also tended to fall, but external demand had remained active and made it possible to sell larger quantities of primary commodities. This was not the case in 1957, at least for Latin America as a whole. Moreover, excluding sales by Venezuela, which rose by 276 million dollars, partly as a result of the Suez crisis, Latin America exports declined 4 per cent in volume between 1956 and 1957.

Neither did the current capacity to import resulting from transactions with the United States improve in 1957 (see table 74). The figures for Venezuela weigh heavily in the regional total and, if they are excluded, it will be found that there was virtually a decline in the total real capacity to import resulting from transactions with the United States in 1957. In fact, the chronic scarcity of dollars tended to become more serious in most Latin American republics owing to the impact of the United States economic recession on foreign trade, while capital inflow from that country was concentrated mainly in Venezuela, where dollar receipts through current channels were substantial anyway.

The very favourable situation of Venezuela inside Latin America is certainly one of the first things which have to be stressed when individual countries are reviewed. Although that is not a new development, it was particularly striking during the past year. As was said above, Venezuela's position largely explains the changes in the area as a whole. But, at the same time, it presents a strong contrast with developments in most other Latin American republics. In 1957, the current capacity to import of Vene-

[24] This development may be regarded as abnormal and can be explained partly by changes in the composition and or in the quality of the commodities purchased abroad.

[25] See chapter III in this part of the *Survey*.

Table 74. Latin America: Capacity to import, by areas, 1956-57

(Millions of dollars)

	Exports of goods		*Balance in service account*		*Current capacity to import*		*Flow of capital*		*Total capacity to import*	
	1956	*1957*	*1956*	*1957*	*1956*	*1957*	*1956*	*1957*	*1956*	*1957*
From transactions with the United States	3 639	3 768	— 357	— 494	3 282	3 274	780	1 215	4 062	4 489
From transactions with other countries	5 110[a]	4 989[a]	— 683	— 552	4 427	4 437	270	448	4 697	4 885
TOTAL	8 749	8 757	—1 040	1 046	7 709	7 711	1 050	1 663	8 759	9 374

Source: International Monetary Fund, *Balance of Payments Yearbooks*, and United States Department of Commerce, *Survey of Current Business* and *Foreign Commerce Weekly*, 12 May 1958.
[a] Residual figures which include intra-regional trade.

zuela reached a figure 60 per cent higher than in 1954, exclusively as a result of the export trade and in spite of the growing profit remittances abroad. In addition, net capital inflow practically doubled between 1956 and 1957, when it represented 32 per cent of the total supply of foreign exchange available for imports.

Elsewhere the increase in the total capacity to import was generally small or nil. Statistics of capital movements are unreliable, but it appears that there were increases in the capital inflow in 1957 in 12 republics, apart from Venezuela. In only three cases, however, was this the main influence which determined the total capacity to import. In Colombia, it was strong enough, mainly because of funding loans, to outweigh the big deterioration in commodity exports, which gave Colombia some temporary breathing space to cope with the trade debts which had accumulated during the previous decline in the capacity to import. In Guatemala and Nicaragua, it also appears to have been enough to offset milder declines on the merchandise account. In all the other cases in which the total receipts of foreign exchange rose, the major element was the expansion of exports. In the case of Argentina, investment had already jumped sharply in 1956 and continued to rise somewhat in 1957, supporting the very slow recovery in exports. In Cuba, another country whose capacity to import had failed to increase for many years, the increase in this capacity in 1957 was due almost entirely to the steep rise in exports, outweighing an increase in the service deficit. In Costa Rica, the Dominican Republic, Ecuador, El Salvador and Peru, the improvement in the capacity to import was due entirely to bigger exports, which offset a sudden outflow of capital in the cases of the Dominican Republic and El Salvador.

Among the countries whose capacity to import stagnated or declined, Brazil was the only one where the increase in the inflow of capital was sizeable in 1957: here the rise in medium-term loans and direct investment slightly mitigated the effect of the decline in exports, though, as in the case of Colombia, the decline in the current capacity to import since 1954 has been severe. In Mexico, the improvement in the capital account had mainly taken place in 1956. In 1957, the rise in net tourist income partly offset the drop in exports, so that the decline in the capacity to import in terms of current prices was relatively small, and, as the decline in import prices was greater, the real total capacity to import rose. In Honduras and Paraguay, other factors were not powerful enough to bring about any significant change in the capacity to import, exports remaining stagnant. Panama's current capacity to import also remained more or less unchanged, but the deterioration in the capital account caused a notable net fall in the total capacity to import. Finally, changes in capital or service accounts did little to offset the slump in exports in Bolivia, Chile and Uruguay.

If an estimate could be made of the change between the first quarter of 1957 and the first quarter of 1958, a decline would be observed in the capacity to import in nearly all cases and for the whole region under the influence of diminishing prices and/or volumes of exports. Argentina may count as an exception, but even there the capacity to import was still at a level hardly sufficient for the country's current needs and replacements of machinery and vehicles. Even in Venezuela, the inflow of capital declined, and import restrictions in the United States were beginning to tawe effect. Prices tended downward, especially for the coffee, sugar and mineral producers, and volumes were affected by voluntary inventory accumulation (coffee), buying quotas (sugar and petroleum) and restrictions on output (tin, and recently, copper).

The total real capacity to import increased by only about 6 per cent in the three years between 1954 and 1957, outside Venezuela (see table 75). It rose substantially—over 40 per cent—in the cases of Cuba, Guatemala, Peru and Mexico, but elsewhere it grew only little or fell over these years, because, although there was an improvement in the capital account in 1956 and 1957, it was generally small as compared with the relative stagnation in exports. The growing needs for imported capital and consumer goods put great strains on external resources, compelling many countries, including such important republics as Bolivia, Brazil, Chile and Colombia, to adopt severe measures to curtail imports.

Further and more widespread deterioration since mid-1957 has created a serious situation throughout Latin America and, in the case of Brazil, it would be no exaggeration to say that the downward trend in the capacity to import had, by the second quarter of 1958, caused severe difficulties. As regards Bolivia, Chile and Colombia, it has led to extremely grave crises in recent months.

Table 75. Latin America: Capacity to import and its major components, 1954-57

(Millions of dollars)

	Exports of goods				*Net balance in service account*				*Current capacity to import*				*Net flow of capital*				*Total capacity to import*			
	1954	*1955*	*1956*	*1957*	*1954*	*1955*	*1956*	*1957*	*1954*	*1955*	*1956*	*1957*	*1954*	*1955*	*1956*	*1957*	*1954*	*1955*	*1956*	*1957*
1. *Total Latin America*																				
In current values. .	7 924	8 104	8 749	8 757	—829	—830	—1 040	—1 046	7 095	7 274	7 709	7 711	393	760	1 050	1 663	7 488	8 034	8 759	9 374
In 1950 dollars[a]. .	7 364	7 581	7 953	7 819	—770	—777	— 944	— 947	6 594	6 720	6 980	6 947	355	704	949	1 482	6 949	7 423	7 928	8 445
2. *Latin America excluding Venezuela*																				
In current values. .	6 251	6 200	6 531	6 263	—277	—178	— 199	— 157	5 974	6 022	6 332	6 106	386	700	667	901	6 360	6 722	6 999	7 007
Percentage variation in 1957 in relation to 1954.				+2				— 43				+3				+ 133				+11
Percentage variation in 1957 in relation to 1956.				—4				— 21				—4				+ 35				+ 0.1
In 1950 dollars . .	5 883	5 839	6 050	5 758	—281	—171	— 222	— 141	5 602	5 584	5 950	5 501	349	649	620	852	5 950	6 232	6 418	6 313
Percentage variation in 1957 in relation to 1954.				—2				— 50				—2				+ 144				+ 6
Percentage variation in 1957 in relation to 1956.				—5				— 37				—8				+ 37				— 2

[a] All components are deflated by unit value indices for *imports* to show changes in their real purchasing power overseas.

Part II

SURVEY OF THE INTERNAL ECONOMIC SITUATION IN LATIN AMERICA AS A WHOLE AND IN SELECTED COUNTRIES

Chapter I

THE INTERNAL DEVELOPMENT OF THE LATIN AMERICAN ECONOMY

I. THE RATE OF GROWTH IN 1957

Latin America's rate of development during 1957 contrasted with the stagnation noted in 1956. Indeed, the *per capita* gross product increased by 2.4 per cent, reaching an annual figure of 293 dollars (at 1950 prices),[1] which represents the region's peak level up to the present time. The slight deterioration in the terms of trade determined a somewhat small increment in *per capita* gross incomeer (see table 76).

Per capita availabilities of goods and services in Latin America were 5 per cent greater than in 1956, so that the rate of growth that might have been expected from the expansion of domestic production of such goods and services was actually doubled. It is important to note that the same thing has been happening during the last seven years. Between 1950 and 1955 *per capita* availabilities of goods and services increased on an average at an annual rate of 2.7 per cent, whereas the *per capita* gross product did so at a rate of 2.2 per cent (see tables 76 and 77).

Three main factors determined the increase in the gross product in 1957. These were (*a*) the expansion of crop production, attributable mainly to favourable weather conditions in certain countries and, in a lesser degree, to the enlargement of the area under cultivation in some few cases; (*b*) the more extensive import substitution process effected in the more highly industrialized of the Latin American countries; and (*c*) the substantial foreign capital contribution which facilitated investment in the dynamic industries and in some basic sectors of the economy. Of course, the combinations in which these factors were found and the intensity with which they operated varied from one country to another, as can be seen in table 78.

Clearly, the increment in the agricultural product powerfully influenced the total product in Latin America as a whole, as well as in Argentina, Brazil and Cuba, whereas in Colombia and Mexico the corresponding weight was carried by the industrial sector. In turn, these dissimilarities in the evolution of the most important sectors of the different Latin American economies determined a varying rate

[1] Unless otherwise indicated, monetary values in this chapter are expressed in terms of dollars at constant 1950 prices.

Table 76. Latin America: Annual *per capital* growth rates

(Percentages)

	1950-55	1955-56	1956-57[a]
A. *Latin America*			
Gross product	2.2	0.4	2.4
Gross income	2.2	—0.4	2.1
Available goods and services	2.7	—0.7	5.0
Consumption	2.5	—1.3	3.9
Investment	3.5	2.0	9.8
B. *Latin America* (excluding Venezuela)			
Gross product	1.9	0.0	1.9
Gross income	1.9	—0.7	2.3
Available goods and services	2.4	—0.7	3.8
Consumption	2.4	—1.3	3.2
Investment	2.4	2.2	6.5

Source: Official statistics.
[a] Provisional.

Table 77. Latin America: Growth in 1950-57

(Millions of dollars at 1950 prices)

Year	Gross product	Difference between imports and exports	Available goods and services	Consumption	Investment
A. *Latin America*					
1950	39 808	—1 411	38 397	31 795	6 602
1951	42 139	104	42 243	34 865	7 338
1952	43 044	19	43 063	35 504	7 559
1953	44 635	—1 222	43 413	35 808	7 605
1954	47 216	— 213	47 003	38 779	8 224
1955	49 989	— 692	49 297	40 646	8 651
1956	51 388	—1 237	50 151	41 051	9 100
1957[a]	53 808	250	54 058	43 764	10 294
B. *Latin America* (excluding Venezuela)					
1950	36 701	— 981	35 720	29 783	5 937
1951	38 860	650	39 510	32 794	6 716
1952	39 533	592	40 125	33 364	6 761
1953	40 726	— 750	39 976	33 262	6 714
1954	43 051	279	43 330	36 169	7 161
1955	45 411	— 78	45 333	37 760	7 573
1956	46 485	— 357	46 128	38 218	7 910
1957[a]	48 446	589	49 035	40 408	8 627

Source: Official statistics.
[a] Provisional.

Table 78. Latin America: Gross products of agriculture and industry in selected countries

(Percentage variation in relation to preceding year)

Year	Argentina	Brazil	Chile	Mexico	Cuba	Uruguay	Latin America
Agriculture							
1956	1.6	—4.7	2.5	—3.8	3.7	0.8	—3.0
1957[a]	4.3	12.6	—0.6	—0.2	3.6	—10.3	5.9
Industry							
1956	—1.5	7.4	0.7	8.7	...	...	4.5
1957[a]	2.0	1.0	—2.2	7.0	...	...	3.3

Source: Official statistics.
[a] Provisional estimate.

Table 79. Latin America: Annual rates of growth of the *per capita* gross product in selected countries

(Percentage variation in relation to the preceding year)

	1955	1956	1957[a]
Argentina	2.1	—2.0	1.1
Brazil	1.7	—0.3	4.1
Chile	0.4	—5.2	—2.2
Peru	1.6	—0.2	0.1
Venezuela	6.6	3.9	6.1
Mexico	6.6	1.6	1.6
Cuba	1.5	7.1	6.1
Latin America	3.3	0.4	2.4
Latin America excluding Venezuela	2.9	0.0	1.9

Source: Official statistics.
[a] Provisional estimate.

Table 80. Latin America: Gross investment in selected countries, 1955-57[a]

(Million of dollars at 1950 prices)

	1955	1956	1957[b]	Percentage variation in relation to preceding year	
				1956	1957
Argentina	2 449	2 367	2 773	— 3.3	17.2
Brazil	1 720	1 716	1 956	— 0.4	14.0
Chile	220	179	158	—18.6	—11.7
Colombia	751	786	717	4.7	— 8.8
Peru	261	326	339	24.9	4.0
Venezuela	1 078	1 190	1 667	10.4	40.1
Mexico	1 008	1 159	1 248	15.0	7.7
Latin America	8 651	9 100	10 294	5.2	13.1
Latin America excluding Venezuela	7 573	7 910	8 627	4.4	9.1

Source: Official statistics.
[a] Excluding changes in inventories.
[b] Provisional estimates.

of growth of the *per capita* product. The latter increased substantially in Brazil, Cuba and Venezuela, and only slightly in Argentina and Mexico, while in Peru a definite stagnation was registered. Only in Chile was the preceding year's decrease in the total *per capita* gross product succeeded by a further fairly considerable decline (see table 79).

The volume of gross investment expanded significantly in 1957. In Latin America as a whole it reached a level 13.1 per cent above the preceding year's. Even with the exclusion of Venezuela, where the highest rate of increase was recorded (40.1 per cent), aggregate investment in the remaining countries rose by 9.1 per cent (see table 80). This increment, besides being one of the largest in recent years, compares favourably with those registered for the gross product and for available goods and services, so that the region's total gross investment coefficient also increased to 19.1 per cent (or to 17.8 per cent if Venezuela is excluded).

In Argentina, investment showed an increment of 17 per cent, a considerable proportion of which was absorbed by transport and public and private building activities. At the same time, it must be pointed out that domestic production of machinery, equipment and other capital goods used for investment purposes expanded by over 25 per cent in 1957.

Table 81. Latin America: Gross fixed capital investment coefficients in selected countries

(Percentage of gross product)

	1955	1956	1957[a]
Argentina	22.4	21.7	24.7
Brazil	13.0	12.7	13.6
Chile	10.2	8.5	7.5
Colombia	23.4	24.0	21.4
Peru	17.2	20.9	21.1
Venezuela	23.5	24.3	31.1
Mexico	13.7	15.1	15.5
Cuba	16.5	19.4	18.1
Total, Latin America	17.3	17.7	19.1
Latin America, excluding Venezuela	16.7	17.0	17.8

Source: Official statistics.
[a] Provisional estimate.

Of total fixed capital investment, 60 per cent is currently effected on the basis of domestically-produced goods. At all events, Argentina's investment coefficient rose from 22 per cent in 1956 to nearly 25 per cent in 1957 (see table 81).

The 14-per-cent increase in gross investment in Brazil was due both to private and to public investment, although the latter's rate of increase was a good deal higher. In addition to the considerable increment in investment in the transport sector, the investment placed in certain branches of industry was also worthy of note. In this country too the investment coefficient registered an upward movement.

In Peru the rate of growth of gross investment—4 per cent—compared unfavourably with the 25 per cent recorded in 1956. Even so, the investment coefficient was higher than in the latter year, although it rose more slowly than in either 1956 or 1955.

Gross investment increased rapidly in Mexico, although the growth achieved fell a good deal short of the 1956 level. Attention should be drawn here to a fact of importance for the Mexican economy; during 1955 and 1956, for the first time in many years, the expansion of total investment had not been attributable to that of public investment, but in 1957 there was a tendency to revert to the earlier situation, as is reflected in a 12.5-per-cent increment in public investment alongside a rise of only 6 per cent in that of the private sector. Consequently, the public sector once more played a compensatory role. The investment coefficient increased only slightly (see again table 81).

In two of the larger Latin American countries—Colombia and Chile—considerable downward movements were observable in total gross investment, and the investment coefficient followed the same trend. In Colombia the coefficient fell from 24 per cent in 1956 to 21.4 per cent in 1957; in Chile, from 8.5 to 7.5 per cent. This latter rate proved insufficient to cover annual depreciation of the stock of capital.

II. THE PRODUCT BY SECTORS

The special circumstances attending Latin America's economic development in 1957 determined no radical changes in the structure of production of goods and services (see table 82). However, emphasis must be laid on one salient fact. The importance of the product of the industrial sector,

Table 82. Latin America: Gross product by sectors

(Percentage variation)

	Variation in relation to the preceding year		*Proportion of total*	
	1956	*1957*[a]	*1956*	*1957*[a]
Agriculture	— 3.0	5.9	23.1	23.3
Industry	4.5	3.3	20.0	19.7
Construction	2.4	8.4	3.4	3.5
Mining	11.6	12.9	5.0	5.4
Government	1.1	1.8	7.6	7.4
Trade and finance	2.6	5.4	16.7	16.8
Transport and communications	3.4	4.5	8.5	8.4
Other services	3.4	3.3	15.7	15.6
Total	*2.8*	*4.7*	*100.0*	*100.0*

Source: Official statistics.
[a] Provisional estimate.

which had been steadily increasing since 1950, experienced a setback in 1957, owing to the substantial increment in the product of the agricultural sector and the slower rate of growth of the product of industry, perhaps the most characteristic feature of the evolution of the internal economy during the year in question.

1. Agriculture

For Latin America's agricultural production, the year 1956/57 was one of the best since the period immediately following the war. Thanks to favourable weather conditions in most countries, very good yields were obtained, with the result that although the area under cultivation was very little larger than in the preceding year, a record output was produced. In fact, the quantum of agricultural production in the region as a whole exceeded the level registered in 1955/56 by nearly 8 per cent, and that of 1949/50 by 27 per cent. Such striking progress not only enabled the growth of production easily to outstrip that of the population, but brought *per capita* production very close to the high levels attained in the period 1933/34-1937/38. In reality, after the Second World War, the increase in Latin America's agricultural production failed to keep pace with that of the population, and *per capita* production substantially declined. Despite the efforts made in almost all the countries of the region, only from 1952/53 onwards were small improvements achieved, which did not suffice to raise the output to its pre-war volume. During this latter period the *per capita* production index (1949/50 = 100) had been 109; it fell to 95 in 1946/47, and was then stabilized at about 100 between 1948/49 and 1953/54. Not until 1956/57 did the index reach 107.8, thus standing at only 1 per cent below its pre-war level (see table 83).

The commodities which made the greatest contribution to this development were coffee, rice, feed grains, sugar, linseed and wheat. A somewhat more detailed examination of the sources and markets of destination of these lines of production reveals that nearly all of them were foodstuffs or raw materials primarily intended for export. In fact, if the production index is broken down by main destination of its components, and the two resulting sectors are compared, it was clearly in the export sector that the most significant progress was achieved in 1956/57. While this latter expanded by 15 per cent, thus registering its sharpest upward movement in the last fifteen years, production mainly for home consumption, which was the object of special attention on the part of Governments during the later years of the period under review, increased by only 4 per cent, that is, barely enough to offset the additional demand generated by the growth of the population and the rise in income (see table 84).

Although a number of Latin America's agricultural commodities encounter world market difficulties because of the accumulation of surpluses in various producer markets and the competition deriving from the United States' surplus disposal policy, production of almost all export items expanded in most of the countries growing such crops. In some cases, like those of wheat and linseed in Argentina,

Table 83. Latin America: Quantum of agricultural production, 1952-57

(1950 = 100)

	1952	*1953*	*1954*	*1955*	*1956*	*1957*
Total agricultural production	102.2	110.4	113.3	120.7	118.3	127.4
Per capita	47.4	102.7	102.9	107.1	102.5	107.8
Foodstuffs	100.5	111.8	113.6	119.3	120.4	127.6
Per capita	95.8	104.0	103.2	105.9	104.3	108.0
Cereals	89.4	132.0	131.3	138.4	130.2	145.6
Roots and tubers	101.8	110.5	118.2	118.3	118.0	114.8
Dried pulses	95.1	110.3	123.5	123.1	116.7	122.0
Oil-seeds	114.6	95.5	101.8	109.2	127.5	130.3
Sugar and *panela*	123.2	108.2	109.8	107.3	111.8	129.8
Fruit	109.8	112.0	117.5	122.0	129.8	135.4
Vegetables	106.4	121.7	131.8	135.5	125.2	133.4
Livestock products (meat)	97.4	98.2	98.3	105.3	114.9	119.3
Wine	83.2	103.8	91.4	132.1	109.1	76.4
Cacao	86.8	92.5	108.2	105.3	108.2	114.6
Stimulants	107.4	108.0	108.2	123.9	106.9	128.3
Per capita	102.4	100.5	98.3	109.9	92.6	108.5
Raw materials	107.1	102.9	116.4	125.3	115.4	123.1
Per capita	102.1	95.7	105.7	111.2	100.0	104.1
Fibre	111.8	103.9	121.8	132.2	122.9	126.5
Industrial oil-seeds	69.7	94.7	72.6	70.7	55.8	95.5

Source: Official statistics.

Table 84. Latin America: Comparison between commodities produced primarily for export and almost exclusively for domestic consumption

	1950	1953	1954	1955	1956	1957
			(Thousands of tons)			
Commodities primarily for export						
Wheat[a]	5 596.0	8 096.2	7 018.6	8 543.6	6 126.2	7 649.9
Maize[b]	836.4	3 550.0	4 450.0	2 546.0	3 870.0	2 698.0
Wool[c]	263.3	281.3	279.2	265.5	261.0	275.0
Coffee[d]	1 778.2	1 912.2	1 890.0	2 199.7	1 794.5	2 244.1
Sugar[e]	6 458.6	6 391.9	6 135.6	5 818.1	6 211.3	7 235.0
Linseed[f]	750.5	692.9	474.5	468.0	290.7	689.1
Cotton[g]	731.6	764.0	945.4	1 090.7	968.8	1 002.3
Bananas[h] (Thousands of stems)	96 676.9	109 025.5	110 500.5	118 081.0	114 218.0	128 376.2
Cacao[i]	192.5	173.1	208.9	196.9	203.6	213.1
Henequen[j]	101.1	91.2	104.8	109.7	111.2	109.2
Sisal hemp[k]	52.5	66.4	65.3	89.8	101.7	120.7
Castor oil[l]	184.0	160.9	169.9	164.0	161.0	193.4
Tobacco[m]	42.0	34.9	40.7	36.3	42.0	44.0
			(Indices: 1945-50 = 100)			
Commodities for export						
Total	100.0	113.2	114.7	119.4	110.6	126.9
Per capita	100.0	105.3	104.2	105.9	95.8	107.4
Commodities for domestic consumption						
Total	100.0	108.9	112.7	121.5	122.7	127.8
Per capita	100.0	101.3	102.4	107.8	106.3	108.1

Source: Official statistics.
[a] Argentina and Uruguay.
[b] Argentina.
[c] Argentina and Uruguay.
[d] Brazil, Colombia, Dominican Republic, Ecuador, Haiti, Mexico, Venezuela and Central America.
[e] Cuba, Dominican Republic and Peru.
[f] Argentina and Uruguay.
[g] Brazil, Mexico, Nicaragua and Peru.
[h] Colombia, Costa Rica, Ecuador, Guatemala, Honduras, Mexico and Panama.
[i] Brazil, Ecuador and Venezuela.
[j] Mexico.
[k] Brazil.
[l] Brazil.
[m] Cuba.

coffee in Brazil, Costa Rica and Venezuela, sugar in Cuba, Mexico and Peru and sisal, hemp and castor oil in Brazil, the increments exceeded 15 per cent in relation to the preceding year, while in two of these instances—Brazilian coffee and Argentine linseed—the figures reached were as high as 40 and 137 per cent respectively.

The effects on the region's economy of this marked increase in exportable production cannot be assessed in their entirety until the end of the trade year 1957/58, as most of the harvests concerned will not find their way into international trade channels much before then.

The trade year 1956/57 and the calendar year 1957 witnessed sharp vicissitudes in both the price and the volume of exports of agricultural commodities.[2] Only in sugar, linseed oil and bananas was there a boom in the internal and external sectors alike, although by the end of 1957 prices for the first two had fallen considerably. The downward trend registered for most of the other export commodities as from the close of 1956 continued without interruption, and in the case of coffee alone, as a result of the agreement reached by producer countries to cut down deliveries abroad, was it possible to arrest the decline and even achieve a slight improvement in the last quarter of 1957.

It is difficult to generalize with respect to Latin America as a whole in discussing production primarily for domestic consumption. While some countries, such as Brazil, Cuba, Honduras and Guatemala, had good harvests which increased *per capita* availabilities of foodstuffs and raw materials, in others, like Chile, Uruguay and to some extent Argentina and Colombia, the total volume of such production contracted substantially, thus aggravating the situation with respect to *per capita* supplies. In the other countries virtually no important changes were recorded in relation to the preceding year.

The decidedly satisfactory volume of production obtained in 1956/57 in the region as a whole was indubitably mainly attributable to three factors, namely, the unusually good weather conditions from which some sectors benefited; the impetus given to certain crops—coffee in particular—by the encouraging price levels attained in recent years; and temporarily favourable world market situations, as in the case of sugar and bananas.

With very few exceptions, the production increments registered were not the result of specific measures to promote expansion or of agricultural development programmes. In fact, very broadly speaking, in 1957 there were signs of a certain flagging of Government interest in agriculture. The balance-of-payments problems that beset all the countries of the region, as a result of the decrease in their agricultural exports which coincided with the decline in the prices such commodities could command, compelled Governments to introduce foreign exchange savings programmes, with the consequent adverse effects on regular supplies to meet the growing demand and increasingly urgent need for machinery, fertilizers and pesticides to promote the more satisfactory development of agriculture. As an indirect out

[2] See Part I, chapter II, section I.

come of this situation, and of their desire to avert certain inflationary pressures, various Governments took steps to restrict agricultural credits. In some instances the number of such transactions increased, as did also the nominal value of the credits granted, but in all those countries where inflation existed, the real value of these operations perceptibly declined.

Perhaps it was in the field of prices that Government agricultural policy weakened most conspicuously. Various countries continued to encourage agricultural production by fixing guarantee prices, but in most cases the levels established were not high enough to prevent a marked deterioration in internal relative prices. Symptoms of this trend had been observable for years, but it was apparently intesified in 1956/57, since agricultural prices did not rise proportionately to those in other sectors.

Chile continued to implement a local agricultural development programme—the *Plan Chillán*—but the other countries of the region confined their development policy to the solution of individual problems or the provision of incentives to some few lines of production in which supply fell below demand. These partial measures did not meet with the success anticipated, and even created fresh problems by provoking the substitution of other crops for those it was desired to expand.

The rate of investment in agriculture was still slow, both in the public and in the private sector. The former continued to execute only its most important projects—irrigation, clearing of new land, building of silos, storage facilities, refrigerating plants, etc.—and few countries embarked on new undertakings. In the private sector, the increasing difficulty of obtaining sufficient credit, and the considerable rise in prices of machinery and other agricultural requirements, in conjunction with the progressive deterioration of internal relative prices, led farmers to cut down investment in their own activities to the indispensable minimum, and, to a greater extent than in previous years, to invest their savings elsewhere.

(a) *Coffee*

The farm year 1956/57 (trade year 1957/58) was one of vicissitudes for coffee production in Latin America. While on the one hand the region's output attained an all-time peak, on the other, world market coffee prices underwent the sharpest decline registered in the last seven years, and exports were reduced, with the consequent serious repercussions on the balance-of-payments situation of most producer countries.

The larger area under coffee, and the bumper yields obtained in some countries, resulted in the region's record harvest. With a volume of 2 337 100 tons (38.7 million 60-kilogramme bags), the year's output exceeded the relatively poor 1955/56 crop by 25.4 per cent, and that of 1954/55, which had been the maximum figure up to that year, by 63 600 tons (1.6 million bags) (see table 85).

Despite so positive an advance, the region did not succeed in accounting for the same percentage of world production as two years previously, and still less for the proportion it had contributed at the beginning of the current decade. In fact, owing to the steady expansion of production in Africa and Asia, Latin America's share in the world total amounted only to 76.6 per cent, whereas in 1949/50 it had reached 83.4 per cent and in the pre-war period almost 90 per cent.

Coffee prices, which had remained at a high level during the greater part of 1956, began to show signs, towards the end of the year, of weakening in face of the prospect of good harvests in Brazil and Colombia and the possibility that larger surpluses might be accumulated. Prices continued to decline more rapidly still during the first eight month of the following year. The mild grades were the worst affected, as quotations fell more sharply for these than for Brazilian coffee, so that their former advantage virtually disappeared.

In September prices dropped to the lowest level registered since 1950. In face of this difficult situation, and the

Table 85. Latin America: Coffee production

(Thousands of tons)

	1949/50	1952/53	1953/54	1954/55	1955/56	1956/57[a]
Brazil	1 071.4	1 110.6	1 037.0	1 369.8	979.3	1 393.3
Colombia[b]	337.8	384.0	403.1	419.0	353.1	365.1
Cuba	39.8	35.7	38.6	46.5	45.3	50.0
Dominican Rep.	25.0	33.5	32.6	29.5	28.6	42.0
Ecuador	23.4	22.6	35.3	22.6	41.1	37.4
Haiti	29.3	35.9	23.8	27.3	28.0	36.0
Mexico	65.6	83.2	95.1	85.6	93.9	84.7
Panama	2.8	2.3	2.8	2.8	2.2	2.9
Peru	5.6	9.6	9.6	12.1	12.0	15.6
Venezuela	50.7	54.0	44.8	53.4	46.3	58.0
Central America[c]	175.0	188.4	218.3	192.5	224.2	245.3
Other Latin American countries[d]	...	4.0	4.2	4.2	4.5	4.5
Total for Latin America	*1 826.4*	*1 963.8*	*1 945.2*	*2 265.3*	*1 858.5*	*2 337.1*
World total	*2 190.1*	*2 530.5*	*2 496.2*	*2 962.4*	*2 561.7*	*3 052.2*
Latin American production as a percentage of world total	*83.4*	*77.6*	*77.9*	*76.5*	*72.5*	*76.6*

Source: Official data, FAO, *Yearbook for 1956* and United States Department of Agriculture, *Foreign Agriculture Circular*, 7 October 1957.

[a] Provisional estimates.

[b] Based on legal export statistics.

[c] Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

[d] Including Bolivia, British Guiana and Peru.

prospect that it might become worse still, the region's most important producers—Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Mexico and Nicaragua—signed an agreement in Mexico on 18 October, under which they engaged to hold back, for one year as from October (or in some instances November) 1958, a reserve equivalent to 10 per cent of their exports in every case except that of Brazil, which was to retain 20 per cent. The other six countries also agreed to restrict their exports between 1 November 1957 and 31 March 1958 to approximately 80 per cent of the average volume exported in the corresponding periods in the two previous years. Shipments during this interval were not to exceed 2.3 million 60-kilogramme bags in the case of Colombia and 2.07 million for all the members of the American Coffee-Growers' Federation *(Federación Cafetalera de América)*. Brazil further engaged to maintain its policy of minimum internal purchase prices.

This is the first time that the producer countries have ever reached so supremely important and promptly implemented an agreement. Its results made themselves felt at once, for prices were stabilized and even recovered slightly in what remained of the year. It is thought, however, that in Central America certain countries will have some difficulty in financing the purchase of the reserve agreed upon, and serious storage problems will arise.

The region's coffee exports in the trade year 1956/57 (in which production corresponding to the farm year 1955/56 was marketed) were also smaller than the year before, reaching only 1.56 million tons (26.1 million bags) as against 1.7 million tons (28.5 million bags). This falling-off was partly due to keener competition from African and Asian coffee, which secured a slightly larger share in world exports, and to the stocks accumulated in the United States during the preceding year.

(b) *Cotton*

Although the world market situation for Latin American cotton was and still is disadvantageous, owing to the competition deriving from the United States' surplus disposal programme, production in the region as a whole expanded by 2.1 per cent, totalling 1 198 500 tons of fibre. Since the world output decreased by 3.1 per cent, this improvement raised Latin America's share to 16.7 per cent, and virtually restored it to the maximum reached in 1954/55 (see table 86).

While it is true that in 1956/57 world consumption increased by approximately 230 000 tons, the large stocks in the hands of the United States and of some consumer countries prevented Latin America from expanding its exports in 1957. In fact, as a result of the increasingly keen competition from United States sales of surpluses on the markets traditionally served by Latin American producers,[3] the region's exports actually registered a sharp decline.[4]

(c) *Wheat*

The 1956/57 output of wheat in Latin America as a whole was almost 15 per cent larger than in the preceding year, as it reached a total of 11.5 million tons, very close to the maximum figure of 11.9 million registered in 1954/55 (see table 87). Nevertheless, in consequence of the rapid and progressive increase in *per capita* consumption of wheat, imports from other parts of the world—particularly the United States—slightly expanded.

However, the figure for the volume of the region's production does not give an exact idea of what happened in the various individual Latin American countries, since even more striking differences than in earlier years were recorded both in Government wheat development policy and in prevailing weather conditions. Thus, while some countries, such as Colombia, Guatemala, Mexico and Peru, continued to pursue their policy of maintaining prices and encouraging wheat-growing, in others, like Brazil and Uruguay, these measures were curtailed, and in certain cases, includ-

[3] Under its Act No. 480, the United States placed on the world market during the trade year 1956/57 3.5 million bales (approximately 700 000 tons) of the surpluses accumulated from previous harvests. Part of this total was sold on very easy terms to traditional consumers of Latin American cotton, which was thus partly ousted from the market.

[4] Mexico's exports dropped from 422 000 tons in the calendar year 1956 to 250 000 in 1957. Those of Peru from 110 000 to 75 000 between the two years in question (see chapter II).

Table 86. Latin America: Cotton fibre production

(Thousands of tons)

	1951/52	*1952/53*	*1953/54*	*1954/55*	*1955/56*	*1956/57*[a]
Argentina	125.2	123.4	138.2	114.1	122.5	105.0
Brazil	515.4	374.9	395.2	428.5	399.6	383.3
Colombia	10.6	17.0	27.9	24.7	22.6	20.6
Ecuador	1.1	2.5	2.1	2.7	3.2	3.0
Paraguay	18.6	13.2	14.4	13.8	12.3	11.0
Peru	96.5	96.0	111.9	104.9	115.1	108.1
Venezuela	4.7	5.0	4.5	5.6	4.6	4.9
Mexico	264.5	273.7	390.9	508.5	404.4	454.8
Haiti	1.6	1.8	1.4	2.0	1.0	1.0
Central America[b]	27.9	40.0	87.6	92.8	88.3	106.8
Total for Latin America	1 066.1	947.5	1 174.1	1 297.6	1 174.3	1 198.5
World total[c]	7 108.1	7 367.5	7 021.7	7 676.6	7 406.3	7 174.5
Latin American production as a percentage of world total	15.0	12.9	16.7	16.9	15.9	16.7

Source: Official statistics.
[a] Provisional estimates.
[b] El Salvador, Guatemala, Honduras and Nicaragua.
[c] Excluding the USSR.

Table 87. Latin America: Wheat production

(Thousands of tons)

	1949/50	1952/53	1953/54	1954/55	1955/56	1956/57[a]
Importer countries						
Brazil	532.4	771.7	871.3	1 101.3	1 295.7	1 198.8
Chile	854.3	989.2	955.4	1 028.9	1 039.9	988.4
Colombia	101.9	144.7	146.1	166.0	140.0	110.0
Ecuador	23.3	30.5	39.5	48.8	39.5	40.0
Paraguay	0.7	1.6	1.0	1.5	2.7	2.0
Peru	143.8	168.7	162.5	151.9	123.3	145.0
Venezuela	4.6	6.3	3.1	2.0	1.8	3.1
Mexico	587.6	670.6	839.5	850.0	1 215.3	1 320.0
Central America[b]	22.8	20.8	19.5	17.9	21.8	22.2
Total	2 271.4	2 804.1	3 037.9	3 368.3	3 880.0	3 829.5
Exporter countries						
Argentina	5 144.0	7 633.7	6 200.0	7 690.0	5 250.0	7 100.0
Uruguay	452.0	462.5	818.6	853.6	876.2	549.9
Total	5 596.0	8 096.2	7 018.6	8 543.6	6 126.2	7 649.9
Total for Latin America	7 867.4	10 900.3	10 056.5	11 911.9	10 006.2	11 479.4

Source: Official data supplied by the countries concerned.
[a] Provisional estimates.
[b] El Salvador, Guatemala and Honduras.

ing that of Uruguay itself, an attempt was even made to discourage the cultivation of this crop.

The increase in the region's harvest was largely due to Argentina's substantial output. After the preceding year's poor crop, weather conditions were favourable during seedtime, and farmers, encouraged by the improvement in relative prices,[5] extended the area sown to wheat to 5 947 000 hectares, or one of the largest in recent years. Heavy spring rains fostered fungoid diseases and the growth of weeds, which affected yields to some extent, so that the size of the harvest did not quite come up to expectations. Even so, production amounted to 7 100 000 tons, a figure 35.2 per cent higher than that of 1955/56, and only 590 000 tons below the bumper crop obtained in 1954/55.

Competition from United States wheat[6] in countries which were traditionally consumers of wheat from Argentina did not really affect the volume of the latter's exports, which slightly exceeded the previous year's—2 700 000 tons as against 2 568 000—but it did exert a decided influence on the fall in world market wheat prices.

(d) *Rice*

Rice-growing, the development of which passed through a phase of relative stagnation from 1949/50 onwards, seems to have gained new impetus in 1956/57. Latin America's production in this latter year attained the record level of 5 852 000 tons, exceeding the previous year's output by 12 per cent and that of 1954/55, which had constituted the previous maximum—5 500 000 tons—by 6.5 per cent (see table 88).

As was the case with many other crops, the expansion of production in 1957 was not due to an enlargement of the area under seed but rather to highly favourable weather conditions in several countries and to the increasing application of more advanced techniques, especially the use of improved seed and the extension of irrigated areas.

The countries registering the highest rice production increments included Chile, which achieved the most substantial progress, as, after the preceding year's poor harvest, it managed on a slightly smaller area to regain and even surpass the level recorded in the five-year period just ended. Thus it was that the output of 82 600 tons obtained in 1956/57 was 34.5 per cent larger than that of the preceding farm year, and 4.7 per cent above the level attained in 1951/52-1955/56.[7] This improvement was mainly due to favourable weather conditions, as the farmers' interest in rice-growing declined to some extent in consequence of the rather disadvantageous ceiling prices which prevailed during seedtime and most of the growth cycle. Only after the crop had been harvested did retail prices increase, as a result of which prices paid to the producer rose slightly. Despite the improvement in production, a certain market shortage was observable in mid-1957, in consequence of which the Government had to plan for imports of 20 000 tons.

Ecuador, which, as a result of world market competition, had reduced its production from 100 600 tons in 1952/53 to only 60 400 in 1955/56, obtained the second largest harvest in its whole history in 1956/57, with a volume estimated at 78 800 tons, or 30 per cent more than in the preceding year. In this case too so substantial an improvement was primarily due to abundant and evenly distributed rainfall. Consequently, the surplus production available for export amounted to about 40 000 tons, of which the Government authorized 33 000 to be sold during the year.

While the relative expansion of rice production was not as great in Brazil as in Chile and Ecuador, it was the former country's output which in absolute terms made the biggest contribution to the increase in the volume pro-

[5] After September 1955, prices for the most important agricultural commodities, especially wheat, greatly improved, but farmers were unable to benefit this upward movement, as the crops had already been sown. Its effect was thus transferred to the 1956/57 sowings.

[6] Sold under Act No. 480, passed by the United States Government.

[7] Nevertheless, this harvest fell far below the 93 300 tons recorded in 1954/55 and the 87 100 tons registered in 1952/53.

Table 88. Latin America: Rice production

(Thousands of tons)

	1948/49-1952/53	1953/54	1954/55	1955/56	1956/57[a]
Argentina	152.2	212.3	172.3	164.2	164.8
Brazil	3 024.7	3 366.8	3 737.5	3 488.8	4 076.3
Chile	75.0	80.4	93.3	61.4	82.6
Colombia	270.7	281.8	304.6	342.5	350.0
Uruguay	44.3	61.7	68.4	66.2	57.0
Mexico	170.7	169.9	209.7	235.1	235.0
Panama	90.9	98.6	97.8	96.9	85.6
Central America[b]	100.2	92.7	95.1	89.1	80.4
Other Latin American countries[c]	559.3	662.8	721.3	667.8	720.3
Total for Latin America	4 488.0	5 027.0	5 500.0	5 212.0	5 852.0
World total[d]	105 577.0	121 117.0	116 014.0	123 930.0	130 055.0
Latin American production as a percentage of world total	4.2	4.2	4.7	4.2	4.5

Source: FAO and ECLA.
[a] Provisional estimates.
[b] Including Costa Rica, El Salvador, Guatemala, Nicaragua and Honduras.
[c] Cuba, Dominican Republic, Ecuador, Haiti, Paraguay, Peru, Venezuela.
[d] Excluding China and the USSR.

duced by the region as a whole. A record harvest of 4 076 300 tons exceeded that of the preceding year by 588 000 tons. This may be regarded as the result of the extremely satisfactory development of rice-growing in the States of São Paulo, Minas Gerais, Maranhão and Rio de Janeiro, where, in consequence of favourable weather conditions and the progressive improvement of techniques in irrigated areas, exceptionally high yields were obtained. With this harvest Brazil's exportable surplus virtually attained the level recorded in mid-1956, when the country had resumed its export trade after having retained its production surpluses for several years.

Another country whose rice production registered a substantial increase of 16 per cent was Cuba; its output rose from 172 500 tons in 1956 to 200 000 in 1957, this too being the largest volume ever harvested in the country. Cuba, which is one of the Latin American countries where *per capita* consumption of rice is highest, has always been the region's biggest importer. As from the Second World War, an exceptional improvement in relative prices for rice enabled it to achieve a marked and progressive expansion of production, which was subsequently maintained by the establishment of a domestic market quota to be satisfied with home-grown rice. A further contribution to this progress was made by a liberal credit policy which promoted technological improvements and the investment of large amounts of capital in machinery, irrigation projects and fertilizers. Despite the production increment, in June the Government had to fix an import quota of 150 000 tons for 1957-58, equal to the preceding year's. If a slight increase in *per capita* consumption is taken into account, the current year's domestic production should be enough to satisfy practically 50 per cent of demand in Cuba.

Production in the other countries of the region remained relatively stationary, and only Panama, Uruguay and Venezuela registered fairly significant downward movements. In the first of these countries scanty rainfall held up sowings for over a month, with the consequent repercussions on yields. In Uruguay, production declined by 14 per cent in relation to the preceding year. This was chiefly due to low temperatures during the flowering season, which seem to have produced an adverse effect on yields, as the area under cultivation remained unchanged.

(e) *Sugar*

One of the commodities which have developed most in Latin America during the last 25 years is sugar. Production, after having almost doubled between the pre-war period and 1950, remained relatively stabilized from 1952 onwards at a volume approaching 10 million tons. With the aim of preventing a sugar price débâcle on the world market, the exporter countries established production quotas in accordance with the decisions of the International Sugar Council. Meanwhile, most of the importer countries in the region continued to take advantage of their excellent ecological conditions to grow sugar-cane or sugar-beet themselves, and almost uninterruptedly increased their production, achieving self-sufficiency in some cases, and in others even becoming exporters.

In 1957 both traditional exporters and producers whose output does not normally meet domestic consumption expanded their production so greatly that a new maximum for the region as a whole was attained. Processed sugar totalled 12.3 million tons, which meant a 17-per-cent increase over the preceding year and an increment of 126 per cent in relation to the average for 1934-38 (see table 89).

In the year in question, traditional exporters recorded a relatively greater expansion than the importer countries or occasional exporters—17.6 per cent as against only 14.4 per cent—a development which placed them in a favourable position to take advantage of the growth of world market demand during most of 1957. In fact, exports from these countries (which comprised Cuba, the Dominican Republic, Peru and Brazil), profiting by the temporary suspension of the quotas fixed by the International Sugar Council, amounted to 7.5 million tons as compared with only 6.5 million in 1956. Mexico too was able to double its previous year's exports, and by the end of November 1957 its sales abroad had reached 61 000 tons.

Table 89. Latin America: Sugar production

(Thousands of tons)

	1950	1953	1954	1955	1956	1957
Traditional exporters						
Brazil	1 268.4	1 752.0	1 995.3	2 124.9	2 112.5	2 561.0
Cuba	5 557.5	5 159.2	4 890.4	4 527.6	4 740.0	5 670.0
Dominican Republic	473.8	630.5	633.7	613.0	753.5	725.0
Peru	427.3	602.2	611.5	677.5	717.8	840.0
Total	7 727.0	8 143.9	8 130.9	7 943.0	8 323.8	9 796.0
Importers or occasional exporters						
Argentina	612.9	710.4	777.8	583.8	728.5	725.0
Colombia	147.4	187.0	222.8	233.0	240.0	221.6
Venezuela	50.4	71.8	93.7	144.0	198.0	190.0
Mexico	589.9	779.3	830.4	910.0	744.0	1 018.0
Other countries	238.4	270.4	270.0	286.4	311.7	387.5
Total	1 639.0	2 018.9	2 194.7	2 157.2	2 222.2	2 542.1
Total for Latin America	9 366.0	10 162.8	10 325.6	10 100.2	10 546.0	12 338.1

Source: Official statistics.

World market sugar prices were favourable to exports, and only in the second half of the year did they undergo a sharp decline. Even so, average prices were 58 per cent higher in 1957 than in 1956. Various events combined to bring about such marked changes in sugar prices as began in the last months of 1956 and continued up to the end of 1957. They included factors differing as widely as Europe's poor sugar-beet harvests, heavy purchases caused by world tension on account of the Suez Canal crisis, and the decrease in Cuba's stocks, in conjunction with the circumstantial improvement in demand on the international sugar market. As a result, prices were forced up to levels previously registered only at the time of the hostilities in Korea. Free market quotations rose from a monthly average of 5.83 dollar cents per pound in January to 6.46 in April. From May onwards, in consequence of the increase in the Cuban harvest, good world production prospects, and the increment in Brazil's exports, prices began to fall sharply, dropping to 3.75 dollar cents per pound by the end of the year. However, most of the Latin American countries had been able to reap at least part of the benefit of the satisfactory quotations at the beginning of the year.

2. Manufacturing

Industrial production in Latin America as a whole continued to increase in 1957, although at a lower rate than in 1956 (3.3 per cent). This slow expansion was attributable to the same factors as determined the evolution of the total gross product. It should be pointed out, however, that, in pursuance of its former trend, production of capital goods and durable consumer goods developed much more rapidly than that of current consumer goods (see table 90). This circumstance indicates that the more highly industrialized Latin American countries once again concentrated on developing the dynamic industries. Several factors influenced this course of action; among these the most cogent was the need to produce such capital goods required for economic development as could not be purchased abroad in sufficient quantities owing to the relatively limited capacity to import. The efforts made for years past to substitute domestic production for imports are yielding results, through both former projects and others which are being gradually put into effect. In this respect, as will be demonstrated shortly, 1957 proved a satisfactory year.

In contrast, current consumer goods industries, which in a large number of countries have virtually completed the stage of import substitution, are expanding only in response to population growth and increases in internal income. With regard to the latter, these industries were not in a very favourable position in 1957, since there was a drop in income from external sources, and furthermore, they were affected by the restrictive economic policy adopted in several countries with a view to checking inflation and remedying balance-of-payments disequilibria.

This over-all situation was naturally the result of distinct and at times divergent trends in the various countries' industrial development. For instance, whereas the gross product of manufacturing rose considerably in Mexico,

Table 90. Latin America: Industrial production, 1956-57

(1955 = 100)

	1956	1957[a]
Total	104.5	107.9
Capital and durable consumer goods	108.9	116.3
Current consumer goods	102.5	105.0

Source: Official statistics, and direct information.
[a] Provisional.

Table 91. Latin America: Growth of gross product of industrial sector in selected countries, 1956-57

(Millions of dollars at 1950 prices)

	1956	1957[a]	*Percentage variation*
Argentina	2 520	2 571	2
Chile	414	405	—2
Peru	275	290	6
Venezuela	830	920	11
Mexico	...	...	...

Source: Official statistics. (See Sources in the chapters to the countries included in the table.)
[a] Provisional.

Peru and Venezuela, in Argentina it was barely able to keep pace with the rate of growth of the population, while in Chile it declined by over 2 per cent (see table 91).

But, to revert to the capital goods and durable consumer goods industries, as far as they were concerned, 1957, besides being a year of development as already described, was also fruitful in projects, mainly relating to cement, tractors and agricultural machinery, motor vehicles, machinery in general, and the heavy chemicals and iron and steel industries. Some account of these will be given in the following pages.

(a) *Cement*

Cement production in Latin America registered an increment of approximately 8.3 per cent in 1957, thus reaching almost 14 million tons. By 1960, expansions of installed capacity which are either projected or under way, together with more intensive utilization of present capacity, will probably raise production to some 20 million tons. The attainment of such a level would imply an annual expansion of over 9 per cent, as current effective capacity stands at approximately 15.5 million tons. This development will mean that eight countries—Argentina, Brazil, Cuba, Ecuador, El Salvador, Guatemala, Peru and Uruguay—will become either self-sufficient in respect of cement or virtually so between 1958 and 1959, and Costa Rica and Honduras a few years later. Another possible result of the expansion indicated will be the appearance of production surpluses, or an increment in those that already exist, in Brazil, Colombia, Guatemala, Mexico and Peru. In Chile, on the contrary, cement production showed a decided downward trend for the second year in succession (see table 92).

In Argentina, the 13 factories which existed in 1957 produced 15 per cent more than in the previous year. This rate of growth was far more rapid than that of 9 per cent recorded in the two preceding years, and contrasted very favourably with the average increase of 2.5 per cent in 1950-54. It was largely attributable to the expansion projects completed by the end of 1956. In 1957 work on similar projects continued. Outstanding among these were the new furnace installed at Olavarría, which is approaching termination and which will raise existing capacity by 110 000 tons annually, and another at Sierras Bajas, which will add a further 125 000 tons when the whole project is completed.[8]

Bolivia's output of cement dropped to 24 000 tons after having been over 30 000 tons for more than a decade. This is regarded as a temporary decline, and estimates even suggest that the future expansion of demand might exceed current production capacity (during recent years *per capita* consumption amounted to only 12 kilogrammes, one of the lowest figures registered in the region). A plant is being built at Sucre with a capacity similar to that of the only cement factory currently in operation.

Productive capacity in Brazil was further enlarged in 1957. The projects completed in the course of the last two years (mainly in the State of São Paulo) raised the number of factories in operation to 22 and increased installed capacity, in theory, by nearly 600 000 tons; moreover, those in process of execution (Santa Catarina, Minas Gerais, Espíritu Santo) and of preparation (São Paulo, Pará, Pernambuco) hold out a promise of further increments which in the next three years will probably total some 1.1 million tons. Hence, by 1960 the country's effective capacity can be expected to reach approximately, 4.5 million tons. This would mean that the rate of expansion was only slightly slower than in 1953-56, when the vigorous growth registered was due both to efforts to keep pace with the rapid increase in consumption and to the need to substitute domestic production for a considerable volume of imports, since between 1945 and 1953, despite the steady expansion of production, from 23 to 34 per cent of domestic consumption had to be satisfied with cement from abroad. Since this substitution process was virtually completed by mid-1956, the further development of cement production will be determined by the growth of consumption and ultimate export possibilities. As regards domestic consumption, the general opinion is that even if the rate of increase of residential building slackens somewhat, Government engineering and road-building projects will still keep demand at high levels. The evolution of cement production

Table 92. Latin America: Production of cement in 1956 and 1957 and expansion of productive capacity

(Thousands of tons)

	Production		Production increment	New capacity under construction	Estimate of total capacity by end of 1960
	1956	1957			
Argentina . . .	2 029	2 340	311	235	2 850
Bolivia	33	24	— 9	35	76
Brazil.	3 267	3 377	110	400	4 500
Central America	188	225	37	90	400[b]
Chile	771	727	—44	—	970
Colombia . . .	1 220	1 211	— 9	750	2 100
Cuba	613	651	38	150	941
Dominican Republic. . . .	263	280	17	...	300
Ecuador	152	162	10	—	335
Mexico	2 277	2 500	223	1 000	3 800
Paraguay. . . .	14	18	4	—	26
Peru	555	600	45	275	1 100
Panama	110	110	—	—	110
Uruguay. . . .	348	424	76	120	550
Venezuela . . .	1 451	1 747	296	...	2 200
Total for Latin America. . .	*13 291*	*14 396*	*1 105*	*3 055*	*20 258*

Sources: As regards production: for Argentina: *Asociación de Fabricantes de Cemento Portland, Anuario 1957;* for Bolivia: *idem* (Argentina); for Brazil, 1956: *Anuário Estadístico do Brasil 1957;* 1957: *Relatório do Banco do Brasil 1957;* por Central America: official publications and direct information; for Chile: *Servicio Nacional de Estadística y Censos;* for Colombia: *Boletín Mensual de Estadística.* 1958. For Cuba: direct information supplied by producer enterprises; for the Dominican Republic: *Asociación de Fabricantes de Cemento Portland,* Anuario 1957 (Argentina); for Ecuador, 1956: *Boletín del Banco Central del Ecuador,* September and October 1957; 1957: *Banco Central del Ecuador;* for Mexico: *Cámara Nacional de Cemento;* for Panama: estimate based on data relating to previous years *(Economic Survey for Latin America,* 1956; for Paraguay, 1956: *Boletín Estadístico del Paraguay,* January-March 1957; 1957: estimate; for Peru, 1956: direct information; 1957: estimate based on miscellaneous data; for Uruguay: *Banco de la República Oriental del Uruguay;* for Venezuela: *Boletín Mensual de Estadística,* December 1957. As regards capacity: Numerical data were compiled from various sources and in some cases adjusted, so that they are approximate only.

a The data in this column comprise three elements: (i) effective capacity according to available data; (ii) the increment deriving from new installations at present under construction, plus the contribution of other projects on which work is likely to begin shortly (owing to the inclusion of this latter group, the increments envisaged in the estimate given in this column were in several instances larger than those appearing in the last column but one); and (iii) in some cases—when the trend and other background data seemed to justify it—a higher percentage of effective in relation to installed capacity, in order to reflect the increasing possibilities for utilization of existing installations.

b Excluding the Costa Rica project (75,000 tons) and the second Guatemala plant (150,000 tons).

[8] The assembly of equipment already in operation, with a capacity of 58 000 tons, constituted the first phase of the expansion programme.

is also strongly influenced by factors relating to transport in Brazil and its characteristics.

In Central America, capacity for production of cement rose from 234 000 to 305 000 tons, since that of the Guatemala plant was doubled, reaching 142 800 tons. Furthermore, substantial additions to existing capacity are under construction or projected. Thus, with the help of the *Banco Nacional de Fomento,* a 45 000-ton plant, which is expected to enter production at the end of 1958, is being built near San Pedro Sula, in Honduras. By the same date a third furnace, with a capacity of 45 000 tons, will have been brought into operation at the Nicaragua factory. Similarly, the Government of Costa Rica is planning to install a plant near Puntarenas with a capacity of 75 000 tons, which will more than suffice to cover a consumption which at the present time amounts to some 65 000 tons. There is also a project for the installation of a second plant in Guatemala, with an annual capacity provisionally established at 150 000 tons.

Since the early 'fifties, Colombia has usually been able to do without importing cement, and has even produced a certain amount for export, as its output is steadily expanding and has almost quadrupled in 10 years. A large-scale expansion of productive capacity is now being undertaken, mainly through the establishment of six new plants, financed from official, parastatal and private sources. Four of these, which are located at Sogamoso, Nobsa, Neira and Ibagué, and which will enter operation in 1958, are expected to expand Colombia's productive capacity considerably, by some 300 000-400 000 tons yearly. Work on the other two factories is also well advanced, and will probably be completed within the current year. One of these, which has a considerable capacity, will produce mainly for export, as certain other plants are also planning to do. Shipments to the United States, which has displayed great interest in such exports, might serve to offset a possible falling-off in Colombia's sales to other Latin American countries. Meanwhile, the output in the nine existing plants remained at virtually the same level in 1957 as in 1956, with a volume of 1.21 million tons.

Cuba's cement industry has gained so much impetus in recent years that the country will soon be self-sufficient. Since 1955 productive capacity, which until then had been represented only by the 420 000-ton installations at the old Mariel factory, has almost doubled. A second plant has been constructed at Santiago (Cuba), and after expansion in 1957 has now a capacity of 390 000 tons. A third plant, with a capacity of 150 000 tons, is under construction in Pinar del Rio and is expected to begin production in 1958.

Cement production in Chile dropped again, owing to the considerable decline in building activities. The country's output in 1957, which was 727 000 tons, was over 6 per cent less than in 1956 and 10 per cent below its 1955 level. Nevertheless, in spite of this temporary reduction, negotiations are under way for the establishment of a cement-producing enterprise in the south, to use the slag from the Huachipato blast furnace. The capacity of this plant—construction of which will begin in the second half of 1958—will be in the neighbourhood of 80 000 tons. The Development Corporation *(Corporación de Fomento)* will also set up a small plant, with an annual capacity of 20 000 tons, at Antofagasta, thereby avoiding the high cost of transporting cement from the producing centres to the north, loss of material and irregularities in supply. This plant will enter operation with a yearly output of 7 000 tons.

In Ecuador the Riobamba cement plant, inaugurated in 1956, actually entered operation in 1957. Once the output of this enterprise has attained its normal volume (50 000 tons yearly), the country's industry will be in a position to produce 200 000 tons. The two existing factories—that just mentioned and another at Rocafuerte, near Guayaquil—have expansion programmes which will add a further 90 000 tons to annual production capacity. As regards the other projects, an enterprise has already been set up which is planning to produce 45 000 tons of cement yearly, in the province of Cañar, and the construction of another 100 000-ton plant at Guayaquil is contemplated. It is thought that the Ecuadorian market, which in the past has been poorly supplied from both internal and external sources, will be able to absorb the expected increments in the domestic supply.

Cement production in Mexico, which for ten years has been increasing at much the same rate as demand,[9] registered a further 10.7 per cent increment. But while in the past utilization of installed capacity almost always fluctuated between 70 and 80 per cent, in 1957 it reached 90 per cent. Construction projects are under way in several plants, mainly to expand the capacity of existing factories. The resultant additional capacity will amount to nearly 1 million tons.[10] New investment will very probably enable relatively larger quantities to be exported in the near future, principally to the United States.

Peru's cement industry is definitely expanding. In 1957 the country's third factory was inaugurated at Pacasmayo, in the north, the existing capacity of the other two plants at Acatongo and Chicla being thus increased by 100 000 tons. Expansion is expected to continue in 1958 with the installation of an additional 90 000 tons at Chicla and the termination of a new 75 000-ton plant at Chiclayo, also in the north. According to forecasts, by 1959 a plant with a capacity of some 100 000 tons will enter production at Arequipa, another of 80 000 tons at Tarma (Junín), and possibly a third of 60 000 at Juliaca (Puno). The expansion of this last to 180 000 tons is also contemplated. Thus, by 1960 Peru's production capacity will exceed 1.1 million tons. This development will be called upon to satisfy a rising consumption which will probably include the remoter parts of the country. Specific areas—the Arequipa district, for example, with its irrigation works—are thought likely to become very large consumers. In addition, it is possible to envisage an exportable surplus.

The cement factory located near the capital of the Dominican Republic, which was expanded three years ago, again increased its output by some 17 000 tons. The country has continued to be an exporter, and in 1956 its sales abroad amounted to 75 000 tons.

After importing steadily for seven years, in 1957 Uruguay virtually regained its position as one of the countries capable of meeting their own cement requirements. Its output, which had been 348 000 tons in the preceding year, rose to 415 000 tons. This was undoubtedly due to the entry into operation of the country's third factory,

[9] The cumulative annual growth rate during the period in question was about 10 per cent.

[10] Before the expansions referred to, the value of investment in equipment and installations in Mexico's 18 cement factories was estimated at 120 million dollars.

inaugurated in Minas during the second half of 1956. The extension of this factory, which is being contemplated in accordance with the original plan, will double its capacity, raising it to 240 000 tons.

It was perhaps in Venezuela that the most spectacular increase in cement production in the last 10 years took place. Output in 1957, in addition to being considerably larger than in 1956, was twelve times greater than in 1947. The exceptional expansion in demand registered in recent years was more than satisfied by the rise in production. This is clear from the fact that whereas 600 000 tons were imported in 1949, in 1956 and 1957 the corresponding figure was negligible.

(b) *Tractors*

This branch of industry, which was only recently initiated in Latin America, is passing from the phase of merely assembling to that of producing a large proportion of tractor parts. There are a good many projects relating to this industry, which, for the time being, are confined almost entirely to Argentina, Brazil and Chile.

Argentina manufactured some 12 000 tractors in 1956, and a slightly smaller number in 1957. In actual fact, operations consisted almost exclusively of assembling imported parts, though, in certain cases, domestically-produced parts were used in proportions ranging between 50 and 20 per cent. When the new projects are put into operation, it is estimated that production will reach 14 000 units in 1958 and 17 000 in 1959, on the basis of a high proportion of locally-produced parts. It is important to note that towards the end of 1957 the Government issued a series of regulations for tractor production. The industry was declared to be of national importance. In the first stage, at least 40 per cent of the parts utilized were to be of domestic origin. Tractor production on this basis could be subsidized, mainly by funds derived from duties on imports of agricultural machinery and spare parts. With respect to agricultural machinery in general, further progress was made in the implementation of earlier projects.

Large-scale projects for the manufacture of tractors and other agricultural machinery have also been developed in Brazil. Official regulations fix a time limit for the submission of requests for authorization to manufacture, and stipulate the proportion of locally-produced parts to be used.[11] Consideration will be accorded only to tenders for tractors of 18-60 h.p., and priority will be given to projects for the manufacture of tractors in conjunction with other agricultural implements. Of the 5 large projects to be developed in future, one for a plant at Jurubatula (São Paulo) is already under construction.

In November 1957, work was begun on Chile's first tractor factory, located on the outskirts of Rancagua. It is expected to be ready by the end of 1958, and to enter operation in the early months of 1959. The annual production capacity programmed amounts to 2 500 tractors. During the first phase, only medium-size 45 h.p., tractors with diesel engines and pneumatic tyres will be turned out, but other types of tractors will also be produced in the near future. The factory, which will have a high level of productivity and is designed for mass production, is planned for the machining, thermic treatment and assembly of tractor parts. Spare parts, materials and accessories will be supplied from domestic sources in progressively increasing proportions.[12] Six thousand five hundred tons of iron and steel from Huachipato will be consumed annually. The project is co-ordinated with Chile's *Plan de Desarrollo Agrícola,* which envisages that approximately 26 000 tractors and a yearly output of 2 500 units will be needed to mechanize farming over the whole area now under cultivation. There are some 14 000 tractors in existence, which means that about half the hauling power utilized in agriculture will be mechanized.

Lastly, the establishment of this factory in Chile opens up important possibilities of industrial and trade integration with neighbouring countries, particularly because the enterprise concerned is also responsible for much of Argentina's production, and may come to have similar interests in Brazil. There might be an exchange of complete units or of tractor parts and accessories which, for technical and economic reasons, could be more advantageously processed in one country than in another.

(c) *Motor vehicles*

The progress made in 1956 in manufacturing and assembling motor vehicles was continued in 1957.

In Argentina, production of jeeps, which had reached 3 000 units (mainly with two-wheel drive) in 1956, rose to 12 000 in the following year, and it is anticipated that in three years as many as 40 000 units will be turned out, which represents the maximum capacity of the plant at Santa Isabel (Córdoba). Out of this total approximately half will consist of jeeps, 25 per cent of motor-cars and the remainder of light farm lorries and pick-ups. It should be noted that the first units off the assembly line contained barely 40 per cent of domestic raw materials. This proportion had increased by the end of 1956 to 75 per cent (in terms of value) and, by the end of 1957, had exceeded 80 per cent, and included such important parts as the transmission and axles. A study has been made of the possibility of lowering the cost of the machine-stamped parts of the bodywork and of making a larger number of matrices and tools than is required for the assembly-line, with a view to exporting them to a firm in the United States. The manufacture of more engines to meet needs beyond those of the plant itself is also being considered.[13]

A large-scale motor-vehicle industry began operations in Brazil in 1956, when regulations were established to govern the production of heavy and light lorries, vans, jeeps and spare parts for these, as well as the importation of the necessary materials and the financing of the industry. During 1957, activities were extended to include the manufacture of automobiles, which gave rise to a large number of requests for authorization to invest capital in plants of the same type. At the beginning of 1957, six firms had already obtained final approval for their motor-vehicle production plans. It is estimated that most of the necessary plant will be completely installed by the end of 1958. Output of motor vehicles[14] rose from 6 600 units

[11] The proportion in question ranges from 30 per cent in the first year to 90 per cent in 1963.

[12] The proportion will be 30 per cent to begin with and 97 per cent in 5 years' time.

[13] In addition to the production mentioned, it is estimated that 7 000 motor-cars were assembled in 1957 in the local branch of a leading United States firm.

[14] Excluding passenger-cars, for which the figure was very small.

in 1956 to 30 700 in 1957 (see table 93). Plans for the future envisage the expansion of production to 209 000 units by 1960. Out of this number, lorries would account for 82 200, jeeps for 27 300, vans for 33 700 and automobiles for 65 800. The assembling of 5 000 buses is also programmed, but in this case barely 50 per cent of the material used would be domestically produced.[15] Total investment corresponding to the plans approved by the *Grupo Executivo da Industria Automobilistica* (GEIA)[16] exceeds 500 million dollars.

Mexico is the third Latin American country with projects for motor-vehicle manufacture. The enterprise which has made most progress has increased its capital from 60 million to 300 million pesos (24 million dollars), which will enable it to expand its production and supplement its present lines by the manufacture of low-priced motor-cars. According to statements by the enterprise itself, production of the latter will probably begin in 1958. Assembly plants maintained approximately the same level of activity as in the previous year; of the 40 700 units assembled locally in 1957, rather more than half were lorries.[17]

The number of motor vehicles assembled in Venezuela (14 800) showed an increase of about 1 000 units in relation to the preceding year, but was still a good deal below the high 1955 figure of 18 100 units.

In Colombia, where there are five assembly plants either completed or in process of development, programmes in this field have met with little success, owing to the exchange situation; to overcome such difficulties, some firms are promoting barter deals. It is hoped that by 1958 the assembly plant recently constructed in Cuba by a large United States company will be able to enter operation.

[15] The supply of basic inputs for this industry and of the requirements deriving from the large-scale use of motor vehicles make heavy demands in the shape of expansion of other economic activities. The iron and steel industry needs to be substantially developed, and the problem of rubber supplies must be solved. In the latter field, effort is now being directed both towards the extension and improvement of rubber-growing and towards the creation of a synthetic rubber industry, but it will be several years before either programme can yield results. Again, much depends upon the outcome of the new petroleum prospecting, as if little success were achieved, the country's imports of liquid fuels would necessarily be very heavy. Lastly, attention must be drawn to the additional road-building involved, which has already been made the object of a significant investment programme.

[16] An official body which holds all the executive powers relating to the regulation and financing of this industry's operations.

[17] According to available data for the first 8 months of 1957, the proportion would seem to be about 57 per cent.

Table 93. Latin America: Production and assembly of motor vehicles,[a] 1955, 1956 and 1957

(Thousands of units)

	1955	1956	1957[b]
Argentina	6	5	19
Brazil	5	7	31
Mexico	32	41	41
Venezuela	18	14	15
Latin America	61	67	106

Sources: For Argentina: direct and indirect information; for Brazil: *Conjuntura Económica,* February 1957; for Mexico, 1955 and 1956: *Nacional Financiera, Informe Anual;* 1957: indirect information; for Venezuela: *Boletin Mensual de Estadistica,* December 1957.

[a] Passenger cars, jeeps and lorries.

[b] Provisional.

(d) *Machinery in general*[18]

In the other metal trades noteworthy progress was also registered during 1957 in several Latin American countries.

Brazil's nascent heavy engineering industry—including the production of large-scale electrical equipment—began to give signs of life, since two very big plants, although still under construction, were able partially to begin operations during the second half of the year. Progress was likewise made by other enterprises in this branch of industry. Among the various types of industrial equipment to be produced in the future by these factories, the following are deserving of mention: hydraulic and thermo-electric turbines; general equipment for hydraulic plants; heavy generators; power transformers; high-capacity boilers and steam plants; drilling pumps; rock-drills; equipment for the petroleum and petrochemical industries; ore smelters; furnaces and mills for the cement industry; equipment for the pulp and paper industry; tobacco-processing machinery; various items of construction equipment; mobile cranes and loaders; and a large variety of machine-tools. A ball-bearings factory is to be built which in a few years' time will meet a major share of the country's needs. Furthermore, new projects at present under way are gradually helping to expand the manufacture of household appliances, office machinery and other durable consumer goods. It is of interest to note that one firm's expansion programmes include the manufacture of telephonic equipment.

In Mexico, too, impetus was given to domestic production of certain kinds of equipment for industry and for the exploitation of natural resources, especially petroleum. A plant is being set up to manufacture heavy road-building equipment, and another to produce various items for the building industry (dump carts, platforms, wheelbarrows, mechanical winches, etc.). The household appliances industry has also made progress.

(e) *Chemical industry*

In recent years there has been a trend towards the establishment of heavy chemical industries, mainly to take advantage of the possibilities offered by the petrochemical and, in a lesser degree, the carbochemical industries.

(i) *Petrochemical industries.* These activities are most highly developed in Argentina, Brazil, Mexico and Venezuela, although they are also fairly well advanced in Colombia, Chile and Peru.

Apart from Argentina, which has a very limited output, Mexico is the first country in the region to exploit the potentialities of the petrochemical industry. Hydrogen sulphide is recovered from certain sour gases—either natural or refinery by-products—and most of its sulphur content is transformed into suphuric acid for fertilizer production, a small amount being kept for insecticides. After the elimination of carbonic-acid gas (which is used for dry ice) and hydrosulphuric acid from sweet gases, the hydrogen obtained is used in the manufacture of ammonia, which also serves to produce fertilizers. Ethane, propane and isobutane gases, which are recovered in special plants, are basic ingredients for a large variety of products. The development of Mexico's petrochemical industry has hith-

[18] Heavy equipment, machine-tools, household and office appliances, etc.

erto been concentrated mainly on the production of fertilizers, but there is now a growing interest in the manufacture of plastic resins.

In Brazil, plans for the expansion and establishment of petrochemical plants were submitted to the *Conselho Nacional do Petróleo* for approval, thus initiating the programming phase of the industry. Up to now, activity has been concentrated on the Cubatao refinery (near Santos), in order to make use of its residual gases, but another nucleus is about to be formed around Duque de Caxias in the State of Rio de Janeiro, where another large refinery is to be built. In Cubata, PETROBRAS began in 1957 to supply aromatic residues, produced by the cracking unit, which are used in the manufacture of lamp black. In the same year, a unit was also set up for the recovery of ethylene, with a daily capacity of 57 tons, which will soon begin to supply the plastics industries. The next step will be to install equipment capable of turning out some 6 000 tons of propylene a year. Work has been completed on the PETROBRAS nitrogen fertilizer plant, which has an estimated annual output of 100 000 tons of nitrolime. The Caxias refinery plans to produce sufficient butane, ethylene and benzene to process 40 000 tons of GR-S synthetic rubber a year, as well as greater quantities of liquid gas for consumption in the region. Up to the first months of 1958, the competent authority authorized the establishment of seven plants for producing fertilizers, plastics, solvents, insecticides, synthetic rubber and nylon, involving a total investment of 2 000 million cruzeiros. Attracted by the new possibilities, some 20 foreign firms are considering installing plants in Brazil.

Although Argentina's chemicals industry is, generally speaking, one of the most highly-developed in Latin America—and it was in Argentina that the region's first petrochemical plant entered into operation—the new industrial branch is not yet of sizeable proportions. The substantial domestic demand for ammonia, plastics, synthetic fibres, synthetic rubber and so forth is encouraging plans for petrochemical industries on a fairly large scale, but so far these have not passed beyond the study stage.

Venezuela has begun to develop an integrated petrochemical industry at Morón, near Puerto Cabello. Total investment in scheduled projects, including such ancillary requirements as roads and ports, was originally estimated at more than 300 million dollars, some 75 million of which correspond to the initial phase already under way. In 1957, the first units of the fertilizer plant using natural gas entered into operation. About 15 000 tons of nitrogenous fertilizer of different grades were produced. When the plants are fully installed, which is expected to be in 1958, it is estimated that more than 150 000 tons of ammonia, urea and superphosphates will be manufactured. Furthermore, a pilot petroleum refinery, with a daily capacity of 3 000 barrels, and a electrolytic plant with an annual capacity of 11 000 and 10 000 tons of caustic soda and chlorine[19] respectively, have already been set up. The remainder of the entire programme, which is quite extensive, was reviewed at the beginning of 1958.[20]

[19] Owing to technical hitches, it will probably not enter production for a while.

[20] The original programme provided for the establishment in the next three or four years of factories for producing explosives, solvents, insecticides, weed-killers, fungicides, plastic resins, synthetic fibres and synthetic rubber, as well as a large refinery with a daily capacity of at least 200 000 barrels.

The petrochemical industries under construction in Colombia and Peru are primarily intended to supply those countries with nitrogenous fertilizers.[21] An industry for the manufacture of some plastics, detergents and solvents is under study in Chile.

Although Latin America's carbochemical industries are not yet producing on a large scale, some derivatives are obtained from coking coal, principally at Monclova and other Mexican coking plants, Volta Redonda (Brazil), Paz del Río (Colombia) and Huachipato (Chile). Longer-term prospects in Colombia and Peru seem to hold out considerable promise.

(ii) *Sulphuric acid and sodium alkalis.* Sulphuric acid production is relatively widespread in Latin America and has continued to expand, although over a third of the total increment in production has taken place in Mexico (see table 94). The development of Mexican production was facilitated by Mexico's growing needs, the existence of large sulphur deposits and the possibility of recovering sulphur by low-cost petrochemical processes. In the space of two years, an increase of almost 50 per cent was recorded and the over-all volume of 182 000 tons was attained in 1957. It is likely that a similar increment will take place in the next two years as well, following the installation of three new plants in the near future (see again table 94).

Although Brazil is obliged to import nearly all the sulphur it consumes (100 000 tons in 1957), its production of sulphuric acid is gaining momentum; in the near future it is intended to make more use of domestic minerals which contain sulphur (pyrites and possibly gypsum). Existing capacity has been more intensively utilized in the production of sulphuric acid and new plants are also under way. It is estimated that within a year—or at the latest two years—capacity will be as much as 300 000 tons.

A plant with a daily capacity of 30 tons has been set up in Peru for the purpose of supplying sulphuric acid for the manufacture of superphosphates in the same premises. Two new smaller plants in northern Chile and a larger one in the south (daily capacity 75 tons) are about to enter into operation, all three in the service of the copper industry. A fairly large unit (with a daily capacity of 300 tons according to plans), which will use domestic pyrites, is to be installed in Cuba.

This sector of production has been more or less at a standstill in other Latin American countries. In some of them—especially Argentina and Colombia—demand is repressed to a certain extent and projects for new plants are being studied, one of which will be carried out in Argentina in 1958. In both countries the main problem is the high cost of sulphur.

The deficit in sodium alkali production, and, in several countries, the repressed demand for this commodity, became increasingly noticeable. Accordingly, in spite of the ever-present difficulty of finding a market for chlorine (a co-product of electrolytic caustic soda), steps have been taken to create new electrolytic capacity in Brazil, Colombia, Mexico, Peru and Venezuela. A few plants were completed in 1957; others will enter production in 1958; and

[21] The plants at El Callao and Barrancabermeja will both have a daily capacity of 50 tons of synthetic ammonia. According to plans, ammonium nitrate will be one of the important derivatives. The Peruvian and Colombian plants are expected to be ready in 1958 and 1960 respectively.

Table 94. Latin America: Production of sulphuric acid and sodium alkalis, 1955, 1956 and 1957

(Thousands of tons)

	Sulphuric acid			*Caustic soda*			*Sodium bicarbonate*		
	1955	*1956*	*1957*	*1955*	*1956*	*1957*	*1955*	*1956*	*1957*
Argentina	100.0	122.3	112.5	28.0	31.0	33.6	—	—	—
Brazil	121.0	130.0	170.0	31.0	50.0	50.0	—	—	—
Chile	27.0	30.0	30.0	4.0	3.8	3.5	17.2	17.5	17.5
Colombia	10.0	10.5	9.8	12.0	17.0	15.2	14.3	14.2	16.9
Cuba	27.5	32.2	32.2	...	...	...	—	—	—
Mexico	126.5	158.8	181.6	23.8	25.8	34.2	30.4	30.2	31.0
Peru	14.8	13.2	20.0	1.3	1.4	1.4	—	—	—
Uruguay	8.3	8.0	8.5	...	...	...	—	—	—
Venezuela	3.0	4.0	4.0	—	—	—	—	—	—
Total for Latin America	438.1	509.0	568.6	100.1	129.0	138.4	61.9	61.9	65.4

Sources: For sulphuric acid in Argentina, Brazil, Chile, Colombia and Uraguay, 1955: data from the *Economic Survey of Latin America* 1955 *and 1956;* for Argentina, 1956: direct information supplied by the *Dirección Nacional de Industria;* 1957: data for 1956 adjusted in accordance with the sulphuric acid and caustic soda production indices published in United Nations, *Monthly Bulletin of Statistics,* March, 1958; for Brazil, sulphuric acid, 1956 and 1957: estimates based on partial data; caustic soda, 1955 and 1956; *Relatorio do Banco do Brasil, 1956;* 1957: estimate; for Chile, sulphuric acid: estimates on production data for some plants and on capacity for the remaining installations, heavily utilized (more than half the output is used by the copper mining companies); caustic soda, 1955 and 1956: *Economic Survey of Latin America, 1956,* 1957, estimate based on partial data; sodium carbonate: estimates based on the figure given in the Krijgsman report for 1956: for Colombia, sulphuric acid, 1956 and 1957: estimates based on partial data; caustic soda and sodium carbonate: direct information; for Cuba, sulphuric acid: direct information (excluding production of oleum, which in recent years has averaged some 2,250 tons annually); as regards caustic soda, the latest available information relates to 1945, in which year the output was approximately 1,000 tons. On the assumption that the volume of production has not since attained any very significant levels, it is not taken into account in the relevant total for Latin America; for Mexico: *Banco de México* (the data for 1957 are provisional); for Peru: direct information; for Uruguay, sulphuric acid, 1955: *Economic Survey of Latin America, 1955;* 1956 and 1957: estimates based on partial data; for Venezuela: indirect information and estimates.

one, in Peru, will be ready in 1960. Projects are also under way in Cuba.

In addition, the Solvay soda plants in Brazil and Colombia will ease the pressure on supplies of both sodium alkalis. This will be done by means of an enlargement of the Betania plant in Colombia and the rapid completion of the new plant to be constructed at Cabo Frío, Brazil. The first section of the latter, producing carbon dioxide and lime, was ready at the end of 1957.

Although a big natural sodium carbonate deposit, part of which is used for making caustic soda, is being mined in Mexico, large quantities of those alkalis have had to be imported in the last few years.[22] New electrolytic equipment is, however, bringing Mexico closer to self-sufficiency.

(iii) *Fertilizers.* In this branch the most outstanding feature is the expansion of production in Brazil and Mexico.[23] The development of the Mexican fertilizer industry is illustrated by the following figures: in 1950, gross output of various types of fertilizer was 66 700 tons; this rose to 193 700 in 1955, to 216 200 in 1956 and to almost 250 000 tons in 1957. Ammonium sulphate represented almost 100 000 tons of the last figure and superphosphates slightly over 90 000 tons. The remainder consisted of "formulas" and, to a lesser extent, of organic fertilizers. Projects in course of execution or at a very advanced stage of study will soon double this output. If other scheduled projects are also completed, the domestic fertilizer industry will be able to satisfy real demand for some time to come. During the last few years, approximately 40 per cent of Mexico's requirements had to be covered by imports.

Apart from the recent establishment in Brazil[24] of a new industry producing nitrogenous fertilizers based on petrochemicals, the increase in the output of phosphates is a noteworthy development. For several years the demand from farmers in the southern central zone has been a source of pressure for the provision of larger supplies in spite of relatively high prices. Imports of phosphate fertilizers of all kinds rose from 69 000 tons gross in 1949 to 236 000 in 1956, and superphosphates production—which is the most important branch of the whole industry—trebled in the five-year period ending in 1956. The relative scarcity of imported phosphoric rock has been the only obstacle which has prevented the domestic industry from developing even more, since, for want of this material, the enterprises processing superphosphates and hyperphosphates have been unable to operate at full capacity.[25] So far supplies as phosphoric rock are concerned, domestic deposits of phosphorite, which began to be mined and processed in a pilot plant several years ago, will very soon be worked on an industrial scale. This applies particularly to phosphorite at Olinda in the State of Pernambuco. The new plant set up in the vicinity of Recife should provide 12 000 tons of phosphates for direct application and should, in addition, prepare a similar amount of concentrates for the production of 250 000 tons of superphosphates. Steps are also being taken to mine the apatite deposits in Brazil.[26]

Lastly, mention should be made of natural fertilizers —both nitrogenous and mixed. Nitrate output in Chile was 1 321 000 tons in 1957 in comparison with 1 158 000 in the preceding year. Conversely, in Peru, where the record figure of 332 200 tons of guano was registered in 1956, the 1957 level dropped to approximately 250 000

[22] The degree of purity of the caustic soda did not met the requirements of the rayon industries.

[23] Very little fertilizer has been applied up to now in these countries in comparison with the soil's requirements. It is estimated to have been used on only 5 per cent of the cultivated land in Mexico. Although more phosphates have begun to be used in Brazil, the proportion is still no more than 7 or 8 per cent of requirements, while the proportions for nitrogenous and potassium fertilizers are 18 and less than 1 per cent respectively.

[24] When the plant at Cubatão enters into operation, probably in April 1958, it is planned to build two more nitrogenous fertilizer factories. A project is also on hand to enlarge existing capacity at Cubatão.

[25] The sulphur required is also bought abroad.

[26] The most important are the Araxa deposits in Minas Gerais. All the apatite extracted will be used for the manufacture of superphosphates.

tons, as a result of oceanographic changes which affected the cormorants' living conditions.[27]

(f) *Iron and steel*

The production of iron and steel in Latin America continued to increase in 1957. In the three main branches the following figures were attained: 2.2 million tons of pig iron, nearly 3.4 million tons of crude steel and 3.2 million tons of rolled products. These quantities represent increases of 4.5, 9.9 and 11.5 per cent respectively as compared with the previous year's production (see table 95). The pressure of internal demand on supply continued throughout almost all the region as a result of the increasing iron and steel requirements of the expanding metallurgical industry and metal trades. Consequently, those countries possessing integrated centres have considered large-scale plans for the installation of new plant and the enlargement of that already existing, while those without an iron and steel industry, such as Cuba, El Salvador, Guatemala, and Panama, have planned to start one.

From plans now under way or at an advanced stage of preparation, it may be assumed that the production of crude steel in Latin America will rise by about 2.5 million tons in the next three years and possibly by the same amount in the three subsequent years. In other words, it is likely that ingot production in 1960 will reach 5.6 million tons and in 1963 will exceed 8 million.

In spite of the anticipated increase in the output of pig iron, it is estimated that much of the demand will remain unsatisfied because of the present production deficit and the expected increase in consumption. Imports of pig iron and scrap will therefore probably continue to be considerable and may even rise in view of present steel-making plans.

Brazil has the most ambitious programme for the installation of new capacity. On the basis of the expansion now under way and present plans, the production of steel is expected to rise from its present level of 1.5 million tons to some 2.1 million in 1960 and some 3.5 million in 1965. Certain additional projects still under study may possibly add to these figures.[28] While a certain balance between supply and demand is foreseeable at the end of this eight-year period, disequilibria will persist in the meanwhile.[29]

The first increases in capacity will follow on the expansion of the eight integrated centres now in existence in the country. The five plants which now are only concerned with certain phases of production but which are being transformed into integrated plants will account for a further increase. Four new plants are in a fairly advanced stage of preparation.

Significant among the achievements of 1957 are the installation of a plant with oxygen blower (240 000 tons capacity) by the Belgo-Mineira and of a new mill for producing silicon steel by Acesita. Aços Villares has inaugurated a new furnace which will double its production of special steels, bringing it up to a figure of 30 000 tons. Work on the enlargement of the Volta Redonda (*Plan Millón*) has continued and an investment including foreign capital has been made in Aparecida for the production of steel for the new motor-vehicle industry (springs, etc.).

Plans for new integrated centres include those of "Cosipa" near Santos and "Usiminas" in Minas Gerais, where building will soon begin. The first-mentioned plant will have an initial capacity greater than 380 000 tons and will be mainly concerned with supplying the motor-vehicle factories with wide sheet. It is hoped that it will begin production in 1961 and that it will later increase its capacity to 1 million tons. The second plant will be built with the help of Japanese technicians and capital.[30] When it is finished, in 1964, it will have a capacity of 500 000 tons, although partial production will start in 1961. It will turn out, among other items, plates heavier than any so far

[27] It is estimated that some 3 million Peruvian cormorants died when the sea currents temporarily changed their course and there was a resultant shortage of the fish which live near the surface and serve as food for these birds.

[28] It is estimated that the total investment in these iron and steel projects, which will definitely be carried out, will be more than 210 million dollars; including projects under study, the possible investment total will be 347 million. Contributions of capital from abroad and foreign credits will play a major role.

[29] As regards future demand, the requirements of those metal trades which have begun to develop rapidly are particularly relevant here. It is calculated that the motor-vehicle industry alone will need 300 000 tons or more of iron and steel products. To these must be added the requirements of the programme for the construction and renovation of the railways and of the buildings in various industrial plants.

[30] The Japanese share will be 40 per cent.

Table 95. Latin America: Production of pig iron, steel ingots and rolled products, 1951, 1956 and 1957

(Thousands of tons)

	Pig iron			*Steel ingots*			*Rolled products*		
	1951	*1956*	*1957*	*1951*	*1956*	*1957*	*1951*	*1956*	*1957*
Argentina	19.0	35.0	33.8	131.6	202.5	221.5	296.5	617.2	687.7
Brazil	775.2	1 152.4	1 198.0	843.0	1 375.4	1 566.0	696.9	1 141.8	1 221.0
Chile	239.9	366.6	381.5	172.3	381.1	388.2	126.3	267.1	247.1
Colombia	—	116.0	125.8	—	99.9	129.4	—	81.2	112.0
Cuba	—	—	—	—	—	—	—	15.0	15.0
Mexico	254.3	407.6	429.0	473.0	888.4	1 049.5	464.7	710.0	880.0
Peru	—	—	—	—	—	—	—	4.0	15.0
Uruguay	—	—	—	—	12.7	10.0	32.0	30.0	30.0
Total for Latin America	1 288.4	2 077.6	2 168.1	1 619.6	2 960.0	3 364.6	1 616.4	2 866.3	3 207.8

Sources: For Argentina: *Centro de Industriales Siderúrgicos;* for Brazil, 1951 and 1956: *Anuário Estadístico 1957;* 1957: *Relatório do Banco de Brasil;* for Chile: direct information provided by the *Compañia de Acero del Pacífico* (including Corral production); For Colombia: output of Acerías Paz del Río, data supplied by the enterprise itself; production of smaller steel and rolling mills, indirect information; For Cuba: estimates based on data for previous years; for Mexico: pig iron, data supplied by the producer enterprises; manufacture of steel and rolled products, 1951, *Banco de México;* steel marking 1956 and 1957, *Altos Hornos de México;* rolled products, 1956 and 1957, estimates based on partial data; for Peru: indirect information; for Uruguay, 1951 and 1957, estimates; 1956, data supplied by producer enterprises.

produced in Brazil. Finally, the plant scheduled for Minas Gerais, which will probably be based on electro-metallurgy, will have a capacity of 500 000 tons.

The Mexican iron and steel industry is one of the most dynamic in Latin America. Production has tripled in the last ten years and present targets allow for a similar, if not greater, rate of increase in the immediate future. Expansion programmes are such that output should rise from its present level of 1.05 million tons to 1.2 million in 1958, more than 1.5 million in 1960 and 2 million in 1962 or 1963. As an illustration of the urgency of this expansion, it may be stated that, despite the sizeable increase in output in 1956, imports of crude steel and rolled products taken together amounted to 372 000 tons and, in 1957, to 411 000 tons. It is estimated that in 1960 there will still be a deficit of 300 000 tons.

The production of pig iron is still very much below that of steel and its tempo of growth is slower. While steel output in 1957 attained an annual increase of 18.1 per cent, that of pig iron reached the figure of only 5.3 per cent. The Mexican industry has of late been using some 400 000 tons of scrap each year, more than half of which has been imported.[31] Pig iron is imported in similar quantities.

All the large enterprises have expansion programmes. *Altos Hornos* is planning to boost plant capacity to 1 million tons by 1960, and the *Fundidora de Monterrey* intends to spend 600 million pesos on enlargement. Half of this sum will be used to build a sheet-rolling plant in its subsidiary, *Aceros Planos de Monterrey*. The third large integrated enterprise, the *Consolidada,* has also carried out extensions and improvements in its three plants. Increases are also expected in the output of *Hojalata y Lámina, Fundidora Veracruzana* and *Tubos de Acero de México.* In 1957, three steel furnaces were installed in Mexico and in March 1958 the assembly of a fourth furnace will be completed.

The Manzanillo project has again aroused interest. It will have a theoretical capacity of 150 000 tons of steel ingots and will utilize ores from various deposits. A United States company has announced plans for building an iron and steel plant in Pluma Hidalgo (Oaxaca) which will be based on the deposits existing in this Pacific coastal region. The execution of these plans and the installation of the scheduled basic plant of *Tubos de Acero* in the south will help to spread iron and steel production more evenly over Mexico. For some years consumption has been affected by high transport costs resulting from the concentration of the industry in the north.

In Chile, which is the third largest Latin American producer of pig iron and crude steel, increases in production were relatively slight in 1957, and there was even a slight decline in output of rolled products. The Huachipato mills are working at full capacity. The *Compañía de Acero del Pacífico* (CAP) is carrying out an expansion programme designed to raise the capacity for producing finished products to 450 000 tons.[32] This programme is to be carried out in two stages; the first, which is already under way, includes the installation of a reversible roller intended to modernize the process in this sector and cut costs; the second envisages other extensions to the rolling-mills in order to turn out a greater variety of products (heavy plate) and achieve a general improvement in the quality of flat products. The plan also provides for the enlargement of the steel plant through the addition of a fourth Siemens-Martin furnace with a capacity of 200 tons. Once this expansion programme is completed the installation of a second furnace is contemplated.

It is planned to close down the *Altos Hornos de Corral* towards the middle of 1958. Although it belongs to a subsidiary of the Development Corporation (CORFO) it is also under the administration of the CAP. During the last year this old-established factory has produced 42 700 tons of high-quality pig iron. The Huachipato plant continues to encourage the establishment of further metallurgical units in the neighbourhood.

In Colombia, an increase of 20 000 tons of finished steel was registered at Paz del Río. Potential demand is still much higher than supply which is estimated to cover only a quarter of real needs. So far, the output of the Belencito mill has replaced a large proportion of the imports of round steel for reinforcing concrete and helped to reduce imports of shapes and wire. The installation of a rolling-mill with an annual capacity of 50 000 tons for turning out certain flat items is scheduled for the near future. Plans are under way to link this unit with others designed to make better use of the surplus capacity now existing in certain departments. Within a short time it is thus hoped to reach a total production figure of 150 000 tons of finished steel, including the 50 000 tons produced by the new roller. It is also expected that an extension of the sintering plant will increase the yield of the blast furnace.

Longer-term plans, which were announced some time ago, and which include the construction of a second blast furnace, the extension of the Thomas steel mill, the installation of a Martin furnace and the acquisition of additional rollers, are still under study.

Two smaller rolling-mills, which in 1957 produced a total of 20 000 tons of finished steel from scrap, are being enlarged and a plant for the production of plates of a given type is about to start operations.

In Argentina, progress was made in the negotiations for the purchase of four Siemens-Martin furnaces for San Nicolás, each with a capacity of 225 tons. Certain of the projects which are pending, such as the construction of cranes and other installations, will probably be left in the hands of domestic industry. They will probably require imports of the necessary electrical precision parts. It is hoped that the plant will begin production before the end of 1960. It would then be able to produce approximately 500 000 tons of pig iron a year. Its steel-making capacity should be somewhat higher and its rolling capacity should reach 1.5 million. Substantial imports of raw or intermediate materials would thus be needed, even though it does not operate at full capacity at the outset. In 1960, the demand for finished products will probably rise to between 1.7 and 2 million tons, depending on whether or not an attempt is made to satisfy the accumulated demands of transport, gas and petroleum, housing, etc. The present rolling capacity is between 800 000 and 900 000 tons. The crude steel capacity will still be insufficient. At Zapla work has begun on the first stage of an expansion programme. Two new blast furnaces are being built, thus increasing the total number to four. A steel plant using Thomas converters will also be installed and, with the building of

[31] This fact of course must be related to the large number of electric furnaces operating in Mexico.

[32] The investment required is 29 million dollars, of which 12 million will be for local costs.

rolling mills, the unit will become an integrated centre. During a second stage, the two blast furnaces at present in operation will be replaced by two new units and steel-making and rolling facilities will be increased, raising the output level to 120 000 tons of steel plates and 20 000 tons of pig iron for domestic consumption.

In Peru, the plate and shape rollers of the Chimbote plant have continued to operate, using steel slabs imported from France and Belgium and billets from Chile. In December the cogging machine went into operation with the result that steel ingots were imported instead. The approaching completion and test-run of the hydro-electric plant of Caño del Pato and its related projects will enable the whole integrated centre to start production towards the end of April 1958. Its initial capacity will be 65 000 tons of steel ingots, and the immediate programme includes the annual manufacture of 28 000 tons of rod for concrete, 5 000 tons of small commercial shapes and three-ply wire, and 15 000 tons of thin sheet. This output will not be enough to satisfy national requirements for in recent years imports have amounted to 135 000 tons. It is planned to increase capacity with further extensions and it will be possible to reach the level of 1 million tons by adding to existing installations others of a different type.

As the coal from the Santa basin cannot be used for coke—at least not without substantial admixtures—for use in blast furnaces, the question of the future building of blast furnaces or other equipment for the reduction of ore and the refinement of cast iron depends on the results of studies now being carried out to determine the technically and economically most feasible solution.[33]

In Venezuela, which has the highest rate of *per capita* steel consumption in Latin America, Italian firms are proceeding with the construction of the large integrated iron and steel centre of Puerto Ordaz. It is hoped that the plant, which is being built with an investment of about 360 million dollars, can begin operations during 1959. It will then have a capacity of 650 000 tons of crude steel, and there are plans for increasing it later to 1.2 million tons.

At the beginning of the year, construction of Cuba's first iron and steel plant (steel-making and rolling) began at Cotorro, near Havana. It will have an annual capacity of 112 000 tons a year.[34] Its finished products will be corrugated rod, structural shapes, wire and welded tubes. A large proportion of present imports of these items will be replaced. The factory is scheduled to start production in the middle of 1959. At the same time, consideration is being given to the building of another steel plant with the participation of two leading United States firms. It will cost 16 million dollars. During the second half of 1957, a plant producing cast-iron tubes from scrap was inaugurated near Havana. The recent discovery of an iron deposit opens up new possibilities for the future utilization of domestic minerals in this plant.

In Panama, a company with Panamanian and United States capital is planning to begin during the first half of 1958 the production of 20 000 tons of round steel for reinforcement and other regular bars, mainly from scrap. Besides supplying the domestic market, it might possibly export certain surpluses to the Central American countries.

A company with domestic and Mexican capital, which will produce carbon and manganese steel, has been formed in Guatemala. In El Salvador a metallurgical firm is about to establish a steel mill.

(g) *Pulp, paper and board*

According to data obtained up to the present, the rate of growth registered in this sector in 1956 was maintained during 1957. In fact, if an analysis is made of developments in five Latin American countries[35] where paper, board and pulp production represents 90 and almost 100 per cent respectively of the total for the region, the 1957 figures are seen to be 10 and 12 per cent higher than in 1956 (see table 96). The increase from one year to the next—about 110 000 tons of paper and board and 55 000 of pulp—may be attributed almost entirely to the spectacular expansion of Mexican production in both branches, since the increments registered in other countries were negligible.

Newsprint production was approximately 11 per cent higher than in 1956. Nevertheless, in view of the relatively small proportion of output to total consumption in Latin America, this increment had virtually no effect on the countries' traditional dependence on imported newsprint, of which aggregate purchases amounted to some 450 000 tons, representing a value of nearly 85 million dollars.

The prevailing situation as regards other types of paper and board has been maintained without any noteworthy change for several years. Domestic industries in countries with the highest consumption levels produce almost all the items which make up this branch, mainly on the basis of imported fibrous raw materials (pulp). The only end goods still purchased abroad are some special types of paper which cannot yet be manufactured economically in Latin America. In Argentina, the industry continued to work at full capacity and had abundant supplies of raw materials at its disposal. Imports of newsprint reached fairly high levels which had not been registered since 1946 and 1947. At the end of 1957, the United States Export-Import Bank granted one of the leading enterprises credit for the purchase of new equipment and the modernization of existing newsprint-manufacturing machinery.

According to available provisional estimates, production continued to expand in Brazil, although at a much slower rate in 1957. Newsprint, which represented virtually 100 per cent of imported end goods, was bought in large quantities, exceeding 173 000 tons, one incentive being the preferential exchange treatment. It is hoped that present newsprint production will rise by some 70 000 tons between 1958 and 1959, approximately 40 000 tons to be obtained from increased output at the existing plant and the remainder—some 30 000 tons—to come from a project for the manufacture of newsprint mainly from eucalyptus wood. It is planned to build the necessary plant in the neighbourhood of São Paulo. During the year, work

[33] The prospects of using the Krupp-Renn process are now being considered.

[34] It is being built by the *Antillana de Acero* company whose assets are made up of Cuban and United States capital and also a loan from a United States bank. So far (during the last five years) it has only operated a small rolling-mill, of 15 000 tons yearly capacity, which produces corrugated rod from imported scrap and ingots.

[35] The five countries selected were Argentina, Brazil, Chile, Mexico and Peru, for all of which, excepting Brazil, accurate information was available on production figures. In the case of Brazil, the information should not be accepted unconditionally, since the data are provisional and subject to revision.

Table 96. Latin America: Production of pulp, paper and board

(Thousands of tons)

	Mechanical pulp	*Semichemical pulp*	*Chemical pulp*	*Total pulp*	*Newsprint*	*Other print*	*Board and paper-board*	*Total paper and board*
				1956				
Argentina	15 100	1 600	47 800	64 500	17 200	205 900	84 400	307 500
Brazil	77 100	21 900	89 400	188 400	31 000	274 000	33 300	338 300
Chile	17 500	—	2 500	20 000	11 200	41 300	8 000	60 500
Colombia	—	—	13 000	13 000	—	20 000	10 000	30 000
Cuba	—	—	18 000	18 000	—	36 000	—	36 000
Mexico	20 000	—	120 000	140 000	—	244 000	61 900	305 900
Peru	—	—	15 800	15 800	—	21 800	12 700	34 500
Uruguay	3 500	—	—	3 500	—	26 500	—	26 500
Venezuela	—	—	—	—	—	14 500	—	14 500
Total	133 200	23 500	306 500	463 200	54 400	884 000	210 300	1 153 700
				1957				
Argentina	13 900	2 100	47 400	63 400	12 000	220 000	82 600	314 600
Brazil[a]	80 000	20 000	90 000	190 000	35 000	280 000	35 000	350 000
Chile	20 800	—	2 900	23 700	19 500	34 300	8 000	61 800
Colombia[a]	—	—	13 000	13 000	—	20 000	10 000	30 000
Cuba[a]	—	—	18 000	18 000	—	36 000	—	36 000
Mexico	20 000	—	173 300	193 300	—	295 500	97 800	394 300
Peru	—	—	14 100	14 100	—	22 500	11 800	34 300
Uruguay[a]	3 500	—	—	3 500	—	26 500	—	26 500
Venezuela[a]	—	—	—	—	—	14 500	—	14 500
Total	138 200	22 100	358 700	519 000	66 500	950 300	245 200	1 262 000

Sources: For Argentina, Brazil, Chile, Colombia, Peru, Uruguay and Venezuela: direct information; for Mexico: *Cámara Nacional de Industrias del Papel.* For all countries, further information was obtained from FAO, *Yearbook of Forest Products Statistics, 1957* and *World Forest Products Statistics, 1956-55,* and United States Pulp Producers Association, *Wood Pulp Statistics,* August 1957.

[a] Provisional estimates.

was in progress on three pulp plants using eucalyptus wood; two will have an annual capacity of 10 000 and 17 000 tons respectively, while the third, with a yearly capacity of 7 000 tons, will produce semi-chemical pulp from sugar-cane bagasse. Other projects for pulp production, at an advanced stage of planning, will probably enter into operation towards the end of 1959 and represent some 136 000 tons capacity *per annum,* divided into 78 000 tons of chemical pulp (32 000 from coniferous wood, 38 000 from eucalyptus and 8 000 from various broad-leaved species) and approximately 58 000 tons of mechanical or mechanical-type pulp. These amount include sufficient pulp to cover the requirements of the projected expansion in newsprint capacity mentioned earlier.

The new newsprint plant constructed in Chile began to operate towards the end of 1957, and was able to export some 1 000 tons. It is hoped that exports will rise to approximately 20 000 tons by 1958, with Argentina as the main purchaser. Work on the Laja plant was continued and it will probably be ready to enter into full production at the beginning of 1959, with an annual capacity of some 70 000 tons of sulphate pulp from conifers.

Production was more or less at a standstill in Peru. The enterprise with the largest output fixed its 1959 target at 40 000 tons of paper and board, to be manufactured chiefly from sugar-cane bagasse.

Tentative estimates available indicate that no important changes took place in paper and board production in Colombia, Uruguay or Venezuela. In Colombia, the work of constructing the Barrancabermeja factory was continued; this will process wood from tropical species growing in the Magdalena river basin. A project for the manufacture of some 30 000 tons of different types of paper from sugar-cane bagasse is in the final stages of planning. The plant will be installed at Cali in the Cauca valley. It is estimated that the joint output of both plants, added to present production, will cover all domestic requirements, except for newsprint.

Some progress has been made on the project for a plant near Puerto Cabello in the State of Carabobo, Venezuela. The Export-Import Bank granted it a credit of 3.5 million dollars for the purchase of machinery and equipment to manufacture corrugated paper and kraft, etc., which will be the new enterprise's main production lines.

In October 1957, a new paper factory entered into operation at Latacunga, Ecuador.

(h) *Current consumer goods industries*

The expansion of these industries in the aggregate proceeded slowly during 1957, thus consistently following up the trend noted in the previous year. Broadly speaking, the growth of those branches of industry producing consumer goods exclusively for the domestic market failed to match that of the population in 1957. As was pointed out earlier, the slow rate at which income rose in the year in question, and the measures adopted to control the inflationary process and stabilize the balance of payments, exerted a general adverse influence on effective demand in some of the largest of the South American countries, and helped to determine this evolution on the part of the activities cited. It must be borne in mind, however, that these industries are of a vegetative type, since they have virtually passed beyond the stage of meeting domestic market requirements in most of the Latin America countries, and their development therefore depends on the growth of the population (with which it did not keep pace in this instance), and on income increments. Conversely, those industries manu-

Table 97. Latin America: Current consumer industries, 1956-57

(1955 = 100)

	1956	1957
Sugar	104.0	121.2
Oil	114.3	114.2
Refrigerating plants	120.2	119.7
Textiles	102.0	102.1
Footwear	102.2	102.9
Clothing	102.3	102.7

Source: Official statistics, data supplied by industrial associations and direct information.

facturing current consumer goods mainly for export expanded considerably in 1957 in some cases, or maintained the same high level of activity as in the preceding year (see table 97).

Among the consumer industries covered by the research, it was sugar production that registered the highest rate of growth (21.2 per cent), principally as a result of the production increments recorded in Brazil (21.3 per cent), Cuba (19.6 per cent) and Mexico (36.8 per cent).

Total production of edible oils remained at the preceding year's level, which had represented a substantial increase of 14.3 per cent in relation to 1955, thanks to the recovery of this line of production in Argentina. Differences were to be noted according to the sources of the oil-seeds utilized; the output of sunflower oil declined in 1957 because smaller amounts were processed in Argentina and Uruguay, that of sesame and peanut oil considerably expanded, and that of cottonseed oil remained stationary.[86]

The refrigerating industry also underwent a period of stagnation during 1957. It must be noted, however, that the level of activity attained in 1956 constituted a veritable record, and was 20.2 per cent higher than in 1955, owing to the exceptional production of Argentina's refrigerating plants in that year.

The increase in the production of the three typically vegetative industries for which the most complete data are available—textiles, clothing and footwear—was slight in relation to the preceding year. Moreover, in Argentina and Chile, especially the latter, the output of textiles, if the various fibres are considered in the aggregate, tended to decline once more; it is estimated that there was considerable idle production capacity in 1957.

3. Mining

World market price conditions for mining commodities, especially nonferrous metals, followed a course unfavourable to Latin America during the year 1957.[87] While this development did not actually affect the volume of production and exports, it did substantially lower income from mining activities and reduce foreign exchange earnings. The only exception to this over-all situation was constituted by petroleum, which, concurrently with a considerable expansion of production, benefited by a rise in world market prices. This fact was particularly favourable to Venezuela, the volume of whose 1957 output was 12 per cent larger than in the preceding year, and the increment in the value of exports amounted to some 13 per cent. If the statistics for this country are excluded from the calculation of the total gross product of mining in Latin America, a 30.6-per-cent increase is shown to have been registered (see table 98).

In reality, this expansion was mainly due to the 65-per-cent increment achieved in Brazil, where the rapid development of heavy industry was the main cause of a sharp upswing in consumption of ores. Another reason was the expansion in exports, mainly of manganese. In Argentina, too, the rate of growth was significant (8.1 per cent), and derived from the rising trend followed by petroleum and other domestic inputs of mining origin. In countries producing mining commodities primarily for export, on the other hand, the increase in the corresponding gross product was more modest.

Particular attention must be drawn to the fact that, on account of the fall in world market quotations mentioned above, the evolution of internal relative prices in the countries concerned was unfavourable to the mining sector, so that its receipts were considerably lower than in the preceding year. Thus, in Chile, income from such sources fell by 12 per cent, in Peru by 8 per cent and in Colombia by 10 per cent. In the last-named country the stagnation of the gross mining product was an additional determinant of this state of affairs.

Table 98. Latin America: Gross product of the mining sector, 1956-57

(Millions of dollars at 1950 prices)

	1956	1957[a]	Percentage increase
Argentina	124	134	8.1
Brazil	92	152	85.0
Chile	123	131	6.5
Colombia	120	121	4.0
Peru	118	127	7.7
Mexico	328	352	7.2
Total	905	1 017	12.0
Venezuela	1 517	1 717	13.2
Grand total	2 422	2 734	13.0

Source: Official statistics.
[a] Provisional.

[86] Olive oil registered a substantial expansion in Argentina and Chile. A plant was installed in the former country which is expected to export olive oil in the immediate future.

[87] See Part I, chapter II, section III, 7.

Chapter II

ARGENTINA

INTRODUCTION

The theory that the structural crisis through which the Argentine economy is passing will take several years to remedy is being fully borne out by facts. At the end of 1955, a reconstruction policy was embarked upon, but with scanty results so far. The Argentine economy has continued to expand, although in a purely vegetative way, that is, no more than parallel to population growth, while the *per capita* product has been fluctuating slightly round the same level in the last few years without evincing any definite upward trend.

The results achieved might have been more impressive, but adverse external factors intervened which were for the most part beyond Argentina's control, as well as others of an internal nature which were to a certain extent of its own making.

Among the external factors, the deterioration in the terms of trade, which has been discernible for some time, greatly intensified the effects of the structural crisis. As a result of this deterioration, exports in 1957 fell some 205 million dollars below their 1955 figure, thereby almost totally nullifying the increment in the export quantum.

External bottlenecks thus continued to impede the more extensive development of industrial production and general economic activity. It is common knowledge that the authorities have been very justifiably intent on avoiding an increase in the volume of credit which, although it might have promoted greater production, would have accentuated the balance-of-payments deficit. Yet it may reasonably be assumed that industries turning out current consumer goods for the masses might have expanded rather more than the little they did. These industries absorb a relatively small proportion of imports, in contrast to the capital goods and durable consumer goods industries, which have raised their output considerably.

For a variety of reasons, it would seem essential that current consumer goods industries should also be encouraged to expand. The required dynamic effect might be produced by an increase in public investment, but the latter's real level has not risen in the last two years. Its rate of development has undeniably failed to keep pace with the overwhelming accumulation of requirements and the need to accelerate the growth of the aggregate product. It is hoped that such public investment, which, for the major part, is highly productive, will take a marked upward turn in 1958; apart from the direct value of such a trend, it might also give current consumer goods industries the incentive they so urgently need, and thereby raise the level of employment.

It is evident that these expansionist effects are perpetually hampered by balance-of-payments instability. The year 1957 was unfavourable from all angles; the maize crop failed, the terms of trade deteriorated further and very heavy imports of lorries, motor-cars and spare parts were effected. Still, if the favourable forecasts for the next maize harvest materialize and the harvest more than offsets the anticipated drop in meat exports, and if in addition the signs of an improvement in the terms of trade are maintained and confirmed, on the one hand, and, on the other, the measures adopted in respect of the above-mentioned imports produce the desired effect, there may be better chances in the near future for the development of industry and the growth of the aggregate product.

There is yet another factor which has been adversely affecting the current consumer goods industries for several years. This is the direct and indirect subsidizing of such items as meat, bread, transport and electricity, which has diverted demand from non-subsidized consumer goods industries. There has recently been a definite trend towards correcting this policy, which, in the final issue, has harmed consumers, since in one way or another it has deprived Argentina of foreign exchange which might have been used to buy raw materials or intermediate goods, even though not capital goods; the results would then have been a greater expansion of industry and a higher level of employment, and hence more goods for consumers.

The fundamental solution to the problem of external bottlenecks is therefore not to be found in such circumstantial readjustments but in the far-reaching measures which Argentina has begun to apply in the following three fields: crop and livestock production, petroleum and the replacement of industrial imports by domestically-produced goods.

After the serious contraction which took place in agricultural production a few years ago, Argentina recently enlarged its crop area to the maximum under the incentive of favourable prices and facilities for mechanization. The internal purchasing power of prices for grains, oils and fats was 12 per cent higher in 1957 than in 1955, and there are now 40 per cent more tractors than in the latter year. But animal husbandry is still a source of justifiable concern. While in the case of the crops referred to, thanks to successive adjustments in the rate of exchange subsequent to the 1955 devaluation, it was possible to avert the effects of a new phenomenon of monetary over-valuation, the same could not be said of beef. The problem is complex, owing to the possible external implications of any readjustment, but a satisfactory solution must be found to place these two important branches of production on an equal footing. In the meantime, the progressive liquidation of livestock inventories which has been taking place may, if not soon brought to a halt, have a very serious effect on meat production and exports in the next few years.

But an incidental and temporary situation of this kind should not be allowed to conceal the basic problem. The displacement of livestock by crops, even if successfully kept within reasonable bounds because both branches are treated on an equal footing, will result in only a partial contribution to the substantial expansion in production that is needed to reconstruct the Argentine economy. Since the pampas

area is limited and cannot be extended any further, as it used to be, by the incorporation of new land, it is essential that every effort should be made to increase average yield per hectare (and per worker) in both livestock and crops, and to make directly productive use of land now occupied by draught animals as the process of mechanization is intensified. Much depends on the success of the new Institute of Farm Technology *(Instituto de Tecnología Agropecuania)* and on the speed and efficiency with which the results of its experiments and research are circulated, since Argentina must hasten to make up for the many years during which it has lagged behind in agricultural techniques.

Unless Argentina acts with energy and determination, growing consumption will continue to drain exportable surpluses which are already considerably diminished. To obtain a clear idea of the magnitude of the problem, it is enough to realize that, by 1963, population growth alone, without any increment in *per capita* consumption, will probably be approximately equivalent to the increase in the whole of the exportable surplus in 1957.

The measures contemplated for the petroleum industry are intended to boost production, but the construction of the necessary oil and gas pipelines has not yet begun, and the more rapid execution of these and other projects undoubtedly depends to a great extent on a future improvement in the balance of payments. The economic reconstruction programme approved by the Government early in 1956 provided for the collaboration of private capital in the form of services to the State petroleum enterprise, but so far no progress in this direction has been made. It is worth noting, nevertheless, that the intention is to initiate the experiment with drilling in Tierra del Fuego.

As regards import substitution in industrial goods, the impetus given to iron and steel projects and paper-manufacturing is a promising sign. But the nature and magnitude of the present and potential disequilibrium in the balance of payments is such that these two items, even in conjunction with petroleum output and a possible increment in agricultural exports, would not be enough to accelerate the growth of the aggregate product without further external maladjustments. It would thus seem necessary that the problem of import substitution should be tackled in respect of a wide range of industries, and that special attention should be paid to the capital goods, raw materials and intermediate goods industries, whose situation is highly critical at present.

But the rapid growth of the product is not conditioned by these factors alone. It is also checked by internal bottlenecks, with which the authorities have begun to deal as far as both the electric energy supply and transport are concerned.

Such reconstruction measures require heavy investment, much of which will have to be covered by foreign exchange. Argentina has no such reserves available at the moment for this specific purpose since, as already pointed out, its export earnings are not even sufficient to provide a steady supply of raw materials and intermediate goods for its current activities. Many capital goods imports in the last two years have had to be paid for with credits and foreign investment amounting to the net sum of 350 million dollars. Thus, the country has already obtained and realized approximately one quarter of the credits and investment considered to be essential for the work of reconstruction, until such time as a rise in exports and the replacement of imported industrial goods and petroleum by domestic products enable Argentina to import at its own expense all the capital goods that its machinery and equipment industries cannot yet produce economically.

In short, Argentina's problem is to employ such external resources in combination with its own in launching a vigorous attack upon the key points of its economy already mentioned. The resources in question are in short supply and the rapidity and intensity of the growth of the product depend to a large extent on their judicious utilization and on a strict system of priorities for investment. Investment which does not immediately help to increase the product, however useful it may be in the future, should naturally be given a lower priority. Once the product begins to grow, Argentina's investment resources will substantially increase and it will be able to use a greater proportion of them to finance imports of capital goods as external bottlenecks are eliminated.

Without this rapid and intensive growth of the product the serious internal tensions which disturb the Argentine economy cannot be relaxed. Average *per capita* income, following the sharp fall registered after 1948, has not yet regained the maximum level recorded in that year. It is hardly surprising, therefore, that industrial wages are also less. Even more serious is the situation of other social groups. The average income of civil servants is 23 per cent lower than in 1935. The resulting tensions can be relieved and gradually eliminated only by an increment in the *per capita* product. Inflation will not, of course, serve to remedy this state of affairs; at certain times it may be a psychological need, but it is no solution.

The growth of the product is also essential for the permanent stabilization of public finances. In spite of the remarkable decline in the average income of civil servants, governmental expenditure has come to account for an increasing share of the aggregate product. This development would not be serious in itself—on the contrary it might be beneficial—if it were due to an increase in productive State investments. But this is not the case. On the contrary, it is mainly current expenditure[1] that has increased in the past and continues to do so more recently. If this process were arrested, the growth of the aggregate product might enable the State not only to correct the financial imbalance but also to raise the real income of civil servants by gradual degrees without inflationary effects and at the same time to make other essential adjustments in the composition of public expenditure. But if this does not happen and the process continues, it will very soon be all too apparent that the increase in governmental current expenditure cannot be reconciled with Argentina's vast capital formation requirements.

I. FLUCTUATION IN THE AGGREGATE PRODUCT

The most visible symptom of Argentina's structural crisis is the stagnation in the gross product *per capita* during recent years; between 1954 and 1957 it remained in the region of 3 500 pesos[2] and showed no definite rising trend. Hence it is still very far from the maximum of 3 824 pesos attained in 1948. After that year, it fell to a minimum of 3 325 pe-

[1] Including current consumption of collective services, deficits in State enterprises and payments of social benefits.

[2] At 1950 prices.

sos in 1952 and has since risen and kept to the level just mentioned. *Per capita* income in recent years stands in even more striking contrast with that registered in 1948, because of the deterioration in the terms of trade (see table 99).

The external and internal factors impeding the growth of the product have been explained above. There was no perceptible improvement in the effect of external factors in 1957. Although the quantum of exports has increased in the last two years, as compared with 1955 (10 per cent in 1956 and 25 per cent in 1957), the fall in prices has neutralized the effects of this increase (see table 100).

This fall in export prices was accompanied by a contrary trend in import prices in 1956, as the result of the Suez incidents. Although the situation gradually improved in 1957, it nevertheless had a bad effect on the terms of trade (see table 101).

The deterioration in the terms of trade has thus reached an extreme point. It is true that they had risen remarkably during the post-war period, but during the subsequent adjustment they went too far the other way, so that in 1957 they were 32.5 per cent lower than in the quinquennium 1935-39, when they had already fallen 10 per cent below the level reached during the first three decades of the century, prior to the great world depression.

Table 99. Argentina: *Per capita* gross income and product, 1948-57

(Pesos at 1950 prices)

Year	Gross income	Gross product	Terms-of-trade index (1935-39=100)
1948	3 971	3 824	132
1949	3 720	3 677	110
1950	3 624	3 624	93
1951	3 665	3 642	102
1952	3 282	3 325	70
1953	3 436	3 436	93
1954	3 494	3 522	84
1955	3 568	3 598	82
1956	3 481	3 523	71
1957	3 477	3 558	68

Source: Official statistics.

Table 100. Argentina: Exports 1955, 1956, 1957

Year	Millions of dollars (f.o.b.)		United value indices (1950=100)
	At current prices	At 1950 prices	
1955	928.6	939.4	98.8
1956	943.8	1 028.6	91.8
1957	970.0	1 175.0	82.4

Source: Data supplied by the Joint Argentine/United Nations Working Group *(Grupo Conjunto del Gobierno de la República y las Naciones Unidas)*.

Table 101. Argentina: Imports, 1955, 1956, 1957

Year	Millions of dollars (c.i.f.)		United value indices (1950=100)
	At current prices	At 1950 prices	
1955	1 172.4	1 043.7	112.3
1956	1 127.6	981.4	114.9
1957	1 310.0	1 140.0	113.6

Source: Data supplied by the Joint Argentine United Nations Working Group *(Grupo Conjunto del Gobierno de la República Argentina y las Naciones Unidas)*.

To give an idea of the magnitude of this phenomenon, it is sufficient to point out that, if the terms of trade had remained constant after 1955, the value of exports during 1956 and 1957 would have been 100 million and 205 million dollars higher, respectively, than the figures actually registered.

Thus, the deterioration in the terms of trade has heightened the effects of the structural crisis in the Argentine economy. One of the features of this crisis has been the decline in the export quantum, which, in spite of the recovery or recent years, was in 1957 barely 74 per cent of the average for the peak quinquennium 1925-29.

The balance-of-payments situation thus continued critical in 1957. To enable it to be grasped more clearly, the situation has been analysed from two points of view: firstly, current income (principally exports) and current expenditure (imports, excluding those of capital goods, interest and earnings from foreign capital etc.) (see table 102); and, secondly, capital income in its various forms, compared with imports of capital goods (see table 103). In 1957, current income did not even cover current requirements. There was a current deficit of 58 million dollars, similar to that of 1955, whereas in 1956 a small surplus of 27 million dollars was registered.

Argentina has also lacked domestic resources for imports of capital goods, and the capital goods it purchased in 1957 (to the value of 317 million dollars) were mainly covered by foreign credits and investments.

These credits and investments amounted to some 329 million dollars. In addition, 35 million dollars were repatriated from Argentine funds abroad,[3] while short-term monetary reserves and credits were used to a value of 113 million dollars, bringing the total to 477 million dollars. These total resources were used to eliminate the current

[3] Probably including a proportion of foreign exchange which escaped official control.

Table 102. Argentina: Balance of payments: Current income and expenditure

(Millions of dollars)

Year	Exports and other current income	Current expenditure			Balance of current resources
		Current imports	Remittances of profits and interest	Total	
		A. Annual figures			
1945	779	286	172	458	321
1946	1 190	464	134	598	592
1947	1 629	971	83	1 054	575
1948	1 422	1 057	10	1 067	355
1949	1 026	890	10	900	126
1950	1 168	800	13	813	355
1951	1 184	1 211	28	1 239	— 55
1952	693	926	10	936	—243
1953	1 119	593	11	604	515
1954	1 050	799	18	817	233
1955	948	973	40	1 013	— 65
1956	974	878	30	908	66
1957	1 005	993	32	1 025	— 20
		B. Annual averages			
1945-49	1 209	734	82	815	394
1950-54	1 043	866	16	882	161
1955-57	975	945	31	982	— 7

Source: Data supplied by the Joint Argentine United Nations Working Group.

Table 103. Argentina: Balance of payments: Capital movements

(Millions of dollars)

Year	Expenditure			Means of coverage		
	Capital goods imports	*Amortization of foreign capital*	*Total*	*Surplus current resources*	*Inflow of foreign capital*	*Outflow of monetary reserves and increase in short-term credit (—); increase in reserves and reduction of short-term credit (+)*
			A. *Annual figures*			
1945	14	42	56	321	—	265
1946	83	320	403	592	—	189
1947	426	217	643	575	—	— 68
1948	498	429	927	355	6	—566
1949	265	3	268	126	40	—102
1950	245	—	245	355	47	157
1951	266	—	266	— 55	144	—177
1952	255	33	288	—243	72	—459
1953	202	14	216	515	46	345
1954	180	12	192	233	39	80
1955	200	47	247	— 65	92	—220
1956	250	93[a]	343	66	228[b]	— 49
1957	317	102	419	— 20	322[c]	—117
			B. *Annual averages*			
1945-49	257	202	459	394	9	— 56
1950-54	230	12	241	161	70	— 11
1955-57	256	81	336	— 7	214	—129

Source: Data supplied by the Joint Argentine/United National Working Group.
[a] Including subscriptions to the International Monetary Fund and the International Bank for Reconstruction and Development, totalling 40 million dollars.
[b] Including approximately 30 million dollars representing repatriation of capital and 50 million representing reimbursement of coverage.
[c] Including approximately 35 million dollars representing repatriation of capital and 75 million from the International Monetary Fund.

deficit of 58 million, to cover the capital goods imports mentioned (317 million dollars) and to amortize 102 million dollars' worth of foreign credits.

These few figures are enough to give some idea of the external difficulties through which the Argentine economy is passing. On the one hand, the quantum of exports has declined and their relative prices have fallen; on the other hand, imports have tended to increase more rapidly than the growth of the aggregate product. In the last ten years, these two opposing forces have been in continuous conflict. The shortage of foreign exchange has made it necessary to curtail essential imports, both of current consumer items and capital goods, with the result that the growth of the aggregate product has been impeded. In the last three years the most critical situation has arisen; current income has not been sufficient to pay for current imports, and imports of capital goods have had to be covered out of foreign capital and the intensive use of monetary reserves, as has just been shown.

An analysis of import figures for the past year, however, suggests that perhaps the structure of imports might have been planned differently in order to use available foreign exchange more profitably. Out of total imports of 1 310 million dollars, 148 million, or 11 per cent, were used for imports of lorries (106 million) and motor-cars and spares. The authorities took steps, in mid-1957, to keep these imports within reasonable limits.

As may be seen from table 104, apart from these imports of motor vehicles—which were undoubtedly useful, although they were probably not in keeping with the scantiness of Argentina's external resources—it would have been difficult to reduce other current imports during 1957, since the majority were fuels, raw materials and intermediate goods which are essential for Argentina's industry. It is true that they include goods for immediate consumption (foodstuffs), which make up 2.9 per cent of the total. These, however, come from Brazil and, under a reciprocal trade agreement, are not paid for in foreign currency but are bartered for Argentine exports. Obviously, any reduction in such imports would involve a similar drop in exports.

To enlarge upon the foregoing sketch of Argentina's foreign trade, mention may be made of two aspects of this latter, namely, its distribution by currency areas and the system of the official and free markets.

Table 104. Argentina: Breakdown of imports, 1957

	Millions of dollars	*Percentage distribution*
Total	1 310	100.0
Consumer goods	101	7.7
Non-durable	38	2.9
Durable	63	4.8
Fuels	302	23.1
Raw materials and intermediate products	602	46.0
Metal products	246	18.8
Other products	336	25.6
Building materials and public works	20	1.5
Production machinery and equipment	305	23.3
For agriculture	31	2.4
For industry	113	8.6
For transport and communications	161	12.3

Source: Official statistics.

In the dollar zone, where Argentina has to purchase a considerable proportion of the fuels and capital goods it requires, it can find no market for its own products, and the result is a repeated and substantial deficit. Since the surpluses obtained with other areas or countries cannot be transferred to settle part of this debit balance, a dollar shortage problem arises; the aggravation of this difficulty in 1956 and 1957 compelled the Central Bank to sell gold out of its reserves on many occasions.

Argentina's international transactions are conducted through the two markets mentioned above, which operate on very different scales, with widely divergent effects in the Central Bank's international reserves.

Between 1956 and 1957 a fairly significant alteration took place in the relative proportions of trade handled by each of these exchange markets. In respect of both exports and imports, the expansion of the free market, in absolute and relative terms alike, is tending to reduce the very great disparity at present existing in favour of the official market. Whereas in 1956 free market exports and imports represented only 11.4 and 16.5 per cent respectively, in 1957 they accounted for 19.9 and 26.9 per cent.

This change was brought about by the transfer of some exports from the official to the free market and the reduction of official base values for others, so that a larger proportion of the sales price could be negotiated freely by exporters. Much the same was true of imports; some new free market items were authorized, and in other instances transfers from the official to the free market took place. Such changes were due as a rule to circumstantial causes connected with the special situation of certain goods and with supply requirements.

Of the total deficit, 54.6 per cent was attributable to the official market. The free market deficit was covered by other accounts, such as net balances on capital movements, freight costs and fares, port dues, tourist expenditure, deferred-payment imports, etc.

The effect of the authorization of more free market imports was to increase demand for dollars and raise dollar quotations, which reached their peak level (about 44 pesos to the dollar) at the end of August, afterwards falling until at the close of the year they stood at 37-38 pesos, in consequence of the Central Bank's intervention in the free exchange market. This intervention, which consisted in the sale of foreign exchange, in turn implied that official international reserves helped to cover the free market balance-of-payments deficit, which may be estimated at some 14 million dollars. In this sense, therefore, the Central Bank's reserves affected by the free market. For the rest, it was the official market deficit that was reflected in a loss of reserves.

II. THE SECTORS OF PRODUCTION

1. Agricultural production

(a) *Over-all situation*

When considering agricultural production, a distinction must be drawn between the pampas area, which is the source of 85 per cent of Argentina's crop and livestock exports, and the rest of the country, which produces almost exclusively for home consumption. In the pampas, production, after some grave setbacks, is still struggling to exceed the peak figures attained in 1940-44; elsewhere, on the other hand, it has steadily expanded, so that total output figures are higher than during those five years (see table 105).

In view of the decisive role which production in the pampas must play in the recovery of the Argentine economy, the present survey of the situation will be confined to statistics for that area, where, in 1940-44, the quantum of production, measured at constant 1950 prices,[4] amounted to 9 960 million pesos. A sharp downward trend then reduced output to a minimum level of 6 800 tons by 1952, in which year the consequences of an exceptionally poor harvest were added to the unfavourable factors that had been discouraging agricultural production.

After descending to this minimum figure, production began to increase once more. The quantum reached 9 670 million pesos in 1955 and rose to 10 030 million in the following year, for the first time slightly exceeding the average registered in the peak five-year period. But 1957 witnessed a further decline, this time to 9 770 million pesos, which was below the average in question. The new downward movement was a result of the failure of the maize crop and the decrease in beef production which began in 1957 and is continuing in 1958.

In any event, production levels are now close to their maximum, although it must be taken into acount that the area utilized for direct production is larger at the present time because considerably less land is used for grazing draught animals. If such land is excluded, the productive area would seem to have increased from the annual average of 49.4 million hectares registered in 1940-44 to 52.1 million hectares in 1957. If, despite this 2.7 million hectare increment, production has not exceeded its former maximum figure, the reason is that average yields are still lower than in the earlier five-year period (see tables 106 and 107).

It is true that in 1940-44 weather conditions were exceptionally favourable in some years, whereas the reverse has

[4] Unless otherwise indicated, all prices mentioned in this section are expressed in terms of constant 1950 pesos.

Table 105. Argentina: Agricultural production

(Millions of pesos at 1950 prices)

Period	*Pampas*	*Rest of country*	*Total*
1940-44	9 959	3 442	13 401
1950-54	8 383	4 099	12 482
1955.	9 666	4 836	14 502
1956.	10 035	4 718	14 753
1957.	9 768	4 416	14 184

Sources: Official statistics.

Table 106. Argentina: Utilization of productive area in the pampas

(Millions of hectares)

Period	*Area used for direct production*			*Land used for draught animals*
	Crops	*Livestock*	*Total*[a]	
1939/40-1943/44. .	20.0	37.5	49.4	6.7
1954/55	16.3	42.7	51.7	4.2
1955/56	16.8	43.0	51.9	3.9
1956/57	18.8	41.5	52.1	3.8

Source: Official statistics.
[a] To prevent duplication, stubblefields are excluded, since they constitute land utilized for crops and livestock in succession (see footnote[a] of the text).

Table 107. Argentina: Development of agricultural production in the pampas

Period	Area under seed	Area utilized[a]	Total production (Millions of pesos at 1950 prices)	Production per hectare utilized (Pesos at 1950 prices)
	(Millions of hectares)			
1939/40-1943/44	20.0	15.1	5 396	358
1954/55	16.3	11.9	4 369	366
1955/56	16.8	11.5	4 279	371
1956/57	18.8	13.9	4 738	341

Source: Official statistics.
[a] Including the area under cereals and sorghum, the area sown to oil-seeds and other local crops (see footnote [6] of the text).

been the case of late; but there can be no doubt that if in the whole of the interval it has not yet been possible to obtain higher yields per hectare in crop and stock farming in the pampas, this is because during the last quarter of a century Argentina has not kept pace with the technical progress which has enabled other countries to achieve considerably larger yields.[5]

Herein lies Argentina's basic problem so far as agricultural production is concerned, and in this connexion the land tenure system is of vital importance. As has already been pointed out, the recent shift of emphasis from stock farming to crop farming will at best increase the total volume of production only within certain narrow limits. If Argentina is once more to obtain larger exportable surpluses, a simultaneous production increment in both activities is indispensable, and this is not exactly what has been happening in recent years. Crop farming is expanding, but at the expense of the other branch of agriculture, where animal stocks are being liquidated to an extent that may seriously handicap the development of meat production in the near future if the process is not brought to an immediate halt. This situation is important enough to justify more thorough discussion here.

(b) *Areas used for stock and crop farming*

It will serve a useful purpose to begin by retracting the evolution of the two main branches of agricultural production during previous years. The maximum area used for crop farming was registered in 1940-44, when an average of 20 million hectares was under seed.[6] It was at this juncture that the period of strictly agricultural expansion, effected largely at the cost of stock farming, came to an end, and a movement in the reverse direction set in. The area under seed was progressively reduced until a minimum of 14.9 million hectares was reached in 1949/50, after which a renewed upward trend increased it to 16.8 million by 1955/56 (see again table 107). The area no longer used for crops, which between 1940-44 and 1955/56 reached 3.2 million hectares, was taken over for stock farming. Moreover, as in all these years the number of draught animals decreased, some 2.5 million hectares were also left free to be utilized for livestock production. With the inclusion of the area used for draught animals, stock farming land thus increased from 44.2 million hectares in 1940-44 to 47 million in 1955/56 (see table 108). During the same interval, the area utilized for productive stock farming was extended from 34.4 million hectares to 40 million. A considerable increase in animal stocks thus became possible; when the various species are expressed in terms of cattle,[7] the average of 38.9 million units recorded in 1940-44 is seen to have risen to 45.4 million in 1955/56. In order to establish a proper relationship between the area used for

[5] These are the conclusions reached in the survey carried out in Argentina by members of the ECLA staff in collaboration with experts from FAO and the Inter-American Institute of Agricultural Sciences. The findings of this research are incorporated in the study on *The economic development of Argentina* (E/CN. 12/429), which is to be published shortly.

[6] Not all the area sown to grain, oil-seeds and other annual crops is intended for harvesting. Part of the area under cereals and sorghum is used for grazing; furthermore, in the other part, the stubble left after the crops are harvested is also used for stock farming. Thus the amount of land utilized for agriculture proper is given by the area on which cereals and sorghum are harvested plus the area sown to other crops; while that used for stock farming is made up of the area on which cereals and sorghum are sown but not harvested (*verdeos* or crops for grazing), the area under permanent artificial pastures—mainly alfalfa—natural grassland and stubble. The estimate for this last, however, does not represent more than one-third of the total extent of stubble, as the land concerned is reckoned to be used for stock during only about four months of the year. Statistics for a particular year will clarify this point. In 1954/55, the area under seed in the pampas amounted to 16.3 million hectares, but the area really used for crops was only 11.9 million. The difference of 4.4 million corresponded to the area under cereals and sorghum where these crops were not harvested but were used for grazing. In the same year, the stock farming area also comprised 31.6 million hectares of natural grassland, 7.6 million hectares under permanent artificial pasture and 3.3 million hectares of stubble. The total area under cereal and sorghum stubble was really 9.9 million hectares, but as it was used for grazing purposes during only some four months of the year, one-third of this figure was taken into account for the present calculation. Lastly, it should be explained that stubblefields were not subtracted from the crop area, but duplication was avoided by the integration of both areas in an over-all total, i.e., land utilized for stock and crop farming.

[7] The equivalences adopted are those utilized by the Ministry of Agriculture of Argentina, under whose system 1 head of cattle is taken as a unit. In the case of other species, a unit consists of 1 horse, ass or mule, 5 sheep, 5 goats, or 10 pigs, respectively.

Table 108. Argentina: Area used for stock farming in the pampas

(Millions of hectares)

Period	Natural grasslands	Permanent artificial pastures	Cereals grown as seasonal pasturage	Stubble	Total
1939/40-1943/44	30.2	5.4	4.9	3.7	44.2
1954/55	31.6	7.6	4.4	3.3	47.0
1955/56	31.5	7.4	5.2	2.9	47.0
1956/57	29.5	7.5	4.8	3.6	45.4

Source: Official statistics.

Table 109. Argentina: Animal stocks in the pampas

Period	Area		Animal stocks in terms of homogeneous units (Millions of heads)	Livestock density	
	Total	Under forage crops		Per hectare	Per hectare under forage crops
	(Millions of hectares)				
1939/40-1943/44	44.2	22.3	38.6	0.87	1.73
1954/55	47.0	24.7	43.3	0.92	1.76
1955/56	47.0	24.6	44.7	0.95	1.81
1956/57	45.4	24.1	44.0	0.97	1.82

Source: Official statistics.

stock farming and production, the former should also be expressed in homogeneous units, as artificial pastures, natural grasslands and other forage crops do not all have the same carrying capacity (see table 109).

(c) *Cattle, with reference to the reduction of stocks*

Table 110 presents an estimate of the proportion of the livestock area used for cattle and a comparison between this area and the evolution of stocks. As cattle constitute the main item in the total livestock statistics cited above, the analysis will be confined to cattle inventories. It can be seen from the table that in the pampas, thanks to the considerable increase in the area under forage crops, the cattle population grew from 27.8 million in 1940-44 to a maximum of 36.9 million in June 1956. Immediately afterwards the process of liquidation began. It is estimated that between the latter date and December 1957 the number of cattle decreased by 3.5 million, basic stocks thus being reduced to 33.4 million.[8]

What is the underlying cause of this liquidation process? A cyclical phenomenon would seem to be involved—not of an over-all nature but affecting stock farming— intensified by a discriminatory price policy and by the inadequacy of the steps taken to bring about a rapid increase in the carrying capacity of the land used for livestock. The following is perhaps the right explanation. The stock farming cycle is a typical feature of agriculture in Argentina. With respect to livestock, periods of relative shortage alternate with others of relative plenty. During the former, prices rise, and an expansion of production is thus stimulated. Of course some years must go by before the effects of this movement are felt, on account of the time taken to complete the productive process, i.e. the interval between the increase in the number of cows and the point at which the young bull or heifer reaches the reproduction stage. So long as the completion of the process is not reflected in larger market supplies, prices remain at a relatively high level, and this helps to promote an expansion of production which is more than commensurate with demand. But a moment comes when the increase in the supply operates to the detriment of prices, and a fall in these latter leads to liquidation, which in turn tends to reduce availabilities disproportionately to demand, so that price levels once again rise. Thus a new period of expansion is embarked upon, and so on in succession.

[8] Between June 1956 and June 1957 the number of cattle slaughtered in the pampas area amounted to 2 552 000 head.

Table 110. Argentina: Development of cattle farming in the pampas

A. *Area and stocks*

Period	Area (Millions of hectares)		Stocks[a] (Millions of head)	Density[b]	
	Total	Under forage crops		Per hectare	Per hectare under forage crops
1939/40-1943/44.	31.5	15.9	27.1	0.87	1.73
1954/55.	37.3	19.6	33.7	0.92	1.76
1955/56.	38.0	19.9	35.3	0.95	1.81
1956/57.	36.8	19.6	36.9	0.97	1.82

B. *Production*

Period	Total meat production (Thousands of tons)	Meat production (Kilogrammes)		Meat and milk production (Pesos at 1950 prices)	
		Per hectare	Per hectare under forage crops	Per hectare	Per hectare under forage crops
1939/40-1943/44	1 573	50	99	88	174
1954/55. . . .	1 822	49	93	91	173
1955/56. . . .	2 244	59	112	103	197
1956/57. . . .	1 781	48	91	93	174

Source: Official statistics.
[a] Stocks at the beginning of the farm year.
[b] Density per hectare was calculated by averaging stocks at the beginning and end of each farm year, as follows: 1940/44: 27.5 million head; 1954/55: 34.5 million; 1955/56: 36.1 million; and 1956/57 35.6 million.

(d) *Crop and livestock prices, and exchange rate treatment*

This is the typical process, but each cycle displays its own particular characteristics. For example, in the case of the movement towards expansion which reached its climax in 1956/57, several circumstances operated in favour of stock farming. In the first place, as this activity calls for less manpower than crop farming, it is not so sensitive to labour shortages, such as had previously been affecting production in the pampas, for well-known reasons. Secondly, while internal relative prices for young cattle on the farm underwent a decline similar, although not equal in magnitude, to that registered in cereal and oil-seed prices, the relationship was as a rule less unfavourable in the case of cattle bred for home consumption, which constituted about 42 per cent of the total. Lastly, liberal credit facilities were available for the expansion of stock farming.

The results of this expansion were already beginning to make themselves felt in 1956. The increase in the supply meant that much more beef could be exported; sales abroad amounted to 631 000 tons, a figure 49 per cent higher than the previous year's.[9] Consequently, external meat prices fell, and the resultant repercussions on the domestic market largely offset the effects of the devaluation of the currency on quotations for export steers, whereas its influence was strongly apparent in the case of grain and oil-seeds. Thus a discrepancy arose between the movements of these lines of production which was immediately intensified by the discriminatory exchange policy. In fact, while the real exchange rate, applied to cereal and oil-seed exports, was continually being adapted to the internal inflation of costs and prices, no such adjustments were made for meat exports. After the devaluation at the end of 1955, such sales were at first effected at a rate somewhat lower than that of 18 Argentine pesos to the dollar, owing to retentions by the State, but once these latter were discontinued, the export exchange rate of 18 pesos to the dollar was maintained without fluctuations.[10] In contrast, the average rate for cereals—excluding wheat—and oil-seed, which started from roughly the same level, reached 21 pesos to the dollar in the last quarter of 1957.[11]

Such a disparity was of course bound to give additional momentum to the shift in favour of agriculture. The way in which the exceptional expansion of supply largely coun-

[9] Including exports of cattle-on-the-hoof.
[10] In practice, however, the rate was apparently raised to 18 pesos to the dollar, by virtue of the subsidies granted in respect of young cattle in a certain category.
[11] The process of adjustment has continued in 1958 up to the time of writing.

Table 111. Argentina: Total availabilities of beef for domestic consumption and export

(Thousand of tons)

Period	Production	Increase or decrease in stocks	Total available for consumption	Domestic consumption	Export
1940-44 . .	1 786	— 36	1 750	1 048	702
1955 . . .	2 408	—252	2 156	1 732	424
1956 . . .	2 425	+ 80	2 505	1 874	631
1957 . . .	2 026	+412[a]	2 438	1 937	501

Source: Official statistics.
[a] Liquidation of stocks in the second half of the year was assumed to be the same as in the first six months.

teracted the initial effects of devaluation would alone have sufficed to set in motion the process of readjustment as between the two activities; but it was undoubtedly intensified by the discriminatory evolution of the exchange rate.

Parity of exchange treatment would certainly first have moderated, and possibly afterwards checked, the liquidation of stocks, especially once the latter procedure had remedied the temporary superfluity on the supply side, as very soon occurred. The surplus long ago ceased to exist, and the limited inventories still maintained are already inadequate to cover domestic consumer requirements and exports at the same level as in recent years, as can be seen from the statistics in table III.

However, the analysis of this table should be preceded by the remark that, in addition to the cyclical movement described, the policy of ceiling prices for meat, applied during 1957 virtually throughout Argentina, also helped to determine the reduction of cattle stocks, especially the slaughtering of cows. This was because authorities in the provinces and communes as a rule adhered to the maximum price system which had been discarded by the National Meat Board *(Junta Nacional de Carnes)* in Buenos Aires.

As the low levels at which such ceiling prices were fixed stood far below the quotations for steers, but higher, nevertheless, than those for cows, it was precisely these latter that reached the consumer market in larger quantities, the result being that the price relationship as between them and steers altered considerably in their favour. Thus a relatively large number of steers was accumulated, which towards the end of the year had to be used for tinned meat, while the slaughter rate for cows was heavy, with the consequent unfavourable effect on the productive sector of animal stocks. According to official data, out of the 2.7 million head of cattle slaughtered in the whole of Argentina between 1956 and 1957, 52 per cent were cows, and of these about 90 per cent came from the pampas.

(e) *Production, exports and domestic consumption of beef*

Total availabilities of beef amounted to 2 438 000 tons in 1957, that is, 282 000 tons, or 13 per cent more than in 1955, thus permitting a considerable expansion of exports and domestic consumption. It should be noted, however, that production did not account for the whole of this quantity of meat; a considerable proportion—some 412 000 tons—was represented by liquidation of stocks.

Should this process continue during the first six months of 1958 at the same rate as in the second half of 1957, by June—even supposing a halt were to be called at that point—stocks would reach a level barely sufficient for an annual output of 2 170 000 tons of meat. If, then, this were the volume of production in 1959, there would be a deficit of 346 000 tons, on the assumption that exports would remain at their 1957 figure of 501 000 tons and the level of *per capita* consumption would also be the same as in that year, so that total requirements would amount to 2 015 000 tons. These data suffice to give some idea of the seriousness of the situation.

Table 112. Argentina: *Per capita* domestic consumption of meat

(Kilogrammes)

Period	Beef	Mutton	Pork	Total
1920-24.	75.2	12.1	4.7	92.0
1925-29.	83.6	7.4	5.6	96.6
1930-34.	72.8	9.1	6.9	88.8
1935-39.	78.0	9.7	7·9	95.5
1940-44.	70.9	9.1	12.2	92.1
1945-49.	84.0	8.4	9.3	101.7
1950-54.	87.4	6.9	7.1	101.5
1955	90.6	6.2	7·5	104.3
1956	96.1	6.4	8.1	110.6
1957	97.4	6.7	8.3	112.4

Source: Official statistics.

It is true that in 1957 *per capita* consumption of beef attained a peak figure for Argentina, namely, 97.4 kilogrammes. With the addition of mutton and pork, total *per capita* consumption would work out at 112.4 kilogrammes. Table 112 shows the evolution of consumption, by 5-year periods, from 1920-24 to recent years.

If, in 1959, *per capita* consumption of beef were to remain the same as in 1957 (97.4 kilogrammes), aggregate consumer requirements would stand at 2 015 000 tons, which would leave only 55 000 tons for export as against 501 000 in 1957. Conversely, should an attempt be made to keep beef exports at the same level in 1959 as in 1957, production would suffice only for an aggregate consumption of 1 670 000 tons, which would correspond to an annual *per capita* figure of 81 kilogrammes. This is slightly lower than the average registered in 1945-49, when, however, the amount of beef consumed was supplemented by larger mutton and pork availabilities than in recent years.

(f) *Possibilities of expanding livestock production*

Thus a renewed expansion of animal stocks would seem to be a matter of urgency. Could this problem be solved without encroaching upon land at present used for crops? This is a very important question, which is fully discussed in the report mentioned above.[12] It will be enough to point out here that Argentina offers considerable possibilities for an expansion of livestock production which, far from adversely affecting crop farming, might rather be associated with its development. A brief review of the problem may help to coroborate this statement. To revert, in the first place, to the statistics given in table 106, the area under seed in 1954/55 amounted to only 16.3 million hectares; in 1956/57 this figure rose by 2.5 million to 18.8 million hectares, though it was still far from the maximum average recorded in 1940-44. Livestock production, however, lost rather more than was gained by crop farming (1.3 million

[12] See *The economic development of Argentina, op. cit.*

hectares), as in the meantime the areas used for draught animals continued to shrink. The livestock area was thus reduced to 41.5 million hectares in all in 1956/57. Its carrying capacity might be substantially increased in a relatively short space of time if permanent artificial pastures were enlarged at the expense of natural grassland.

(i) *Composition of pasturage.* The findings of a survey of selected farms in the Province of Buenos Aires were conclusive in respect of the influence of the composition and nature of pastures on carrying capacity, and, particularly, on the yield of the land (see table 113). A comparison between the results obtained in connexion with farms in the first group, where more than 90 per cent of the livestock area was natural grassland, and those in the third group, in which nearly 63 per cent of the stock farming area was under perennial or annual artificial pastures, showed that the carrying capacity of the latter was 109 per cent greater, while they produced 174 per cent more meat (in terms of livestock) per hectare, and 23 per cent more per head of stock.

The conclusions to be derived from the sample presented in table 113 are of considerable significance, and are undoubtedly representative, up to a point, of the over-all situation with respect to the productivity of the land used for stock farming and even of stock farming itself, the response of livestock production to rational pasture and herd management being highly favourable. In fact, the productiveness of the second and third groups of farms as compared with the first is the result not only of their higher proportion of artificial pastures, but also of more efficient and more rational pasture and herd management.

The Ministry of Agriculture of Argentina has estimated the average carrying capacity of natural grassland in most of the pampas districts. Individual farms with artificial pastures always compare very favourably from the standpoint of average carrying capacity with the natural grasslands in the districts where they are situated. Thus, for example, in certain parts of the Province of Buenos Aires—Exaltación de la Cruz, Pergamino, General Viamonte, Balcarce, etc.—several farms where from 25 to 40 per cent of the land used for livestock was under artificial pastures registered a carrying capacity from 50 to 120 per cent higher —according to the individual case concerned[13]—than that of natural grassland alone. This is because artificial pastures, when their composition is properly planned, can provide forage all the year round, which is not the case with natural grassland, whose capacity declines considerably in the difficult months of extreme drought, cold or heat. Furthermore, the cultivation of artificial pastures means that more advanced farm techniques are adopted to some extent, and this in its turn implies that pasture and herd management are more satisfactory and, therefore, that higher yields are obtained from the factors utilized than when agricultural techniques are inadequate.

Table 113. Argentina: Productivity of land used for livestock production on 40 farms in the province of Buenos Aires, by type and composition of forage resources[a]

	First group	*Second group*	*Third group*
Composition of area used for stock farming (Percentage of total).			
Natural grassland	90.7	60.8	37.1
Cereals grown as seasonal pasturage	3.4	35.6	18.2
Permanent artificial pastures	5.9	3.6	44.7
Density *(Head of cattle per hectare)*	0.67	1.1	1.4
Meat production (Kilogrammes)			
Per hectare	70	130	192
Per head of livestock	114	126	140

Source: Survey carried out by the Department of Agronomics *(Dirección General de Economía Agropecuaria)* of the Ministry of Agriculture *(Ministerio de Agricultura y Ganadería)*.

a The first group comprises farms on which less than 10 per cent of the area used for stock farming is under permanent or annual artificial pastures and the rest is natural grassland. The second group includes farms on which over 10 per cent of the area used for livestock consists of seasonal artificial pastures (cereal crops for grazing purposes), less than 10 per cent of permanent artificial pastures and the remainder of natural grassland. In the third group are farms with over 10 per cent of the area used for livestock sown to artificial pastures, and the remainder under cereal crops for grazing and natural grassland.

(ii) *Dissemination of technique.* Clearly, then, the area under permanent artificial pastures must be expanded, and at the same time knowledge of the pasture management techniques involved must be disseminated as widely as possible. These techniques consist in grazing rotation, efficient control both of weeds and of the insects that attack forage crops (*isocas, tucuras,* etc.) and the conservation of part of the forage which is wasted during the months of plenty to meet requirements in the months when it is scarce. Grazing rotation calls for smaller enclosures than those existing at present. According to estimates, an average investment of 50 pesos[14] per hectare to enlarge current stocks of mechanical equipment and provide additional drinking-troughs and fencing would enable the above-mentioned practices to be fully applied and substantial increments in yields per hectare to be achieved. But, as the adoption of such practices is slow to spread—although some of them are known in Argentina and are applied during the fattening period—in the study carried out[15] more importance was attached to the expansion of the area under permanent artificial pasture, of which the formation cost per hectare represents about 130 pesos (312 pesos at 1956 prices) in direct expenditure on labour, seed, fuel, etc. As far as argument and persuasion are concerned, the practice in question is too well known in Argentina for the formation of new tracts of permanent artificial pasture to entail any special effort. Consequently, the only requisite would be the provision of incentives and facilities for its sufficiently widespread application. This does not mean, however, that everything possible ought not to be done to promote the speedy extension of effective pasture and herd management practices. If density increments higher than those estimated could be achieved by such means, the transformation of the pastureland could be effected at a more leisurely rate.

In confirmation of the foregoing points of view, it is worth mentioning that the experts from FAO and the Inter-

[13] Some very significant cases can be adduced as examples. On a farm at Laplacette, in the north-east of the Province of Buenos Aires, 8.5 head of cattle per hectare were kept in good condition from July to September inclusive on a tract of 47 hectares, of which 20 were sown to *Phalaris bulbosa,* and 7 to *Festuca arundinacea,* while 20 consisted of improved natural grasslands; the carrying capacity of a control range with natural grasslands only, on the other hand, did not amount, *ceteris paribus,* to one animal per hectare. At the Balcarce Experimental Station, in the south-east of the same province, on land sown to a mixture of clover and selected grasses 5 head of cattle per hectare were maintained in a satisfactory state of development during the critical months from May to August.

[14] It should be repeated here (see footnote [4]) that such data are expressed in terms of constant 1950 prices. At 1956 prices, the corresponding figure would be 120 pesos.

[15] See *The economic development of Argentina, op. cit.*

American Institute of Agricultural Sciences who collaborated with ECLA in the study so frequently cited expressed their surprise that feed practices should be so unsatisfactory in a country with exceptional land resources and livestock of such oustandingly high quality. According to these specialists, the introduction of new techniques—particularly with a view to controlling seasonal shortages of forage—might also very soon help to increase carrying capacity and reduce the time taken by the stock to mature, thus favourably influencing the volume of production.

Efforts to control pests and diseases might also lead to very positive results. The possibilities of success have already been demonstrated in the anti-*tucura* campaign, which was fairly successful. But plenty of room still remains for the adoption of immediate measures. It should be borne in mind that, according to official estimates, losses caused by pests[16] and diseases represent the equivalent of 40 per cent of Argentina's over-all agricultural production, and that those specifically affecting livestock correspond to 23 per cent of the production concerned.

(iii) *Feasible results.* Hence it can be inferred that by means of a series of measures designed to make up in the space of a few years for the time that Argentina has lost in this connexion, beef production could be considerably increased on a smaller area than is at present occupied by this branch of stock farming. The area in question might be estimated at 36.7 million hectares out of the total of 45.4 million utilized for the whole of the livestock population. It is calculated that, even if the latter area were gradually reduced by 2.3 million hectares so that crop farming might be further expanded, by 1962/63 animal stocks could be enlarged by 8 per cent in relation to the 1955 figure, provided that the area under permanent artificial pasture were extended to cover another 2.8 million hectares. If in addition an unremitting campaign to raise productivity per hectare were waged, the output of meat, milk and wool might be 21.5 per cent higher by the date mentioned than in 1955. If production of milk and beef only were taken into account, the increment would amount to 21 per cent.

These considerations suffice to give a clear idea of Argentina's over-all agricultural problem. It must be reiterated that a mere shift of emphasis from one branch of agriculture to the other will not suffice to bring about the expansion of production that is so vitally important for the recovery and growth of the Argentine economy. Both crop and livestock production will have to increase simultaneously, and this can only be achieved by means of a far-reaching and sustained effort to introduce more advanced techniques.

In this context a final reflection will not be out of place. The price incentive is undoubtedly essential for the development of production, as the unfavourable experience of the recent past has shown. But perhaps this general incentive should be combined with particular inducements to the attainment of certain objectives in a technical programme which might otherwise take too long to implement in view of the urgency of the need to achieve substantial production increments.

2. Industry, energy and transport

(a) *Industrial production*

The way in which the internal and external factors responsible for the creation of bottlenecks operate is strikingly apparent from industrial production statistics. After the powerful impetus of the post-war years, when raw materials, intermediate products and capital goods were plentiful, the gross value of production reached a little over 50 000 million pesos[17] by 1948, and for 4 years remained at this level, registering only slight fluctuations. But in 1952 import difficulties, aggravated by a restrictive credit policy, caused a contraction which by 1953 had reduced the value of production to 47 700 million pesos. The renewed upward trend which succeeded this decline was very slow, since the figure reached by 1957 was only 58 700 million, which represented an increase of barely 17 per cent in relation to 1948, and was less than the population increment; in 1957, the *per capita* value was 2 953 pesos, as against 3 068 pesos ten years before, that is, 4 per cent lower.

Of equal significance is the disparity between the two large groups into which production activities have been classified here—the dynamic and the vegetative industries. The aim of this classification is to throw the dynamic industries clearly into relief, as it is on them that responsibility for the import substitution efforts referred to elsewhere[18] will fall. They comprise the industries producing capital and durable consumer goods, as well as manufactured raw and intermediate materials. The other group is composed mainly of the long-established current consumer goods industries, where the substitution process has already been carried as far as possible and expansion can therefore take place only gradually as the population and average *per capita* income increase.

The wide divergence between the movements of these two groups can be noted in table 114. While they dynamic industries expanded by 49 per cent during the last 8 years, those of the vegetative type did so only in the negligible proportion of 4 per cent. One recent feature of this process is deserving of special mention. In 1956, the vegetative industries seemed to be embarking upon a vigorous upward trend, since their output increased by 6 per cent in rela-

[16] Including weeds.

[17] At 1950 prices.

[18] See section I of this chapter.

Table 114. Argentina: Gross value of manufacturing production, 1946-57

Year	Total	Dynamic industries	Industries registering less expansion	Total	Dynamic industries	Industries registering less expansion
	(Millions of pesos at 1950 prices)			*(Indices: 1950 = 100)*		
1946. .	43 897	14 469	29 428	87.2	78.3	92.4
1947. .	48 913	17 755	31 158	97.2	96.1	97.8
1948. .	50 158	17 911	32 247	99.7	97.0	101.2
1949. .	49 159	17 052	32 107	97.7	92.3	100.8
1950. .	50 327	18 471	31 856	100.0	100.0	100.0
1951. .	50 493	19 177	31 316	100.3	103.8	98.3
1952. .	47 478	17 882	29 596	94.3	96.8	92.9
1953. .	47 711	17 485	30 226	94.8	94.7	94.9
1954. .	50 615	19 451	31 164	100.6	105.3	97.8
1955. .	55 135	22 392	32 743	109.6	121.2	102.8
1956. .	56 435	21 665	34 770	112.1	117.3	109.1
1957. .	58 710	25 402	33 308	116.7	137.5	104.6

Source: Data supplied by the Joint Argentine/United Nations Working Group.

Note: For production by branches of industry, the official indices calculated by the Statistical and Census Department *(Dirección Nacional de Estadística y Censos)* of the Republic of Argentina are given. The production figures and the base are the same as those used in the 1950 industrial Census. The total industrial production index shown here therefore differs slightly from that appearing in official statistics, which is based on 1943 weightings.

tion to 1955 by virtue of the idle capacity existing in most of them. But this impetus was short-lived, as in 1957 production declined, exceeding its 1955 level by barely 2 per cent. In the dynamic industries, on the other hand, output decreased in 1956 and expanded again in 1957, when the increment in relation to 1955 amounted to 13 per cent.

It is precisely these dynamic industries whose import coefficient is highest, reaching approximately 22 per cent in contrast to 3 per cent in the case of industries in the vegetative group. It is remarkable, therefore, that the former should have proved the less sensitive to adverse factors. This fact is probably attributable to other causes. The dynamic industries have had to rely upon their own activity to make up in part for the indaquacy of imports; it is at the expense of the latter that their expansion has been achieved. Those in the vegetative category, on the other hand, reflect the instability of real *per capita* income. It may well be asked, however, whether, in view of their relatively low import coefficient, these vegetative industries might not have made a more active contribution to meeting popular consumer requirements. The explanation must probably be sought on the demand side and in the balance-of-payments situation.

Mass wage increases do not automatically entail a steady expansion of demand, as costs and prices very quickly rise; all that happens is that available goods are redistributed among the various social groups. The growth of employment and an improvement in real income alone could generate additional demand in default of external stimuli, which of course have not been forthcoming. The same role might have been played by investment.

Investment, both public and private, has lagged somewhat behind economic recovery needs, though the completion of a number of investment projects by the end of 1957 and early 1958 improves the outlook for the acceleration of investment in 1958. While investment programmes in respect of electric energy, petroleum, coal, iron and steel, vehicles, chemicals, and machinery and equipment have tended to fall behind, investment in agricultural and transports equipment has made significant strides. In effect, although the over-all investment coefficient appears to have been maintained at levels consistent with recovery needs, only limited progress has been made towards achieving the required modification in the composition of investment.

As regards the private sector, the year 1957 witnessed the introducction of an import system for machinery and equipment whereby permits were granted almost automatically. This system, under which external financing can be obtained for a minimum of 4 years, and 8 when the imports concerned come from the dollar zone, has already begun to yield results, since operations to a value of some 20 million dollars have been negotiated.

The most important of these involves an 8 million dollar credit to finance the purchase of new machinery for the manufacture of newsprint and, in particular, drawing-paper, with supplementary installations for pulping and bleaching. The equipment needed for substantially raising the current output of newsprint is also included in the project.

Also deserving of mention is a 1 550 million peso credit authorized early in 1958 by the Government to cover the first stage of the Río Turbio Coal-field Integrated Development Programme. *(Plan de habitación Integral del Yacimiento de Carbón de Río Turbio.)* This is approximately the amount of capital needed in order to bring production up to 1 millions tons by 1961; it will give powerful impetus to the work already being undertaken in these mines, thanks to which some 200 000 tons were produced in 1957. There are plans for a second stage of construction which would raise the output of this coal-field to 2 million tons by 1965-66; full advantage would thus be taken of the equipment now being installed.

In the iron and steel industry, progress was made in construction, and a contract will be negotiated with a consortium of the Federal Republic of Germany for the installation of four Siemens-Martin steel making furnaces. Private industry made further advances towards expanding its installations and bringing them up to date, although no new projects were registered. Work at Zapla also continued. The founding of the *Corporación Norpatagónica* augurs well for speedier mining of the iron ore deposits at Sierras Grandes and the establishment of a new iron and steel centre in the south.

The chemicals industry also developed considerably. Large plastic goods factories have already entered or are about to enter production, thanks to which it will be possible for imports of polystyrene and vinylene polychloride to be totally eliminated. Production capacity was expanded in the case of caustic soda and chlorine, as well as in that of cortisone, tetracycline, sulphamide, folic acid, chloramphenicol, etc., in the field of medicinal products. As regards carbon tetrachloride and freon, it is thought that the new plants recently inaugurated will be able to satisfy domestic demand. Mention should also be made of the progress achieved in the preliminary arrangements for installing plants to produce ethylene, the basic hydrocarbon for a wide variety of petrochemical industries.

(b) *Energy*

(i) *Petroleum. Yacimientos Petrolíferos Fiscales* (YPF) produced 4.2 million tons of crude petroleum in 1957, i.e., 12.1 per cent more thant in 1956. With the addition of the small amount registered by the declining production of private companies, Argentina's output totalled 4.8 million tons, a volume 9.5 per cent larger than the preceding year's.

Despite this high rate of expansion, it was impossible to reduce imports, as the growth of consumption was proportionally still greater. The latter, in fact, increased from 12.8 to 14 million tons, which represented an increment of 9.6 per cent. Whereas in 1956 imports had amounted to approximately 8.4 million tons, 9.2 million tons had to be purchased abroad in 1957. Apart from the magnitude of this volume of imports, relative prices aggravated the pressure on the balance of payments. The sum spent in 1957 was 276.6 million dollars, which implied an average price of 30 dollars per ton, while in 1956 purchases had been effected at a rate of 24 dollars per ton. The rise in prices was attributable to the influence of the Suez crisis on world trade in petroleum.

Obviously, Argentina must expand its petroleum production at a more rapid rate than in 1957, and it possesses the natural resources required for this purpose. Reserves have increased considerably in all the oilfields in production, and those proven are equivalent to over 320 million tons, or 65 times the amount extracted in 1957.

For the purpose of expansion, drilling equipment was brought into Argentina under the YPF Recovery Programme *(Plan de Reactivación de YPF)*, implementation of which began in mid-1956. Under this Programme, a

contract was negotiated in October 1957, with a foreign consortium, for the equivalent of 180 million dollars' worth of pipelines to link the Durán oilfield, in Salta, with San Lorenzo, and natural gas pipelines to extend as far as Buenos Aires. The original time limit within which work was to begin on these projects was 2 months, but it had to be extended on account of delays in certain preliminary formalities connected with financing. The Programme also includes an oil pipeline from Mendoza to the coast, and two refineries for which bids have not yet been tendered.

The greatest difficult confronting YPF is the financing of its programme. The method of payment stipulated in the contract for the pipelines mentioned above will be of some assistance, since the firm of contractors is to contribute a major proportion of the capital, only 40 per cent of which will be reimbursed by the state on completion of the projects, while the remainder will be paid off over a period of 4 years. Consideration is also being given to the possibility of a contract for the drilling of wells, an agreement having already been signed in October 1957 for the drilling of 40 in Tierra del Fuego, to be paid for at so much per metre drilled. Its relative importance is slight, however, as the total sum involved will probably be the equivalent of some 3 million dollars.

To supplement its financing arrangements, YPF floated two issues of bonds, of which the first—to the value of 500 million pesos—was quickly subscribed by the public. The second, involving an equal amount, has taken longer to place, and by the end of 1957 only 900 million pesos in all had been subscribed by this method.

(ii) *Electric energy.* Electricity supplies were still unreliable in 1957 and this constituted a serious obstacle to industrial and urban development. While progress was made in the construction of power stations and transmission lines, the projects concerned formed part of a programme which will not provide a normal supply for several years yet.

The 200 000 kW incorporated into the Greater Buenos Aires service in October 1957, thanks to the inauguration of the transmission line from the San Nicolás plant, represented only a partial relief, as the generating potential deficit in the capital may well have been double this amount.

The next substantial contribution will be provided by the inauguration of the Dock Sud 600 000 kW thermo-electric plant, for the construction of which a contract was signed at the end of the year and which should be completed in 1960-62. Despite the additional fuel consumption which this power station will entail (about 1 million tons of fuel oil yearly), it must be borne in mind that there was no other possible way of solving the electricity supply problem during the next few years.

For the rather more distant future, plans are afoot to bring hydroelectric energy to the capital by 1965-66, although sufficient progress has not yet been made in this field. Whether the abundant water resources of the rivers in the coastal areas, such as the Paraná or the Uruguay, are to be utilized, or whether long-distance transport of energy from the Andean rivers is to be undertaken, all the projects involved call for careful study, and will take a long time to mature. The first quota of hydroelectricity for Greater Buenos Aires would probably be supplied by the Chocón project, on the river Limay, a tributary of the Neuquén. Action has already been taken to contract for the construction of this plant. Its capacity might amount to 700 000 kW, of which 500 000 would be transmitted to the coast by means of a line 1 200 kilometres long. If work were to be begun in 1958 and pushed forward energetically, the project might be completed by 1964.

Progress with regard to preliminary formalities was also achieved by the joint Argentine-Uruguayan commission responsible for the Salto Grande Project on the River Uruguay. This power station might supply 700 000 installed kW for Argentina, at a distance of only 420 kilometres from Buenos Aires.

In the rest of Argentina, the device of resorting to thermo-electric plants has frequently been adopted as an immediate solution, while efforts are being made to promote the utilization of Argentina's water resources, some of which are already in process of incorporation.

(c) *Transport*

The latent railway crisis continues, and, while some progress has been made in the purchase of locomotives, most of the problems relating to rolling-stock, workshops, signalling equipment and, above all, track still await solution. During the last two years contracts were negotiated, by means of loans from the Export-Import Bank and other agencies, for the purchase of 371 diesel locomotives, of which 91 have already been brought into the country. Some of the 2 500 goods wagons which firms in Argentina itself were engaged to construct have also been supplied. It is hoped that in 1958 the programmed purchases of diesel locomotives, electric coaches, motorized coaches, special wagons, etc., will continue. Agreements were signed with countries outside the region—especially with Czechoslovakia and the Soviet Union at the beginning of 1958—for the provision of large quantities of track. This means that the shortage of railway sleepers will grow still more acute and may come to constitute a serious problem it the course of the next few years.

A substantial improvement in the railway transport system was registered in 1957. As a result loaders did not have to wait so long to obtain trucks and more freight capacity was available for the transport of petroleum from Mendoza and Salta. For this last area, railway transport as far as Barranquera was combined with tanker barges plying along the River Paraná to the San Lorenzo refinery.

According to preliminary data, this improvement took place despite the fact that no significant changes were registered in the volume of freight traffic. The incorporation of a large number of lorries for long-distance road transport seems to have been the most important factor in providing better freight service in 1957. It might be added that competition from lorries continued to deprive the railways of the most remunerative kinds of freight.

From the financial standpoint, the over-all tariff increases decreed in mid-1957 raised receipts by about 13 per cent, and, in conjunction with the stability of salaries and wages, would seem to have relieved the railway deficit at constant prices in relation to that shown in 1956.

As regards the road system, no progress was made during the year in improving poor surfaces or building the much-needed extensions to the network. However, under Legislative Decree No.505-58 the groundwork was laid for a comprehensive national and provincial road programme by the gradual transfer to road communications, within a period of 3 years, of almost the whole of the resources accruing to the National Energy Fund *(Fondo Nacional de la Energía)* from the current tax on naphtha and gas oil.

The number of lorries imported during the year (33 400

units) was larger than might have been expected in view of the shortage of foreign exchange. As no data are to hand on the types of vehicle and chassis imported, their contribution to available freight capacity cannot be determined. In al likelihood, however, they will enhance the importance of motorized freight transport, of which the rate of growth had decreased since 1950.

A new Government policy in respect of civil aviation, designed to support and encourage the operation of the State enterprises already in existence and to promote the investment of private capital in new enterprises, constituted a powerful incentive to the development of this means of transport.[19] By mid-1957, authorization to operate domestic airlines had been granted to 9 companies, one of which also handles international traffic between Argentina and Uruguay, and will in addition establish services to and from the United States, when this project has been approved by the United States Civil Aeronautics Board.

The year 1957 witnessed no significant improvements in the situation with respect to ports and to coastal and inland waterway navigation. However, some progress was achieved through allocation of a small proportion of the loan granted for the transport system by the United States Export-Import Bank. Several diesel locomotives were purchased for ports, especially Buenos Aires, and a few tugs for river navigation. Another favourable development deserving of mention was the reform of port organization and administration decreed in mid-1956, the application of which will enable the port system to operate more rationally.

III. INFLATION AND MONETARY POLICY

1. Some aspects of the inflationary process and of the consequent transfers of real income

In order to appreciate the significance of Argentina's inflationary process and see it in its true perspective, a distinction must be drawn between its two phases: the earlier period of buoyancy and the subsequent stage of painful readjustments which has continued until the present day.

The first phase covered the post-war years up to 1949. Thanks to the favourable course followed by external factors, *per capita* income rapidly increased, and industry and commerce not only participated in this growth to the extent warranted by their contribution to the economy but enlarged their share at the expense of other sectors, including that of agricultural production for export.

During the second phase, after 1949, *per capita* income first contracted, and then, as has been shown elsewhere,[20] increased once again, but without attaining its former maximum level. To the deterioration in external factors was added the critical situation affecting agricultural production for export, which had been seriously jeopardized by the unfavourable redistribution of income during the buoyant period. Faced with the reduction of *per capita* income, the social groups that had previously been in an advantageous position sought to maintain or even improve it, while those whose interests had suffered strove after recovery. Thus income was perpetually being transferred from one group to the other, while none could achieve any lasting improvement save at the expense of the rest until income once again began to follow an upward trend.

As has just been pointed out, during the buoyant period industry and commerce improved their relative situation by virtue of the shift of income from other sectors which operated in their favour. Thus, if 1935-39 = 100 is taken as the base, while the gross product of industry reached an index of 178 in its peak year (1949), the income index rose to 266, that is, 49 per cent more. From this greater expansion some idea can be formed of the income shift in favour of industry.

The magnitude of the transfer of income to the industrial and commercial sectors as a result of inflation must be borne in mind for a proper understanding of the evolution of real wages. Available data on salaries and wages in industry, including mining and construction activities, during the period under review reveal that, on an average, real income per employed person increased more intensively than *per capita* production, as is shown in table 115.

Between 1936-39—before the moderately inflationary process registered during the war began—and 1949, which was the peak year for real wages in industry, the index rose from 100 to 155.2, while *per capita* production increased only to 117.1. This greater expansion of real salaries and wages was rendered possible by the transfer of income to the industrial sector. During the next few years, the contraction of economic activity influenced real salaries and wages, which fell to begin with and afterwards increased again but without reverting to their peak level. Meanwhile, the gap between *per capita* production and real remunerations was narrowed by the continued expansion of the former, but was still far from closing altogether. In 1955, the index of real salaries and wages was 144.7 in relation to 1936-39, while that of production reached 121.0. Real salaries and wages stil exceeded *per capita* production by 19.6 per cent.

Table 115. Argentina: Indices of average salaries and wages and of production per person employed in industry (including mining and construction activities)

(Base 1936-39 = 100)

Year	*Real salaries and wages*	*Production*	*Relationship between real salaries and wages and production*
1940	97.4	98.6	98.8
1941	98.8	98.7	100.1
1942	97.0	96.3	100.7
1943	95.6	95.8	99.8
1944	109.3	104.3	104.8
1945	100.4	100.6	99.8
1946	107.8	108.7	99.2
1947	127.4	119.9	106.3
1948	146.8	121.9	120.4
1949	155.2	117.1	132.5
1950	153.0	117.1	130.7
1951	139.9	118.0	118.6
1952	136.6	109.6	124.6
1953	136.9	109.2	125.4
1954	147.9	116.2	127.3
1955	144.7	121.0	119.6
1956[a]	136.0	121.7	111.8
1957[a]	146.1	126.4	115.6

Source: Official data.
[a] Provisional estimates.

[19] This policy was laid down in various decrees enacted in 1956 and early in 1957.
[20] See section I of this chapter.

This leads to an interesting conclusion. If in 1955 real salary and wage levels were 6.8 per cent lower than in 1949, this was not because, on an average, productivity in the activities under review decreased, since *per capita* production increased by 33 per cent,[21] but because the sectors whose interests had suffered succeeded in modifying the extent to which their income was transferred to industry.

Even so, in 1955 the average real remuneration of industrial workers was 44.7 per cent higher than before the war, whereas other groups were unable to maintain the level of their real income. The most striking case in point is that of public administration staff (both manual workers and employees) whose average *per capita* income was 21.5 per cent lower in 1955 than in 1936-39[22] (see table 116).

However, neither industry nor any other sector of the economy can be said to have deprived public administration personnel of real income. The decrease in their real income is largely attributable to over-staffing and a consequent drop in their output. No data are available for measuring this latter development in respect of public administration, but since the number of persons employed rose from 306 000 to 760 000 between 1936-39 and 1955—that is, by 148 per cent—the increment would appear to have been excessive. This increase in establishment is the reason why, despite the reduction in average income, the proportion of the national gross product (at constant prices) represented by total salaries and wages paid in public administration, which in 1936-39 was equivalent to 7.6 per cent, rose to 8.6 per cent by 1955. If average income had remained constant, this figure would have reached 10.7 per cent. The only way of improving the average income of public administration personnel without this drawback would have been to avoid such intensive over-staffing.

Another significant case in point is that of railways. While in industry part of the rise in real wages during the period under review reflects increments in productivity, the reverse is true of the railways, where the increase in the number of personnel was much larger than in transport as a whole. Between 1936-39 and 1955 railway staff increased from 128 070 to 208 100, i.e., by 62.5 per cent. This fact, in combination with the deterioration of railway equipment, accounts for the decline in the number of train/kilometres per person employed. Thus, in 1955 the number of train/kilometres per person employed decreased by 24.8 per cent in relation to 1943. Consequently, the rise in average *per capita* wages must be attributed to the transfer of real income from other sectors to that of railways. In this respect the situation was comparable to that of the industrial sector.

Consideration may now be given to the part played in these income transfers by agricultural production for export, which is differentiated from agricultural output intended mainly for domestic consumption because price movements are widely divergent in the two cases. The analysis will deal with the commodities involved first as a whole and then by main groups, as the movements registered were not uniform.

The first point to examine is the relationship between the price index of agricultural commodities for export and the index of net industrial prices.[23] This relationship reflects up to a point, although not very faithfully, the purchasing power of agricultural commodities. If the 5-year period 1935-39 prior to the beginning of inflation is taken as a base, it will be seen that after 1939 relative prices were invariably unfavourable to agricultural production for export (see table 117 and figure VII). Thus such production failed to reap the benefit of the considerable post-war improvement in the terms of trade, which reached a maximum level of 133.9 in 1947 in relation to the 1935-39 base (100), while the relationship between prices of agricultural production for export and net industrial prices was barely 67.8 in the same year and with respect to the same base. Then came the deterioration of the terms of trade, followed by that of internal relative prices; while the latter relationship fell to a minimum of 54.8 by 1949, the terms of trade were still favourable, the index being 109.7

The subsequent irregular and fluctuating downward movement displayed one significant feature; the internal price relationship tended to improve, whereas the opposite trend was followed by the terms of trade. Thus the gap between the two indices gradually narrowed. In 1955, the internal price ratio was 74.9 as compared with the minimum of 54.8 reached in 1949, while the terms of trade fell to 81.9. This was the consequence of the currency devaluations prior to 1955 and of a change in official price policy which benefited production for export.

Despite the improvement in the internal price relationship, the 1955 index represented only three-fourths of the value registered for 1935-39. But the agricultural sector was

[21] Official monthly indices, which include mining and energy in addition to manufacturing industry, but do not take construction activities into account, indicate that in the period under consideration real wages of manual workers—deflated by the cost of living in Buenos Aires fell by 6.5 per cent, while output per worker increased by 22.8 per cent.

[22] Including those employed in specific Government activities, other than bodies or enterprises concerned with industry, commerce, transport and communications.

[23] This index was calculated by relating income to the product of the sector.

Table 116. Argentina: Evolution of average real income and employment in public administration and railways

Year	*Public administration*		*Railways*		
	Average per capita income	*Personnel employed*	*Average per capita income*	*Personnel employed*	*Train/kilometres per person employed (Units)*
	(Indices: (1936—39=100)				
1940. . .	99.6	111.0	95.1	107.2	
1941. . .	94.6	112.7	92.8	99.4	
1942. . .	84.3	119.2	88.4	100.9	
1943. . .	83.0	124.1	75.3	103.8	825
1944. . .	81.1	137.1	77.1	106.7	828
1945. . .	69.1	156.7	75.3	111.7	813
1946. . .	70.4	161.6	73.9	116.4	782
1947. . .	72.7	184.5	79.5	125.2	744
1948. . .	83.2	195.9	100.9	138.4	689
1949. . .	83.8	205.7	124.6	146.2	677
1950. . .	73.2	222.0	117.9	149.4	710
1951. . .	69.2	236.7	112.9	146.4	729
1952. . .	71.8	241.6	110.8	156.2	669
1953. . .	75.4	248.2	106.9	155.7	672
1954. . .	79.1	248.2	112.3	163.8	627
1955. . .	78.5	248.2	112.5	162.5	...
1956. . .	...	...	131.6	163.2	620
1957. . .	...	...	109.6	164.0	...

Source: Official data.

Table 117. Argentina: Comparison between internal terms-of-trade index of agricultural production for export and index of external terms of trade

Year	Internal prices Base: (1935-39=100)			External terms of trade	Comparason between internal and external terms of trade
	Prices of agricultural production for export	Net industrial prices	Price relationship		
1935 . .	77.2	92.4	83.5	94.9	88.0
1936 . .	92.7	97.6	95.0	108.6	87.5
1937 . .	115.6	99.3	116.4	121.4	95.9
1938 . .	118.4	101.6	116.5	96.1	121.3
1939 . .	96.1	109.1	88.1	79.0	111.5
1940 . .	90.9	111.9	81.2	73.6	110.4
1941 . .	86.1	124.6	69.1	71.7	96.4
1942 . .	98.8	152.1	65.0	78.5	82.8
1943 . .	121.8	167.0	72.9	79.0	92.3
1944 . .	110.8	178.5	62.1	82.9	74.9
1945 . .	135.2	194.6	69.5	81.7	85.0
1946 . .	215.2	244.0	88.2	112.0	78.7
1947 . .	203.2	300.8	67.8	133.9	50.6
1948 . .	222.0	372.0	59.7	131.7	45.3
1949 . .	267.0	486.8	54.8	109.7	50.0
1950 . .	343.2	574.0	59.8	93.1	64.2
1951 . .	545.0	737.1	73.9	101.9	72.6
1952 . .	597.5	906.4	65.9	70.0	94.2
1953 . .	734.7	947.8	77.5	93.0	83.4
1954 . .	743.6	1 000.0	74.4	83.8	88.7
1955 . .	842.5	1 124.6	74.9	81.9	91.5
1956 . .	1 127.3	1 268.6	88.9	74.5	119.3
1957 . .	1 343.9	1 598.2	84.1	68.0	123.7

Source: Official data.

not the only one to be thus affected by the inflationary process. Two others also suffered heavy losses. The relationship between prices for services and net industrial prices fell to 64.3 per cent in the same interval; but it was in the rentals sector, where the index was reduced to only 35 as against 100 in 1935-39, that the impact of the freezing of prices made itself felt most severely.

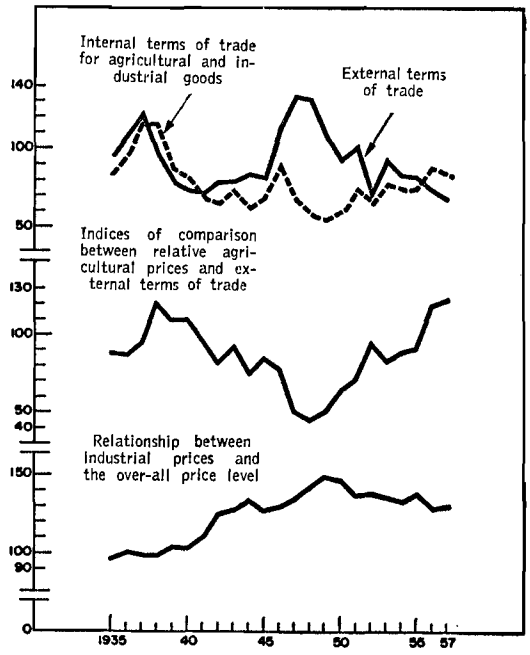
This outline of Argentina's inflationary process in its two phases—that of buoyancy and that of painful readjustments—is essential for an understanding of the pattern followed by these readjustments during recent years, after the devaluation which took place at the end of 1955. In brief, owing to this and the series of subsequent devaluations, as will be shown later, the internal terms of trade for production for export continued to improve, while the external terms of trade still pursued a very sharp downward trend.

This relative improvement was bound to affect both the industrial and the commercial sectors, which, as was explained at the outset, had previously benefited by the deterioration of relative prices for agricultural exports. The only way of compensating these sectors for the real income of which they were thus deprived would have been by means of an equivalent increment in productivity, which was thought possible at the time of the 1955 devaluation. Such an increment was not achieved, except, on a very small scale, in the industrial sector, and the inflationary price-wage spiral gained new momentum. Mass wage increases continued as before until the second half of 1957, when they were halted, with striking effects on prices, which were almost stabilized by the end of 1957. The most significant aspect of this process was undoubtedly its impact on production for export and on industry. When industrial prices

Figure VII

COMPARISON BETWEEN INTERNAL AND EXTERNAL TERMS OF TRADE FOR AGRICULTURAL AND INDUSTRIAL GOODS

Natural scale



rose, as did also those of imports in consequence of the devaluation at the end of 1955, the industrial sector, like others comprising employees and manual workers, reacted strongly, and obtained mass increases aimed at counterbalancing the upward movement of prices. These increments were not slow to generate further price increases, which, by raising the costs of agricultural output, led to fresh devaluations, with the resultant repercussions on prices.

Some statistics may be useful here. In 1955 the index of real monthly wages in industry—including the mining and energy sectors—was 153.5[24] as compared with the 1935-39 base (100); wage increases at the beginning of 1956 brought this index up to 171.7 by March, but towards the end of the year this gain had been lost in consequence of the rise in prices, so that the average for 1956 remained at the same level as in the preceding year. During the first half on 1957 the index again reached peak levels, largely owing to the influence of retroactive payments, but towards the end of the year further price increases caused it to drop sharply. In October and November it was 3.8 per cent lower than in 1955, and to a large extent reflected the consequences of the successive devaluations, which, as has been pointed out, could not be absorbed by the increase in productivity and the abolition of the subsidies on bread and meat. This states the case in broad terms, since readjustments effected in other sectors of the economy, such as, for example, higher wages and tariffs in the railway sectors, may possibly have exerted an adverse influence on real wages in industry.

[24] Nominal wages per worker deflated by the cost-of-living index for Buenos Aires. The December index was adjusted in order to distribute the supplementary annual wage over the year, but no adjustment was made in the case of retroactive payments.

It must be repeated that every price increase had unfavourable repercussions on agricultural production for export and led to fresh devaluations. Thus, the devaluation at the end of 1955 resulted in the establishment of an official market rate of 18 pesos to the dollar; in practice, however, this rate was lower, because of the deductions to which it was liable, and which varied from 10 per cent to 25 per cent depending on the commodities involved. These deductions were gradually eliminated, while at the same time a growing proportion of the value of each commodity exported was authorized to be sold on the free market at quotations much higher than the official market prices. The average exchange rate for exports shipped during 1957 thus reached 22.3 pesos to the dollar, and rose to 23.2 pesos in the first two months of 1958.

This progressive devaluation of the export exchange rate was accompanied by a similar movement in the import rate.

The average rates was 23.6 pesos to the dollar in 1957, and reached 23.8 pesos during the first two months of 1958 (see table 118).

This adjustment of the exchange rate was not uniform, since its impact on the various groups of commodities was not the same in every case, as can be seen in table 119, which gives the effective exchange rate registered for shipments in the last quarter of 1957.

With respect to imports, as table 120 shows, in the last three months of 1957 the 18 peso rate was applied only to 57 per cent of imports, this proportion being made up of fuels and essential intermediate products. In reality, the percentage was higher, in so far as purchases abroad were effected at a rate of 18 pesos to the dollar in the case,

Table 118. Argentina: Foreign trade exchange rate

(Weighted average in terms of pesos to the dollar)

Year	Exports	Imports
1951	5.7	7.1
1952	6.5	7.1
1953	6.5	7.1
1954	6.6	7.3
1955	7.9	7.6
1956	19.2	16.2
1957	22.3	23.6
1958 (2 months)	23.2	23.8

Source: Official foreign trade statistics in terms of dollars and pesos at current prices.

Table 119. Argentina: Average export exchange rates in the last quarter of 1957

	Pesos to the dollar			Total
	Over 25	Over 18 to 25	18	
	Average export values in 1956-57 (Millions of dollars)			
Cereals and linseed	—	108	156	264
Fresh and dried fruit	5	18	—	23
Oil, oilcake, expellers	66	23	—	89
Forest products	—	26	—	26
Livestock, meat and by-products	32	79	128	239
Wool	—	119	—	119
Hides	11	52	—	63
Dairy produce	24	3	—	27
Total for goods specified	138	428	284	850
Grand total	...	...	...	960

Source: Official statistics.

Table 120. Argentina: Average import exchange rates in the last quarter of 1957

	Pesos to the dollar			Total
	Over 25	Over 18 to 25	18	
	Average import values in 1956-57 (Millions of dollars)			
Consumer goods	47	10	21	78
Fuels	—	—	268	268
Intermediate products	61	137	238	436
Capital goods	173	3	51[a]	227
Total for goods specified	281	150	578	1 009
Grand total	...	...	...	*1 219*

Source: ECLA, on the basis of official statistics for imports in terms of dollars and of pesos, by categories of goods, which, after specification by exchange rates, were classified under the broad headings given in this table.
[a] Including a sum of 36 million dollars imputed to imports effected at a rate of exchange lower than 18 pesos to the dollar.

for example, of imports by Government departments which appear in official statistics under aggregate heads, along with others to which a higher rate of exchange was applicable. An adjustment of the exchange rate for fuels and intermediate products in order to improve that applying to meat would raise the prices of the former, with the consequent intensification of inflationary pressure. Hence the considerable difficulties which such readjustments involve in practice.

As a matter of fact, this new instance of over-valuation of the currency affects not only livestock production but also the State petroleum enterprise, whose costs are once again steadily rising on account of inflation, while no correlative price adjustment is taking place. This is undoubtedly having a very adverse effect on its capacity for capital formation, precisely at the time when a large-scale expansion is needed.

Thanks to the successive devaluations, the improvement in the relationship between prices for cereals and oil-seeds and industrial prices was maintained and even intensified. The index, which stood at 66 in 1955, in relation to the 1935-39 base (100), rose to 77.7 in 1957, according to provisional estimates. New quotations are tending to raise the relationship in so far as they are not offset by inflation. This is particularly notable in the case of wool, where the domestic price relationship rose from 57.7 in 1955 to 122.6 in 1957. As regards meat (steers on the farm), however, the corresponding relationship increased from 79.2 in 1955 to 88.5 in 1956, only to fall in 1957 to a level lower than the former year's, with an index of 75.2

Relative prices for these goods in the aggregate may now be compared with the over-all external terms of trade. It was previously noted that the former relationship had reached 74.9 in 1955, while the latter stood at 81.9. By 1957, the internal relationship had risen to 84.1 and the external had fallen to 68. For the first time the internal price relationship was more advantageous than the external, although it was still lower than in 1935-39. It should be noted that in 1956 the internal index was higher still, as it reached 88.9 only to decline afterwards to 84.1, as has just been shown, mainly owing to the fall in prices for steers referred to above.[25]

This relative improvement in the internal as compared with the external terms of trade had been observable since

[25] See section II, 1 (*d*), of this chapter.

the early years of the present decade and was accentuated by the recent devaluations. It has already been pointed out that the relative advantage secured by agricultural production for export, except in the case of cattle, was gained at the expense of other sectors, chiefly industry and commerce. To illustrate this point, table 121 compares the index of net industrial prices to that of all prices in the economy; this index of relationships give some idea of how income from other sectors is transferred to industry when the indices rise, and the reverse takes place when they fall. It has already been shown that industry benefited by this transfer during the buoyant period of inflation which reached its climax in the post-war period, when the maximum income shift took place. Thereafter it recurred on a decreasing scale, although it was still far from ceasing altogether. Attention may now be called to the contrast shown in figure VII between the foregoing trend and another index in which internal relative prices for the agricultural commodities under consideration are compared with their external terms of trade. The relative deterioration of the former, which reached its lowest ebb in the post-war years, coincided with an improvement in the industrial sector; and a deterioration in this latter, with an improvement in the internal agricultural price relationship as compared with the external terms of trade for agriculture. These indices do not purport to measure the intensity of such phenomena; they simply explain the direction of inflationary pressure and other conclusions should not be drawn from them.

The foregoing analysis is very fragmentary and incomplete owing to the limitations of the statistical material to hand. It merely serves to show how the industrial sector improved its relative situation during the buoyant period of inflation partly at the expense of relative prices for exportable production, and how the latter's slow trend towards improvement since the beginning of the present decade gradually operated to the detriment of the industrial sector. But it does not show the pattern and extent of the changes in the relationships of these two branches of activity with the other sectors of the economy. It was not only production for export that in earlier times contributed to the improvement in the relative situation of industry; the rentals and services sectors also played an important part. Again, the exportable production sector consumes not only industrial goods but also goods and services provided by other sectors, and price relationships with the goods produced by industry may aggravate its relative deterioration.

Lastly, the choice of the period 1935-39 as a basis of comparison carries no implication that the re-establishment of the relative prices then prevailing can be used as a yardstick to measure the incentive required for the development of agricultural production. The problem is more complex, and, besides, the expansion of agricultural productivity is just as essential as that of productivity in industry and other branches of the economy, if the inflationary pressure which is producing so unsettling an effect on Argentina's economic and social life is to be completely removed. Perhaps the key to the early achievement of the necessary increases in agricultural productivity is to be found in the combination of a moderate price policy with specific incentives, linked to a technical programme characterized by clearly-defined aims and to the investment essential for its implementation.

Table 121. Argentina: Relationship between net industrial prices and the over-all level of implicit prices

Year	*Net prices in the industrial sector (X)*	*Over-all level of implicit prices (Y)*	*Relationship between (X) and (Y)*
1935	92.42	95.77	96.50
1936	97.59	97.50	100.09
1937	99.31	100.20	99.11
1938	101.61	101.76	99.85
1939	109.07	104.73	104.14
1940	111.94	108.45	103.22
1941	124.57	111.78	111.44
1942	152.12	121.52	125.18
1943	167.05	130.59	127.92
1944	178.53	133.37	133.86
1945	194.60	153.33	126.92
1946	243.97	187.09	130.40
1947	300.80	221.79	135.62
1948	371.99	258.92	143.67
1949	486.80	325.66	149.48
1950	574.05	391.24	146.73
1951	737.08	534.78	137.83
1952	906.43	656.02	138.17
1953	947.76	701.13	135.18
1954	1 000.00	744.17	134.38
1955	1 124.57	813.58	138.22
1956	1 268.65	979.85	129.47
1957	1 598.16	1 222.03	130.78

Source: Official data.

2. Limitations of monetary policy

The last mass wage increase in Argentina took place in April 1957,[26] after which the authorities did not sanction any further increments. Meanwhile, this mass increase, like its predecessors, was transferred to prices, and thus it was in the last quarter of the year, when the process of readjustment had been completed, that the trend towards stabilization became apparent. The transfer in question is inevitable, except in so far as part of the increase can be absorbed by entrepreneurs' profits. The restrictive credit policy applied by the monetary authorities during a large part of 1957, although somewhat less stringently towards the end of the year, may possibly have been intended, up to a point, to serve this purpose. But there can be no doubt that the principal aim pursued was to keep economic activity within bounds which would prevent any intensification of its impact on the balance of payments. Even so, Argentina's total monetary reserves shrank by some 100 million dollars in 1957, and by the end of the year were equivalent to only about 300 million, i.e., a sum equivalent to 3 months' imports.[27]

This restrictive policy was reflected in a considerable decline in the rate of growth of credit to private enterprise, particularly to industry (see table 122). While the national gross product increased by 3 per cent (at constant prices) and the price index by 24.6 per cent, which represented a 29-per-cent increment in the current value of the gross product, only 17 per cent more credit was granted to private enterprise in 1957 than in 1956, as can be seen from table 123. This credit restriction of course tended to retard the growth of the aggregate product, but to a far smaller extent

[26] Subsequently to the time of writing, a further increase of 60 per cent in respect of the collective agreements in force in 1956 was decreed in May 1958.

[27] Excluding the Central Bank's medium-term external debts, which at the close of 1957 amounted to some 280 million dollars.

Table 122. Argentina: Breakdown of credit to private enterprise

(Loan balances at close of year in millions of pesos)

Year	Agricultural production	Industry	Other sectors	Mortgage credit	Total
1955	8 812	11 214	15 500	18 608	54 134
1956	9 640	15 038	19 993	23 040	67 711
1957	11 130	17 258	23 309	27 720	79 417

Source: Boletin Estadistico del Banco Central, No. 1, January 1958; and *Memorias del Banco Central,* 1956 and 1957.

Table 123. Argentina: Expansion of credits to private enterprise compared with increases in the aggregate gross product and in prices

Year	Gross product [a]	Price Index [b]	Credits to private enterprise	Average monthly rate of circulation of private current deposits [c]
(A) *Annual statistics (Millions of pesos)*				
1955	68 769	211	+54 135	1.7
1956	68 677	240	+67 711	1.9
1957	70 749	300	+79 417	2.2
(B) *Annual percentage increase in relation to the preceding year*				
1955	+4.0	+10.5	+19	—
1956	—0.3	+13.7	+24	+11
1957	+3	+24.6	+17	+16

Source: Official statistics relating to the gross product and the price index. *Memorias del Banco Central,* 1956 and 1957, for monetary series.
[a] At 1950 prices.
[b] 1950 = 100.
[c] Frequency of turnover of these deposits.

Table 124. Argentina: Gross creation and net expansion of means of payment, and their sources

(Millions of pesos)

Year	Gross creation of means of payment				Absorption of means of payment	Net increase in means of payment
	Internal sector		External sector	Total		
	Public sector	Private sector				
1955	5 770	9 389	— 597	14 562	3 979	10 583
1956	2 529	13 577	2 127	18 233	4 625	13 608
1957	8 413	11 705	—1 270	18 848	8 984	9 864

Sources: Memoria del Banco Central, 1957 and *Boletin Estadistico del Banco Central,* No. 1, January 1958.

than might have been the case, by virtue of the much more intensive utilization of the existing means of payment. In fact, the rate of circulation of private current deposits was the highest in the last 10 years. In 1957, the frequency of turnover of such deposits was 26.3 as against 22.8 in 1956 and 21 in 1955.

While the restriction of private credit was inclined to act as a brake on the rate of expansion of the product, fiscal disequilibrium resulted in a more active creation of means of payment in 1957 than in 1956 (see table 124). But for the external limitations hampering the growth of the product, the additional monetary demand brought about by the fiscal disequilibrium—of course within relatively moderate limits—might have acted as a dynamic factor in the expansion of economic activity. This is the role that might chiefly be played by investment, both public and private, as was previously pointed out,[28] provided that the external situation were eased. But as this was not the case in 1957, the increase in monetary demand deriving from fiscal causes must have constituted an additional factor in raising prices and entrepreneurs' profits, so that the possible effects of credit restriction on these were probably offset.

In any event, the diminishing increase in the means of payment in the private sector numerically offset the more marked increment deriving from the public sector. In absolute terms, therefore, total creation of means of payment in 1957 barely exceeded that registered in 1956; and as the factors absorbing the means of payment thus created carried greater weight, their net growth was less intensive, amounting to 12 per cent as against 21 per cent in the preceding year, as can be seen from tables 124 and 125.

The foregoing account indicates how narrow is the field of action open to monetary policy in Argentina's case. On the one hand, inflationary wage increases oblige the banking system to make a passive response to the demands of the situation, except in circumstances—temporary, no doubt—in which the increase in the rate of circulation may avert the need for a correlative increase in the volume of means

[28] See the Introduction to this chapter.

Table 125. Argentina: Means of payment and their growth

(Millions of pesos)

Year	*Public*	*Private*	*Total*
	(A) *End-of-year statistics*		
1955	11 708	51 612	63 320
1956	16 692	60 237	76 929
1957	18 908	67 885	86 793
(B) *Annual percentage increase in relation to the preceding year*			
1955	+32	+17	+20
1956	+42	+16	+21
1957	+13	+12	+12

Source: Memòria del Banco Central, 1957; and *Boletín Estadistico del Banco Central,* No. 1, January 1958.

of payment. Otherwise, the growth of the gross product would be affected. On the other hand, the balance-of-payments situation may lead the authorities concerned to sacrifice this rate of growth to some extent, in order to avoid aggravating the external disequilibrium.

Thus, the possibilities that an expansionist monetary policy may prove efficacious are mainly dependent upon the course followed by external factors in the immediate future. Such a policy must in any case be differentiated from mass wage increases. The increment in monetary demand which they involve is accompanied by a rise in costs, and does not imply any expansion of real demand except in the initial period of readjustment when stocks are liquidated at earlier costs and prices, after which the weakening of the demand in question offsets these temporary consequences. In contrast, a moderately expansionist policy which facilitates the development of productive investment stimulates the direct and indirect growth of employment and real demand without the counterbalancing effect of cost and price increases, always provided that the margin of idle productive capacity is not exceeded, as otherwise expansionist policy would have definitely inflationary consequences.

Chapter III

BRAZIL

INTRODUCTION

For Brazil the decade 1944-54 was a period of rapid growth, averaging approximately 4 per cent *per capita* annually. The main source of this brisk expansion was a big rise in the value of exports, which stimulated the demand for local products, and at the same time provided much of the foreign exchange needed to pay for the increasing purchases of materials and equipment. (The foreign currency reserves, accumulated during the war years, also helped to finance post-war imports.) The increase in exports was, however, due, to rises in price, not in the volume exported, and it depended almost entirely on one commodity: coffee.

The process of growth itself also showed certain weaknesses. Agricultural output rose much more slowly than industrial output. Investment in basic services, such as electricity and transport, lagged behind the rest of the economy, partly because of price controls that restricted profits. Little progress was made in petroleum production and refining for some time. Within manufacturing, the expansion was greatest in industries producing consumer goods, especially finished consumer goods, rather than capital equipment or materials. Consequently the demand for imports rose rapidly: by the end of the decade, foreign exchange reserves were depleted and it became necessary to borrow substantial sums overseas. In order to repay these sums, Brazil was committed to a programme of heavy amortization payments, which became a first charge on foreign exchange receipts. During this time, moreover, prices inside the country were rising quite rapidly, at a rate of about 10 per cent *per annum*.

The whole decade, in contrast to the decade immediately before the war, was characterized by a strong coffee market with low inventories, so that occasional acute shortages sent the price up sharply. In the meantime, however, world production outside Brazil had been rising, and the increasing use of soluble coffee tended to check increases in demand. The threat of a chronic world surplus has reappeared. An advance warning signal was the fact that the price of coffee rose only moderately and temporarily in response to the low Brazilian crop of 1956-57, although this was smaller than the crops of 1953-54 or 1954-55.

Brazil could not afford to increase its imports further or even to maintain them at previous levels, after the tone of the coffee market changed. With continued economic growth, however, the demand for imports still rose, and some imports were subsidized to the extent that they enjoyed very favourable exchange rates. The consequences of the weak features of the previous period were clearly revealed now that foreign exchange could no longer be easily spared to compensate for deficiencies in local output. Exports of commodities other than coffee were discouraged by the fixed, low exchange rates at which sellers had to convert foreign exchange. Especially dangerous were the increasing imports of wheat and petroleum, because they cut into the already small amount of foreign exchange available for other imports. Incomes were still rising, moreover, and the limit to imports meant that demand pressed more heavily on the domestic economy, which now showed the results of the previous period of unbalanced growth—for example, load-shedding by electric power stations. Considerable progress was made in developing substitutes for imports, but some firms of doubtful economic viability were established in this period and started to receive protection of various kinds. Inflation accelerated in 1954, and prices then rose approximately twice as fast as previously.

This chapter outlines the way in which Brazil has reacted to this set of problems. It shows that it has managed to maintain a high level of capital investment and also to improve the balance of its development, despite the shortage of foreign exchange. In addition, the price inflation slowed down almost to a halt in the middle of 1957. Yet the continued weakness of the coffee market leaves the Government little room to manoeuvre and many problems still remain. Foreign payments were out of balance in 1957. Heavy investment was possible only because of a great inflow of capital, and, although this enables Brazil to save foreign exchange by producing substitutes for imports, it also entails a burden on the balance of payments in the future in the form of payments of profits and interest to foreigners. Moreover the period of price stability was due to the coincidence of a number of factors, such as a fall in coffee incomes and disinvestment in inventories of other commodities, both of which were only temporary phenomena. On the other hand, the programme of developing the basic and heavy industries (petroleum, electricity, steel, vehicles and transport) will, if it can be carried through, make the economy much less dependent on imports and thus less liable to suffer an economic crisis every time the price of coffee falls.

The chapter is arranged in three sections. Although the supply of foreign exchange, the internal inflation and the investment programme are interrelated subjects, they are treated separately here for purposes of analysis.

I. THE INADEQUACY OF FOREIGN EXCHANGE

Summary

The threat of a chronic surplus of coffee has compelled producer countries, including Brazil, to withdraw some of their supplies from the market. Moreover, exports of cacao and cotton have fallen. Some secondary exports are growing, but not yet enough to offset the declining trends in traditional exports. The 1953-54 boom in Brazil's exports has now subsided and earnings of foreign exchange have fallen. After the growing payments needed to amortize previous loans are subtracted, the available foreign exchange resources are reduced still further. Imports of capital goods have been maintained, and even increased, despite this contraction in the capacity to import. This has been made possible by the use of medium-term trade credit to finance imports of capital goods for the basic industries, and growing imports of capital goods allowed into the country without exchange cover as direct investment by

foreign firms. The pressure on imports in 1957 was also eased by some liquidation of import inventories. Nevertheless, despite these developments, the balance of payments deteriorated sharply, and foreign exchange reserves fell.

1. Commodity exports

The recent deterioration in exports is shown in table 126 from which it may be seen that each of Brazil's three leading exports earned much less in 1957 than in 1954. The declines were proportionately as serious for the two less important exports, especially cotton, as for coffee (see figure VIII).

These other commodities will be dealt with first, and coffee later. Receipts from cotton exports have shown a rapid decline due to a drop in the exportable surplus. Domestic consumption has increased, while there has been no marked upward trend in production. There seems to have been a decline in the area sown for the 1957 crop, partly because of the relatively low prices which reflect the depressed state of the world market and the low exchange rate for exporters. The crop was particularly small this year, and a limit was set on exports in order to prevent a domestic shortage.

Table 126. Brazil: Exports (f.o.b.), 1953 to 1957

(Millions of dollars)

	1953	1954	1955	1956	1957[a]
Coffee[b] . . .	1 088	948	844	1 030	846
Cotton. . . .	102	223	131	86	44
Cacao. . . .	75	135	91	67	70
Others[c] . . .	274	255	357	299	432
	1 539	1 562	1 423	1 482	1 392

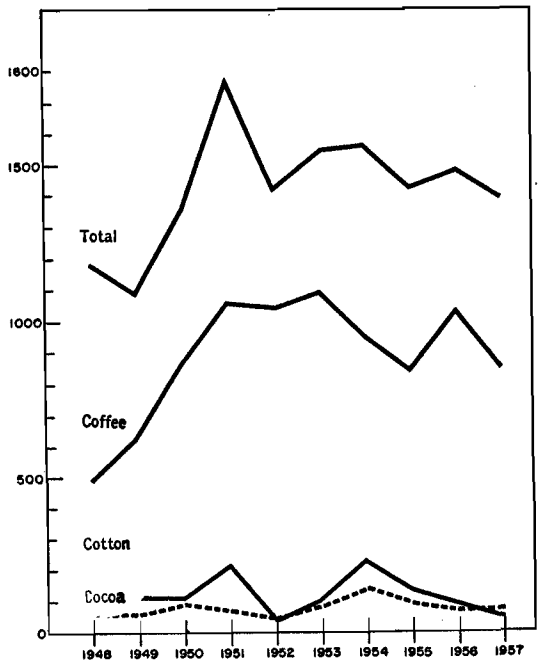
Source: International Monetary Fund, International Financial Statistics.
[a] Preliminary estimates by ECLA.
[b] Valued as invoiced (i.e. excluding foreign exchange receipts above invoice values).
[c] Iron ore, lumber, manganese, sugar, etc.

Figure VIII

BRAZIL: EXPORTS, 1948-57

(Millions of dollars)

Natural scale



A similar downward trend can be seen in the value of cacao sales, but this was not due so much to a contraction in volume as to a fall in the price, which declined, in 1956, from the abnormally high levels of 1954 to the lowest level of recent years. Exports recovered somewhat in 1957. Early in the season the Government set a floor price of 300 cruzeiros per *arroba* (equivalent to 31.06 dollar cents per pound). For a time, exports were very slow, the Government itself buying much of the crop. In the first half year they earned 15 million dollars as against 22 million in the first six months of 1956. The middle of the year was a critical period for cacao policy, because raw cacao—and in this respect it differs from coffee—cannot be stored for more than a few months. However, the world price reached, and even exceeded, the minimum set by the Government. Then exports increased rapidly and the Government was able to dispose of the greater part of the inventories it had accumulated.

There were increases in most of the minor exports, the three greatest, of over 25 million dollars each, being in sugar, pinewood and manganese. Sugar exports expanded from 19 000 tons (2 million dollars) to 425 000 tons (46 million dollars), reflecting the fact that the crop exceeded domestic demand. Pinewood and iron ore exports expanded substantially, and each was responsible for earning more foreign exchange than cotton in 1957. Manganese exports rose very sharply from 8 million to 36 million dollars. These exports were stimulated by changes in exchange rates in the previous year.[1]

The coffee situation is more complicated; the best procedure is to begin by showing the size and disposal of recent crops (see table 127).

In an attempt to check the decline in prices, the Government set a minimum export price in 1954 and bought nearly 3 million bags which could not be exported at this price. After a few months this policy was abandoned and most of the large crop of 1955/56 was exported, although at lower prices, to replenish United States inventories. Inventories of exporters in Brazil also rose, however, and the carryover into the next crop year was substantial. The growing competition of African coffee, partly due to the increased consumption of "soluble" grades,[2] was moreover causing a chronic weakening in the market for Brazilian coffee. Consequently, although the 1956/57 crop was even more severely damaged by the climate than those of either 1953/54 or 1954/55,[3] prices rose much less. Still Santos 4 "strictly soft" averaged approximately 60 cents per pound in the second half of 1956, and exports were quite brisk at this level so that it was possible to make inroads into private inventories. In terms of calendar years, export prices

[1] In addition, the Foreign Trade Department of the *Banco do Brasil* subsidized the exports of some commodities by reimbursing the exporter for the difference between the internal price and the cruzeiro equivalent of the world price. (This is similar to the United States scheme of subsidizing private agricultural exports, discussed in Part I, chapter I.)

[2] The inferior taste and aroma of *Robusta* grades, in comparison with those of *Arabica*, matters less to a manufacturer of soluble coffee than to a producer of ordinary grades, since soluble coffee is in any case poor in both these respects.

[3] There were frosts in Paraná in 1955, followed by prolonged rains in other States in 1956.

Table 127. Brazil: Supplies and disposal of exportable coffee, crop years 1953/54 to 1957/58

(Millions of 60-kg bags)

	1953/54	1954/55	1955/56	1956/57	1957/58
Stocks brought forward at start of year:					
Private	3.3	3.3	3.3	6.7	3.7
Government[a]	—	—	2.9	3.8	3.7
Exportable output[b]	14.3	13.8	21.3	11.8	(20.6)[c]
Total supplies	*17.6*	*17.1*	*27.5*	*22.3*	*(28.0)*
Exports	14.3	10.8	17.0	14.9	(14.6)[d]
Stocks carried forward at end of year:					
Private	3.3	3.3	6.7	3.7	(13.4)[e]
Government[a]	—	2.9	3.8	3.7	
Total disposal	*17.6*	*17.1*	*27.5*	*22.3*	*(28.0)*

Source: Statistical Bulletin of the Brazilian Coffee Institute *(Instituto Brasileiro de Cafe)*.
[a] Stocks bought by Government agencies and withdrawn from the market.
[b] Excluding internal consumption and port and coastal sales. The figures for output are based on registrations for export at the ports and do not exactly refer to the crops concerned, because a small portion of each crop is registered in the following crop year.
[c] Estimated.
[d] Implied by the Mexico City coffee agreement (see below).
[e] Residual. (It is assumed that exports reach levels permitted by the coffee agreement.)

and volumes were both rather higher in 1956 than in 1955. The volume of exports continued to be fairly large (over 1 million bags per month) and maintained quite a good price in the opening months of 1957, but later both price and volume started to decline. The Government was unable to dispose of any significant quantity of official stocks during 1956/57, despite the very small crop. It is believed that coffee farmers retained higher inventories than usual at the end of the crop year, in expectation of a recovery in prices.

At the start of the new crop year 1957/58, the Government took three major steps in connexion with this crop, which promised to be a large one. Firstly, it established a new fluctuating premium on exports. The full implications of this will be discussed later: suffice it to say here that it amounted to an immediate devaluation, by nearly 30 per cent, of the exchange rate applicable to the best grades of coffee, and thus further weakened the world price. Secondly, the Government established a minimum export price of 420 cruzeiros per 10 kilogrammes for Santos 4 "soft" (excluding the new premium and export charges), which would be equivalent to about 58.5 cents per pound for Santos 4 "strictly soft" on the New York coffee exchange (assuming correct invoicing), with corresponding minima for other grades. As a corollary, the prohibition of sales below these levels led to the third step: a commitment by the Government to purchase coffee itself, whenever exports could not be effected. The Government announced that the Coffee Institute would buy coffee at prices corresponding roughly (after addition of the new premium) to the minimum export price quoted above, for example at 550 cruzeiros per 10 kilogrammes for Santos 4 "soft".

In the third quarter, the flow of exports was resumed and reached a level of over 1 million bags per month again, they consisted largely of sales, from inventories of the old crop not covered by the arrangements discussed above and disposed of at prices slightly below the minimum. The arrival of the 1957/58 crop at the ports was somewhat delayed by unfavourable weather and by the reluctance of exporters to trade in coffee under the arrangements which have been outlined. The Government entered the market to purchase coffee for inventories, at the rate of about 100 000 bags per week, and later extended its purchases to the interior. During October and November, foreign sales increased sharply again, in a market which had become somewhat firmer, following the coffee agreement signed in Mexico in October 1957.

This agreement has already been discussed.[4] So far as Brazil is concerned, it has the following implications. Firstly, Brazil has to maintain without alteration the regulations adopted at the beginning of the season and outlined above. Secondly, exports in the period October 1957 to June 1958 must not exceed the "tentatively estimated" figure of 11.2 million bags. Allowing for 3.4 million already exported in the first three months of the crop year, this would mean exports of 14.6 million tons in 1957/58, or slightly less than in 1956/57. Thirdly, Brazil is obliged to add to its stocks 20 per cent of the exports effected in the period October 1957 to September 1958. (The export limit had in any case implied adding approximately 6 million bags to official inventories in the crop year, assuming an exportable crop of 20.6 million bags.) In return for what was in effect a confirmation by Brazil of existing policies, other producing countries, though only those of Latin America, also agreed to limit their exports, and coffee prices hardened slightly.

Despite the increase in exports at the end of the year, about 12 million bags were added to inventories in the second half of 1957. This was partly a seasonal rise, but it was also partly due to the fact that the volume of exports for the six months as a whole was lower than in any recent year except 1954.

2. Total capacity to import

The other current-account items have not offset this fall in exports (see table 128). Payments for services have been fairly steady, reflecting the stability in freight payments, which constitute the largest item. Amortization payments have, however, caused an increasing drain on foreign resources. Only the inflow of capital has prevented a marked

[4] See Part I, chapter II.

Table 128. Brazil: Comparison of capacity to import and actual imports, 1954 to 1957

(Millions of dollars)

	1954	1955	1956	1957
Commodity exports[a]	1 562	1 423	1 482	1 392
Services (net)[b]	—384	—348	—338	—410
Amortization payments[c]	—136	—146	—184	—234
Capacity to import, excluding capital inflow	1 042	929	960	748
Net inflow of official capital[d]	79	49	126	463
Net inflow of private capital[e]	72	131	175	
Total capacity to import (f.o.b.)	1 193	1 109	1 261	1 211
Actual imports (f.o.b.)	1 408	1 099	1 046	1 270
Net balance[f]	—215	+10	+215	—59

Source: Department of Currency and Credit *(Superintendencia da Moeda e do Crédito)* (SUMOC).

[a] Valued as invoiced. The net balance of payments would not, however, be greatly affected if this figure could be corrected for under-invoicing, since the proceeds of under-invoicing either remain in New York or are sold in special bilateral unrecorded transactions, to those who wish to export capital without publicity. In either case there would be, in principle, a compensatory reduction in the figures of net inflow of private capital, if a correction were made to export statistics.

[b] Including property income.

[c] Including instalment payments on United States and United Kingdom loans to fund the trade debts of 1952 (shown as "compensatory capital movements" in official Department of Currency and Credit estimates of the balance of payments).

[d] Including donations.

[e] Including donations, but excluding movements in short-term trade debts.

[f] Before adjustment for errors and omissions. This therefore differs from estimates in Part three. See footnote [c] for a reason why it also differs from the official Brazilian estimates.

Table 129. Brazil: Licences for imports of equipment with special exchange cover, 1955 to 1957

(Millions of dollars)

	1955		1956		1957	
	1st half	*2nd half*	*1st half*	*2nd half*	*1st half*	*2nd half*
Under Act 1807	29	51	118	135	260	
Under Instruction 113	15	16	22	34	36	72

Sources: Department of Currency and Credit, and *Conjuntura Econômica.*

deterioration in the capacity to import from the levels of 1954. Official loans to Brazil have fluctuated sharply. The high figures in 1954 and 1956 were mainly due to loans for development projects granted by the Export-Import Bank. The inflow of official capital in 1956 also included the cruzeiro loan, by the United States Government, of part of the proceeds from the sale of surplus wheat. The corresponding loan in 1957 was lower, because Brazil took delivery of only a fraction of the wheat available.

The only upward trend in the receipts is that represented by the inflow of private capital. This is now rapidly gathering momentum with the encouragement of two legislative measures. The first was Act 1807 of 7 January 1953, which permitted imports of capital goods for basic industries of "special importance" to be paid for at the very favourable rate of 43.82 cruzeiros to the dollar,[5] provided that they were bought on credit over a term of no less than 5 years and the interest charged was a fixed rate of not more than 10 per cent *per annum.* Secondly, Instruction 113 of the Deparment of Currency and Credit *(Superintendencia da Moeda e do Crédito)* (SUMOC) permits foreign companies to import capital goods without exchange cover, provided that they propose to manufacture goods considered essential (normally substitutes for imports). Table 129 shows the increase in the number of licences issued under these two regulations.

The delay between the granting of licences and the arrival of imports of capital goods may be quite long—several years in the case of generating equipment, ships and aircraft ordered under Act 1807. Consequently, the figures for the inflow of capital are only starting to show the effects of these special arrangements.[6]

Apart from such imports of equipment, foreign companies bring in foreign money in the form of cash, which accounts for about half the inflow of private capital and which has also been growing, partly because of the shortage of credit in Brazil. Until recently, one form of such capital imports consisted of capital registered by SUMOC, when it considered such capital to be in the "national interest", e.g., for energy, communications or transport, and when it had been brought in at the "cost of exchange".[7] Foreign exchange was then guaranteed for interest and repatriation at the exchange rate used when the capital was imported, provided that the yield on the capital did not exceed 8 per cent.[8] Since the new tariff law came into effect in September 1957, these facilities have ceased to be available, and now all capital in the form of cash enters Brazil at the free-market rate.

This increase in investment by foreign firms has been

[5] This is the so-called "cost of exchange" and is the weighted average of export exchange rates.

[6] In balance-of-payments statistics, when goods without exchange cover, or bought on medium—or long-term credit, arrive, a capital inflow of equivalent value is assumed to take place.

[7] See footnote [5] and corresponding text.

[8] Nominally 10 per cent, less income tax at the rate of one-fifth.

Table 130. Brazil: Structure of imports (c.i.f.), 1954 to 1957

(Millions of dollars)

	1954	1955	1956	1957[a]
Non-durable consumer goods	119	103	89	111
Durable consumer goods	37	22	44	63
Crude petroleum	4	77	106	117
Other fuel	262	196	188	147
Total fuel	266	273	294	264
Metals	143	80	100	118
Wheat	125	142	108	104
Newsprint	25	25	27	35
Other materials	316	248	220	215
Total non-metallic materials	466	415	355	354
Building materials	79	48	23	25
Agricultural equipment	105	45	41	79
Industrial equipment	287	204	154	213
Transport equipment	124	113	132	262
Total	1 627	1 304	1 232	1 489

Source: Banco do Brasil, Comercio Internacional (monthly bulletin). Classification by ECLA.
[a] Figures based on the first nine months.

the strongest factor in the supply of foreign exchange. However, it was offset in 1957 by the fall in exports and the rise in amortization payments. Consequently, the capacity to import declined. Since there was also some increase in imports, the surplus in the balance of payments was replaced by a deficit and reserves of foreign exchange fall.

3. The composition of imports

Table 130 shows the composition of imports c.i.f. from 1954 to 1957. They continue to conform to the same rather rigid pattern.[9] Certain goods have had a priority, their importers having been allowed exchange rates so low as to be in effect subsidies. The most important of these are *newsprint,* which alone among all the commodities has been imported at the official selling rate of the cruzeiro as registered with the International Monetary Fund (18.82 cruzeiros to the dollar);[10] *wheat* which was, until January 1956, mostly imported at the rate of 28.82 cruzeiros to the dollar; and *crude petroleum,* which was paid for at 33.82 cruzeiros to the dollar until 1957. Together these account for about one-fifth of imports and until recently they have shown a tendency to absorb more and more foreign exchange.

However, in the case of *crude petroleum,* the main reason for growing imports has been the expansion of local refining (see table 131). The saving of foreign exchange on petrol and its derivatives must also be taken into account. The total import bill for fuel has at least ceased to rise. Taxes on petroleum products rose in January 1957,[11] and

Table 131. Brazil: Output and imports of petroleum, 1954-57

(Millions of tons)

	1954	1955	1956	1957[a]
Crude petroleum				
Imports	0.2	3.5	4.9	4.8
Production	0.1	0.3	0.5	1.4
Apparent consumption	0.3	3.8	5.4	6.2
Petrol and other derivatives[b]				
Imports	7.7	5.2	4.6	3.8
Production	0.3	3.5	5.4	6.1
Apparent consumption	8.0	8.7	10.0	9.9

Source: Banco do Brasil, Comercio Internacional (monthly bulletin).
[a] Preliminary estimates for 1957.
[b] In terms of equivalent crude petroleum tonnage.

apparent consumption is likely to be little higher than in 1956, when it was inflated by a rush to buy petrol at the end of the year before the new tax was introduced. It is likely that the further rise in the output of refined products was more than enough to cover the slight rise in apparent consumption in 1957, so that expenditure on imported petrol fell. At the same time, imports of crude showed little change, because output started to rise appreciably in 1957.[12]

The consumption of *wheat* has apparently fallen (see table 132). One explanation is that its price has risen much more than that of other cereals[13] which are being mixed on an increasing scale with wheat flour in bread-making. Production, moreover, rose rapidly until 1957, because the area under wheat was extended, but in 1957 there was a very poor harvest. However, domestic output, together with im-

[9] Since import prices have changed little since 1953 (in foreign currency), much the same development would be shown by estimates at constant prices.

[10] The exchange rate for newsprint was fixed by law and could not be amended by administrative action. It is now being adjusted upward by stages under the new tariff law.

[11] The tax on petrol (irrespective of origin) rose on 1 January 1957 from 1.20 cruzeiros per litre to 150 per cent *ad valorem,* while simultaneously the exchange rate on imports was adjusted from 88 to 53.80 cruzeiros per dollar, which became the rate on all imports of petroleum. The net consequence was to raise the retail price of petrol in Río de Janeiro from 4.90 to 5.98 cruzeiros per litre. The retail price of diesel oil, which had previously enjoyed a particularly favourable exchange rate (33.82 cruzeiros) and negligible taxes, rose much more steeply, from 1.66 to 3.59 cruzeiros per litre. There were similar increases in the prices of paraffin and fuel oil. The new tariff law of 1957 provides for increasing duties on derivatives.

[12] Brazil also exported small quantities of petroleum products, mostly fuel oil, for the first time in 1957.

[13] The exchange rate for wheat was adjusted in January 1956 from 33.82 to 43.82 cruzeiros to the dollar. This helped to raise the retail price of bread from 8.10 cruzeiros per kilogramme in 1955 to 12.30 cruzeiros per kilogramme in 1956, in the city of São Paulo (Source: *Instituto Brasileiro de Geografia e Estadistica, Boletim Estatistico*). The rate changed again in September 1957 to 51.32 cruzeiros. Imported and domestic wheat prices are levelled at wholesale, so that the subsidy implied in the exchange rate becomes in part a subsidy for domestic production too. Administration of these adjustments has involved some difficulties.

Table 132. Brazil: Production and imports of wheat and flour[a]

(Millions of tons)

	1954	1955	1956	1957[b]
Imports	1.7	1.8	1.5	1.4
Production	0.9	1.1	1.3	1.2
Apparent consumption	2.5	2.9	2.8	2.6

Source: Banco do Brasil, Comercio International (monthly bulletin). Production in 1956 and 1957 from *Conjuntura Econômica*, April 1958.
[a] Imports of flour measured in equivalent tons of wheat.
[b] Preliminary estimates.

ports arranged under bilateral agreements with Argentina and Uruguay, would have sufficed to meet a large proportion of Brazil's requirements. But, at the end of 1956, the Government signed a new three-year agreement for the purchase of United States surplus wheat, 85 per cent of the cruzeiro value being lent back to Brazil for use by the *Banco do Desenvolvimento Nacional* for agreed projects. The quota for delivery in 1957 was 450 000 tons, and the agreement provided that Brazil should also purchase 130 000 tons through normal trade channels partly from the United States, but also from other traditional sources[14] Argentine deliveries fell short of the level of 1.2 million tons contracted for, but there was still not sufficient storage capacity for the full United States quota, although priority had been given to expanding capacity.[15] Deliveries under the United States agreement were suspended in October.[16]

This steadiness in the foreign exchange spent on special imports has meant that the supply of foreign exchange to private importers, who obtain their requirements at auctions,[17] has reflected, with some time-lag, the movement in the capacity to import.

When it became clear that imports could not be maintained at their level of 1954, the supply of foreign exchange at the auctions diminished rapidly (see table 133). It remained fairly constant until, in mid-1956, it increased again somewhat because of the improvement in foreign exchange receipts.

The premium or "agio" paid for exchange certificates has depended on two factors: the supply of foreign exchange offered and the level of demand inside the economy. From mid-1955 to mid-1956 the supply of dollars was low, while internal inflationary pressure was strong. Consequently, the value of the import cruzeiro fell sharply in terms of dollars. But after the middle of 1956 the exchange supply increased, while the internal inflationary pressures decreased,[18] and the agio fell in the first four categories.[19]

[14] The purpose of this provision was that the sale of surplus wheat should lead to an increase in consumption, instead of displacing imports from other sources. It is open to question whether it would be desirable for Brazil, given its chronic shortage of foreign exchange, to encourage the habit of consuming a staple food much of which must be imported.

[15] The memorandum accompanying the wheat agreement, if strictly interpreted, rules out the possibility of United States wheat replacing wheat from Argentina by stating that: "In the event of shortfalls in deliveries from Argentina and from Uruguay, it is understood that Brazil would purchase in the world market the maximum amount of that deficit that its economic resources would permit".

[16] The agreement also covered 9 million dollars' worth of lard, dairy products and vegetable oils, but this part of the agreement lapsed because Brazil did not exercise it purchasing right.

[17] Foreign exchange is auctioned separately for various categories of goods. Under the system in force up to August 1957, the categories were roughly as follows (excepting fuels):

Special. Fruit, fertilizers, insecticides and (occasionally) vehicle chassis.

Normal. I. Non-ferrous metals, some chemicals, coal and products for agriculture.
II. Other raw materials considered essential.
III. Less essential raw materials, and essential spare parts and equipment.
IV. Less essential spare parts and equipment.
V. All other commodities.

The average cost of dollars auctioned at Río de Janeiro in June 1957 was, in the "normal" auctions, as follows:

	(Cruzeiros per dollar)
Category I	62
Category II	77
Category III	107
Category IV	172
Category V	322
Weighted average	84
Free market rate	74

Source: Conjuntura Econômica, August 1957.

(In compiling this table, the average premium was added to the official exchange selling rate (18.82 cruzeiros) and the remittance tax (1.88 cruzeiros) to obtain the total cost per dollar. The effective exchange rates for categories IV and V were less than are shown here, because imports in these categories were often under-invoiced).

[18] An added downward influence in the second half of 1956 was a regulation extending the period within which the *Banco do Brasil* could buy back unused exchange certificates. The effect of this was to warn importers that they might be left with their capital tied up if they bought certificates they could not use (or resell), and it discouraged speculative bids at the auctions.

[19] Agios in the fifth category continued to rise, but this was because a number of commodities were transferred to this category, where demand therefore continued to grow. There was also a general rise again in July. This was due to the desire of importers of materials to safeguard themselves against increased prices under the new exchange régime about to be introduced, the details of which had not yet been published.

Table 133. Brazil: Foreign exchange auctions by half-year,[a] 1954 to 1957

	1954[b]	1955		1956		1957
		I	II	I	II	I
Amount auctioned (millions of dollars)	835	293	266	273	324	308
Weighted average exchange rate (cruzeiros per dollar)[b]	50	69	99	112	77	65

Sources: Department of Currency and Credit, *Boletín, Conjuntura Econômica, Desenvolvimento y Conjuntura*
[a] The foreign exchange for certain fuels is also auctioned, but this is excluded from the table.
[b] Figure for year.
[c] Excluding special auctions. From the second half of 1955, the rate refers to dollar and "Hague Club" auctions only. (The "Hague Club" is a multilateral clearing system covering the leading Western European countries. Its main feature is that balances arising out of transactions between Brazil and any of the members can be applied to liquidate balances between Brazil and other members. Thus the foreign currencies concerned can be pooled by Brazil and auctioned together.)

In September 1957, a new system of auctions was introduced at the same time as the new tariff entered into effect. This change did not significantly affect trade results for the year 1957, because importers were allowed to exhaust the exchange certificates they had already purchased under the old system, and goods arriving up to the end of the year were nearly all financed with these certificates.[20] Perhaps the most important immediate result was a slight decline in imports, at the end of the year because auctions were suspended for several weeks in August and September when the system was changed.[21]

One reason for the increase in imports between 1956 and 1957 is that much equipment was allowed in without exchange cover under the arrangements discussed above. It can be seen from table 130 that there have been marked increases, as compared with the very low levels in 1956, in imports of equipment, especially equipment for transport, including the components needed to manufacture about 40 000 commercial vehicles and jeeps in 1957 under the plan for the establishment of a vehicle-manufacturing industry. These components were allowed to be purchased outside the auctions at special rates. There was also a big rise in imports of locomotives and other railway equipment in accordance with the plan for the expansion and re-equipment of the railways.

An interesting reversal of two trends previously visible in Brazil and in other Latin American countries is now taking place. These trends were the increase in the share of imports devoted to consumer goods as against capital goods, and in the share devoted to materials as against finished goods.[22] Since equipment consists of goods which are both "capital" and "finished" (or nearly so), the sharp rise in this type of import upsets both trends simultaneously.

At the same time, imports of materials other than metals have declined. (Most of these non-metallic materials can be counted as materials for making consumer goods). Two factors are mainly responsible for this situation. Firstly, investment in inventories seems to have given way to disinvestment, which would have a marked influence on imports. Secondly, further major advances have been made in import substitution which now particularly affects such materials as chemicals (see Appendix, table III). The high cost of dollars for imports of materials in 1955-56 greatly stimulated this substitution.

Building materials and metals, however, do not show the same trend. The substitution of local production for imports of cement and asphalt had been virtually completed by 1956, and few further declines in imports of building materials were possible. Imports of most semi-manufactured metals rose after a fall in 1955, because, while production has expanded, it has not grown fast enough to keep pace with demand. (Tinplate is a good example of this: see Appendix, table III.)

To sum up, the weak coffee market and low cotton exports were offset by certain positive developments. Exports were becoming more diversified; the rising trend of payments for fuel and wheat was at last halted; imports of capital goods coul be expanded without an immediate loss of foreign exchange, because of the increasing investment of private foreign capital; and the growth of basic industries producing substitutes for imported materials enabled savings to be made in these imports.

Brazil lost over 100 million dollars of its foreign exchange reserves in the year (the greater part of the 180 million dollars it had gained in 1956). It also drew a further 38 million dollars from the International Monetary Fund, representing 50 per cent of its quota. At the end of the year, the total gold and foreign reserves of the *Banco do Brasil* stood at 474 million dollars, compared to 612 million a year previously.[23]

4. The current outlook

At the start of 1958, exports were at very low levels. Export of coffee in both January and February were 0.7 million bags, compared to levels twice as high a year previously at a much higher price. Inventories in the United States had been built up during the last quarter of 1957, and importers were apparently reluctant to buy at current prices.[24] The International coffee agreements would permit an export rate of over 1 million bags a month in the first half of 1958. Consequently, so far as these agreements are concerned, some recovery could occur in the volume of exports in the second quarter. The value of cacao exports may be greater, because of the high prices prevailing in the world market. Iron ore exports are already affected, however, by the recession in the United States (which has hit the steel industry particularly hard, its output having dropped to about half of its capacity) and even the European steel market, which takes a large fraction of Brazilian exports, has not been strong recently. Manganese ores have, however, already been sold forward for 1958, so exports of these should continue to grow.[25] Still, the total value of exports this year will depend primarily on the coffee trend, and volumes and prices would have to rise very greatly above their levels in the opening months for the value of total exports to reach the level of 1957.

So far as the longer-term outlook is concerned, very much again depends on coffee. When the coffee areas of Paraná enter into full production, the exportable output will once more be on the scale of the 1920's, and, if crops are good, the available supply in 1958-59 could be 25 million bags, and in the 1960's not far short of 30 million. Advances in other countries are likely to cause a substantial rise in world output. Yet demand, specially for Brazilian coffee, appears to grow only at a moderate rate. The trend towards soluble coffees, which seems very likely to continue as technical advances make them more palatable has unfavourable implications for the reasons discussed above.[26] Brazilian ex-

[20] The new system will be discussed below in section I, 4.

[21] On the other hand, the authorities anticipated the effects of this gap and increased the supply of dollars in July.

[22] See *Economic Survey of Latin America, 1956,* United Nations Publication, Sales No.: 1957.II.G.1, Special Study A. pp. 115 *et seq.*

[23] Compensatory capital movements appear to indicate a bigger deficit than does the balance of payments on current account, because "errors and omissions" are large.

[24] After the decline in the free-market cruzeiro at the end of the year, it would have been expensive for exporters to over-invoice coffee (to enable it to be sold abroad at less than the minimum export price), because they would have had to buy free market dollars at a high rate to make up the invoiced price even if this were reduced by false-grading.

[25] SUMOC Instruction 152 of March 1958 enables mining companies to finance their own imports (including financial services) out of their own export proceeds up to a percentage of the latter determined by SUMOC. This means in effect that they can by-pass the taxation implied in the difference between import rates and export rates.

[26] See section 1. But a start has been made on the manufacture of soluble coffee in Brazil itself.

ports to Europe will also very possibly be adversely affected by the creation of the European Common Market.

It appears questionable whether the foreign exchange earned by other crops will rise substantially. The trend of cacao production in Brazil has been downward, whereas large new areas are coming into production in Africa. There may be a temporary recovery in cotton output, but the prospects do not appear very favourable for Brazil's exports, and unless world prices (or exchange rates) change drastically for the better, it appears likely that rising home consumption will in time absorb virtually all the supply. These prospects for the export crops emphasize the need to develop other types of exports, particularly iron and manganese ores and manufactures, and to find new markets for coffee, though extensions of foreign trade into new fields are difficult in the present depressed state of commodity markets.

Although the future course of trade is a matter for speculation, it is known in advance that payments in amortization of past debts will continue to grow. Most of the schemes involve paying a constant annual sum, the biggest being the payment of 52 million dollars annually to the Export-Import Bank until 1961. In addition, at the end of 1957 certain special lump-sum payments lay immediately ahead.[27] These included the following:

1958: 38 million dollars as the final instalment on the credit extended by the International Monetary Fund.
1959: 72 million dollars to a group of United States bankers.
1960: 136 million dollars to the same group.

Meanwhile, future liabilities in respect of private imports under Act 1807 have been accumulating. Authorizations are granted in practice under this Act only for amortization agreements with a term of at least five years. This means that their impact is, for the present, light. But total authorization under Act 1807 now amount to several hundred million dollars and the sum has been rising rapidly. It is likely that the repayment of credits under this heading will eventually partly offset any reduction in other obligations. Another liability is being incurred in respect of purchases of surplus United States wheat under the new agreement covering the years 1957-59. Although these deliveries require no foreign exchange immediately, their cost will eventually have to be repaid (with interest) in instalments from 1960 to 1997.[28] The future burden of amortization of all types is shown in table 134.

It should be borne in mind that entry of capital under Instruction 113 also constitutes a burden on the future balance of payments, which is none the smaller because it is unknown, since it will take the form of remittances of profits. The capital sums involved are smaller than in the case of Act 1807. In any event, some of the profits and capital will doubtless not be repatriated, because foreign exchange for the transfer would have to be purchased on the free market, but on the other hand there is no restriction on the yield per unit of capital, as there is on credits authorized under Act 1807.

The increased capital inflow from abroad will help to sustain, and eventually to increase, Brazil's total capacity to import, and, in the case of mining, its exports, although of course it has little immediate effect on Brazil's capacity to purchase fuel and materials. The foreign exchange available for the latter commodities will continue to depend primarily on the performance of exports, and secondarily on the inflow of capital in freely spendable forms.

It appears unlikely that there will be substantial further savings in imports of fuel and wheat for some time to come. No additional refining capacity will come into service until 1959, so imports of petrol will temporarily increase to provide for the growth of consumption, unless this is checked by higher taxation or rationing. As vehicle output gets into its stride, the demand for fuels will tend to grow rapidly. The prospect for a further reduction in the total fuel import bill will depend mainly on the rate at which the output of crude petroleum increases, which depends in turn on how quickly the exploitation of reserves can be organized. It appears, however, that total expenditure on imported fuel is unlikely to fall appreciably until the 1960's.

Some saving might be expected in the outlay on wheat to the extent that either local production increases or United States surplus wheat displaces imports from Argentina. Local production of wheat seems to have stopped expanding,

[27] It may be possible, however, to negotiate new agreements for spreading the 1958-60 "hump" in repayments over a longer period.

[28] The financing terms are less favourable for this agreement than for the earlier one, signed in November 1955, which permitted repayment in cruzeiros irrespective of the exchange rate. The new agreement provides that, if repayment is in cruzeiros, it shall be adjusted for any devaluation that occurs after 1957 (with Export-Import Bank having the right to insist on payment in dollars if the exchange rate proposed by Brazil for this adjustment is not acceptable to it). However the interest charged will be lower if payment is made in dollars.

Table 134. Brazil: Amortization obligations outstanding as of 31 December 1957

(Millions of dollars)

Year	Loans for specific projects		Special financing arrangements				
	Official[a]	Other[b]	IMF	Exim-bank	Group of United States Bankers	Public debt	Total
1958	43	206	38	52	5	24	368
1959	41	150	—	52	72	23	339
1960	42	137	—	52	136	17	384
1961	41	110	—	52	—	15	217
1962	39	63	—	12	—	5	119
1963	37	42	—	—	—	5	84
Later years	226	416	—	—	—	18	660

Source: Department of Currency and Credit, *Boletim*.
[a] International Bank, Eximbank and United States Government.
[b] Including projects under Act 1807.

at least temporarily. Indeed the arrival of United States surplus wheat is said to be encouraging farmers to plant other crops. Wheat is imported from Argentina under a bilateral agreement, and, taking into account Argentina's shortage of foreign exchange reserves, any decline in purchases would sooner or later involve an equivalent decline in Brazil's exports, so that there would be virtually no net saving of foreign exchange. Moreover, although the purchase of United States surplus wheat in itself involves no immediate outlay of foreign exchange, it carries the obligation to buy for cash a certain amount of wheat from the United States and other sources and, in addition, to replace any reduction in purchases from Argentina by increased expenditure on wheat from other sources. In any case, so far as 1958 is concerned, the bilateral agreements are being continued on the existing basis. The concealed subsidy on imported newsprint is being reduced by bringing its exchange rate by stages to the level of the "cost of exchange".[29] This will eventually increase the cruzeiro price by more than 100 per cent and should considerably stimulate local production, leading to import savings.

Another special type of import will increase in importance: materials and semi-manufacturers purchased for the production of vehicles which is now gathering momentum.[30] Under this plan, in 1960, 143 000 commercial vehicles and 66 000 passenger cars will be produced, 90 per cent of the weight of commercial vehicles and 95 per cent of the weight of passenger cars being Brazilian in origin. It might be concluded that the foreign exchange burden will therefore decline, but there are a number of considerations to bear in mind. Firstly, the percentages refer to the *weight* not to the *value* of the vehicles. Since import substitution will be, at first, largely in the simpler components with a low value per unit of weight,[31] the percentages of the value which will be of Brazilian origin will be a good deal smaller. Secondly, the items "produced in the country" will themselves incorporate certain imports.[32] Thirdly, it may not be possible for local manufacturers of materials to produce enough to enable these percentages to be attained. (This applies particularly to the output of sheet steel.) Fourthly, the growth of output will largely offset the decline in the percentage of each unit imported. Brazil cannot expect that the vehicle plan will bring substantial, if any, savings in foreign exchange in the next few years, although, of course, if there were no such plan, a large increase in foreign exchange expenditure would be necessary to renovate the vehicle park. Vehicle imports have been so few in recent years that the park has been deteriorating.

From 1958, imports will be affected by the new tariff law, which brought about three major changes at the same time. Firstly, it imposed effective *ad valorem* customs duties. Previously, duties, being mostly specific, had become insignificant with rising prices and altogether yielded only some 2 000 million cruzeiros *per annum*. The new duties, which average 30 per cent, though they vary widely, are expected to yield about 15 000 million cruzeiros. Secondly, instead of the five categories of the old system of exchange auctions described above, there are now two categories: "general", covering more than 95 per cent, (roughly equivalent to the first four categories of the old system); and "special", covering the remainder. Thirdly, special exchange rates were to be suppressed and rates for the commodities concerned were to be moved to the "cost of exchange" (now 55 to the dollar)—in the case of wheat, at once, and in the case of newsprint, by stages. (As mentioned above, the rate for petroleum had already been adjusted in January 1957.) Commodities such as fertilizers, previously covered by the special auctions, are also now to be brought in at "cost of exchange".

The effects of the first two changes on the total cost of general imports to dealers are not likely to be great in themselves. Bids at the exchange auctions represent what dealers are prepared to pay in view of the prices at which they expect to be able to sell their goods. Now that they have to pay much higher customs duties, dealers are prepared to pay correspondingly smaller amounts for exchange certificates. It would be reasonable to anticipate that, *ceteris paribus*, the total amount paid in agios annually will decline by some 13 000 million cruzeiros, which is the expected difference between the yield of the old tariff and the new.[33]

The new tariff scales reflect the combined influence of the old tariff and of the agios paid in the different categories of the previous exchange system. They do not therefore involve drastic changes in the structure of relative prices.

The advantage of the new auction system with its two categories is that it reduces the complexity and uncertainty inherent in the five-category system. Separate auctions were held in all categories, in a number of cities, for different types of currencies. Hundreds of different auctions thus occurred each month (apart from "special" auctions).[34] The

[29] This is a provision of the new tariff law (article 50, paragraph 3) referred to below.

[30] The rate of exchange for most of the imports for the plan is to be the average resulting from the last three auctions under the second category of the old system, i.e., 83 cruzeiros to the dollar, except that, when a company starts local production of the engine, the exchange rate on all its imports is to be the average of the last three auctions in the old first category, i.e., 63 cruzeiros. Imports are to be free of duty until 1 July 1959.

[31] Setting the targets in terms of weight rather than value in fact encourages the vehicle industry to concentrate on producing the less valuable components in Brazil.

[32] The legislation states that only the "portion actually produced in the country" will be taken into account when assessing progress towards targets, but it will be impossible to calculate the import content of each part incorporated in a car. (For example, allowance would have to be made for the imported coking coal used in the local manufacture of steel and for the petrol used in its transport to the vehicle factory.) In any case such calculations would be meaningless in terms of weight, since the weight of all the raw materials and fuel used is usually much greater than the weight of the product made with them. In practice, those putting the legislation into effect will have to assume that, if a part is purchased in Brazil, it is wholly produced in the country. Thus a generator bought from a national supplier will be considered wholly Brazilian and will be credited towards the target of 90 per cent by weight, even if the ball bearings, copper, etc., have originally been imported. (However if the car manufacturer were to make the generator itself in Brazil, these items would count as imports.)

[33] In December 1957, the average cost of dollars in the auctions for the "general" category was 67 cruzeiros, and for the "special" category 227 cruzeiros (giving a weighted average of 72). The free-market rate for the same period was over 80. These represent rates not much lower than under the old system, but it appears that, because of increased demand and uncertain prospects, the agios would have climbed if the system had not been changed.

[34] One consequence was that agios for rarely-used currencies (such as those of Iceland and Yugoslavia) were often very low, and the practice developed of arranging for goods from the United States or "Hague Club" countries to be imported into Brazil via such "third" countries. The scale of minimum agios was raised at the beginning of 1957 to check this practice, although it has apparently not been eliminated.

reform reduced the total number of auctions by over a half. On the other hand, it is now less easy for the Government to influence the structure of imports, for example, by giving preference to raw materials at a time when foreign exchange is scarce. Previously, it could exert such influence by varying the ratio of currency supplied to each category and by switching goods from one category to another. The Government's power to control the economy has therefore been somewhat reduced.[35] But the fundamental feature of the exchange system remains intact in that the exchange rates for imports fluctuate in response to alterations in the supply of foreign exchange and in internal demand, whereas rates for exports are kept constant.

Although the new tariff appears to be neutral in its total effect, at least on the average price of imports, other forces are also operating. With heavy amortization commitments, a continued large outlay on wheat and fuel, and growing needs for supplies of metals and parts for vehicle manufacture, Brazil will require increased amounts of foreign exchange in the years ahead. It will be possible to continue to expand imports of capital equipment without exchange cover, and indeed these arrangements may be even more attractive to local and foreign investors, if agios rise. But if exports decline, or even remain stationary, the supply of foreign exchange to the auctions will dwindle and, to judge from past experience, the premiums bid will rise. In the opening months of 1958, less foreign exchange was offered at the auctions and there was a sharp increase in agios.

[35] For this very reason business men tend to be more confident that prices of particular commodities will not change sharply (apart from changes due to fluctuations in the general level of agios).

II. THE COURSE OF INFLATION

Summary

So far as internal developments are concerned, 1957 was notable for a reduction in inflationary pressure. Prices rose much more slowly and employment fell in some industries. After increasing steadily in the years before 1953, prices soared and between that year and 1957 virtually doubled (see table 135 and figure IX). The forces affecting the balance of supply and demand in the economy have been as follows: (*a*) at times, exports, measured in dollars, have greatly exceeded imports, or *vice versa,* thus implying that the foreign trade sector generates more or less demand than it adds to the supply of goods; (*b*) exchange rates for various export commodities have fluctuated independently, and, particularly in the case of coffee, have greatly affected the size of personal incomes; (*c*) purchases of coffee for inventory have also tended at times to raise personal incomes; (*d*) sharp rises in wage in private industry have shifted the distribution of income in favour of wage-earners although subsequent price increases and adjustments to other incomes slowly restore the balance; (*e*) changes have occurred in the total Government deficit (including that of States and municipalities); (*f*) the pattern of capital investment, including that in private inventories, has altered considerably, although imports of equipment free of exchange cover or on medium term credit do not affect local savings. In some cases, monetary forces have influenced the course of investment. Finally, the supply of agricultural commodities to the local market (excluding exports) has affected the rate at which prices rise. When such supplies are increasing, the economy is better able to absorb increases in income. Another important factor has been fluctuation in agios, an effect rather than a cause of imbalance in the market. When demand far outstrips supply, agios rise and absorb some of the excess purchasing power.

Up to 1957, several of these forces were dominant at various times. This chapter attempts to show their inter-action. The change in the economic climate in 1957 was due to a reduction in coffee incomes while inventory investment switched from positive to negative and real wages fell. The year 1957 also witnessed a good

Table 135. Brazil: Indices of prices, 1952-57

(1948 = 100)

	Wholesale prices (Excluding coffee)	*Construction costs (Rio)*	*Retail prices (Rio)*[a]		*(São Paulo)*[b]
			(A)	*(B)*	
1952	147	134	140	150	133
1953	169	148	157	172	162
1954	213	180	190	210	190
1955	252	212	233	259	226
1956	307	256	280	313	275
1957	352	303	322	365	326
1954 1st quarter	192	159	175	...	173
2nd „	204	168	185	...	189
3rd „	217	185	192	...	196
4th „	229	204	206	...	203
1955 1st „	239	203	219	...	203
2nd „	245	206	229	...	223
3rd „	256	214	236	...	230
4th „	268	224	249	...	238
1956 1st „	275	234	266	293	253
2nd „	296	238	271	299	265
3rd „	319	264	285	316	282
4th „	338	287	300	333	300
1957 1st „	357	303	315	351	313
2nd „	348	305	319	357	324
3rd „	351	302	322	363	329
4th „	353	303	332	376	339

Source: Conjuntura Econômica.

[a] The *Conjuntura* index referred in its form (A) to the cost of a clerical workers' budget. The rent component was virtually immobile. (Conceptually this meant that it showed the change in the cost of a budget of a family which has remained in the same rent-controlled premises since 1948.) The new version (B) refers to a working-class family (defined as one with a salary of less than 15,000 cruzeiros), and allows for changes in rent. (See *Conjuntura Econômica,* Ano XII, No. 2 and No. 4.)

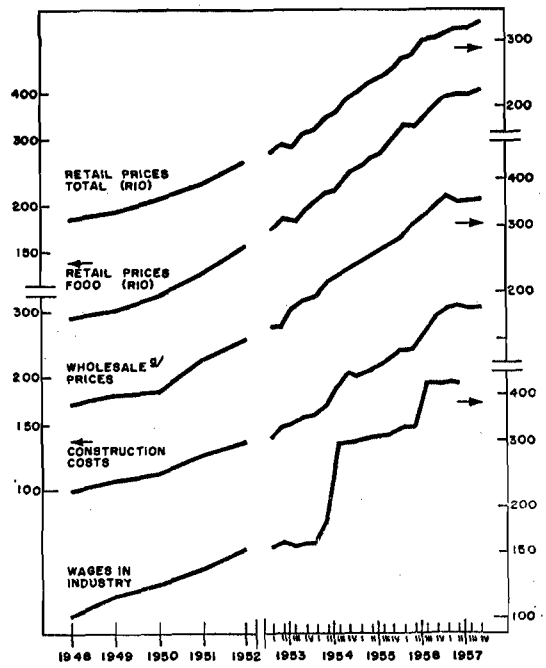
[b] Index of the São Paulo Municipality, converted from a 1951 to a 1948 base but keeping the same weights. This index refers to the cost of a working-class budget of 1939.

Figure IX

BRAZIL: PRICE INDICES, 1948-57

(1848 = 100)

Semi-logarithmic scale



[a] Excluding coffee.

harvest. But, in the closing months of the year, coffee incomes rose substantially because the Government had guaranteed a higher cruzeiro price on a much bigger crop, and fixed-capital investment continued to advance. Inflationary influences seemed once more to be gaining ground.

1. The period of rapid inflation (1953-56)[36]

It appears that this period realy began when, at the end of 1953, the Government granted what is known as a "bonus" on the exchange rate for exports of primary commodities, raising it from 18.36 to 23.36 cruzeiros to the dollar.[37] This occurred during the early stages of a sharp rise in the world prices of both cacao and coffee. In August 1954, there was another increase in the exchange rate for coffee: in order to discourage "under-invoicing", exporters were paid the foreign exchange they would have obtained had they sold 20 per cent of the dollar proceeds on the free market.[38] Since the free-market rate was then moving in the range of 65 to 70 cruzeiros, this meant that exporters could in fact obtain altogether 31 to 33 cruzeiros for each dollar they received.[39] The average cruzeiro price of coffee virtually doubled between 1953 and 1954, and the cruzeiro price of cacao went up even more sharply. In the case of cotton, the exportable surplus rose. Although the coffee crop was low, the combined consequence of these developments was that the cruzeiro value of exports rose considerably: by about 10 000 million.

There are a number of ways in which this rise in cruzeiro income could have been absorbed without a price inflation. The balance of demand in the economy would not have been affected if there had been a corresponding increase in either the volume or the cruzeiro price of imports. A steep rise in the volume of imports was impossible, because the dollar earnings of exports hardly rose at all and foreign exchange reserves were low. There was some increase in imports in 1954, but mostly in the second half of the year, and mainly in capital equipment; it therefore did not absorb the excess purchasing power which accumulated in the opening months.

The cruzeiro price of imports rose. The agio system had been introduced in the closing months of 1953 and it yielded a net total of 28 000 million cruzeiros in 1954, as against 4 000 million in 1953, an increase of 24 000 million. Importers thus had to pay on the average about twice as much in cruzeiros for their goods as in 1953. The agios are similar in their effect to the imposition of heavy import duties, but with one important difference: they are paid not into the Treasury but into the *Banco do Brasil* and they therefore enable the Bank to expand its loans. In the course of 1954, the Bank's loans to local Governments, public enterprises and the general public rose by 25 000 million cruzeiros. They were covered partly by an increase in the note issue and partly by the acquisition of agios. This led to big increases in investment, which became highly profitable—especially investment in inventories—as prices rose. If the agios had been used to reduce the Government deficit or to finance Bank of Brazil advances to the Treasury, the effect of the introduction of a system of auctioning foreign exchange would have been to take over and sterilize profiits previously reaped by importers. However the agios were indirectly the main source of the expansion in public and private investment (see tables 136, 137 and 138).

The combination of increasing export incomes and investment, coming on top of an already inflationary situation, provided a wave of demand for more goods than local industry could supply. The pressure on food prices was particularly great: food output rose by 8 per cent between 1953 and 1954 (see table 139), but this rise was not nearly large enough to match the rise in incomes, and food prices soared from November 1953.

At the same time there was a tendency for wage-rates to be raised. Prosperity in the export industries led to general increases in agricultural wages, and the rise in prices, especially of food, had reduced real incomes in the towns. The legal minimum wage was doubled in the middle of 1954, which gave a further fillip to demand. The Government deficit rose sharply because of the increase in civil service pay, and manufacturing wages temporarily advanced more rapidly than retail prices.

In the second half of 1954, the prices of cacao and coffee declined, as also did the volume of cotton exports, but the

[36] This refers mainly to the high-income area near the coast in the South-East: the States of Minas Gerais and São Paulo, together will the Federal District. Because of the dependence of some regions on particular crops and because of poor communications, the experience of other parts of the country may well be quite different. Outside this area it is difficult to assess movements in retail prices. (The Ministry of Labour indices are constructed on a geometric-mean weighting system and thus do not permit assessment of changes in the cost of a fixed "basket" of goods).

[37] This rate was none the less a good deal lower than either the exchange rate on the free market or the exchange rate for imports (including agios).

[38] A similar provision had applied from February to October 1953.

[39] This second step mattered less than might be imagined, because exporters were already exchanging part of their receipts on the free market.

Table 136. Brazil: Total assets and liabilities of monetary authorities, 1952-57

(Thousand of millions of cruzeiros at end of month)

	Dec. 1952	Dec. 1953	Dec. 1954	Dec. 1955	June 1956	Dec. 1956	June 1957	Dec. 1957
Assets								
Foreign exchange reserves (net)	6	7	2	3	5	5	2	3
Advances to Treasury	22	27	34	42	52	66	77	105
Loans to local Goverments and public enterprises	7	9	16	15	17	19	18	19
Loans to other banks	8	11	12	13	12	14	13	13
Loans to public	37	42	60	69	70	80	86	98
Miscellaneous	7	5	4	2	2	3	7	6
Inventories on Government account	—	—	3	9	10	10	12	22
Total	86	101	132	156	168	198	214	265
Liabilities								
Money issued	37	44	56	65	70	78	80	93
Deposits of Treasury, local Governments and public enterprises	10	8	9	9	7	12	12	18
Deposits of other banks	11	13	14	17	16	21	20	39
Deposits of public[a]	12	13	15	16	17	20	21	21
Miscellaneous	9	12	9	9	8	6	6	13
Holding of agios[b]	—	2	18	26	33	44	55	60
Net balance	7	9	11	15	16	18	19	22
Total	86	101	132	156	168	198	214	266

Source: Department of Currency and Credit, *Boletim*.
[a] Including some deposits of public enterprises at long-term, etc.
[b] Net of "bonuses" paid out.

Table 137. Brazil: Investment, 1953-57

(Thousands of millions of cruzeiros)

	1953	1954	1955	1956	1957[a]
Fixed capital formation					
—Government	15	20	20	25	36
—Private, construction	21	26	26	32	37
—Private, construction	24	40	41	57	75
Total	60	86	88	113	147
Investment in inventories					
—Government	— 3	2	—	—	20
—Private[b]	8	13	7	15	
Total	5	15	7	15	20
Surplus (+) or deficit (—) on current account of foregn transactions	+ 1	— 4	— 2	—20	—21
Total investment requiring local finance	65	98	92	108	147
Depreciation privision	—22	—28	—34	—45	—53
Net demand on local finance.	44	69	58	63	92

Source: Brazilian Institute of Economics, National Income Unit *(Fundaçao Gertulio Vargas)*.
[a] Provisional.
[b] Excluding retail and certain other inventories.

Table 138. Brazil: Total assets and liabilities of commercial banks, 1952-57

(Thousands of millions of cruzeiros at end of month)

	Dec. 1952	Dec. 1953	Dec. 1954	Dec. 1955	June 1956	Dec. 1956	June 1957	Dec. 1957
Assets								
Cash	6	6	7	8	10	10	10	12
Free deposits with monetary authorities	10	10	12	15	14	16	15	27
Deposits for SUMOC account	3	3	4	4	5	6	8	14
Loans to public and discounted bills	71	85	99	111	126	134	149	168
Miscellaneous	12	12	18	21	23	28	30	35
Total	102	116	140	159	178	194	212	256
Liabilities								
Capital and reserves	13	14	16	19	21	24	27	29
Current deposits	60	71	85	102	118	127	141	176
Time deposits	17	18	20	20	21	21	22	24
Owed to monetary authorities	8	9	11	11	10	12	11	12
Miscellaneous	4	4	8	7	9	10	12	14
Total	102	116	140	159	178	194	212	256

Source: Information provided by the Department of Currency and Credit.

Table 139. Brazil: Volume of agricultural output for local consumption, 1953-57[a]

(1950 = 100)

	1953	1954	1955	1956	1957
Food	108	117	123	127	133
Raw materials	103	112	115	110	113

Source: Statistics published by the Production Statistics Services *(Serviço de Estatística da Produçao)* of the Ministry of Agriculture, arranged as an index by ECLA. Weighted by 1950 prices.

[a] Excluding export crops (coffee, cacao, cotton, etc.).

internal impact of this decline was mitigated by changes in exchange rates. In the case of coffee, a fixed "bonus" was re-introduced in January 1955, making a total exchange rate of 31.50 cruzeiros to the dollar,[40] and none of the proceeds were allowed to be converted on the free market. A few days later the rate was increased to 37.06 cruzeiros. This meant that the cruzeiro price remained near the levels reached in mid-1954 (see figure X). The cruzeiro proceeds from coffee exports therefore rose between the crop years 1953/54 and 1954/55 despite a fall in the volume exported.

	1953/54	1954/55	1955/56	1956/57
Value of coffee exports *(thousands of millions of cruzeiros)*[41]	25	26	36	34

Moreover, the Government itself bought coffee and withheld it from the market during this crop year. The cost was 9 000 million cruzeiros, so that altogether coffee incomes rose from 25 000 million to 35 000 million cruzeiros. Large adjustments were also made in the exchange rates for other exports.

[40] Exporters to countries with inconvertible currencies henceforth had to sell foreign exchange at slightly lower rates. For example, the rate for such countries, corresponding to 31.50 cruzeiros for the dollar area, was equivalent to 30.22 cruzeiros per dollar. (The definition of "convertible" was later extended to cover the "Hague Club" and other countries.)

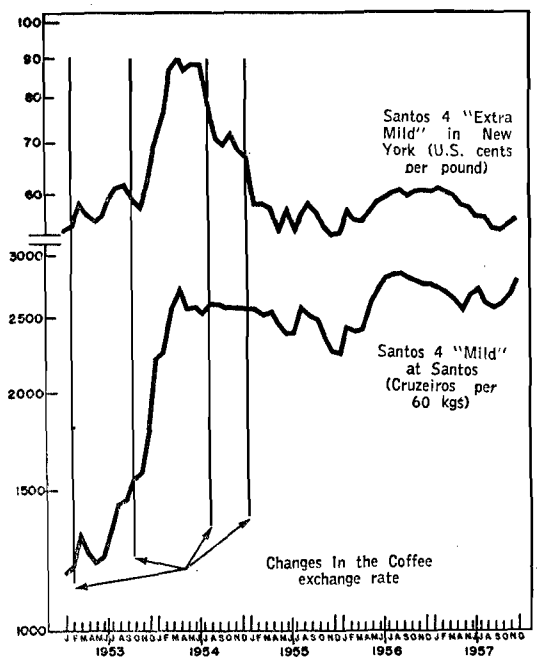
[41] These figures do not cover cruzeiro receipts for free-market dollar sales whether legally (as in 1953-54 and 1954-55) or as a result of under-invoicing.

Yet certain forces were tending to reduce demand at the end of 1954. The first effect of the big increase in wages in the middle of 1954 had been to change the distribution of income in favour of wage-earners, because prices did not respond at once to the increase. But, as the months went past, the prices of manufactures in the shops went up, reflecting the increase in wage costs in industry, and farm

Figure X

BRAZIL: COFFEE PRICES IN UNITED STATES AND BRAZILIAN CURRENCIES, 1953-57

Semi-logarithmic scale



NOTE: From February 1953 to October 1953 and from August 1954 to January 1955, exporters were allowed to sell some foreign exchange on the free market, so the exchange rate fluctuated slightly in these periods.

prices continued to rise rapidly in response to the increase in incomes. So the distribution of income swung away from wage-earners. Secondly, the Government imposed a stricter monetary policy. SUMOC Instruction 108 of October 1954 compelled commercial banks to place 50 per cent of any increases in their deposits over previous maximum levels to the account of SUMOC in the *Banco do Brasil*. The Bank also reduced its own loan and rediscount facilities, and raised the rediscount rate from 6 to 8 per cent. The fact that part of their deposits was frozen in a blocked account prevented banks from increasing their loans. Investment, especially in plant and equipment and in private inventories. was therefore temporarily checked.

The price indices show a definite decline in the pace of inflation in early 1955. In may of this year, however, monetary policy was reversed. Instruction 108 was repealed and the rediscount rate was reduced, with the result that commercial banks expanded their loans once more. In its place, a milder instruction merely required 6 per cent of demand deposits, and 3 per cent of time deposits to be kept with the *Banco do Brasil*. In 1955, the Government deficit also rose somewhat. Moreover, supplies of consumer goods did not increase. Food output rose by 5 per cent but imports fell, though this was partly an offset to the decline in investment. Later in the year, coffee incomes rose again, but this time it was not because of a change in dollar prices. In fact, the average price in New York fell slightly but the crop was good. About 3.5 million bags went into private inventories and nearly 1 million into Government inventories. Allowing for these developments, coffee incomes rose from about 35 000 million cruzeiros in 1954-55 to 47 000 million cruzeiros in 1955-56. With all these stimuli, the general price level advanced more rapidly at the end of the year. There were two brakes on this rise: firstly, the excessive demand meant increasing agios (see table 133); and, secondly, it meant rising profits and thus an income distribution increasingly unfavourable to the demand for consumer goods. (The important role played by profits in financing investment is indicated by table 140).

In many respects 1956 showed the same development as 1954. The year opened with the effects of the rise in export incomes pervading the economy, while imports were strictly limited. Exchange rates for exports other than coffee were adjusted upward. Prices were rising steeply and, credit being fairly freely available, cumulative inflationary tendencies were encouraged. Investment started to grow more rapidly again with special Government assistance for many of the basic industries.[42] In the midle of the year, there was another marked rise in the general wage level,[43] which increased the budget deficit and caused a further round of price rises. An additional impetus to prices was the bad harvest, especially for industrial materials such as cotton. Moreover, at the end of the year, as at the end of 1954, excess demand tended to dwindle. Imports increased again; as prices rose, the real value of wages started to fall; and a tighter monetary policy was adopted. Under SUMOC Instruction 135 issued in July, banks had to deposit in a blocked account 40 per cent of the increase in their deposits over a previous maximum.[44] But this instruction was less stringent than Instruction 108 had been.

Table 140. Brazil: Savings and investment account, 1955

(Thousands of millions of cruzeiros)

Savings		*Investment*	
Undistributed profits (including provision for depreciation)	65	Private fixed capital formation	67
Personal savings[a]	7	Government fixed capital formation	20
Agios minus bonuses	10	Increase in inventories[d]	7
Government current surplus[b]	8		
Deficit on current account of goods and services	2		
Errors and omissions[c]	2		
Total	94	Total	94

Source: Revista Brasileira de Economia, Tenth Year, No. 4.
[a] Through institutions.
[b] Including surplus of social security fund and balances of State and municipal Governments, but excluding all capital expenditures.
[c] Including personal savings, other than through institutions.
[d] Excluding retail and certain other inventories.

2. The slowing down in price inflation in 1957

The disinflationary forces in the economy turned out to be stronger in 1957 than in 1955. There was one major difference between the second half of 1954 and the second half of 1956: coffee incomes fell. Dollar (and cruzeiro) prices rose slightly, but the coffee crop of 1956-57 was very small. The fall in exports valued in cruzeiros was only moderate—about 2 500 million—but in this crop year exports included 3.5 million bags of the coffee which exporters had added to their stocks in the previous year. The actual income of the coffee sector was thus much less than the value of exports and fell by more than 20 000 million cruzeiros from the levels of 1955-56.[45]

Public finance was also slightly less inflationary. The national budget deficit, which had been 35 000 million cruzeiros in 1956, was reduced to about 32 000 million cruzeiros in 1957, partly because of increases in corporate taxes dating from 1 January, which yielded about 3 000 million cruzeiros, and partly because revenue and incomes rose simultaneously. São Paulo State continued to show a small surplus in its public finance and the Federal District's deficit was eliminated.

It is true that capital expenditure increased between 1956 and 1957 in petroleum development, road-building, rail transport and electricity, but these rises were partly or wholly financed by the increase in the fuel tax in January 1957, which was earmarked for road-building, and the rise in rail fares and electricity tariffs which had been authorized in 1956. Most important of all, much of the increase in investment represented a rise in imports of capital equipment and thus caused little extra strain on the local economy. Supplies of imported consumer goods were increased, although exports declined. Domestic food supplies also rose: rice by 17 per cent, maize by 10 per cent, beans by 21 per cent, meat by 5 per cent and milk by 9 per cent, as compared with 1956.

The economic climate therefore completely changed between mid-1956 and mid-1957. The general price rise slow-

[42] See section III of this chapter.
[43] Ranging from 50 per cent in Belo Horizonte to 183 per cent in Belem.
[44] Subject to the provision that the amount held in the blocked account need not exceed the sum of 14 per cent of current deposits and 7 per cent of time deposits.
[45] Coffee inventories rose on farms in the second half of the crop year but farmers had difficulty in financing them, despite Government help, and this rise had little impact on purchasing power.

ed down virtually to a halt. It can be argued that the slowing-down in the rate at which the indices advanced may exaggerate somewhat the transformation in the fundamental balance of the market. The prices of many items were controlled (and had already been substantially increased during 1956). Moreover, the prices of manufactures had more or less fully absorbed the wage increases of the previous year and would have levelled off anyway in the absence of further increases in the cost of labour. But there are other indicators which are also singnificant. Agios paid at exchange auctions declined in the first half of the year and business failures increased substantially. It is also believed that unemployment increased.

As the pressure of excess demand in the economy eased and price increases slowed down, certain cumulative forces, which had sustained the inflationary process, also disappeared. Inventory accumulation showed some signs at the end of the year of being greater than intended, and a wave of liquidation of inventories passed through the economy from retail outlets to the factories (see Statistical Appendix).

It appears that wholesale inventories had declined in the second quarter of 1956, relative to sales, in nearly all branches of business.[46] This was probably due to an acceleration of deliveries to retailers in response to the general inflationary outlook, especially in anticipation of the wave of wage increases which was then starting. During the third quarter of 1956, retail sales failed to expand as much as had been expected, while goods were still flowing into the shops rapidly in response to previous orders. Retailers reduced their orders and wholesale inventories then rose.[47] Commodities which were particularly affected included clothing, food, beverages and tobacco, chemical products and the "machinery" group (consisting in large part of consumer durables). The textile and clothing wholesalers were in a specially difficult position, with record inventories left in their hands when the Christmas season was past and orders coming in slowly.

In 1957, textile inventories levelled off and then declined. But there were marked rises in other wholesale inventories, and total inventories reached nearly two months' sales in March, a figure which was maintained in June. It can be inferred that in many cases these inventories were excessive, and the total covered by the inquiry was reduced from 36 700 million cruzeiros in June to 34 700 million in September. If the half of wholesaling not covered by the sample showed a similar movement (and the smaller firms must in fact have been subject to even greater pressure to trim their inventories), the total decline was of the order of 4 000 million cruzeiros in the quarter —equivalent to a disinvestment of 16 000 million cruzeiros at an annual rate. This had a considerable downward impact on economic activity, especially coming on top of a period of inventory accumulation,[48] and helped to restrain the price level at a time when other forces, notably a bigger coffee crop, were tending to promote excess demand once more. Since sales were now increasing again, inventories were brought rapidly into a better relation to sales and this small inventory cycle appeared to be over by the end of the year.

A similar development can be seen in manufacturers' inventories, though perhaps less extensive (only the consumers' goods industries appeared to be affected) and somewhat later. For many items, including clothing and textiles, inventories appeared to be still excessive in September and liquidation, which was milder than for wholesale inventories, came only in the fourth quarter.[49] No doubt it was precisely the attempt of wholesalers to reduce their inventories which made it difficult for manufacturers to do so earlier.[50] Yet ratios at the end of the year indicated that by then inventories were once more in line with sales (see figure XI).

Changes in industrial production will be discussed in section III. For the present, suffice it to say that this process caused stagnation in the level of output in many consumer goods industries and a fall in others. With capacity growing, one consequence was excess capacity in these industries and a downward pressure on profit margins, at the same time as inventories become rather heavy in relation to sales. Another consequence was that the total wage payments by manufacturing industry levelled off, and this tended to check any recovery in consumption. For all these reasons, there was no marked recovery of inflationary pressures in the first three quarters of the year.

[46] These figures are taken from the *Inquéritos Econômicos*, a survey covering the major firms in the larger municipalities. It appears that the firms in question were responsible for about half the total employment in both manufacturing and wholesaling in 1956 and 1957, though the fraction varies greatly from industry to industry. The results should be used with caution, since the coverage of the inquiries from which they are derived expands from year to year, partly because of an increase in the number of businesses and partly because of more complete coverage of the businesses already in existence. Moreover, during the year there was a loss of some firms from the sample; and while those which dropped out have been entirely eliminated from the annual reports on the months of 1955 and 1956, this has not yet been done for 1957, which therefore has a coverage varying slightly from month to month. Again, there is little information available on the accounting principles used in valuing inventories. At a time when a price rise comes to a halt, the value of inventories of firms using "first-in-first-out" principles will still continue to rise, whereas the value of inventories using a "last-in-first-out" system will stop rising. The first difficulty can be overcome to some extent by working mainly in inventory-sales ratios, since these would not be very sensitive to changes in the composition of the survey.

[47] Total wholesale inventories in December were not out of line with sales and a seasonal fall occurred in the inventory-sales ratios for all types of business, such as is customary in other countries (and happened in Brazil at the end of 1955 and 1957, the only other years for which monthly inventory figures are available). But it can be seen that a big rise in sales and a decline in inventories both occurred in 1956 in one type of business: fuel wholesaling. This can be attributed to anticipation of the increases in prices which were to come into effect on 1 January 1957, a few hours after inventories were valued. Throughout the economy, people were storing fuel past the point at which taxes would be levied, so that wholesalers' inventories were partly shifted into lorry depots, motorcar tanks, etc. In most other trades, the seasonal decline in inventory-sales ratios failed to occur, and there were significant increases for many commodities.

[48] It is very likely that there was a similar movement in retail inventories at the end of 1956, but no statistics are available on this.

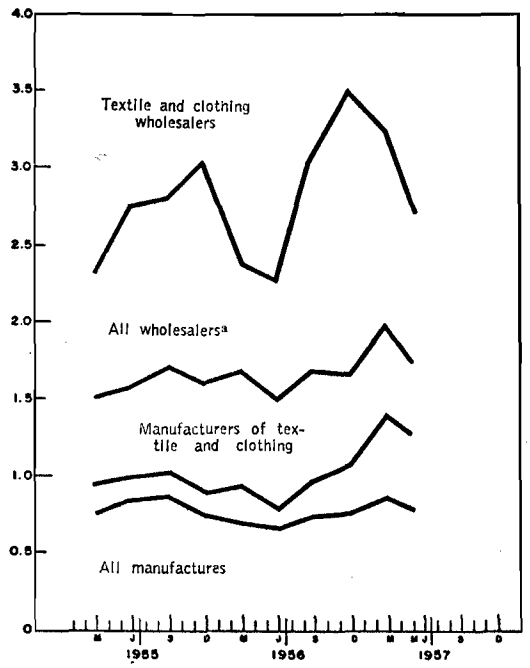
[49] It may appear from Appendix table II that manufacturers' inventories were not out of line with sales in 1957—particularly by comparison with 1955. However, the ratio has dropped sharply for vehicles between 1955 and 1957, and this may be due to the change of coverage. The number of firms covered by the inquiry in this group rose from 9 in 1955 to 43 in 1956, apparently because a number of firms producing sub-assemblies were brought in. For other industries, especially the lighter ones, inventory-sales ratios were appreciably higher in 1957 than in 1955.

[50] On the tacit assumption that all wholesalers' supplies are obtained from local industry. Part—especially in some lines—is also imported, and one of the consequences of this process was a decline in the demand for imports and a fall in agios. It is also assumed —and this was not strictly true—that all the extra accumulation was involuntary.

Figure XI

BRAZIL: INVENTORY-SALES RATIOS, 1955-57

Natural scale



[a] Excluding fuel.

3. The significance of Instruction 135

There is a tendency to ascribe the change in economic climate in 1957 to monetary factors and especially to Instruction 135. This instruction has not in fact stopped the expansion of bank credit for a number of reasons. Firstly, it appears that commercial banks had some excess cash in the middle of 1956, and the addition of cash to the blocked account was achieved partly by expanding freely spendable cash more slowly than advances.[51] Secondly, the sums set aside under the instruction could include not only cash but also securities, such as Treasury bills, and certain agricultural loans. For these two reasons, the rise in commercial bank loans to the public in the first half of 1957 was about the same as in the first half of 1956 (15 000 million cruzeiros) and was approximately proportionate to the rise in deposits.

The development of the banking system in the second half of 1957 was rather curious. Deposits increased rapidly after August (see table 138). This no doubt reflected the heavy currency issues made by the *Banco do Brasil* for three purposes: to finance the Federal budget deficit, to purchase coffee for inventory, and to expand loans to the public. There was thus also a sharp increase in the amounts the banks had to place in the blocked accounts. They did not, however, make full use of their power to lend the remainder to the public. Loans to the public did rise, and at a slightly faster rate, but a large fraction of the increase in deposits was held liquid in unblocked accounts at the *Banco do Brasil*. The commercial banks' ratio of liquid assets to deposits, which had been about 19 per cent for some time, suddenly rose to 22 per cent. In this period, therefore, Instruction 135 was quite crearly not restraining bank advances.[52]

Moreover, it must be borne in mind that Instruction 135 does not apply to the biggest commercial bank, the *Banco do Brasil* itself, which, besides being the banker to the Government, Brazil's rediscount house and the source of the note issue, also indulges in ordinary commercial banking operations through its branches throughout the country.[53] *Banco do Brasil* loans to the public grew rapidly after Instruction 135 was issued (see table 136). They had only risen by 1 000 million cruzeiros in the first half of 1956: in the second half of the year they rose by 10 000 million cruzeiros[54] and this was followed by a rise of 6 000 million in the first half of 1957, and an expansion of no less than 12 000 million in the second half of the year. The increase at the end of 1956 was partly due to seasonal reasons, such as the Christmas trade, and it could be argued that it was in smaller proportion than the price rise, but in 1957 loans by the *Banco do Brasil* rose much faster than prices. The total loans by this bank to the public have risen about 40 per cent since Instruction 135 was introduced. Finally, as will be seen in section III, important basic industries have their own financial resources and have been protected in various ways against a shortage of credit. The instruction therefore only had a mild braking effect on bank credit and did little to check the rise in investment.[55]

Mention should also be made of two other influences on the money market. Firstly, the decision by the Government to issue 90-day Treasury bills, which might be expected to reduce the inflationary effect of the budget deficit, since they canot be included in the cash reserves of the banks. These bills have been used as one means of financing Government transfers to the States. However, since holdings of the bills are treated by SUMOC as an alternative means of satisfying the provisions of Instruction 135 and issues have not been great,[56] their effect on the money market has been very slight. Finally, at the end of 1957, a 30 000 million cruzeiro bond issue was authorized.

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[51] In June 1956, bankers had a total of nearly 7 000 million cruzeiros in cash (counting, as is permitted, the blocked deposits for the account of SUMOC) above the legal reserve requirements. It is true that most Brazilian banks find that they need to have actually on hand, *excluding* blocked reserves, a good deal more than they are legally required to have. The figures of "legal reserves" are of interest, therefore, mainly as a guide to the somewhat higher but unknown figures of what banks consider to be minimum working reserves. But banks were able to reduce this "excess" somewhat.

[52] An interesting aspect of these events is that, since the issue of money was accelerated, while the value of transactions rose only slowly, there was a sharp decline in the velocity of circulation at the end of 1957. So far from there being a shortage of cash, spare money was lying stagnant, so to speak, in the banks.

[53] Not to speak of its many other functions, such as managing exchange control, supervising settlement schemes for under-developed territories, financing official inventory operations, administering agricultural improvement schemes, e.g., for cacao, and acting as a supplementary Treasury by collecting agios and paying out bonuses on exports.

[54] In addition, rediscounting for the commercial banks rose by 2 000 million cruzeiros in the second half of 1956. This undoubtedly played a part in the expansion of commercial bank credit.

[55] Contrast recent experience with the actual halt in the expansion of bank credit during the earlier period of credit restriction, inaugurated by Instruction 108 at the end of 1954, which required 50 per cent of increases in deposits to be blocked, and was supported by a stiffer policy at the *Banco do Brasil*, including a higher rediscount rate.

[56] Commercial banks held less than 2 000 million cruzeiros, worth in the middle of August 1957, and ceased to buy them at the end of the year.

One interesting feature of this was that interest payments were guaranteed against rises in the price level.

While monetary restrictions appear to have been a marginal influence, combined with the fall in coffee incomes and the decline in the Government deficit, they led to a shortage of finance in some areas of the economy, particularly money to finance inventories, so rates of interest tended to rise.[57] This undoubtedly made business still more reluctant to hold inventories. The effect on inventory accumulation of a slower rise in prices is much greater if interest rates increase at the same time. The attitude to inventories is in fact transformed as soon as the expected rate of increase in prices *per annum* falls below the effective rate of interest, which it did in the opening weeks of 1957. A dealer then faces the prospect of losing more than he gains by borrowing to finance inventories.[58] The second sector in which there has been a noticeable shortage of finance has been that of residential construction, since the annual cost of mortgage payments is particularly sensitive to changes in the rate of interest. In so far as mortgages are financed at legal interest rates, private funds are difficult to obtain, and the mortgage market has to rely on the *Caixa Economica Federal* for much of its resources. This has played a part in slowing down the expansion of residential construction. Thirdly, the stringency in the capital market is contributing to the improved net inflow of private capital. On the one hand, foreign firms find they have to re-invest more of their profits, instead of remitting them abroad, and indeed in many cases they have to arrange for cash to be sent to them by head offices, and, on the other hand, Brazilian nationals have less spare capital to export.[59] But for this the cruzeiro would undoubtedly have weakened on the free market early in the year. Fourthly, since agios are paid for dollars at least 120 days before the exchange is provided, such agios represent a compulsory interest-free loan to the Government, which importers themselves have to finance. The security for such loans is not considered good in some cases, and dealers often have to go outside the organized money market for credit, but it is precisely for such capital that finance has become a good deal more expensive. The greater unwillingness of dealers to borrow is one of the factors that helped to reduce the prices of agios in the first half of 1957.

4. The new system of premiums for coffee

As has already been mentioned, the Government introduced a new premium scheme for coffee for the 1957-58 crop.[60] The basic principle is that for each dollar by which the f.o.b. export price of any grade of coffee exceeds 42 dollars per 60-kg bag, a premium of 1 per cent is paid. One purpose of the scheme is to encourage the improvement of quality, which is to some extent under the control of the farm, because it is partly a question of cleaning. In order to show how the premium varies according to quality, table 141 uses the support prices[61] which were set by the Brazilian Coffee Institute in another resolution (No. 80) at the start of the season.

Table 141. Brazil: Coffee export prices, premiums and buying prices (1957/58 crop)

Coffee type	*F.o.b. export price[a] (Cruzeiros per 60 kg)*	*Premium (Percentage)*	*Corresponding buying price[a] (Cruzeiros per 60 kg)*
4 "Soft"	2 470	31	3 300
4 "Strong"	2 260	25	2 880
4 Rio (Santos style)	1 970	17	2 340
7 Rio	1 570	6	1 680
7/8 Rio (at Vitoria)	1 460	3	1 500

Source: Calculation by ECLA based on information provided by the Brazilian Coffee Institute.
[a] Excluding commission and charges.

Table 141 shows how the sliding scale of premiums extends the range of prices, so that what starts as a difference in export price of about 1 000 cruzeiros per bag between type 4 "soft" and type 7/8 Rio (at Vitoria) becomes a difference of 1 800 cruzeiros when allowance is made for the premium.[62]

A second objective has also been achieved by the sliding premium. "Under-invoicing" has become very much less profitable, because an exporter who under-invoices loses part of the premium.[63]

But there are certain other aspects of this new system. In the first place, it increases the cruzeiro income of the coffee sector. In fact, so far as Santos 4 is concerned, the effect is the same as if the price of "strictly soft" on the New York Coffee Exchange jumped to over 70 cents a pound. Again, much larger quantities are being exported this year, and the Government has set a minimum export price which it is maintaining by buying for inventory. The annual income of the coffee sector will therefore rise from under 30 000 million cruzeiros in 1956-57 to over 50 000 million cruzeiros in 1957-58, even if there is no rise in the New York market price of coffee.[64]

[57] Brazil still has a legal maximum to interest rates of 12 per cent. This can be increased by expenses, commissions, etc., but the effect of this law is to make interest rates in the organized money market rather inflexible. In the other hand, interest rates outside this market are correspondingly more volatile.

[58] Alternatively, if he has the finance, he can use it more profitably by lending it than by carrying inventories.

[59] In particular, import dealers found it necessary to sell promptly the foreign currency acquired through under-invoicing imports of Categories 4 and 5 under the old system.

[60] The scheme is outlined in the resolution putting it into effect—resolution 81 of the Brazilian Coffee Institute (21 June 1957).

[61] I.e., prices at which the Institute is prepared to buy. These are slightly below the minimum export prices. (For example, the minimum export price for Santos 4 "soft" is 2 520 cruzeiros per bag; and the relevant premium is 32 per cent.).

[62] As an additional move to improve quality, it has been announced that type 8 coffee will not be registered for export after the end of June 1958.

[63] For example, an exporter selling Santos 4, "soft" at 56 cents a pound and invoicing it as "strong" at 51 cents a pound, would have converted the extra 5 cents in the free market, which would have brought him a net gain of 285 cruzeiros per bag, assuming the free-market dollar was worth 80 cruzeiros. Under the new system, however, his premium would be about 240 cruzeiros a bag lower, in these circumstances, as a result of under-invoicing. The net gain would hardly be worthwhile. But now that the free-market cruzeiro has passed 100 to the dollar, the prospective gain from under-invoicing has become attractive once again. (The lack of dollar sales by coffee exporters has been a major reason for the weakness of the free-market cruzeiro.) On the other hand, it is difficult for an exporter to achieve net under-invoicing, because while he may declare a lower grade than the true one, he probably has to exaggerate the price of this grade in order to show that he is exporting at the minimum permitted price.

[64] On the other hand, the cruzeiro income of the coffee sector in 1956-57 was increased by under-invoicing. In 1957-58 this practice is less common, and there may have been some over-invoicing. So the rise in cruzeiro income is not quite as great as it seems at

This new system must also be considered as a structural modification of the way in which the Brazilian economy responds to changes in the coffee market, because it would tend to accelerate fluctuations in world coffee prices as they passed into the internal economy. If world prices rose (above the minimum export prices), the sliding premium would ensure that cruzeiro prices would increase more rapidly than dollar prices. Thus, an increase of 20 per cent in the dollar price would raise the cruzeiro price by 30 per cent, because of the automatic adjustment to the premium. Conversely, if the dollar price fell back—so long as it did not reach the "floor"—the fall in the cruzeiro price would be faster, assuming that the authorities permitted it to decline. This change in the economic mechanism makes Brazil's problems appear somewhat more intractable, because the very development that would ease the pressure on the balance of payments, namely a sharp improvement in world coffee prices, would cause the premium to rise and release a large amount of cruzeiro purchasing power, accelerating the internal price rise and causing a big increase in the demand for imports.[64a]

The effect of the new system on long-run trends must also be taken into account. Previous experience suggests that, after an improvement in the coffee market comes to an end, the cruzeiro price is not in fact allowed to fall back. What might be described as a "ratchet" effect seems to be in operation: the cruzeiro price is allowed to swing upward but not to decline greatly.[65] If the authorities continue to try to avoid a fall in cruzeiro coffee prices, these prices could develop a fast upward trend under the new system.[66]

Finally, the establishment of a support price at a higher cruzeiro level (because of the premium) than previously, tends to encourage coffee planting to some extent, which may not be desirable in view of Brazil's dependence on this crop and of the long-term outlook for the coffee market.

To summarize, considered as a static system, the new premium scheme has two advantages: it encourages improvement of quality and it discourages under-invoicing. But it also greatly increases the income of the coffee sector and encourages planting. Further, when considered in dynamic terms, it has certain other disadvantages in that it tends to destabilize coffee incomes and to encourage a faster upward trend in coffee income than would otherwise occur.

first sight. (It should also be borne in mind that the cruzeiro price of coffee had not changed greatly for three years and that the real income of the coffee farmers fell substantially after the big increase in 1954.)

[64a] One rather curious feature of this system is the fact that the coffee cruzeiro would tend to be increasingly devalued, the higher the world price of coffee, and *vice versa.*

[65] This means that the rate of price inflation in Brazil depends more on the range of fluctuations in the world coffee price than on the trend in the price.

[66] Suppose the authorities were to adjust the basic exchange rate for coffee upward when the dollar price slipped back appreciably. In order to prevent a fall in the cruzeiro incomes of those exporting the better grades, it would be necessary to increase the basic rate by proportionately more than the fall in the world price, because the cruzeiro price would tend to fall faster than the dollar price. A platform would then be created from which the cruzeiro price would once more spring upward in response to the next rise in the dollar price. So the cruzeiro price would rise relative to the world coffee price both when the latter rose and also when it fell.

5. THE CURRENT OUTLOOK

The position at the opening of 1958 resembles that of the years of hearvy excess demand, 1954 and 1956, rather than that of 1955 and 1957, which saw some reduction in inflationary pressure. A considerable increase has taken place in cruzeiro export incomes, due in part to the new premium and in part to the change from a poor crop, with a reduction in inventories in Brazil, to a good crop, involving the accumulation of inventories. It should be noted that the finance required, both for Government inventory-building and also for the new premium payments, is provided by the *Banco do Brasil,* not the Government. There has so far been no attempt on the part of the Government to nullify the rise in coffee incomes by fiscal action that would reduce its intrinsically inflationary impact. There were also some wage increases, especially in São Paulo.

At first sight, an offsetting force might be expected in the intended reduction of the budget deficit from 32 000 million to 10 000 million cruzeiros. The prospective improvement is to be achieved by two main methods. Firstly, higher receipts are expected from the new tariffs. It has been argued above, however, that these receipts would be balanced by a correspondingly lower level of agios. The new tariff will therefore not be a subtraction from the public's purchasing power: it will be revenue transferred from the *Banco do Brasil,* which receives the agio, to the Treasury, involving little or no reduction of consumer demand.[67] Secondly, the Government is relying on a rise in other revenue in 1958 as a result of the expansion of incomes. It is assumed that the national product is still continuing to grow at the recent rate of 25 per cent *per annum* at current prices.[68] This is tantamount to assuming a continued rise in prices of some 20 per cent *per annum.* On the expenditure side of the budget, it is assumed that rates of salaries and wages will *not* rise. If price inflation is renewed in 1958, there will be considerable pressure for another rise in civil service salaries and wages, which, as in 1954 and 1956, might well cause expenditure to jump sharply and widen the Government deficit. It is true that the Government is trying to make additional economies, but this attempt is hampered by the fact that a large fraction (over a third) of revenue is earmarked at source for various purposes.[69] The public sector may therefore tend to increase rather than reduce excess demand in the economy in 1958.

[67] In one minor respect the change increased inflationary pressure. Since an agio on dollar imports has to be paid at least 120 days in advance, while the customs duty is paid on arrival of the commodity, the conversion of agios into customs duties temporarily reduced the demand for cash to finance such imports. But this affected only the period between the last agio under the previous system and the time when nearly all imports were covered by agios under the new system i.e., September 1957 to January 1958. This shift in time of the burden of financing imports was equivalent to an injection of credit amounting to some 2 000 million cruzeiros. Although this is not a large amount, its effect on the money market was not negligible.

[68] *Mensagem do Presidente da República ao Congreso Nacional apresentado a Proposta Orçamentaria para o Exercicio do 1958.* pp. XXI to XXIII. In this message, a balanced budget was proposed at a somewhat lower level, but since then both sides of the Budget, especially the expenditure side, have been revised upwards. The yield expected from the new tariff has risen from 10 000 million to 15 000 million cruzeiros.

[69] Revenue bills commonly specify that part of the proceeds are to be used for particular purposes. (Thus a percentage of the new customs duties will be distributed among customs staff.)

Capital investment in also continuing to increase for reasons to be explained in section III. Investment in the basic industries is rising, and so is investment in the heavy industries under Instruction 113. Yet this does not have a great impact on the general stability of the economy, since much of the increase represents a rise in imports of equipment. A more important immediate influence is that public works, such as road-building and the development of Brazilia, are gaining momentum. Although investment in the light industries and house-building appears to be temporarily discouraged, both could soon recover if there were a general change in the economic climate. Finally, it seems likely that the period of disinvestment in inventories (at least in real terms) will be followed by a period in which inventories are maintained, if not increased.

One factor tending to stimulate private investment will be that the force of Instruction 135 will be further modified. It will be recalled that the compulsory holdings in the blocked account of the Department of Currency and Credit need amount to only 14 per cent of a bank's current deposits and 7 per cent of its time deposits. When this ratio is reached, it need only be maintained; consequently, not 40 per cent but slightly less than 14 per cent of the increase in deposits are thenceforth blocked. As more and more banks reach this position, the proportion of further increases in total deposits that are blocked will fall, and the banks will have more freedom to expand their loans. On the other hand, the new Government bond issue absorbs some of the cash lying at the base of the credit expansion. The bonds can be counted as part of the legal reserves of banks, which reduces their disinflationary effect, but the banks themselves may not treat them as fully liquid reserves and thus may make smaller advances than they would otherwise. The Executive has also requested power to raise the reserve requirements of banks.[69a]

While 1958 will see a renewed expansion of income, it may be impossible to increase, or even maintain, the supply of foreign currency to the auctions, because of the influences discussed in section I. This would mean that demand for home-produced goods would grow faster than income with a consequent pressure on the price level.

It may be noticed that several of the developments which are now beginning to influence the situation have the effect of increasing the strain on the *Banco do Brasil.* Its income from agios is being reduced, while simultaneously it has to finance additions to Government inventories of coffee and pay out the coffee premium. These Government decisions increasing official expenditure do so in a way that makes the *Banco do Brasil,* not the Treasury, spend more and at the same time part of the receipts of the *Banco do Brasil* are now flowing into the Treasury instead, which nevertheless will doubtless continue to need advances. Moreover, deposits by commercial banks under Instruction 135 may slow down. Yet the bank may well receive increasingly urgent requests to help finance increases in private investment, especially investment in inventories. One way of coping with all these pressures is to issue more notes.[70] There is no legal bar to this, since the Bank can issue notes against rediscounted bills, and, in a situation like the present, there is no shortage of bills for rediscounting.[71]

III. THE CHANGING BALANCE OF ECONOMIC DEVELOPMENT

Summary

Fixed-capital investment has been fairly heavy for several years and it rose further in 1957. Its composition also continued to change. The most rapid progress used to be made in the light industries manufacturing food, textiles and, at a later date, consumer durables. During the last few years, development programmes have been drawn up for the basic services of the economy —for petroleum, electricity, railways and roads. The Government has in various ways ensured that sufficient finance was available for these programmes. Within the private sector, development of industries producing steel, heavy chemicals and other materials has been rapid, partly with the help of foreign capital. The growth of industries manufacturing vehicles and capital equipment is now gaining momentum with special incentives from the Government. Import substitution is reaching increasingly into these fields.

This investment in the heavy industries has permitted a steady rise in their output. On the other hand, some of the light industries have been suffering from a decline in demand, for the reasons discussed in section II. The net effect has been that the rise in total manufacturing output apparently slowed down in 1956 and came to a halt in 1957. Agricultural output recovered from a setback in 1956 and continues to show a steadily upward trend, and mining output has risen steeply. Consequently, the national product now shows a somewhat better balance. Output is becoming relatively less dependent on imported supplies of materials and equipment.

1. Changes in the level and composition of investment

The Government has taken the initiative in seeing that the basic industries are expanded. Its main instrument for this has been the *Banco Nacional do Desenvolvimento Econômico,* which started operations in 1952. The bank has a variety of financial resources: a compulsory loan from income tax payers, amounting to 15 per cent of the tax liability;[72] a compulsory loan by insurance companies of a fraction of their reserves; part of the proceeds in cruzeiros of the sales of United States surplus wheat; a United States loan to cover imports of capital equipment; and certain indirect taxes earmarked for the construction of railways, electric power stations and roads. Interest rates charged by the Bank are never higher than 10 per cent. The chief industry drawing on the Bank has been the railways which can borrow at 8 per cent and which account for two-thirds of the credits approved.

A second common source of finance is the extensive medium-term credit that these industries, especially the electric power industry, obtain from overseas for the purpose of amortizing their equipment costs. The exchange rate relating to such credits (45 cruzeiros to the dollar) has been favourable, as provided for in Act 1807.

Each of these activities has other sources of finance too. The railways, for example, have obtained funds directly from the Government and also from the International Bank and the Export-Import Bank. Much of the loans remained unspent at the end of 1956, and with an increase of the Federal Government contribution (to over 4 000

[69a] The maximum permitted requirements, 14 per cent of current and 7 per cent of time deposits, were authorized by Act 7 923 (1945). Instruction 135 had set these levels and exhausted the powers of the Executive in this field. The Presidential message of April 1958 requested 24 per cent on demand and 12 per cent on time deposits as new limits to reserve requirements.

[70] The bond issue permits the currency issue to be reduced but this is a once-and-for-all effect.

[71] New currency is actually issued by the Rediscount Department *(Carteira de Rediscontos)* against bills presented by other departments.

[72] Excluding those with low incomes. The right to exact this loan was extended for a further 10 years at the end of 1956.

million cruzeiros in 1957), total investment in railways continued to rise. The railway system, previously uncoordinated, has now been forged into a single organization, the National Railways Network *(Rede Nacional Ferroviaria)* with a big investment programme.

Electricity enterprises have also obtained direct contributions from the Federal Government and loans from the Export-Import Bank, as well as the *Banco Nacional do Desenvolvimento Econômico*. In addition, they may draw on allocations from State Governments, many of which have levied special taxes for the purpose. The Federal Electricity Fund *(Fondo Federal de Eletricidade)* is financed from specified fractions of taxation on electricity, on consumption and on transfers of funds. In the case of electricity enterprises, another significant source of finance is the reinvestment of their own profits, which were increased in 1956 by the approval of new and much higher tariffs.

The road programme is largely financed by the taxation of fuel. Out of the federal fuel tax, 75 per cent goes directly into the Highways Fund *(Fondo Rodoviario)*, and the trebling of this tax at the beginning of 1957 meant an immediate and large increase in the resources available. Total federal finance of all kinds, including direct budgetary allocations for road-building, rose to no less than 15 000 million cruzeiros for 1957 in comparison with 5 000 million in 1956.[73] Part of the rise was absorbed in higher costs and, because of delays in starting new projects, not all of this sum was spent in 1957. But allowance must also be made for the rapidly growing expenditures of State and local Government on their own roads, amounting to several thousand million cruzeiros in 1957. Road-building is increasing in importance, both as a generator of incomes and as a factor transforming the structure of the Brazilian economy.

PETROBRAS, the chosen instrument for the expansion of the petroleum industry, obtains a contribution from private refineries towards its prospecting expenses and, until the end of 1957, it received the proceeds of a compulsory loan extracted from vehicle owners. It also obtains capital directly from the federal and State Governments against issues of securities, amounting to 4 000 million cruzeiros in both 1956 and 1957; and it has been able to build up large reserves out of undistributed profits.

Because of all these special financial resources, the basic industries have been able to proceed with their development programmes unhampered by the tightening of credit.

The Government is also responsible for stimulating investment in agriculture. Bank loans to agriculture increased rather slowly in the first half of 1956, especially by comparison with 1954, but even by comparison with 1955, when bank credit had been restricted. The Government took a number of special measures to increase the finance available. The first has already been described: Instruction 135, which allowed banks to expand agricultural credit as an alternative to paying money into the blocked account of the Department of Currency and Credit. Secondly, in September 1956, the *Banco do Brasil* announced that it would rediscount loans against certain crops.[74] Thirdly, a fund of 1 000 million cruzeiros was created for the rehabilitation of the cacao industry, and special credits were announced for new cotton planting. In the first nine months of 1957, direct loans made by the *Banco do Brasil* for agriculture, including livestock but excluding loans to finance coffee inventories, rose by over 5 000 million cruzeiros and those made by the commercial banks rose by 3 000 million, a total increase of 8 000 million, compared to 4 000 million in 1955 and 4 500 million in 1956. Altogether, the total rural credit of the banking system amounted to 43 000 million cruzeiros at the end of the year, an increase of 28 per cent over the end of 1956.

Other advantages enjoyed by agriculture include the right to import fertilizers at the "cost of exchange", guaranteed prices for several crops (including cacao which was added to the list of price-supported crops at the end of 1956), and an allocation of foreign exchange for tractor purchases outside the auction system for which a committee of the Ministry of Agriculture was made responsible at the end of 1956.

These measures to encourage investment are undoubtedly taking effect. The consumption of fertilizers which had been about 580 000 tons in 1954 and 1955, rose to 610 000 in 1956 and 670 000 in 1957.[74a] Imports of tractors increased from 5 000 in 1956 to 18 000 in 1957. Since the number of agricultural tractors at the end of 1956 is estimated at 50 000,[75] these imports meant a sizeable increase in the tractor park, and by the end of 1957 there was one tractor for about every 350 hectares under cultivation, as compared to one per 470 a year before.

The manufacturing industries have not, as a whole, enjoyed similar advantages. Some of them have suffered from the credit shortage, some from having to pay rather high prices for imported capital equipment and some from a decline in demand. Within the manufacturing sector, however, the heavy industries producing materials or equipment have continued their investment programmes.

In the case of the vehicle industry, demand is high because of the low level of imports in recent years and the market is protected. Vehicle import licences similar to those provided for in the industry's development plan are no longer being issued. Furthermore, imports of equipment and materials are allowed in at a preferential rate. Considerable tooling-up is involved in the expansion plan. Most of the finance for the investment in manufacturing capacity comes from foreign companies, partly as re-investment of the proceeds of previous assembly operations, partly in the form of capital equipment imported under Act 1807 or Instruction 113 and partly as free-market transfer of cash. There is also considerable investment in the firms producing parts and sub-assemblies, these parts being almost all Brazilian.

The steel industry has what is in effect a guaranteed market from the expansion of the other industries discussed, especially the railways and the petroleum and vehicle industries, and it, too, is allowed to use a favourable exchange rate for importing capital goods. Several foreign firms are being encouraged to invest in it under Instruction 113, but it also draws on undistributed profits, security issues, loans from the *Banco Nacional do Desenvolvimento Econômico* and credits under Act 1807. The intention, under the national plan for steel, is to raise output from its 1957 level of 1.57 million tons to 2.10 mil-

[73] Moreover, in February 1958, a bill was proposed which would provide the Highways Fund with the proceeds of the compulsory loan from vehicle owners, which previously went to PETROBRAS.

[74] At an interest rate of only 5 per cent *per annum*, provided the banks themselves advanced no more than that 200 000 cruzeiros per client and charged no more than 8 per cent.

[74a] *Banco do Brasil*, Relatorio: 1957.

[75] Information provided by FAO.

lion tons in 1960 and 3.50 million in 1965. (Private estimates put the 1965 target rather higher.)

The heavy chemical industry is attracting foreign investments under Instruction 113 and its market prospects are good because the Government has encouraged the use of fertilizers and the sales of pharmaceuticals have increased rapidly. One section, the petrochemical industry, is emerging as a by-product of the development of petroleum refining.

The following figure[76] show the concentration in heavy industries of foreign investment authorized by Instruction 113:

	1955	1956	1957
	(Millions of dollars)		
Heavy industries	20	33	70
Light industries (textiles, food, pharmaceuticals, electrical appliances)	11	23	38
Total	*31*	*56*	*108*

The year 1957 saw not merely an increase in authorizations but a shift to heavy industry in the composition of foreign investment. The list of firms which are licensed to import equipment into Brazil under this instruction is now extensive.[77]

Investment is apparently slowing down in light industries. It seems (table 137) that the rise in fixed capital formation (about 30 per cent) between 1955 and 1956 was not much greater than the rise in prices, so that there was a moderate rise (perhaps 5-10 per cent) in total real investment. This can be attributed to a rising investment in the basic and heavy industries, offsetting a possible decline in investment in light industries, some of which were already showing symptoms of excess capacity. Residential building may also have declined.[77a] The same trends probably continued in 1957 except that there may have been some recovery in residential construction.

One consequence of this change in the industrial composition of investment is a shift in its regional distribution. Much of the investment in railway transport, petroleum mining, electricity generation, iron and steel, and especially in agriculture and roads, is of direct benefit to the interior of the country.[78]

Another consequence is a heavy foreign share in Brazil's capital resources. Out of the total new investment in 1957, 22 per cent was undertaken by firms with foreign connexions (compared to 18 per cent in 1955 and 24 per cent in 1956) and 10 per cent by the Government.[78a] But foreign participation was much higher in basic industry investment (37 per cent) and manufacturing investment (37 per cent). In fact, the increase in investment has been too rapid to be financed out of Brazil's own savings, particularly since export incomes became stagnant (in real terms), so investment is now in part financed by the savings of foreign countries. At an earlier stage these were provided by direct governmental borrowing: the 1953 loans from the United States and the United Kingdom (used to pay off the short-term trade debts of 1951 and 1952), the line of credit provided by the group of United States bankers in 1954 and 1955, and the loans from the United States Government extended through the Export-Import Bank and other sources. These capital movements involved commitments which were fixed and incumbent on the Government. The recent inflow of capital is primarily direct private investment, involving increased participation of foreigners in Brazil's economic life, which implies, among other things, the provision of foreign technical knowledge together with the capital but also a foreign share in industrial profits.

2. Changes in the level and composition of output

Table 142 shows Brazil's national product by sources during the period 1953-57, expressed in terms of thousands of millions of cruzeiros. It will be seen that there was a rise of about 5 per cent in the real national product in 1957. This was largely due to two sectors: agricultural output and mining. There was also a small increase in construction and in the generation of electric power; and the rise in the total induced corresponding increases in transport and commerce. But manufacturing remained, on the whole, practically unchanged.

The rise in the national product is showing distinct signs of slowing down, if 1956 is excluded as an exceptional year.[78b]

The increase in agricultural output was marked and reflected not only the rising trend but also a recovery from the poor harvest of 1956 (see table 143).

The trend increase in total output from 1950 to 1955, two relatively good years, was approximately 4 per cent per year. This was roughly maintained from 1955 to 1957. The total area under cultivation rose again, as did tractor use and the consumption of fertilizers and seeds (especially certified seeds). The dominant factor in the 1957 results was coffee. The recovery from the low levels of 1956 raised coffee output by more than 40 per cent, though it was only 2 per cent above that of 1955. But results were generally good throughout the agricultural sector. The upward trends in food crops and livestock output accelerated in 1957.

There were two important exceptions to these trends: cotton and wheat, where output actually fell. Cotton declined mainly because the area under cultivation was reduced by 11 per cent. There was also a contraction of 6 per cent in the area under wheat. The drop in these averages apparently reflected United States surplus sales: in the case of cotton, because the surpluses meant a low world price; and, in that of wheat, because deliveries under the agreement with the United States limited the pressure of

[76] Prepared on the basis of information supplied by the Department of Currency and Credit. These are figures of *authorizations*. The actual importation and installation of equipment lags considerably behind authorization. The figures refer only to the *landed value* of imported equipment: total investment is much higher because of the construction of buildings, installations costs, etc.

[77] Two of the licences, taken out in 1957 by United States motor vehicle companies, were for equipment worth 16 million and 10 million dollars respectively. A motor vehicle company of the Federal Republic of Germany used the facilities of Act 1807 to sell 38 million dollars' worth of equipment to its Brazilian subsidiary on medium-term credit, the licence being granted at the end of 1956.

[77a] The licensed area of residential construction in Rio and São Paulo had fallen sharply in 1955.

[78] Estimates of construction are based only on statistics for cities, to they—end the estimates of investments derived from them—may now have a downward bais.

[78a] Geraldo Banas, *Conjuntura em 1957*. (Quoted in *Brazilian Business*, April 1958).

[78b] The national product rose 7 per cent between 1955 (the last year of quite a good crop) and 1957, whereas the rise in the two-year period before that had been 12 per cent.

Table 142. Brazil: National product by sources, 1953-57

(Thousands of millions of cruzeiros)

	1953	1954	1955	1956	1957
Agricultural income	106	137	174	199	244
Other industries					
Labour incomes[a]	148	173	224	359	403
Mixed incomes[b]	43	52	64	90	102
Property income[c]	61	79	89	102	124
Net national income at factor cost	358	448	551	749	873
Net indirect taxes[d]	53	82	88	102	122
Depreciation	22	28	34	45	52
Gross national product (current prices)	433	551	673	896	1 048
Gross national product (1948 prices)	244	262	274	280	293

Source: *Revista Brasileira de Economia* Tenth Year, No. 4, and information provided by the Brazilian Institute of Economics *(Fundação Getulio Vargas)*.
[a] Including independent workrs.
[b] Professional incomes and "administration of firms".
[c] Profits, rent and interest, net of income sent overseas.
[d] Including agios, but net of premiums and subsidies.

Table 143. Brazil: Agricultural production indices, 1953-57

(1950 = 100)

	1953	1954	1955	1956	1957
Coffee	104	97	128	91	130
Cotton	95	101	109	102	98
Wheat	145	164	207	243	150
Total, food crops	107	117	122	126	131
Total, livestock	119	123	127	135	146
Total, agriculture	108	112	124	118	131

Source: Data from the Ministry of Agriculture, Production Statistics Service. Index numbers by ECLA.

demand for the domestic product. The decline in the acreage sown was entirely responsible for the fall in cotton output, because yields actually increased somewhat. But there was a decline in wheat yields as well because of rains during the harvest, and the official programme to encourage output, which had previously succeeded in nearly doubling it over four years, suffered a serious setback.

There were big increases in the output of maize, beans and rice (10 per cent, 17 per cent and 21 per cent respectively). In all three cases, yields and output were not only considerably above those of 1956, but also the highest in recent years, surpassing those of 1954 and 1955. Sugar output continued its steady upward trend and produced a sizeable export surplus. Meat output rose appreciably, 7.74 million head of cattle having been slaughtered in 1957 as compared to 7.37 million in 1956 and 6.76 million in 1955. The increase in the past two years has followed a rather long period in which there was little change and severe meat shortages developed in the towns. The recent improvement has alleviated these shortages, though seasonal difficulties still persist. The output of milk and eggs each rose by about 10 per cent, continuing a rapid upward trend.

Unfortunately, no comprehensive current index of industrial output is published in Brazil. There are a few physical production series, e.g., for cement, steel and rubber; otherwise analysis had to be based on a variety of weak indicators.[79] One is electric power consumption,[80] and others are provided by the Brazilian Geographical and Statistical In-

[79] The industrial statistics available are not of the same standard as those in certain other fields (for example, monetary and foreign exchange statistics). The weakness of even physical series was demonstrated by the Development Council's *(Conselho do Desenvolvimento)* detailed research into the apparent decline in output of sheet steel and rolled products in São Paulo in 1955. This revealed that the fall in output was exaggerated because of double-counting, changes in coverage, omissions, typing errors, etc. (documents of the Development Council, Annex 2).The lack of an index of industrial output is serious. If a reliable index were available, the pace and balance of industrialization could be assessed and its economic significance analysed more easily, matters which are of international interest.

[80] This tends to exaggerate the rate increase of output, because mechanization increases the amount of electricity used per unit of output. Consumption of electricity sold by companies is also affected by the extent to which manufacturers produce their own, though this has apparently not been a common practice since 1955. Again, an index based on electric power consumption gives more weight to the products which need a great deal of power. The amount of electricity consumed per unit of output is only weakly related to the net value added per unit, which is the weight really needed for economic analysis. (This rules out the use of total electricity consumption by industry as an indicator for total industrial output, especially at a time like the present when heavy industries are expanding more quickly than light.) It should also be borne in mind that the electricity series cover only Rio and São Paulo. Important sections of some industries (e.g., metallurgy) are situated outside the areas in these States to which the "light" series applies. (S.P.L.—Cesper—S.P.E.)

stitute's industrial surveys which have already been mentioned, for example, those relating to the value of output in current prices and the number of operative-hours worked.[81]

The general picture, which is supported by all the clues available, is that there was a rise in the output of heavy industries, balancing a decline in light consumer goods industries. Output of Portland cement rose from 3.25 million to 3.36 million tons, though this was much slower than the increase between 1955 and 1956 (from 2.70 to 3.25); import substitution possibilities had been virtually exhausted and domestic demand was weak in some sectors. Output of ingot steel continued to rise (from 1.16 million tons in 1955 to 1.38 million in 1956 and 1.57 in 1957), showing a steady expansion. The index of rubber manufacturing *(Fundaçao Getulio Vargas)* shows a rise of 5 per cent between 1956 and 1957, although this only means that the 1955 level has on average largely been recovered.[82] There appear to have been major increases, exceeding 10 per cent, in motor vehicle production, engineering electrical equipment, chemicals and pharmaceuticals, refining and tobacco. The available data suggest declines in the output of beverages, glass, cotton textiles, clothing and woodwork.

Indices of production are available over a longer period[83] (see table 144). It will be seen that certain industries have shown a distinctly faster long-term trend than others. The ones which expanded by 80 per cent or more between 1949 and 1956 were metallurgy, non-metallic minerals, rubber, beverages, tobacco and printing. These are also, broadly speaking, the industries that continued to advance, though more slowly, in 1957. On the other hand, some industries which showed a slower trend, rising by less than 50 per cent from 1949 to 1956, namely leather, textiles and food, were the industries which showed little change, or a decline, in 1957. The composition of industrial output therefore continued to change to the disadvantage of the traditional light industries, such as textiles, and in favour of heavy industries; but, whereas previously the change had simply been due to the latter's faster rate of growth, it was now due to output in the light industries declining, while that of the heavy industries continued to grow. The output of the motor vehicle industry is gathering rapid momentum after a rather slow start. It is estimated that about 33 000 units were produced in 1957.

It therefore seems that Brazil's manufacturing output is continuing to change on two planes. The proportion consisting of capital goods (vehicles and machinery) is growing at the expense of consumer goods, and the proportion consisting of materials (steel, chemicals) is growing at the expense of finished goods.

One exception to this trend was the output of certain domestic durables. While the output of radios, refrigerators, polishers, vacuum cleaners, mixers and juice extractors seemed to have levelled off, there was a continued expansion in output of some of the newer appliances according to the following estimates taken from *Desenvolvimento e Conjuntura*:

	1955	*1956*	*1957*
	(Thousands)		
Washing machines	10	15	28
Radio-gramophones	19	23	31
Television receivers	11	33	56

The explanation of developments in 1957 appears to lie partly in the disinflationary influences already mentioned, which have affected consumers' real incomes but not the funds for investment. Moreover, textiles and other consumer goods industries were generally only paying the minimum wages when these changed in 1956, whereas the other industries were often paying more than the minimum and were affected less by the wage rise when it came. The motor vehicle programme is having a decided impact on industry by stimulating the output of components made by small engineering firms and also of tyres.

This trend has meant important savings in imports. Annex table III shows that by 1956 the development of the steel industry had almost eliminated imports of rails and other rolled products, although imports of wire and tinplates were still substantial. The output of building materials has also increased: this was especially noticeable in the case of cement, imports of which were virtually stopped. In most cases, the rise in the output of chemicals exceeded consumption, thus enabling imports to be kept more or less constant. For instance, the output of superphosphates nearly

Table 144. Brazil: Output of manufacturing industries, 1954-56

(1949 = 100)

	1954	*1955*	*1956*
Metallurgy	198	198	225
Motor vehicles	136	81	160[a]
Non-metallic minerals	168	178	204
Paper	145	154	165[a]
Rubber	187	204	196
Vegetable oils	136	153	137
Leather	109	108	119
Textiles	135	141	148
Clothing	121	146	175
Food	132	148	149
Beverages	162	172	182
Tobacco	177	143	211
Printing	182	191	210[a]
Total	150	159	171

Source: Information provided by the Brazilian Institute of Economics.
[a] Preliminary.

[81] The Institute's surveys are sample surveys covering about one-half of manufacturing output, but with changing coverage. The output figures are in terms of current prices, and have to be corrected by what price indices are available. Since they show the value of *gross* output, there will be some double-counting, because of inter-industry transactions, though this should not greatly affect comparisons over time, unless the production of industries with a higher ratio of net to gross output is tending to rise faster or slower than that of other industries. To use operative-hours as an indicator of output means, of course, that changes in productivity are ignored. The surveys actually collect information on the physical volume of output, but this is not published.

[82] Domestic tyre output grew as follows (motor vehicles only):

	1955	*1956*	*1957*
	(Millons of units)		
Tyres	2.19	1.92	1.99
Inner tubes	1.22	1.26	1.38

(Sources: For 1955 and 1956: *Anuario Estatistico.*
For 1957: *Relatório do Banco do Brasil, 1957).*

[83] These are not available for 1957, nor can other series easily be carried backward before 1956. There were big changes of coverage in the Brazilian Geographical and Statistical Institute's survey in January 1956. Before then many manufacturing firms generated their own electricity.

doubled, whereas consumption rose by a half and imports remained approximately unchanged.

The output of minerals expanded remarkably between 1956 and 1957. Crude petroleum production more than doubled again, rising from 1.0 million barrels in 1954 to 2.0 million in 1955, 4.1 million in 1956 and 11.1 million in 1957. The output of natural gas increased from 84 million cubic metres in 1956 to 158 million in 1957. There were substantial increases in the output of manganese and iron ores, mainly for export.

Construction too, apparently reached a much higher level than in 1956 despite a possible decline in house-building. Rises also occurred in electricity production.

Altogether, it appears likely that the national product's previous rate of growth, of the order of 5 per cent *per annum* from 1950 to 1955, was resumed. Whereas, in the previous decade, Brazil's growth was the result of a rise in manufacturing faster than 5 per cent and a rise in agriculture which was slower, in 1957 it was attributable almost entirely to the primary sectors (agriculture and mining). Thus the composition of the national product changed, at least temporarily. This has meant that geographical distribution of income also changed to the disadvantage of Rio de Janeiro and São Paulo, the centres of manufacturing industry, where there was some unemployment.

Much of the rise in output was absorbed in higher investment. Although there were declines in certain inventories of manufactures, it is very probable that, on balance, inventories rose, taking the year as a whole, and by more than in the previous year, because building of coffee inventories was substantial. Fixed-capital investment also expanded in real terms. Real consumption probably rose faster than the growth of population, which is increasing at a rate of about 2.5 per cent *per annum* but not as rapidly as the national product. Finally, there was a deterioration in the real balance of payments.

3. The current outlook

The growth of industries manufacturing capital goods and materials has important long-term implications. Development along these lines increases the importance of *internal* influences relative to *external*. The Government is gradually acquiring greater freedom to manoeuvre. As the frontier of import substitution moves back from the industries producing finished consumer goods to those producing fuel and materials for them, and as the transport bottlenecks are eased, it becomes increasingly possible for consumption to be expanded without adding to the strain on foreign reserves. The growing output of steel, vehicles and machinery is of even greater strategic importance, because it means that a rise in investment will not involve as big a rise in imports as hitherto. The Government would, therefore, find it easier to offset the deflationary consequence of any temporary decline in exports. This process of freeing the economy from dependence on exports has not yet gone very far, but the further along this road Brazil goes, the less will its rate of growth depend on the capacity to import. The more the heavy industries are developed, the better the prospect of developing them still further.

Next in importance to reducing dependence on exports as a whole is the development of additional export commodities, so as to make the economy less dependent on a single crop with doubtful prospects. For this reason, the development of mineral exports has special significance. At the same time, the possibility is emerging of Brazil exporting manufactures on a much larger scale. There have in the past been four major obstacles to this: the exchange rate used; bureaucratic difficulties and delays; lack of experience in exporting; and the inadequacy of consular and banking contacts with potential markets.[84] The effective exchange rate for exports of manufactures has been 67 cruzeiros to the dollar. Since most equipment and nearly all materials have been purchased at much higher rates, the effect of foreign exchange system on the international competitive strength of Brazilian manufactures has been equivalent to a heavy export duty. The first major change in policy occurred in June 1957, when the Government, in order to help the textile industry, raised the exchange rate to 103 cruzeiros to the dollar for its exports.[85] This has not as yet had a great effect, but it has some symbolic, significance since it is the first occasion on which exporters have been granted a rate higher than that which applied to most imports of materials and equipment. The large, and apparently growing, share of the national product used in fixed-capital investment means that capacity is rising more rapidly than consumption in many industries, and this is hastening the day when exporting, especially within Latin America, will be an obvious line of advance for other industries besides textiles.

It is now necessary to consider together the implications of the three sections of this chapter. Section I shows that the capacity to import continues to be inflexible, although this does not affect the rate of expansion of the heavy industries as yet, because of the growing imports of capital equipment on credit or as direct investment. There is downward pressure, however, on the foreign exchange available for other purposes, especially materials. At the same time, according to section II, a number of inflationary forces re-emerged in the second half of 1957. Of these the most important was the increase in cruzeiro coffee incomes and the rise in expenditure on locally produced capital goods. There is some spare capacity, in the industries manufacturing consumer goods, for absorbing the increase in demand. The difficulty arises, as has occurred before, in the sectors where supply is not very elastic: especially food production and the foreign exchange available at private auctions. A mild rise in food prices encourages agricultural production, just as a mild increase in agios stimulates the production of import substitutes. On the other hand, a marked increase in demand tends to dislocate the price structure by making some foods and materials very expensive, and this leads to severe economic and political difficulties, including a weakening of public support for development.

Provided that this type of crisis can be avoided in the next few years, the development of the industries producing equipment and materials will provide the means for Brazil to survive it, if and when it comes, without great damage. Indeed, as the years go past, a severe exchange crisis will become increasingly unlikely, because the development

[84] No missions have been sent abroad to obtain orders for manufactures. One potential customer, Venezuela, has sent missions to Brazil, but they have departed without being able to transact much business.

[85] One condition is that the difference between the new and the old rates is to be used for purchases of capital equipment.

of import substitutes, especially petroleum, will reduce the present heavy and rigid claims on foreign exchange and provide more elasticity in the domestic economy. As time passes, it will also be easier for the range of exports to be widened. On the other hand, if the shortage of foreign exchange were to force the Government to curtail the development of basic services and heavy industries, the liberation of Brazil from its dependence on foreign trade would be delayed, possibly for a long time.[86]

The years that lie immediately ahead will therefore be important, perhaps decisive, for Brazil's economic future. Its reserves of foreign exchange are low; heavy payments of interest and profits lie ahead; the world coffee market is beginning to be saturated; and the economy's needs for fuel, materials and equipment are growing rapidly. The question is whether Brazil can develop local production of these goods quickly enough to enable the capital investment programme to be continued and expanded still further.

[86] To abandon any of the major investment projects in hand, except perhaps the construction of the new capital, would be an economic setback.

Statistical Annex

Table I. Brazil: Inventory-sales ratios for wholesales, by type of commodity traded, quarterly 1955-57

Commodities traded	*1955*				*1956*				*1957*			
	March	*June*	*September*	*December*	*March*	*June*	*September*	*December*	*March*	*June*	*September*	*December*
Agricultural commodities, raw materials produced by primary industries	1.08	1.29	1.71	1.69	1.73	1.20	1.35	1.28	1.35	1.63	1.30	1.04
Iron and steel and metallurgical products, building materials	1.70	1.65	1.65	1.71	1.73	1.49	1.67	1.75	2.14	2.08	1.91	1.90
Machines, tools and electric equipment	2.10	2.32	3.01	1.93	2.80	2.42	2.32	2.43	3.14	2.98	2.65	2.17
Motor vehicles and accessories	1.07	1.36	1.59	1.28	1.20	1.64	1.64	1.60	1.95	1.65	1.75	1.68
Paper, printed matter and stationery	1.32	1.45	1.36	1.56	1.60	1.52	1.74	1.70	1.80	1.89	1.66	1.48
Chemicals, pharmaceutical products and similar articles	1.59	1.58	1.60	1.53	1.61	1.62	1.59	1.99	1.97	2.06	1.56	1.69
Fuels and lubricants	0.79	1.17	1.11	0.84	1.17	1.03	1.24	0.69	1.56	1.63	1.29	1.19
Yarns, fabrics, textile products, clothing and sewing products	2.33	2.75	2.80	3.04	2.38	2.27	3.03	3.49	3.23	3.25	3.18	2.76
Foodstuffs, beverages and stimulants	0.97	0.77	0.80	0.78	0.84	0.76	0.83	0.92	1.28	1.18	1.01	1.11
Commodities in general, including foodstuffs	1.99	1.97	2.06	1.81	1.67	1.65	1.76	1.41	1.70	1.94	2.01	1.68
Commodities in general, excluding foodstuffs	3.03	3.35	3.17	2.66	3.11	2.62	2.80	2.43	3.66	3.02	2.32	1.82
Miscellaneous commodities	1.83	1.41	1.20	1.37	1.76	1.64	2.06	1.43	1.76	1.74	1.32	1.39
Total	1.47	1.54	1.65	1.53	1.61	1.43	1.62	1.50	1.90	1.91	1.66	1.52
Total (excluding fuels and lubricants)	1.52	1.58	1.71	1.60	1.67	1.49	1.68	1.66	1.96	1.97	1.73	1.59

Source: Brazilian Geographical and Statistical Institute, *Inqueritos Econômicos.*
Note: Each figure was obtained by dividing end-month inventories by the month's sales. The coverage of the Institute's surveys changes somewhat from one year to another. Moreover, the figure for different months in 1957 have not been adjusted to achieve uniform coverage throughout the year.

Table II. Brazil: Manufacturers' inventory-sales ratios, by industry, 1955-57

Industry	*1955*				*1956*				*1957*			
	March	*June*	*September*	*December*	*March*	*June*	*September*	*December*	*March*	*June*	*September*	*December*
Transformation of non-metallic ores	0.82	0.77	0.77	0.79	0.75	0.67	0.72	0.81	0.90	1.02	0.99	0.86
Metallurgy	0.99	0.83	0.79	0.66	0.72	0.59	0.61	0.64	0.79	0.79	0.75	0.64
Mechanical	0.70	0.74	0.76	0.62	0.62	0.59	0.62	0.70	0.86	0.83	0.81	0.66
Electric appliances and communications equipment	0.64	0.74	0.78	0.67	0.62	0.54	0.61	0.73	1.08	0.80	0.80	0.73
Construction and assembly of transport equipment	1.45	2.07	2.54	1.58	0.48	0.37	0.46	0.35	0.40	0.44	0.40	0.43
Lumber	0.48	0.47	0.46	0.45	0.50	0.46	0.48	0.57	0.67	0.70	0.62	0.59
Furniture	0.35	0.33	0.32	0.26	0.34	0.32	0.30	0.34	0.38	0.42	0.37	0.30
Paper and paper products	0.41	0.36	0.46	0.45	0.37	0.30	0.40	0.40	0.48	0.56	0.50	0.49
Rubber	0.22	0.98	1.43	1.04	0.48	0.80	1.04	1.22	0.84	1.02	1.28	1.06
Skins and hides and similar products	0.90	0.83	0.83	0.90	0.74	0.50	0.59	0.83	0.88	0.78	0.83	0.79
Chemicals and pharmaceutical products	0.79	0.87	0.97	0.89	0.65	0.69	0.84	0.71	0.75	0.76	0.71	0.68
Textiles	1.05	1.08	1.12	1.00	0.99	0.85	1.02	1.20	1.51	1.62	1.75	1.42
Clothing, footwear and textile products	0.55	0.57	0.58	0.44	0.58	0.47	0.57	0.51	0.73	0.77	0.74	0.46
Foodstuffs	0.74	0.92	0.84	0.79	0.69	0.84	0.82	0.92	0.74	0.84	0.82	0.81
Beverages	0.31	0.38	0.38	0.20	0.28	0.34	0.32	0.21	0.45	0.46	0.51	0.21
Tobacco	0.13	0.17	0.16	0.10	0.14	0.15	0.17	0.06	0.18	0.20	0.20	0.10
Printing	0.33	0.32	0.34	0.28	0.31	0.29	0.31	0.28	0.37	0.37	0.31	0.26
Various	1.02	1.00	1.00	0.81	1.00	0.85	1.03	1.10	1.31	1.26	1.14	0.92
Total	0.76	0.84	0.86	0.73	0.69	0.66	0.73	0.75	0.84	0.88	0.86	0.74

Source: Brazilian Geographical and Statistical Institute, *Inqueritos Econômicos.*
Notes: See table I.

Table III. Brazil: Imports and production of certain materials and semi-manufactures, 1954-57

(Thousands of tons)

	1954	1955	1956	1957[a]
Pulp				
Imports	182	123	119	174
Production	64	74	110	...
Apparent consumption	246	196	228	
Caustic soda				
Imports	111	69	128	94
Production	—	31	50	...
Apparent consumption	111	100	178	
Superphosphates				
Imports	92	98	105	...
Production	64	97	179	...
Apparent consumption	156	194	285	
Other fertilizers				
Imports	260	324	340	548
Production	35	62	100	...
Apparent consumption	296	386	440	
Asphalt				
Imports	36	4	2	1
Production	—	16	56	...
Apparent consumption	36	20	58	
Cement, Portland				
Imports	332	242	31	9
Production	2 477	2 698	3 250	3 357
Apparent consumption	2 809	2 940	3 281	3 366
Rolled iron and steel				
Imports	188	85	17	24
Production	971	982	1 040	1 197
Apparent consumption	1 159	1 067	1 057	1 221
Rails				
Imports	9	25	8	56
Production	52	81	123	92
Apparent consumption	61	106	131	148
Steel wire				
Imports	83	33	64	88
Production	4	5	6	2
Apparent consumption	87	38	70	90
Tinplate				
Imports	114	72	95	134
Production	41	38	77	62
Apparent consumption	155	110	171	196

Source: Banco do Brasil, Comercio Internacional (monthly bulletin). For Portland cement: *Banco do Brasil, Relatorio 1957* (1957 figures are for whole year).

[a] First six months at annual rate.

Chapter IV

COLOMBIA

INTRODUCTION

Colombia has perhaps the best-balanced economic resources in Latin America. It has plenty of arable land; climatic conditions which make possible the production of a wide variety of crops, ranging from tropical products like coffee, bananas and sugar to others, such as wheat and cotton, that require a temperate habitat; proven resources of gold, petroleum, coal and iron, the last two lying close together; and developed manufacturing centres, with experienced management and labour. Yet its economic problems have been growing steadily more acute in recent years, and they reached a crisis in 1957, when Colombia was forced to seek arrangements under which it could postpone paying trade debts, while its imports were cut and it reduced investment and Government spending. The year 1957 was also one of rapidly rising prices.

Two explanations suggest themselves at once. Firstly, foreign exchange earnings—and indeed the whole economy—have remained excessively dependent on one crop, namely coffee. This crop accounts for about four-fifths of all exports and more than one-tenth of the national product, in which it is by far the most volatile element. Secondly, the economy has been unable to cope with the rapidly growing demands for food and materials. This, like the specialization of exports, reflects a problem which is more fundamental—the failure of agricultural output to grow. Less than one-tenth of the agricultural land is in fact cultivated, most of the best land lying waste, or being used as cattle runs on very large estates in the hands of absentee owners. Allied to the chronic stagnation of agriculture, as both cause and effect, is a third weakness. The transport system is so backward that Bogotá's foreign trade still has to be carried either by lorry across the Cordillera along winding and indifferent roads, or by steamer on the river Magdalena when the water is high enough.

A fourth cause of Colombia's problems has been the failure to develop basic industries, with the very recent exception of steel-making. There has been a good deal of industrial development, which was accelerated when the coffee boom permitted imports to be substantially increased. But, because an artificially low exchange rate encouraged imports of materials and semi-manufactures, whereas finished goods where prohibited or heavily taxed, development was concentrated in the final stages of production. Import substitution occurred mainly in these stages. For example, it was comprehensive in suits, while some of the woollen yarns required had to be imported; it was extensive in pharmaceuticals, including cosmetics, but weak in heavy chemicals; it was common in refrigerators, but for their manufacture foreign motors and steel were needed. The development of agricultural raw materials, such as wood pulp, rubber and cacao, was also slow or non-existent, so athough the grawth of industry has reduced the need for imports of finished consumer goods, it has increased Colombia's dependence on foreign exchange earnings.

This process of expansion outran Colombia's capacity to import and led to an accumulation of trade debts, which was the greater because of the speculative building-up of inventories as the country's position deteriorated.

These debts now have to be paid off at a time when the prospects for coffee exports are less favourable. The amortization programme covering most of them was a harh one and gave Colombia very little respite.

In 1957, some progress was made in correcting the basic weaknesses. A new decree on farming established, among other things, a mounting scale of taxation on those who failed to cultivate arable land. Investment plans for the road and railway networks made further progress. The exchange reform raised the prices of materials in relation to those of finished goods. The infant steel industry extended its range of products. But Colombia is so dependent on imports that the continued weakness in the coffee market threatens to frustrate the attempt to put development on a sound economic basis.

I. THE EFFECTS OF CHANGES IN THE PRICE OF COFFEE

Summary

The price of Manizales coffee climbed sharply from the middle of 1953 to the middle of 1954. Since then, with the exception of a period in 1956, the trend has been persistently downward.[1] This section describes the rise and fall in export earnings, and how the authorities tried for a long time to force imports down as receipts of foreign exchange decreased. The failure to restrict imports meant the accumulation of substantial trade debts and speculation against the peso, until, in 1957, it was necessary to seek the agreement of debtors to amortization, to devalue the currency and to reform the system of foreign exchange. While fewer dollars were earned by coffee after 1954, there has been no such decline in peso coffee incomes, which were, at the end of 1957, much higher than they had been at the peak of the coffee boom. This was due partly to the fiscal and exchange measures taken to shield coffee producers from the decline in prices and partly, to the National Federation of Coffee Growers *(Federación Nacional de Cafeteros)* purchases for inventory, which were heavy in the second half of the year.

1. THE RISE AND FALL IN THE VALUE OF COFFEE EXPORTS[2]

During the three years from mid-1950 to mid-1953, the price of Manizales coffee on the New York Coffee Exchange fluctuated within such relatively narrow limits as 55 and 60 cents per pound. Then, with the news of the frost in Brazil, all coffee prices started to climb. In the early months of 1954 this upward movement was accelerated. The price of Manizales coffee reached 96 cents a pound in April, and daily quotations in March and April averaged 90 cents. Later in the year prices slipped back somewhat,

[1] See figure II in Part I, chapter II, of the *Survey*.

[2] At this stage only value of legal exports in considered.

Table 145. Colombia: Factors affecting the capacity to import, 1952-57

(Millions of pesos)

	1952	1953	1954	1955	1956	1957
Exports of coffee[a]	360	504	550	484	475	385
Exports of petroleum	71	76	76	62	70	75
All other exports of goods[b]	32	37	44	47	69	54
Total exports of goods	463	617	670	593	614	514
Exports of services	25	30	39	41	59	60
Inflow of capital[c]	59	50	100	56	71	192
Total receipts	547	697	809	690	744	766
Less investment income	—19	— 23	— 15	— 22	— 16	— 20
Less imports of services	—94	—103	—130	—129	—121	—107
Less outflow of capital[c]	—13	— 25	— 27	— 62	— 65	— 73
Capacity to import (f.o.b.)	427	546	637	477	543	566
Actual imports (f.o.b.)	384	524	622	621	605	435
Net balance	37	22	15	—144	— 61	131

Source: International Monetary Fund, *Balance of Payments Yearbooks*. For 1957: information provided by the *Banco de la República*.
[a] Excluding contraband.
[b] Including non-monetary gold.
[c] Including errors and omissions where the sign is appropriate.

but the year's average was 80 cents. Whereas in Brazil the benefits of the high price were cancelled by a bad crop, Colombia's 1953-54 crop was a record. Moreover, the National Federation of Coffee Growers was able, in 1953 and early 1954, to sell, and at a good price, nearly all the inventories which it had built up in 1952 and previous years. In August, after prices turned downward, the Federation commenced to buy once more in order to maintain the price, and the volume of exports fell. Still, coffee exports yielded 550 million dollars in 1954 compared to 360 million in 1952, and 504 million in 1953 (see table 145).

In 1955, the price fluctuated around 65 cents and the crop was a poor one. In the closing months of the year, however, the Federation entered the market, selling off part of its inventories. The value of exports therefore did not fall so drastically. In 1956, the market strengthened again on the news of another frost in Brazil. But a fair part of the crop was exported through contraband channels, because this enabled exporters to sell the foreign exchange proceeds on the free market, where the value of the dollar rose to 6 pesos. The proceeds of legal exports once more declined slightly. During most of 1957, prices fell as the threat of a world surplus appeared. After the Mexico City agreement in October, Manizales prices hardened, in common with those for other types of coffee. Still, the Federation had been buying coffee throughout most of the year, and the quantity exported through legal channels was even less than in 1956. The total value of sales (385 million dollars) dropped back almost to 1952 levels.

Early in 1958, the price fell further still. A minimum export price, equivalent to about 55 cents per pound, was set in March (the 1957 average had been 64 cents).[3] The volume of exports may be somewhat higher than it was last year. The Mexico City agreement, which will be in force only to the end of September, requires an addition to inventories equivalent to 10 per cent of exports, for the period November 1957 to September 1958. The Rio de Janeiro agreement signed in February, in conjunction with the Mexico City agreement, permitted, by implication, total exports of 5.64 million 60-kg bags in the year from July 1957 to June 1958.[4] The break-down of legal exports may thus be as follows:

	Million bags
First half of 1957 (actual)	2.01
Second half of 1957 (actual)	2.81
First half of 1958 (permitted)	2.83

The addition to inventories in 1957 was equivalent to a high percentage of exports, especially in November and December, the first months after the agreement had come into force. Consequently, in 1958 the rate of accumulating inventories may be rather lower, and the volume of exports higher, than in the previous year. The maintenance of the new minimum export price, on the other hand, may involve Colombia in a faster rate of inventory-building than is required by its international commitments. Moreover, if the price of coffee fails to rise above 55 cents in New York, the effect may outweigh any increase in the volume of exports between 1957 and 1958, and cause a further fall in their value.[5]

2. Effect of changes in coffee exports on the capacity to import

(a) *Growth of other exports*

Coffee forms such a large proportion of Colombia's exports that the capacity to import closely reflects coffee earnings. Hence other commodities need be considered only briefly.

Petroleum is the second most important commodity. Out put was more or less the same—about 5.5 million tons—

[3] Further steps were taken in April to strengthen the peso and halt the decline in coffee prices. The measures concerned are discussed as the end of this section.

[4] Allowing for exports already effected.

[5] Indeed, if inventories are increased at a faster rate than required by the Mexico City agreement in order to maintain the export price, or alternatively if this price is lowered, the fall in the value of exports may be severe.

over the years 1952-55. For a time the output of the refineries also remained unchanged, while imports of derivatives increased rather rapidly; but until 1954 the refineries drew on heavy inventories of crude petroleum, thus permitting exports of crude to be maintained. In 1955, these inventories were largely exhausted, while refiining increased, so that the exportable surplus of crude petroleum contracted. A new decree in that year gave additional financial incentives to companies, by providing that the total taxes and royalties should not exceed 50 or fall below 40 per cent of taxable income,[6] and by raising development allowances. Output increased, by more than enough to cover the expansion of refining. Moreover, as from June 1957 petroleum companies were able to buy pesos with their dollar earnings, net of import requirements and dividends, at the "certificate rate" instead of at 2.50.[7] More prospecting was under taken, and the rise in output may now show some acceleration. Since a new refinery came on flow at the end of 1957, local consumption of crude will increase considerably in 1958 and exports may actually decline, though this development should be outweighed by a further fall in imports and an increase in exports[8] of refined products.

As can be seen from table 145, there has been some increase in other exports, which, though small in absolute terms, represents definite progress towards diversification. These secondary exports have been given various special incentives. In 1954, proceeds from certain of them could be used in the form of "export vouchers" to finance imports, which then escaped a special luxury tax. Thus they commanded a very favourable exchange rate, amounting to an export subsidy. The export voucher system was abolished in 1955, but the free market could be used by sellers of minor exports, and the effective exchange rate continued to rise as the free-market peso weakened. This favourable treatment yielded results. Exports of bananas and hides increased steadily, and those of forest products rapidly. Exportable surpluses of sugar appeared in 1955 and 1956.[9] Exports of manufactures, especially cement, have also become more important in recent years, though they are still relatively small. Gold exports have followed a steady upward trend.

Under the exchange reform of June 1957, these minor exports ceased for a time to enjoy a favourable position in the exchange system. Their proceeds had to be sold in the "certificate" market at rates below those of the free market. They were, moreover, liable to the general 15 per cent tax on exports. Consequently, in their case the effective exchange rate did not rise, as it did for coffee and petroleum, but fell from over 6 to under 5 pesos to the dollar. At the same time, world commodity prices were weakening, whereas internal peso incomes and prices were rising. The relative inducement to export was therefore greatly reduced, and the flow of these exports declined in the second half of the year. At the end of the year the position was partly restored. The 15 per cent tax was removed in September from exports other than coffee, bananas and precious metals,[10] and the peso weakened in the certificate market. The Government also decided to promote exports of manufactures, and the main task of the Institute of Industrial Development, which is having difficulty in fulfilling its original function because of limitations on imports of equipment, is now to assist exporters. Coal shipments to France have commenced and may become considerable when problems of washing and handling are solved.[11]

(b) *Intractability of imports*

Colombia's foreign exchange problem was essentially due to the fact that imports did not decline for over two years after the coffee boom began to subside in 1954. The reasons underlying this continued pressure of demand for imports will be considered later. Here its effects on the balance of payments and the attempts of the authorities to contain it will be discussed.

Imports started to rise in 1953, and in 1954 the authorities encouraged the public to buy from abroad, apparently in order to absorb the rising coffee incomes. In February, prohibitions on imports were abolished, though a tax of 40 per cent was imposed on luxury items which had previously been prohibited,[12] and restrictions on imports of food were removed. Imports expanded rapidly. As the coffee market changed in the course of the year, their volume grew menacing and it became—as it still is—officials policy to check them. The special tax on luxuries was raised to 80 per cent and prior deposits were increased from levels which had been rather low.[13] Even so, imports rose enough in the course of 1954 to offset the growth of exports and, although Colombia acquired foreign exchange reserves early in the year, this gain was lost after August. As can be seen from table 146, increases in imports were particularly marked in the case of agricultural and transport equipment (those of industrial equipment had already expanded in the previous year), finished consumer goods and materials. Equipment continued to account for about 40 per cent of imports and the share of finished consumer goods rose from 18 to 20 per cent.

In February 1955, stamp taxes varying from 3 to 100 per cent were imposed; higher deposits were required on luxuries; and barter elements were also introduced into the system. A free market was officially established and had to be used for all commodities except raw materials and certain capital goods. By being imported at the official rate (plus a 3-per-cent stamp tax), raw materials were, in effect, then-

[6] Royalties are nevertheless not deducted from taxable income before the calculation is made. Consequently, the total may exceed 50 per cent of net income. (The maximum ratio is 40 per cent in the undeveloped Llanos area, where there is no minimum.)

[7] The "certificate rate" has been rising from about 5 pesos to a level of over 6 pesos to the dollar. See the next part of this section.

[8] In 1957, exports of derivatives increased to a value that almost balanced the imports of fuel oil, the only derivative now imported in quantity.

[9] There were also exports on a very small scale early in 1957, but larger imports were effected later in the year.

[10] Small charges were levied instead to provide funds for the Institute of Industrial Development *(Instituto de Fomento Industrial)*.

[11] In May 1958, exporters of commodities other than coffee, bananas, petroleum and precious metals were permitted to sell 70 per cent of their foreign exchange on the free market.

[12] These goods could also be imported by the purchase of "export vouchers" (see (a) above).

[13] Prior deposits are paid on registration, which is a prerequisite for the issue of the consular permit. They are thus paid two to four months before actual importation. Only 10 per cent of the value of goods had to be deposited prior to 1953, when the rates for some groups were raised, although to no more than 30 per cent. After October 1954, the rates ranged up to 80 per cent for some commodities. (Rates were applied to the peso value of imports, valued—until June 1957—at the exchange rate of 2.50 pesos to the dollar.)

Table 146. Colombia: Imports by categories (c.i.f.)

(Millions of pesos)

	1952	1953	1954	1955	1956	1957[a]
Non-durable consumer goods	39	46	70	50	45	27
Durable consumer goods	33	55	65	50	24	6
Fuel	19	26	30	25	23	25
Metallic raw materials	15	20	22	30	35	30
Other raw materials	127	136	165	190	199	177
Building materials	29	48	62	51	61	26
Agricultural equipment	15	19	33	39	31	12
Industrial equipment	94	141	145	152	163	142
Transport equipment	43	57	79	83	76	36
Total	415	547	672	669	657	481

Source: Boletín Mensual de Estadística. Classification by ECLA.
[a] Estimated on the basis of data for 9 months.

ceforth subsidized.[14] There were some moderate changes in the structure of imports, in the shape of an increase in materials and a decline in finished consumer goods, which reflected the measures just described. But total purchases abroad continued near their 1954 levels. A large deficit appeared in the balance of payments, the gold reserves of the *Banco de la República* declined, and short-term trade debts grew.

Foreign exchange reserves were now apparently affected by exports of capital as well as an import surplus. Exporters of minor commodities had foreign exchange freely available, as had coffee exporters, whenever the export price exceeded the "surrender value". Moreover, over-invoicing of imports in the less highly-taxed categories had also become common,[15] so that capital could be exported merely by failing to repatriate it.

The strain on foreign exchange reserves was somewhat relieved in 1956 by supplies from the United States under the scheme for disposing of surplus commodities (Public Law 480). Agreements under this programme have been as follows:

	1955	1956	1957
	(Millions of dollars)		
Wheat (or flour)	1.6	3.4	13.8[a]
Cotton	1.6	6.0	3.0
Edible oils	1.0	1.5	1.8[a]
Dairy produce	0.7	—	—
Freight	0.4	0.7	1.8[a]
Total	5.3	11.6	20.4[a]

[a] Covers three years.

Since these commodities have been among Colombia's staple imports the programme has entailed small but important savings in foreign exchange. Of the proceeds, 40 per cent is used for United States expenses in Colombia, partly for purchases of strategic materials, partly to finance current diplomatic and propaganda expenses and partly for educational aid.[16]

After the middle of 1954 the authorities began to take a long time to effect payments on the official exchange market, with the result that short-term debts grew steadily, reaching about 150 million dollars at the end of 1954, 245 million at the end of 1955 and 400 million at the end of 1956.[17] From July 1956 onwards, the Government at various times offered schemes under which importers could pay pressing creditors immediately—provided they were prepared to pay a higher price for dollars—for example, by buying half the foreign exchange at the legal rate, provided that they purchased the other half in the market for free dollars. These options were not taken up on any large scale. If importers were pressed by their creditors, they usually made temporary purchases in the free market, and kept their exchange permits in the hope that they would eventually be able to buy dollars at 2.50 pesos, and then use the dollars to buy pesos on the free market, to balance the sales of pesos they had been forced to effect there. Still, the fact that the Government made these offers amounted to a tacit but authoritative recognition that the official exchange rate could not be maintained. The free-market peso showed a marked downward trend in the second half of the year. In October, the office for registering imports was closed, although a special committee was set up to consider urgent requests so as to avoid paralysing essential services, and the prohibited list was reintroduced, covering about one-sixth of the current dollar value of imports. In December, the authorities established a market for foreign exchange certificates *(títulos de divisas)* which were valid only for certain specified purposes, and the stamp tax was also raised. To a large extent, the foreign exchange certificates market took the place of the free market. With the rate of

[14] The counterpart of this measure was that the exchange rate for coffee was kept low. It can in fact be argued that there was now a subsidy on imports of raw materials, financed by a tax on coffee exports.

[15] "...The over-invoicing system prospered, because to leave dollars available abroad was such a profitable business that it even happened that imported goods were left unclaimed in the customs warehouses because the person concerned had already made a profit by selling the dollars which were over-invoiced [on the free market]". See speech by Minister of Finance and Public Credit in Ministry of Foreign Affairs, Department of Economic Affairs, *El régimen cambiario y otras medidas económicas*, Bogotá, *Empresa Nacional de Publicaciones*, 1957, p. 11. The speech was delivered on 17 June 1957. Apart from over-invoicing, some importers had to pay prices which were "padded", because foreign firms feared they would be unable to collect payment.

[16] In so far as such expenses would have been incurred in any case, this part does not ease Colombia's balance-of-payments situation. The 40 per cent share for United States expenses was actually paid in pesos in 1955 and 1956, at the rate of 2.51 to the dollar, but in 1957 35.6 per cent was paid in dollars, which the United States could convert into pesos on the free market. The remainder is being lent for development (see section III).

[17] These are debts addtional to those normally outstanding in the course of trade (some 100 million dollars). However, they include debts which have been settled by free-market operations. These amounted to about 80 million at the end of 1956. Actual trade debts outstanding therefore increased by about 70 millon dollars in 1956, and this covered the deficit.

6 pesos to the dollar for foreign exchange certificates, an importer of non-essential finished goods now had to pay altogether more than 8 pesos to the dollar. Moreover, prior deposits were raised again, and steps were taken to make it more difficult for earnings on declared exports to be left overseas. Notwithstanding these developments, imports remained at nearly the same levels as in the previous two years. Purchases of finished consumer goods from abroad did drop, but imports of materials, including building materials, were higher than they had been in 1955.

In early 1957, when the office for registering imports was re-opened, it limited authorizations, refusing some applications and applying quotas to others. These quotas were specific for each firm and were based on past orders. Imports had by then fallen sharply, so that the further growth of short-term debts was checked. In March steps were at last taken to cancel these debts, by means of amortization agreements. The first agreements involved heavy cash payments and short amortization periods. Made chiefly with North American creditors to the amount of 235 million dollars, they stipulated that 60 per cent (140 million dollars) should be paid in cash, and the other 40 per cent should be amortized over 30 months, starting with the following month, at 4 per cent interest. Small debts were paid in full. At the same time, over 80 million dollars of the sum owed were eliminated by paying compensation in pesos to importers, who had in fact already settled their debts by buying dollars on the free market, but who still possessed exchange permits. Peso payments also liquidated part of the oustanding debt for freight, arrears of dividends, etc.

This was, however, only a first step. The new administration was faced with a difficult situation in May, with heavy short-term debts still to pay off, a formidable burden of rapid amortization on the remainder, low foreign currency reserves, and many import authorizations waiting to be honoured. Colombia's standing in international business circles had been severely shaken and it was difficult to obtain even customary trade credit for a few weeks on imports.[18]

The Government adopted the following measures:

(i) *Exchange reform.* Under the previous complex system, stamp taxes over and above a fixed exchange rate had created what was in effect a set of multiple fixed exchange rates, and the markets for free dollars and foreign exchange certificates had introduced fluctuating elements. Now there were to be only two fluctuating markets, i.e., the "certificate market" for the bulk of merchandise and the "free market" for most service and capital transactions. Stamp taxes were abolished, but two new taxes were introduced—an exchange tax of 10 per cent on imports, and a 15 per cent tax on exports. The rate in the certificate market was approximately 5 pesos to the dollar at first, but it weakened subsequently. Importers of materials, who had previously bought dollars at 2.50 pesos plus a low stamp tax, were therefore obliged to pay much more for their imports after June, whereas some importers who had previously been liable to heavy stamp taxes were not greatly affected, or even had to pay less. In effect, the subsidy on imports of materials was removed.

(ii) *Import controls.* A general reduction was made in outstanding authorizations, but these were otherwise honoured, and large fresh authorizations were issued in June to cope with the pressing demands of importers. Henceforth imports were classified in three groups—prohibited, free and licensed. The "prohibited" group covered 27 per cent of imports, taking the average of the past four years, the "free" group 38 per cent, and the "licensed" group 35 per cent.

The object of the licensing system was not to exercise import controls but to determine which commodities should be freely imported and which prohibited, so that eventually the class of goods subject to licence would disappear.[19] The licensing authorities do not attempt to reduce the total demand for foreign exchange, since this is the responsibility of fiscal and monetary authorities.[20] Among applicants for licences to import capital goods, first priority is given to those submitting projects which will save foreign exchange by increasing production of exports or substitutes for imports and will use a high proportion of domestically-produced materials. In licensing other goods, the authorities take into account, *inter alia*, whether there is adequate local production of substitutes, whether the goods required are essential for Colombia, and, whether they are (in the case of spare parts) necessary for keeping machines in service. It has not generally been the practice to examine a firm's previous orders or inventories. In the case of woollen yarn, glassware, printing inks, etc., licenses are given without question, provided the local producer certifies that he cannot fulfil the order. Authorizations have been given for imports of parts to be assembled into radio receivers, cash registers, and typewriters (although in the last case the imported parts cost 70 per cent or more of the import cost of the completed article). Projects for vehicle assembly plants were abandoned by Government decision, at least temporarily, because of the foreign exchange commitment they would involve.

(iii) *Advance deposits.* Advance deposits were at first reduced (or increased) to a uniform level of 20 per cent, but the percentage was applied to values calculated an the basis of a much higher exchange rate, i.e., 4.85 pesos to the dollar. In September, this procedure was made a much more effective instrument of import restriction. One hundred per cent deposits were required on over four-fifths of imports (with agricultural equipment, fertilizers, food and medicines remaining at the 20 per cent rate), and the exchange rate used in assessing deposits was adjusted to 5 pesos.

(iv) *Extension of foreign exchange liabilities.* The new Government took steps to strengthen the country's capital position. In June a stand-by credit of 25 million dollars was arranged with the International Monetary Fund. A few weeks later, loans were granted by the Export-Import Bank (60 million) and by a group of United States bankers (27 million). With this improvement in reserves, further agreements could be concluded to finance the short-term debts still outstanding, mostly with European creditors. The terms of these agreements were much more favourable to Colombia. The commonest type provide that only 20 per cent

[18] In August, despite the measures taken to correct the situation, the Export Credit Guarantee Department of the United Kingdom decided to cease offering insurance cover on exports to Colombia against risks of non-repayment. Such a move is liable to be taken as a signal by United Kingdom banks as well.

[19] This account is based on the report of the Imports Department *(Superintendencia Nacional de Importaciones)* for the second half of 1957. The principles concerned follow criteria laid down in the decree of 19 June.

[20] Seventy million dollars' worth of licences were granted in June-December 1957, out of applications for 81 million dollars' worth.

should be paid in cash and the remainder in 36 instalments at 5 per cent interest, commencing as far ahead as February 1959.

(v) *Financial and organizational measures.* A number of more general financial steps were taken, one of their objectives being a reduction in demand for imports, as will be seen later. There was also an important administrative change. The *Banco de la República* was given certain powers in this field. It was authorized, *inter alia,* to fix the "surrender value" of exports;[21] to intervene in the certicate market so as to moderate its fluctuations, using a new Exchange Control Fund *(Fondo de Regulación Cambiaria)* for the purpose; to fix the period of validity of certificates; and to decide what prior deposits should be required on imports.

During the first quarter of 1957, imports had been low because of the suspension of registration at the end of the previous year, and because of the deterioration in Colombia's credit rating. They increased somewhat during the other three quarters, especially the fourth as a result of the heavy registrations in June. There was unremitting pressure for foreign exchange, despite its rising cost. (The Exchange Control Fund bought pesos in the certificate market in an attempt to stabilize the rate, but this was later abandoned as too expensive.) Still, if the year is taken as a whole, it appears that imports fell sharply in comparison with the previous three years and indeed dropped below their 1953 levels. But their structure had changed. The contraction was concentrated in finished goods, both consumer goods and capital equipment. Imports of materials, except building materials, were less drastically affected, despite the higher exchange rate applied from June onwards, and now represented a much larger share of the total (see again table 146).

The fall in imports allowed of some improvement in Colombia's capital position. But this change in itself would merely have eliminated the deficit. What also helped greatly was an increase in the inflow of medium-term capital, prominent items being a loan of 60 million dollars from the Export-Import Bank, of which 53 million were used in the year; 27 million from private United States banks; and a 20 million dollars investment by French banks in Paz del Río. Altogether some 130 million dollars were available for coping with short-term demands. In the course of 1957, Colombia paid 220 million dollars in cash settlements of private trade debts and 30 million on amortizations bonds falling due in the year, leaving 120 million outstanding in unpaid bonds. But, while a total of some 250 million was thus paid off, new short-term credit amounted to some 106 million dollars, which is approximately the normal outstanding debt (equivalent to three or four months, imports). So the net improvement in the short-term position was about 140 million dollars. What happened was that the reduction of the short-term debt was financed mainly by borrowing and by a renewed inflow of capital. It was not so much that Colombia's liabilities were reduced, but rather that some breathing-space was gained by substituting longer-term for immediate obligations.

It was mentioned above that the decline in coffee prices implies a further fall in the value of coffee exports, and thus of total exports, in 1958 as compared with 1957. In addition, some 75 million dollars are required to meet amortization payments on the trade debts this year (including interest). This is being paid directly out of export earnings. Again, amortization payments are also due on longer-term debts. Because of the size of these repayments, reflecting the shortness of the period of amortization of much of the debt, Colombia needs a substantial surplus in its current balance of payments.[22]

Refined petroleum imports have been prohibited since the opening of a new refinery at the end of 1957, and some reduction is possible in the bill for fuel imports. But imports of vehicles can hardly be cut down much further in view of the deterioration in the existing park, and the Government's agricultural investment policy implies a rise in imports of agricultural equipment. Consequently, any additional curtailment of imports would have to come out of industrial equipment and materials. Imports of construction materials and metals may be expected to decline with the lower rate of construction and the expansion of steel output at Paz del Río. Since materials inventories appear fairly high in certain industries, and there are generally heavy inventories of finished goods, imports of some materials, especially sub-assemblies, can be reduced without too great economic hardship.

Registrations of imports rose again in February 1958 and further measures were adopted in March to check the upward movement. These included some of a general financial nature, which will be discussed later. But, in addition, special steps were taken to reduce the demand for imports. It was decreed that deposits on imports would henceforth be returned two months after the goods arrived instead of on their arrival; and the exchange rate used in calculating deposits was raised from 5 to 6 pesos to the dollar.[23] In April, 80 per cent of the goods on the free list was put on the list of goods requiring a licence, and the prohibited list was extended.

The measures introduced between February and April as part of a new coffee policy also have some implications for imports. They are discussed at the end of this section.

3. Effect of changes in coffee exports on internal incomes

The peso value of coffee exports reflects not only the New York price and the volume exported but the exchange rate at which exporters are able to convert their dollar proceeds into pesos. Factors affecting the peso value are shown in table 147. From November 1951 onwards, the exchange rate for coffee export was gradually raised month by month towards the general exchange rate of 2.50, in accordance with the policy of eliminating the "coffee differential". The average official rate for 1952 was 2.24 pesos to the dollar. In the course of 1953, the official coffee rate continued to climb, and a new factor emerged; New York prices rose above 86.50 dollars per bag, the current "surrender value". The surplus could be sold for more pesos than the official coffee rate would have brought, so the *effective* exchange rate for coffee, allowing for these sales, became slightly

[21] The "surrender value" is the foreign exchange that the exporter must sell to the authorities for each unit exported. See the next part of this section.

[22] In May, according to press reports, new loans totalling 103 million dollars were arranged to ease the immediate critical shortage of foreign exchage. The sum of 78 million dollars is said to have been advanced by the Export-Import Bank, the remainder by private United States banks. These loans enable Colombia to avoid drastic cuts in imports.

[23] And the rate used in calculating duties from 5.60 to 5.80.

Table 147. Colombia: Factors affecting the peso export value of coffee

(Legal exports)

	New York market price[a] (Manizales, Cents per lb)	*Dollar export price (f.o.b.)[a] (Dollars per 70-kg bag)*	*Volume exported[a] (Millons of 70-kg bags)*	*Hypothetical export value[c] (millions of dollars)*	*Effective exchange rate[d] (Pesos per dollar)*	*Estimated export price (f.o.b.)[e] (Pesos per 70-kg bag)*	*Estimated export value (Millions of pesos)*
1952	57	83	4.3	360	2.24	186	800
1953	60	89	5.7	504	2.34	207	1 175
1954	80	120	4.9	590	2.27	273	1 350
1955	64	96	5.0	484	2.45	234	1 175
1956	74	109	4.3	475	2.84	319	1 350
1957	64	93	4.1	385	3.61	337	1 400
1957							
January-June	68	101	1.7	174	3.07	311	550
July-December	60	87	2.4	212	4.05	356	850

[a] *Revista del Banco de la República.* Prices are averages of daily quotations.
[b] Derived from previous column, allowing for freight.
[c] Derived from previous columns. Except for 1954 the results are very similar to those in table 145.
[d] Calculated by ECLA for 1952-53; by Dr. Contreras of the Economic and Fiscal Programming Committee *(Comité de Planeación Económica y Fiscal)* for 1954-55; and by the Economic Research Department *(Departamento de Investigaciones Económicas)* of the *Banco de la República* for 1956-57. Allows for "coffee differential", surrender values, free-market rates, certificate rates, purchases of foreign currency certificates *(título de divisa)*, export taxes, etc.
[e] Dollar value multiplied by effective exchange rate.

higher than the official coffee rate and averaged 2.34 pesos to the dollar for the year.

In 1954, the Government attempted to prevent the full impact of the rapidly climbing New York prices from reaching the internal economy. The automatic rise in the exchange rate for coffee was halted at 2.38 pesos and the "surrender value" followed the price upwards. It was raised in the opening weeks to 91 and then to 125 dollars per 70-kg bag. In May a special tax was levied, consisting of half the difference between the surrender value and 105 dollars, i.e., 10 dollars per bag at that time. As New York prices fell, exporters had to make increasing purchases of dollars (at an exchange rate of about 3.50) to complete the surrender value (dollars which they then had to sell at 2.38). But, in response to the fall in New York, the surrender value was reduced to 110 dollars for the last 3 months of the year, almost eliminating the special tax, and the need for exporters to buy dollars in the free market. The net effect of all these measures—freezing the coffee exchange rate, manipulating the surrender value, and varying the special tax—was that exporters received, on the average, somewhat fewer pesos per dollar than in 1953. The rise in the peso equivalent of dollar earnings was therefore checked, though it could be argued that the special tax was imposed too late, since the peak in the dollar price had already been passed. In the first 4 months, the peso income from exports totalled over 560 million as compared with 330 million during the corresponding period in 1953. Moreover, peso incomes continued at a high level in the second half of the year, because the Federation supplemented sales abroad by buying at quotations based on the previous high export prices i.e., 39 pesos per *arroba* of ordinary parchment at Manizales[24] as against a purchase price of about 26 pesos in 1952 and 1953. (See figure XII, which shows the different trends thenceforth followed by United States and domestic coffee prices).

Table 148 is designed to show all the factors affecting the peso income of the coffee sector. The first two columns demonstrate that the domestic price is closely linked to the f.o.b. export price.[25] The effect of inventory changes is also indicated. In 1953, part of exports had come out of inventories, whereas in 1954, on balance, the Federation supplemented export proceeds by buying itself. Consequently between 1953 and 1954 the rise in the income of the coffee sector (nearly 50 per cent) was much greater than the increase in the peso value of coffee exports.

The Government itself intervened in 1955 to sustain coffee incomes. In February the surrender value was reduced

[24] This was reduced to 35 pesos in October.

[25] Too much should not be read into small variations in the gap between the two prices.

Table 148. Colombia: Factors affecting internal income of coffee sector, 1952-57

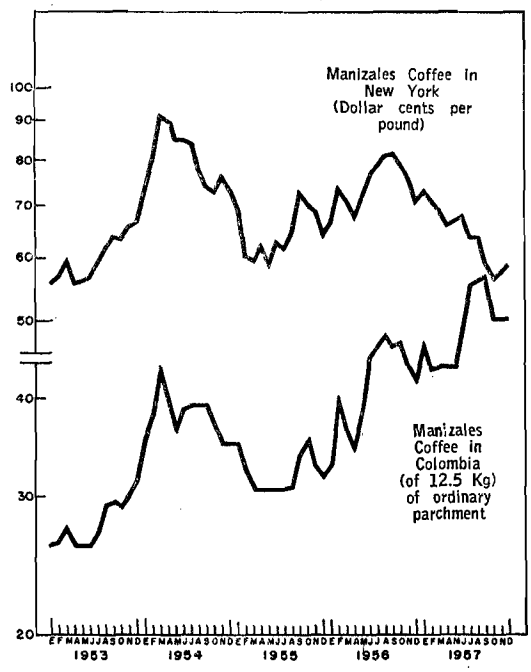
	Peso export price f.o.b.[a] (pesos per 10-kg bag clean)	*Price in the interior[b] (parchment at Manizales, pesos per arroba)*	*Peso export value[c] (millions of pesos)*	*Rough allowance for investment in inventories and contraband (millions of pesos)[c]*	*Total income of coffee sector[d] (millions of pesos)*
1952. . . .	26.6	26.0	800	+150	950
1953. . . .	29.6	27.8	1 175	—150	1 025
1954. . . .	39.1	37.9	1 350	+150	1 500
1955. . . .	33.4	32.0	1 175	— 50	1 125
1956. . . .	44.3	41.6	1 350	+250	1 600
1957. . . .	48.1	48.8	1 400	+550	1 950
1957					
January-June	44.4	44.7	550	+250	800
July-December	50.9	52.5	850	+300	1 150

Source: As indicated in the notes below.
[a] Taken from table 147.
[b] *Revista del Banco de la República.* Average of daily quotations. The Federation's buying price, whichever is the higher. One arroba (12.5 kg) of parchment coffee is approximately the same as 10 of clean coffee.
[c] Calculated on the basis of the Federation's statistics, private loans by the *Banco de la República, etc.* The estimate for contraband it based on the figures quoted in *International Financial Statistics.*
[d] Peso value of exports plus an approximate margin for investment in inventories and contraband. (Domestic sales are excluded. They represent about 10 per cent of total output but rather less than 10 per cent of its value, because the coffee sold is of the lower-quality *pasilla* variety).

Figure XII

COLOMBIA: COFFEE PRICES, 1953-57

Semi-logarithmic scale



to 95 dollars, which automatically eliminated the special tax, and in May the "coffee differential" was wiped out, so that the general exchange rate (2.50) became applicable to coffee too. Hence the average effective coffee exchange rate for the year was higher than in 1954. This alteration in the exchange rate largely balanced the effect of the decline in dollar export values, and the peso value of legal exports showed only a small decrease. It is also believed that 1955 saw the start of large-scale contraband exports. The free-market rate climbed above 4 pesos to the dollar at times, and it became worth while to avoid cashing dollars at the official rate.[26] On the other hand, a considerable proportion of the legal exports came out of the Federation's inventories, so that the peso incomes actually reaching the coffee sector fell back to a level not very different from those recorded in 1952 and 1953.

In 1956, the New York price recovered. This meant that the peso price increased more than proportionately, because the dollars received for each bag exceeded the surrender value (95 dollars) throughout the year. The excess could be sold on the free market at a price which was now substantially above 4 pesos per dollar, and in fact rose to over 6 pesos at the end of the year. The effective rate for coffee exports thus exceeded 2.50 pesos to the dollar. The improved dollar price, together with the higher exchange rate, offset the decline in the volume exported. This decline was partly due to the fact that sales out of inventories were, on balance, negligible during the year, whereas they had been large in 1955. But it was mainly attributable to a diversion of exports to contraband channels, because of the wide gap which had now opened between the free and the legal rate. When a very rough allowance for contraband sales is made, it appears that total peso coffee incomes once more regained their 1954 levels.

In 1957, the prices and volumes of exports were both low. But the effect on peso incomes was partly absorbed by modifications of the foreign exchange régime. The surrender value had been raised at the end of 1956 from 95 to 105 dollars per bag, but 17.50 dollars of this could be used to buy foreign exchange certificates *(títulos de divisas)* which were sold to importers of finished consumer goods at high rates. Thus the surrender value was slightly reduced (from 95 to 87.50 dollars) and there was correspondingly a small increase in the number of pesos received per dollar of coffee exports, which now averaged 3.

The second half of the year witnessed a much bigger rise in the exchange rate. As from June, the surrender value was 100 dollars per bag, and exporters therefore had to turn, on an increasing scale, to the free market to buy dollars. Moreover, 15 out of every 100 dollars were taken as a special export tax. But exporters were free to sell the remaining 85 dollars on the certificate market. The net effect of these various changes was that the actual number of pesos received by exporters for each dollar of coffee exports rose from about 3 to about 4. This outweighed the decline in the New York price, and the internal price per *arroba* reached 50 pesos, a level which it had obtained in the third quarter of 1956, but which was considerably above those registered even early in 1954. In addition, the Federation was now buying coffee again to sustain the price. Exports fell in April and May because exporters were unwilling to sell when devaluation appeared imminent and the Federation bought a large amount at 43.50 pesos per *arroba*.[27] It raised its buying price after the effective exchange rate altered, and most of the last four months' purchases made at 50 pesos.[28] These were heavy—the trees are picked more cleanly when prices are high—and contraband sales, which had continued strongly in the first six months, apparently slackened off after June. (The margin between the effective and the free-market rate closed, and the exporter stood to get only about 50 per cent more instead of 100 per cent by evading export controls.) The total effect of all these developments was another large increase in the income of the coffee sector between the first and second half of 1957, worth perhaps 700 million pesos (at annual rates). At the end of the year, the effective exchange rate began to rise rapidly because of the decline of the peso on the certificate market. In February 1958, this effective rate fell to 4.62 (average for the month), offsetting the further decrease (to 53 cents) in the New York price, so that peso prices remained unchanged.

The sporadic weakening of the certificate exchange rate, resulting from the pressure exerted by importers on a limited supply of dollars, was tending to undermine the New York price, because it was considered tantamount to devaluation. Exporters were continually tempted to thrust their goods on the New York market as the effective exchange rate rose.[29] Again, the downward movement in the value of the peso was encouraging both the accumu-

[26] "Under-invoicing" of coffee also apparently increased. Because of the small difference between export grades, false declarations of quality have never been so common as in Brazil. It has, however, been worth while at times to put slightly more than the nominal weight in a bag.

[27] Ordinary grades of parchment in most towns.

[28] The price was temporarily 55 pesos (even 57 for a few days), which was somewhat above the equivalent of the export prices then current, because the Federation was attempting to enforce its policy of buying for inventory.

[29] Especially since it was in fact possible to buy in the interior at levels below these set by the Federation.

lation of imports for inventory and exports of capital. Since a declining exchange rate simultaneously depressed export prices and encouraged speculative purchases of foreign exchange, it had dangerous cumulative possibilities.

Over the period February to April, a new coffee policy was adopted for the dual purpose of stabilizing the external price and reducing the inflationary effect of the purchases of coffee for inventory. It included the following measures:

(i) A tax in kind of 15 per cent was levied on coffee exports, to furnish inventories directly;
(ii) The surrender value was reduced from 100 to 85 dollars per 70-kg bag, which was not very different from the current price;
(iii) The certificate rate for converting coffee proceeds was pegged at 6.10 pesos to the dollar (its current rate);
(iv) A minimum export price was set, equivalent to about 55 cents per pound in New York;
(v) The export tax of 15 per cent was applied to the new surrender value;[80]
(vi) The buying price in the interior was set at 48 pesos per *arroba* ("ordinary" grade) as against 52 pesos at the start of the year;
(vii) The dollar proceeds of coffee sales were henceforth to be auctioned;[81]
(viii) The profits accruing to the exchange authorities through buying dollars in the certificate market at 6.10 and selling them at a fluctuating higher rate were to be used for financing coffee inventories, and a special grant of 60 million pesos was also to be provided by the Government for this purpose.[82]

The National Federation of Coffee Growers is able to buy at a peso price near the levels of recent months, because the new tax in kind is offset by the effects of a lower surrender value, including the consequent reduction in the export tax. There is therefore no large immediate fall in the incomes of coffee-growers from early 1958 levels. But the limit on the exchange rate means that peso coffee prices will not rise in the near future in the event of a further decline in the peso.[83] Since, however, production may well be higher than in 1957, and the peso price will be a good deal above the average 1957 figure, at least for several months, total peso incomes for coffee will presumably exceed last year's figures.

II. GROWTH AND DECLINE OF INFLATIONARY PRESSURES

Summary

The indices of retail prices climbed slowly in 1952 and 1953 and then remained virtually constant for over a year (see table 149). Towards the end of 1955 they began to mount once more. The upward movement was fairly slow in 1956, accelerated in the first half of 1957 and then reverted to a more moderate rate (see figure XIII). The object of this section is to explain how price stability was achieved at a time when demand for imports seemed almost insatiable, why a price inflation commenced later, and what are the current prospects.

The most important aspect—the foreign sector—has already been considered in the first section. It is necessary to discuss here how events in other fields investment and public finance—influenced demand, and also what has been happening in respect of agricultural supplies for the home market. The section closes with an outline of the process by which the interaction between external and internal factors caused the indices of retail prices to follow the course described above.

Much of the rise in coffee incomes in 1954 went into profits and increased resources for the Coffee Fund. Consequently, it was diverted into demand for imported capital goods and into financing inventory-building. The growing import surplus absorbed this pressure of demand and prevented excess demand from unbalancing the domestic market. In 1956 and early 1957, speculative investment increased, coffee incomes were swollen by contraband sales and the import surplus was reduced, so that inflationary

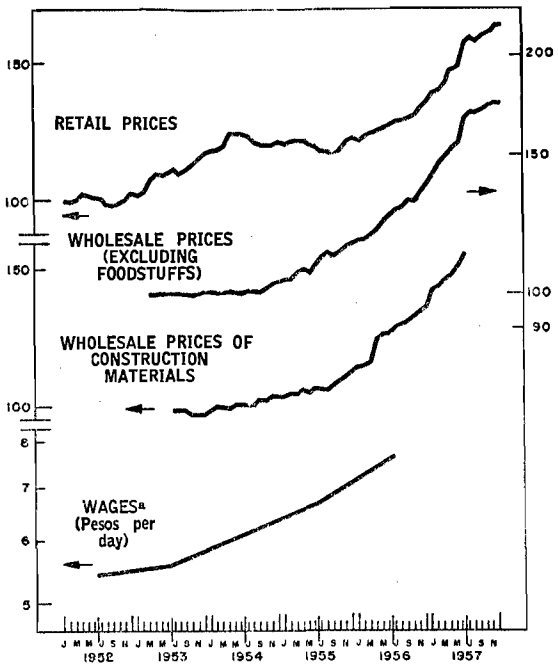
Table 149. Colombia: Index of consumer prices (working-class), 1953-57

	Old series (1933=100)[a]		*New series (July 1954-June 1955 = 100)*[b]			
	1953	*1954*	*1954*	*1955*	*1956*	*1957*
March	218	243	...	100	103	115
June	222	252	...	100	106	125
September	222	255	99	99	107	130
December	233	258	100	102	110	134
Annual average	222	251	...	100	106	124

Source: Boletin Mensual de Estadistica.
[a] Bogotá only.
[b] Weighted average of several cities.

Figure XIII

COLOMBIA: PRICE INDICES, 1952-57
(1952 = 100)
Semi-logarithmic scale



[a] The figures for 1955 and 1956 were estimated on the basis of I.L.O. data on manufacturing, mines, quarries and agriculture.

[80] It was announced that this percentage would be lowered to the extent that it proved possible to reduce amortization on the foreign debt (article 6 of the Decree of March 27). Hence the total economic benefit from any renegotiation of the amortization arrangements will be somewhat limited; the supply of imports will rise, but so will demand for them.

[81] It was also decreed that in principle foreign exchange was only to be sold to those possessing customs manifests. Strict application of this measure would mean that an importer would not know the peso cost of his goods when he ordered them.

[82] What has emerged is an exchange system somewhat resembling that of Brazil. In both countries there is a fixed exchange rate for coffee exports, a fluctuating rate for most imports under an auction system (premiums being used outside the Treasury to finance coffee inventories) and another fluctuating free-market rate. (Brazil also has a further fluctuating rate for luxury imports and a number of fixed rates for minor exports and special imports.)

[83] Though the coffee exchange rate is subject to periodic adjustment.

symptoms appeared. The exchange reform of June 1957 drastically altered the situation. A sharp increase in domestic prices of imports seems to have absorbed much of the excess demand, outweighing the effect of the big rise in coffee incomes. In addition, investment was being reduced by general monetary restrictions, which, though designed primarily to contain demand for imports, were causing declines in local activity as well as in some sectors, especially building.

1. Fluctuations in investment

(a) *Fixed-capital investment*

The rise in investment in equipment shown in table 150 reflects the heavy imports of such good,[34] local production being responsible for less than 5 per cent of this type of investment. The exchange rates concerned were relatively favourable and there was a ready sale for many of the commodities made with the equipment thus purchased, especially consumer durables, because imports of such finished goods were subject to heavy stamp taxes, if they were not actually prohibited. The dollar value of equipment from abroad declined in the second half of 1957, because of the sharp rise in the exchange rate and the restrictions on imports. Yet, precisely because of the devaluation of the peso, the peso value of such imports did not fall nearly so sharply as the dollar value, and industry was also able to draw on inventories of new vehicles and other capital goods built up in earlier years. So the decline in this type of investment has so far been less drastic than the dollar import statistics might suggest. This decline appears likely to be a good deal more severe in 1958 than in 1957, although it will be somewhat mitigated by the official support of agricultural investment.

The value of building licences granted in the towns rose in 1953 and 1954, but slipped back in 1955.[35] There was a further marked advance in 1956, which seems to have been due to a growing desire to hold capital in the form of property as the rise in prices gathered momentum. In 1957, the value of licences increased once more, but there was a decline in the ground area of the buildings licensed, the explanation being that the increase in the value of projected work was smaller than the rise in building costs. Moreover, at the end of the year, there was a noticeable dip in the value of projected work as well, suggesting that this type of investment would decrease in 1958 in both monetary and real terms.

[34] The estimates are based on imports, but they probably exaggerate to some extent the rise in investment in 1953 to 1955, because part of the increase in imports, especially of vehicles, went into inventory rather than into use, for reasons which will be discussed below.

[35] *Revista del Banco de la República.* The series covers 19 towns.

Table 150. Colombia: Fixed capital investment and building costs, 1952-57

(Millions of pesos)

	1952	1953	1954	1955	1956	1957
Investment in equipment	566	832	922	954	970	...
New construction (buildings)	268	335	416	390	527	...
Total	834	1 167	1 338	1 344	1 497	...
Index of building cost in Bogotá (1943 = 100)	317	343	363	385	422	473

Source: Revista del Banco de la República, and information provided by this bank.

(b) *Investment in inventories*

A certain amount of information is available on inventories, and is summarized in table 151.

The statistics in table 151 are somewhat difficult to interpret.[36] The company statistics (given at greater length in the statistical annex) suggest a rather slow increase in inventories in 1954, partly attributable to the fact that inventories of crude petroleum declined sharply in this year. Inventories of companies in retail and wholesale distribution increased by 38 million pesos, i. e., 50 per cent. The total inventory increment in distribution, which must have been much larger since inventories of unincorporated businesses presumably increased substantially as well, can be put down to the rise in imports of finished goods during the year. Inventories in manufacturing were also much bigger.[37] In 1955, as appears both from the sample of retailers and the statistics of commercial companies, inventory-building slowed down in distribution. Yet stocks continued to rise at a fairly fast pace in manufacturing; indeed, between the end of 1953 and the end of 1955, according to the manufacturing surveys, inventories rose by 43 per cent, as against an increase of 22 per cent in the value of output between the corresponding calendar years. By comparison with 1953, therefore, inventories were high in 1955. During 1956, according to company statistics, inventory-building was accelerated, but this development was mainly, if not wholly, a reflection of price increases. Manufacturing inventories probably fell behind output, although they may still have been large at the end

[36] Company statistics do not of course cover all economic activity, because many businesses, especially in distribution, are unincorporated. They also contain, for reasons outlined in the statistical annex, some unavoidable duplication, and vary in coverage. The sample of manufacturing establishments, on the other hand, is rather small.

[37] Company statistics show a somewhat smaller increase.

Table 151. Colombia: End-of-year inventories in trade and manufacturing, 1953-57

(Millions of pesos)

	1953	1954	1955	1956	1957
All companies[a]	699	690	751	893	...
All manufacturing establishments[b]	592	727	845	...	...
Small sample of manufacturing establishments[c]	40[d]	...	...	63	77
Large sample of retail establishments[e]	...	498	522	599	...

Sources: As indicated in the notes below.

[a] Companies Department *(Superintendencia de Sociedades Anónimas).* For information see the statistical annex to this chapter.

[b] Results of the 1953 census and the large sample of manufacturing in 1955. *Boletín Mensual de Estadística,* August 1957, No. 77.

[c] See statistical annex. Covers 61 firms. Only inventories of raw materials and finished goods are included.

[d] Based on results for 41 firms grossed up (see annex).

[e] *Boletín Mensual de Estadística,* February 1958, No. 83. Covers the 18 largest cities and towns said to be responsible for 62 per cent of retail sales. The sample itself, in the case of Bogotá, (according to Boletín No. 77) covered 92 per cent of the inventories in 1954 by taking all firms with inventories of more than 50,000 pesos.

acutely affected by rising prices, and thus failed to gain in relation to sales.[38] The only information available for 1957 is a small sample of manufacturing firms. At first sight this suggests that the increase during the year was considerable. But two qualifications must be made. Firstly, inventories fell off in the first half of the year, because of the decline in imports,[39] and rose only in the second half. Secondly, the total increase for the year was almost wholly in finished goods of the rubber and chemical industries (to a considerable extent in tyres). Most of the other industries showed relatively small changes. Inventories of materials rose only from 35 to 39 million pesos, suggesting a fall in physical terms and certainly a drop in relation to output.

An important question is whether some surplus inventories remained in the system at the end of 1957. A special tabulation was made to compare the 1953 census results for 41 firms with those of 1956 and 1957. This shows that inventories developed quite differently in different industries, although it should be remembered that the sample is very small for individual industries. In milling, other food industries, textiles and cement, inventories of materials at current prices were, in December 1957, approximately double those registered in 1953, and in the beverage group they were some 50 per cent higher, though this last increase occurred mainly in the course of 1957. But inventories of materials in the tobacco and rubber industries declined in value considerably, especially in relation to output. In both these industries, as also in beverages and textiles, big increments were registered in inventories of finished goods, whereas inventories of foodstuffs ready for sale, though high at the end of 1956, had fallen considerably by the end of 1957, to a level only about 50 per cent above that recorded four years previously, and cement inventories were actually lower than they had been in 1953. Altogether, the inventories covered by the sample were about 70 per cent higher in value in 1957, inventories of materials having risen by 20 and inventories of finished goods by 400 per cent. It thus seems that inventories in 1957—especially where finished goods were concerned—were still fairly heavy, at least in comparison with 1953, though less so than at the end of 1956, except in the case of the rubber industries.

During these four years, total inventories appear to have increased every year, at least in monetary terms. Consequently, inventory investment in trade and manufacturing was positive each year. This is not true of coffee, where investment in inventories fluctuated from positive in 1952 to negative in 1953, to positive again in 1954 and back to negative in 1955 (see table 148 above).[40] Allowing for the change of sign,[41] inventory investment in coffee dropped by about 300 million pesos in 1953, rose by the same amount in 1954 and fell by over 200 million in 1955. In 1956, there was little coffee inventory-building on balance, but in 1957 a jump to record figures of over 300 million pesos took place. These fluctuations in coffee inventories dominated the changes in total inventory investment, and indeed total investment of all kinds, since, as can be seen from the figures quoted above, other types of investment appear to have been steadier. Largely because of the movement of coffee inventories, total investment was very low in 1953 and 1955 and moderate in 1956, but very high in 1954 and 1957, especially in the second half of the last-named year.

(c) *Monetary policy*

Monetary policy has played some part in the course followed by investment outside the coffee sector. In addition to the special measures in the first half of 1954 already discussed (the coffee tax and the freezing of the "coffee differential"), a general restrictive monetary policy was followed. In January 1954, bank reserve requirements were raised,[42] and, from June onwards, 40 per cent of extra deposits—excluding those in savings accounts—had to be put into reserves, this marginal percentage being later raised to 60 per cent. The marginal requirement was removed before it became very effective, but it apparently played some part in restraining private investment in 1954, outside the coffee sector, for advances grew more slowly than deposits.

Yet the effect of the coffee policy was not nearly as financially restrictive as it appeared. The "coffee differential" was paid partly into the National Coffee Fund and partly into the Federation's account in the *Caja Agraria,* only 30 per cent being used by the Government to offset external debt payments. Similarly, the National Coffee Fund received all the proceeds from the special coffee tax in 1954. These parts of coffee income were therefore not by any means frozen; they helped to finance rural investment and also the accumulation of coffee inventories in the crop year 1954/55. Moreover, in so far as they were not used in this way, they were available to the banks where they were deposited, as a source of advances to those making other types of investment.

In 1955, there was another temporary rise in reserve requirements, but the most important monetary influence operated in the other direction. The *Banco de la República* sharply increased its advances to other banks, and bought bonds from the Government to help it finance its emerging deficit. (The banking statistics are shown in table 152.) This action prevented contraction in the money supply and tightness in the credit market, which would otherwise have occurred in a year of import surplus. There was in fact no decline in the note issue, and the backing for it decreased (see table 153).

The form assumed by the expansion of advances to the banks was the rediscounting of commercial bank credit. (The banking regulations allow rediscount "quotas" of commercial banks to be adjusted as capital and reserves of a bank rise, and the capacity of the *Banco de la Re-*

[38] A rather larger sample shows the value of sales as rising by 15 per cent between 1955 and 1956 *(loc. cit.).*

[39] Thus the *Boletín de la Superintendencia de Sociedades Anónimas* (January 1958) shows that the 96 manufacturing companies making half-yearly returns held raw material inventories worth 58 million pesos in June 1957, whereas 114 companies, presumably including nearly all the 96, had held inventories of raw materials of 130 million pesos in December 1956 and 118 companies had held inventories worth 115 millon pesos in June 1956. It is true that coverage was declining, because firms are abandoning half-yearly returns, but other evidence suggests that this shrinkage would not in itself have reduced inventory totals by more than 20 per cent.

[40] The last column but one reflects mainly inventory investment.

[41] As investment changed to disinvestment and vice versa.

[42] They had been reduced in December 1953 to help the banks meet seasonal needs for cash.

Table 152. Colombia: Banking assets and liabilities

(Millions of pesos)

A. *Banco de la República*

	Assets					*Total (assets or liabilities)*	*Liabilities*					
		Loans						*Deposits*				
	Foreign exchange[a]	*Other banks*[b]	*Private*[c]	*Government*[d]	*Other*[e]		*Notes in circulation*	*Other banks*[b]	*Government*[f]	*Other*[g]	*Miscellaneous*[h]	*Capital and reserves*
December 1952 . . .	326	264	124	205	167	1 086	610	148	111	44	124	44
December 1953 . . .	395	273	47	265	153	1 145	688	142	67	65	127	51
December 1954 . . .	526	299	156	343	164	1 498	780	240	157	46	199	67
December 1955 . . .	298	542	65	501	163	1 578	800	201	151	53	277	87
December 1956 . . .	360	549	85	674	209	1 905	964	254	84	44	409	136
December 1957 . . .	389	658	447	996	392	2 931	1 203	209	74	366	911	144

B. *Other banks and financial institutions*

	Assets				*Liabilities*				
	Cash and deposits in the central bank	*Loans*	*Other*[i]	*Total*[j] *(assets or liabilities)*	*Current deposits*	*Time deposits*[k]	*Savings deposits*	*Other*[l]	*Capital and reserves*
December 1952 . . .	252	1 258	532	2 042	708	202	174	579	280
December 1953 . . .	261	1 468	651	2 370	862	215	204	766	323
December 1954 . . .	427	1 854	915	3 196	1 093	413	261	967	462
December 1955 . . .	340	2 287	1 224	3 851	1 158	489	306	1 328	570
December 1956 . . .	402	2 772	1 769	4 943	1 475	827	366	1 622	653
December 1957 . . .	387	2 957	1 977	5 341	1 577	553	434	2 211	766

Source: Revista del Banco de la República.

[a] Valued at pesos 1.95 to the dollar up to July 1956. Thenceforward at 2.50.
[b] Shareholder banks.
[c] General warehouses and (the most volatile element) advances to the Coffee Federation against inventories.
[d] Including other official entities, and holdings of public debt. (In 1957 the rise is partly due to support of the *Fondo de Estabilización;* see text.)
[e] Debts of international organizations, buildings and (in 1956 and 1957) foreign trade liabilities taken over by the Bank.
[f] And other official entities.
[g] Non-share holder banks, private depositors and (in 1957) deposits for imports.
[h] International organizations, long-term deposits, the National Coffee Fund and (in 1956 and 1957) the peso counterpart of unpaid foreign trade debts.
[i] Shares in the *Banco de la República,* deposits in other banks, investments in securities (including bonds of other banks), buildings and land, profit balances, etc. The rise in 1956 is partly due to the increase in overseas accounts.
[j] Excluding unpaid shares.
[k] Including deposits at less than 30 days, but not in current accounts.
[l] Loans from *Banco de la República,* agency accounts, mortgage titles issued, bonds issued, (by special institutions), etc.

pública to rediscount is thus flexible.)[43] It was accordingly possible for commercial banks to augment their advances more rapidly than the public's deposits in the banks rose (see again table 152). In fact, they increased their advances even more quickly by running down their cash reserves to nearly the legal minimum (see table 153). This elasticity in the banking system enabled investment to be maintained at high levels in 1955, especially speculative investment in inventories. Fixed-capital investment was also stimulated by the fact that the increment in prior deposits in February flowed into the Stabilization Fund *(Fondo de Estabilización),* which was the holder of the deposits, and this organization in turn made advances to basic industries such as electricity. Meanwhile the Federation was rebuilding its deposit accounts by selling inventories again. Still another reason for the expansion of credit was the growth of short-term trade debts. The commercial banks were expected to guarantee the peso counterpart of these debts, when it became difficult to obtain foreign exchange, and in many—but not all—cases, collected deposits from importers. There was, however, nothing to prevent the banks from lending these deposits while they waited for them to be converted into foreign exchange.

These special deposits against trade debts amounted to only 55 million pesos at the end of 1955. But they increased to 200 million at the end of 1956, and largely account for the steep rise of deposits and thus of advances and investments in that year. It is true that the commercial

Table 153. Colombia: Legal requirements and actual position of banks, 1952-57

(Millions of pesos)

	Banco de la República			*Commercial banks*		
	Legal capacity to issue rates[a]	*Notes in circulation*	*Circulation as percentage of capacity*	*Legal cash requirements*[b]	*Cash*[c]	*Cash as percentage of requirements*
Dec. 1952. .	1 044	610	58	159	184	116
1953. .	1 345	688	51	154	197	128
1954. .	1 763	780	44	258	318	123
1955. .	897	800	89	329	341	104
1956. .	1 126	964	86	355	405	114
1957. .	1 391	1 203	87	365	389	107

Source: Banco de la República, Boletín de la Superintendencia Bancaria and *Estadísticas Monetarias Colombianas,* and information provided by the Bank.

[a] 25 per cent of foreign exchange holdings. Calculated at 1.95 pesos to the dollar until July 1956, then at 2.50.
[b] The sum of varying percentages of different types of deposits.
[c] Assets allowed to count towards the legal reserves (cash, deposits in the *Banco de la República,* bonds of certain other banks, less cheques held in petty cash, etc.).

[43] The rediscount quota is 150 per cent of paid-up capital and legal reserves (120 per cent on any excess above 4 million pesos). The paid-up capital tends to expand, because it has to cover at least 10 per cent of deposits, and so do legal reserves, which absorb 10 per cent of profits each year (up to 50 per cent of paid-up capital). Consequently, the system of bank credit is rather elastic. Certain types of investment by commercial banks have also been allowed special quotas. But bills rediscounted by the *Banco de la República* must not exceed 25 per cent of its reserves and capital.

banks also increased their accounts in overseas banks and that there was an attempt at reintroducing a stricter monetary policy. Marginal reserve requirements were revived, and the regulations for rediscounting were altered to make it less profitable.[44] Rediscounting declined, and at times banks failed to meet legal requirements. But the policy was reversed in June, despite the growing foreign exchange problem and the weakness of other measures adopted to deal with it. The marginal requirements were removed, and the minimum allowable ratio of reserves to deposits was reduced to levels lower than at any time since early 1952. The *Banco de la República* also lowered its interest rates and authorized certain other banks to do the same. Consequently, advances rose rapidly in the second half of the year. Moreover, the Bank was providing further assistance to the Government and therefore again had to expand the note issue, although this was kept safely within legal limits by the device of revaluing the reserves of gold and foreign exchange.

In the first half of 1957, the commercial banks played a more passive role. Deposits continued to increase, and, even though banks reduced their debts to the *Banco de la República,* their cash reserves rose and considerably exceeded legal requirements. With decline in imports, traders must have required less money to finance inventories. On the other hand, it now became necessary for banks to pay out part of their deposits. The Federation drew on its deposits to finance inventory-building, and the banks also had to part with pesos which they had been holding against short-term trade debts. The agreements on the funding of short-term debts obliged them to pay 73 million pesos into the *Banco de la República.* This deflationary influence was a counterpart to the inflationary impact, in 1955 and 1956, of the rise in peso deposits for unpayable debts, a factor which became much more important in the second half of the year. In July alone, 210 million pesos, and between August and October another 163 million, were collected from the commercial banks. These amounts were in part collected by them in turn from importers, but even so, 1957 saw, for the first time in recent years, a fall in the public's deposits in commercial banks during the year as a whole (see again table 152). In May rediscounting was further discouraged,[45] and in June reserve requirements were raised from 14 to 18 per cent on current accounts and from 5 to 9 per cent on time deposits. In addition, 80 per cent of any increases in deposits had to be held as cash.[46] The banks were caught between opposing forces; deposits were declining and reserve requirements rising. They had, perforce, to turn to rediscount facilities, even though these were now less profitable to use. So in effect the Central Bank lent them what they needed to comply with the new regulations. But it was able to keep the monetary system on a short rein, and the increase in advances was contained at moderate levels.[47] Since more money was now needed to finance imports, especially in view of their higher peso prices, and the larger advance deposits that were exacted after September,[48] this constituted a strong contracting influence on internal investment, and helps to explain the decline in construction activity at the end of the year.

In the second half of the year, the *Banco de la República* helped to finance the heavy purchases of coffee for inventory. It also absorbed a Government bond issue, and transferred the proceeds of the 1956 revaluation of foreign reserves to the Government's credit. Towards the end of the year, the combined calls of the commercial banks, the Federation of Coffee Growers and the Government on the *Banco de la República* were considerable. But there were some ways in which its position was relieved. Firstly, since the export duty was being used to finance amortization payments on short-term debts, the Central Bank was able to retain temporarily the peso equivalent of these payments, which it had collected from the banks.[49] Secondly, it became the repository for prior deposits on imports. But part of these had to be made available to their original holder, the Stabilization Fund, because the Fund's resources had been largely lent over the medium or long term, while old deposits had to be repaid to importers as their goods arrived. Since the total demands from various quarters outweighed these new resources, the Central Bank was compelled to arrange for large quantities of notes to be issued. Some of this need was seasonal, but the backing for the currency fell to less than 29 per cent. Legislation was introduced permitting the Bank to reduce the backing below 25 per cent, the legal minimum, if it found this necessary.[50]

In February 1958, a new set of monetary measures was adopted. Rediscount quotas were cut by 20 per cent and frozen at their new level instead of being allowed to grow in proportion to reserves of the commercial banks. Reserve requirements of commercial banks were raised again. Since prior deposits on imports had also to be lodged with the *Banco de la República,* these measures reduced the strain on its position. Moreover, in March, the new coffee policy relieved it of the need to make further large advances to the National Federation of Coffee Growers. (On the other hand, the Bank will have to hand over in 1958 the proceeds of the taxes on foreign trade, including some of what it collected in 1957.) The monetary situation was correspondingly tightened in the remainder of the economy. Although the commercial banks had some excess reserves in January, the new measures mean that advances can grow only slowly, if at all, a circumstance which will have a depressing effect on both inventory and fixed-capital investment in 1958.

2. The varying inflationary impact of Government finance

In comparison with changes in investment, movements of Government income and expenditure have been relatively mild and have therefore played only a limited role in the evolution of prices. From 1953 to 1954, there was a rather steep rise in taxes, which was due partly to higher income tax—there had been a reform of its rates and administration in 1953—partly to an increase in customs

[44] As regards the last quarter of the "quota", a margin of only 1 per cent was allowed between the borrowing and lending rates, and nothing at all on rediscounting above the quota.

[45] Banks were permitted to earn only 1 per cent on the last 40 per cent of the normal quota instead of the last 25 per cent, and special quotas were abolished.

[46] Even though the deposits of most banks were declining, there were some to which this condition applied.

[47] The reserve requirements were lowered again for a few weeks in December because of seasonal cash needs.

[48] These were estimated to amount to an extra 100 millon pesos.

[49] This point is discussed at greater length in sub-section 2 below.

[50] Nevertheless, for the purpose of calculating the foreign exchange reserve, a rate of 2.50 pesos to the dollar is still used.

duties, and partly to the levying of the new stamp tax on luxuries.[51] On the other hand, the Government lost part of its share of the dwindling "coffee differential", and the remainder of the increment was almost balanced by an expansion in expenditure, mainly in road-building and military outlays.[52]

The main fiscal change in 1955 was the rise in stamp duties on luxury imports, which increased revenue by over 100 million pesos. On the other hand, the proceeds of the "coffee differential" fell noticeably. The increase on the expenditure side outstripped the net growth of revenue, because a further large rise in public works spending took place, and the Government sector was therefore mildly inflationary in its effect on the economy.

In 1956, the increment in the yield of direct taxes —partly due to the institution of taxation at source—was more or less balanced by the decline in customs duties following the shift towards imports of materials with lower rates of duty, and total revenue did not change markedly. There were small general increases in expenditure, so that the impact of the public sector was once more mildly inflationary (see table 154).

In 1957, central Government Expenditure declined slightly. The effective exchange rate on Government imports doubled in June. (There were also increases in departmental and municipal outlays.)[53] On the other hand, some large public works projects were abandoned, and expenditure on the Presidency was reduced. Customs duties fell, because imports declined in the first half of the year.[54] In addition, stamp taxes were abolished in June, as part of the exchange reform, and the petrol tax was replaced by a subsidy, to mitigate the effect on transport of the devaluation of the peso. A number of new taxes were created. These comprised firstly, a non-recurrent 20 per cent surcharge on the higher income brackets, producing 71 million pesos in 1957; secondly, an excess profits tax payable in 1958[55] thirdly, the 10 per cent exchange tax on imports; and, fourthly, a 15 per cent export tax, specifically to finance the amortization of trade debts. (It is deducted directly from export earnings for this purpose and the foreign exchange concerned never reaches the certificate market. Similarly, importers have to pay the exchange tax in dollars.) The *Banco de la República* has already collected the peso equivalent of the debt from importers, so these must both be considered new taxes. They yielded about 118 million pesos in 1957. Taking them into account, the impact of the public sector was no longer inflationary in 1957.[56] (A bond issue of 110 million pesos was made and absorbed by the *Banco de la República* to cover the accounting deficit.)

In 1958 the Government is taking over the whole of the peso equivalent of the export and import tax, including the 1957 yield. The Central Bank will pass over pesos corresponding to the taxes, as it pays off the debt, out of the peso account earmarked for the purpose. The total of import and export duties, including the 1957 element, was budgeted to contribute 442 million pesos in 1958, and, with the help of these taxes, the Budget estimates showed a balance at 1 468 million pesos. The main increase in expenditure, in comparison with 1957, was for education, the allocation for which would involve a doubling of expenditure on this activity.[57] After the Budget was approved, it was decided to make a 7 per cent cut in the expenditure of all ministries (except that of Education), to provide 90 million pesos, which would be available to cover shortages discovered in the accounts of the *Banco Popular,* though this amount is at present frozen in the *Banco de la República.* From the point of view of economic analysis, this is equivalent to creating a surplus of the same magnitude.[58] On the other hand, credit is accruing on the revenue side from a rather larger amount of export taxes actually collected by the Bank in the previous year. So the revised budget would not be far from neutral in its effects on the excess of demand in the economy, provided the proposed reductions in expenditure were actually carried out.

The situation was changed in March by the new measures for financing coffee inventories. They involve the Government both in obtaining lower revenue from export taxes than was originally estimated, because of the reduction in the surrender value, and in helping to finance inventories. The profits deriving from transactions on the certificate market, however, largely offset this difficulty. They can be considered as a new tax used to finance coffee inventories.[59]

[51] There was also a new coffee tax, but the proceeds of this did not reach the Government.

[52] Expenditure on the Presidency, including the Colombian Intelligence Service *(Servicio de Inteligencia Colombiano),* also increased over this period.

[53] The rise in municipal expenditure was mostly attributable to Bogotá, where the municipality was creating a special reserve against outstanding contracts. The modification of the exchange rate also exerted some influence.

[54] However, there is a large *ad valorem* element in the tariff, and this decline was partly made up after devaluation.

Table 154. Colombia: Public finance, 1953-57

(Millons of pesos)

	1953	*1954*	*1955*	*1956*	*1957*
(i) *Central Government, revenue and expenditure*					
Ordinary revenue[a] . .	840	1 043	1 132[b]	1 131	1 345[c]
Expediture[d]	931	1 110	1 274[e]	1 357	1 328
(ii) *Total departmental receipts and expenditure*					
Receipts.	336	391	460	491	(520)
Expenditure	317	362	441	483	(500)
(iii) *Total municipal receipts and expenditure (805 municipalities)*					
Receipts.	286	378	424	529	(560)
Expenditure	263	327	390	467	(540)

Sources: Reports of the Controller, and *Boletín Mensual de Estadística.* Estimates for 1957 based on 10 months (and, in the case of municipalities, partial data).

[a] Excluding credit resources and Treasury balances.
[b] Excluding sales of Paz del Río shares by the Bank (370 million pesos).
[c] Including 118 million pesos in export taxes collected by the *Banco de la República.*
[d] Including capital expenditure.
[e] Excluding purchases of Paz del Río shares and liquidation of claims *("cobranzas").*

[55] Profits are considered "excess" when they exceed 200 per cent of the "patrimony" (which is roughly equivalent to the "net worth"). The excess is taxed at 50 per cent.

[56] The *Banco de la República* actually collected the taxes. It made, however, an advance of 29 millions pesos to the Government in 1957 out of its receipts. The whole 118 millon pesos was credited in the Government's accounts in 1957, though not actually paid over until 1958.

[57] This increase for education was in line with a policy decision of the *Junta,* endorsed as part of the December 1957 national plebiscite on the form of Government.

[58] The economic effect of the unbalancing of the *Banco Popular's* accounts made itself felt in previous years.

[59] In so far as the reduction of the supply of dollars raised

3. Inelasticity of agricultural supplies

There is one further major factor to be taken into account: the inelasticity of agricultural production for the home market. Rough calculations indicate that there has been no marked change in total agricultural output for home consumption since 1952, except for a slight increment in 1955 which was lost the following year.

This stagnation affected most commodities. Only rice, beans, cotton and beef showed marked upward trends, which were, however, matched by downward trends in potatoes, yucca, sugar,[60] plantains and pork. Harvests were also poorer in 1956 and 1957 than in 1955, including those of wheat, maize and cotton. The harvest appears likely to be only moderate in 1958 as well, because of drought in the early months. The new agricultural policy[61] cannot be expected to have far-reaching effects this year.

4. Balance of supply and demand

The rise in the dollar price of coffee in late 1953 and early 1954 entailed an increase in the value of coffee exports, but imports also expanded rapidly at this time (see table 155). Moreover, the increment in coffee exports in 1953 was achieved mainly by drawing on coffee inventories, and coffee incomes did not at first increase much. To put this point in another way, an export surplus offset the decline in inventories. In 1954, a big increase was indeed registered in coffee incomes, but it did not a first benefit coffee farmers. A sudden price increment of this sort always accrues to the middleman and the exporter. It takes time to produce corresponding results in the prices current at internal buying centres, and in some cases coffee farmers, especially the owners of smallholdings, are unable to obtain the full benefit—for example, if they are in debt to the buyer. Wages, amounting to about a quarter of the value of coffee sales, are still slower in responding to a rise in prices. The income effect of an increment in coffee prices is therefore regressive. Much of the increase goes at once into the hands of dealers in a position to save. And the first effect of a rise in farmers' incomes, when it does occur, is also an increase in savings, possibly in the form of paying off debts. There is some delay before it affects consumption.

In mid-1954, the effective exchange rate for coffee was reduced by imposing an export tax, by raising the surrender value and by maintaining the "coffee differential", but coffee incomes were sustained by heavy purchases for inventory at relatively high peso prices, a procedure which was made possible by the reduction in the coffee tax. Moreover, a new impetus appeared to increase demand; there was apparently much inventory-building in shops and factories. But by this time, imports were flowing in on a large scale in response to the heavy orders placed earlier. Just as, in the year previous to June 1954, an export surplus had counter balanced the sale of coffee inventories, an import surplus now offset the effect on the home market of rising inventories not only in coffee but also in distribution and elsewhere. Equilibrium between demand and supply was maintained and consumer prices remained steady.

The distribution of coffee income helps to explain the structure of imports during this period. The increases in bank deposits out of coffee dealers, profits enabled bank to expand their financing of investment. Again, Federation receipts from sales of coffee inventories and proceeds from the coffee tax and the "coffee differential" were in part diverted into financing investment by swelling the National Coffee Fund's bank accounts. Finally, the Government's gains from heavier duties and taxes on imports were largely absorbed in financing public works. The rise in coffee exports thus led primarily to an increase in the demand for imported investment goods. Furthermore, the increment in consumption was in the first instance due to increases in the incomes of fairly well-to-do coffee middlemen and exporters and, later, of importers. Thus it largely went to swell the demand for luxuries, which also attract the extra income of the coffee farmers themselves. This too meant a demand for imports rather than for goods produced in Colombia. The concentration of the additional demand on capital goods and luxuries explains how imports could have grown so strongly at the same time as—to judge from the stability of prices—the internal market for consumer goods maintained its equilibrium.

In 1955, diverse tendencies appeared. In the course of the year, the Federation drew on inventories, instead of building them. The crop was a poor one and farmers' building them. The crop was a poor one and farmers' incomes fell, but the fall was mitigated by the abolition of the "coffee differential" and by the improvement in the New York price. This provided exporters with a surplus (above the surrender value) which they could sell on the free market. Moreover, exporters and farmers were able to maintain their expenditure out of savings accumulated in the previous year. Food crops were on the whole good in 1955, and the rate of inventory-building in trade apparently declined. The continuing import surplus might have had a strongly deflationary effect on the home market in these circumstances, especially if allowance is made for the high rates of stamp tax. The growth of fixed-capital investment was in fact halted. But bank advances were stimulated because the *Banco de la República* was greatly accelerating its rediscounting of commercial bank liabilities.[62] This rise in advances enabled inventory-

the buying rate on the certificate market, the new coffee policy involves what is in effect an extra import tax, but if it is considered that the selling rate would otherwise have increased, it is actually a new export tax. Seventy million pesos worth of bonds are also being issued, which will mostly be taken up compulsorily by financial agencies and insurance companies. Eighty per cent of this money is to be paid into the National Coffee Fund.

[60] It appears that the decline in smallholders' production of *panela* has outweighed the rise in deliveries of cane to the mills.

[61] See section III, 1, of this chapter.

Table 155. Colombia: Balance of payments on current account, 1952-57[a]

(Millons of dollars)

	1952	1953	1954	1955	1956	1957
Exports of goods and services	488	647	709	634	673	574
Imports of goods and services[b]	497	650	767	772	742	562
Net balance	—9	—3	—58	—138	—69	12

Source: Table 145.
[a] Excluding, capital flows and contraband trade.
[b] Including investment income.

[62] The slowness of the increase in commercial bank deposit, despite the stimulus they received indirectly from the rise in advances, suggests that they would have fallen but for this operation.

building in manufacturing to continue at a fast rate. In addition, the Government increased its expenditure by more than the rise in stamp taxes would itself have justified. It appears that these inventory and fiscal influences balanced the effects of increasing supplies of imports and foodstuffs and prevented the emergence of a deflationary situation.

In the second half of 1955, it became evident that, because of the deterioration in the coffee market and the accumulation of trade debts, the flow of imports could not be maintained indefinitely at their current levels. There were speculative profits to be made out of importing, and retail prices of imported goods began to rise. (The increase in consumers' prices at the end of 1955 was due to the groups other than food and clothing, prices of which remained virtually unchanged.) At the end of the year, contraband coffee exports grew in volume, providing dollars that could be sold at good prices on the free market. Bank accounts were also being fed with deposits from the National Federation of Coffee-Growers and with sums that had been intended for the purchase of unobtainable foreing exchange, so advances rose faster, enabling fixed-capital investment to increase rapidly. Imports of consumer goods were discouraged by stamp taxes, and contracted, diverting consumer demand to the home market. The balance of the market was being tipped in the direction of inflation.

In 1956, investment was further facilitated by the relaxation of monetary policy in the middle of the year. The Government deficit also grew. Some coffee was exported out of inventories in the first half of the year, but the New York price rose, and the peso price in the interior increased even more, because of the effective devaluation of the coffee exchange rate; there were also substantial contraband sales. So coffee incomes did not decline. In the second half of the year, the Federation started building inventories once more, and this time there was no large compensatory import surplus. Imports themselves were beginning to contract, and domestic food supplies declined because of a bad harvest. Thus supplies of imported goods and of foodstuffs were both reduced simultaneously, while incomes in the coffee industry and the building trades rose sharply. The market for consumer goods became really unbalanced, and prices started to mount more rapidly.

This state of affairs continued until the exchange reform of June 1957. The New York price of coffee was falling, but the introduction of the new system of foreign exchange certificates (*títulos de divisas*) in December 1956 had prevented the downward movement from affecting coffee incomes (in pesos). In addition, buying by the Federation was accelerated. Imports were at low levels and, because of speculation, the retail prices of imported commodities reflected in anticipation the devaluation which was now imminent. The low exchange rate of 2.50 pesos to the dollar for imports became increasingly a subsidy to speculators rather than a stabilizing influence on the cost of living.

With the exchange reform and the new taxes, the peso costs of imports soared. This in itself would have tended to raise the value of supplies and thus absorb excess purchasing power. The disinflationary effect was considerably reduced, however, because the exchange rate on coffee exports was simultaneously increased, with the result that peso coffee prices rose substantially, and the pressure of demand was thus intensified, at the very time when a marked downward trend was appearing in New York prices. Still, the increment in demand does not seem to have beeen as great as the increase in the cost of supplies, even allowing for the considerable inventory-building in coffee in the second half of the year.[63] In addition, the volume of imports temporarily explanded somewhat, while public works expenditure was reduced, and private investment, especially in non-coffee inventories, was discouraged by the inability of the banks to increase their advances. Comparison of the second half of 1957 with the first shows that the building-up of coffee inventories was accelerated, and investment in trade and manufacturing inventories probably increased. But the export surplus was once again replaced by an import surplus, the Government deficit was reduced, and fixed-capital investment ceased to rise (at least in real terms).

Hence excess demand probably started to decline. Still, the price rise had now gathered momentum. By June, retail prices of many imports (and of goods containing imports) already incorporated some speculative profits. But some manufacturers still used the official exchange rate in their books to cost materials. Consequently, the devaluation in June involved a rise in prices of several commodities, such as pharmaceuticals and woollen clothing, which incorporate considerable amounts of imported materials,[64] and the subsequent decline in the certificate peso added further to manufacturers' costs. In July, there was a general rise of about 15 per cent in wage-rates, and it was decreed that employers in large enterprises should pay family allowances. These increases in labour incomes increased manufacturing costs and at the same time gave the less privileged classes more purchasing power. But the very rise in prices tended to reverse this shift, and markets were affected by the reduction in excess demand due to the other factors described above. At the end of 1957, prices were rising more slowly.[65] Controls were retained on transport fares and freight rates, though at levels which may not prove economic, and prices of staple foodstuffs were "frozen" at the levels of the end of November. Retail price indices remained virtually unchanged from December 1957 to February 1958.

To the extent that the amortization programme is financed out of the current balance, it is necessary to maintain surplus in this balance by restricting imports. Sooner or later restric-

[63] By way of a rough numerical illustration, the annual rate of imports might be assumed to be 500 million and that of coffee exports 400 million dollars. The peso cost of the dollars needed to buy imports, (if no account is taken of movements in foreign prices or certificate rates), would rise by nearly 1,000 million under the June reform, allowance being made for the fact that the imports previously bought with foreign exchage certificates became cheaper. The peso value of coffee exports, on the other hand, would rise by 400 million, and peso proceeds from other exports, except petroleum, would decline. Even though coffee inventory-building increased by an annual rate which may be very roughly estimated at 300 million pesos, the net consequence would be to increase the value of supplies much more than incomes rose, and thus to help restore equilibrium on the domestic market.

[64] The Government replaced the petrol tax by a petrol subsidy to prevent the full effects of the rise in the price level from affecting transport costs. In March, petrol was sold at a retail price equivalent to approximately 14 cents per United States gallon at the certificate rate, or about 12 cents at the free-market rate.

[65] The total rise in the second half of the year was about 8 per cent. It is interesting to note that, despite the seasonal increase in note circulation, the "means of payment" declined over the same period. (Conversely, during the period of price stability, from September 1954 to September 1955, the means of payment rose from 1,658 million to 1,808 million pesos.)

tion on imports will create certain shortages, particularly since inventories of materials seem small in some industries. It may also be necessary to accelerate inventory-building in coffee to maintain the minimum export price. On the other hand, the new coffee policy, adopted in March, involves a further reduction in total real purchasing power. Part of the burden financing coffee inventories is now to be borne by the Government, but part is to be financed out of the difference between buying and selling rates on the certificate market, which represents a net subtraction from the real incomes of the public. Moreover, restrictive monetary policies have further discouraged investment in inventories and in building. The balance of the market is apparently still swinging away from the excess of demand which existed in 1956 and early 1957 towards a situation in which demand will be insufficient to absorb the output of every industry operating at full capacity. The present primary objective of monetary policy is to contain the demand for imports, but the application of general measures, such as restrictions on bank credit, involves a reduction in demand for all commodities, whether domestically produced or imported, and particularly affects the building industry, which has low import requirements.

III. THE CHANGING BALANCE OF ECONOMIC DEVELOPMENT

Summary

Output rose rapidly in the three years from mid-1954 to mid-1957. The increment was largely due to the development of manufacturing and, more particularly, of its final stages. Broadly speaking, the production of agricultural raw materials and foodstuffs and of semi-manufactures was neglected.

This section describes what the developments in foreign exchange policy and in domestic demand, outlined earlier, have entailed for the structure of the economy, and special attention is paid to the new policies adopted and the new trends appearing in 1957. This year was a turning point, in that it saw the start of a process which is making agriculture rather than manufacturing the main field for investment.

1. AGRICULTURE

The consistently high and rising level of peso prices for coffee, a result of the Federation's intervention in the market whenever the New York price falls, has encouraged the increased use of fertilizers and new planting. Estimates of output are difficult to make because of the volume of contraband traffic, and, in any case, the last two crops have not been particularly good, but it seems that the trend has been in an upward direction. Two other export crops, bananas and tabacco, also showed rising trends under the stimulus of favourable exchange rates. Production of bananas underwent a setback in 1957 in consequence of a hurricane, which blew down some 8 million trees, but total output may nevertheless not have been very different from that of 1956. The upward trend of tobacco output, which has risen about 50 per cent in the last five years, is due to technical changes rather than increased acreage; seeds of more resistant and productive varieties have been used, and many new drying-sheds have been built with assitance from the National Tobacco Development Institute *(Instituto Nacional de Fomento Tabacalero)*.

It has been seen that there was no appreciable increase in the output of crops for the home market in 1957. The harvest was in general poor. The exceptionally hot and dry summer of 1956 discouraged sowing of the 1957 crop and drought conditions lasted into 1957. Deliveries to the market were also affected by the political disturbances in some rural districts.

Longer-period trends do not appear to show a positive response to the buoyant demand. The best that can be said is that some progress has been made with certain staple commodities which are normally imported. Chief among these is cotton, but even here crops in the last two years have been disappointing, because of excessive or inadequate rainfall. This has meant that large-scale imports have been resumed, with the help of the United States surplus disposal programme (see table 156).

Progress in the output of rice has virtually eliminated imports, except for a temporary period in 1954, and the volume of this crop has continued to increase gradually. But there has been little success in stimulating output of edible oils, and imports have risen rapidly. The Cotton Development Institute *(Instituto de Fomento Algodonero)* is encouraging cotton-growers to rotate the crop with sesame, for which purpose it is providing seeds and technical advice. Output of this crop doubled between 1956 and 1957 and it is now the chief local source of edible oil. The Institute is also experimenting with varieties of palm trees, in order to help eliminate imports of copra, which are surprisingly high for a tropical country[66] (see table 197).

Output of wheat and maize declined in 1957, because of bad weather and also because of shortage of fertilizers and fungicides, attributable mainly to import restrictions imposed in 1956, but these crops do not, in any case, display a long-term upward trend, and imports are increasing,

[66] Imports of copra appear to be 20 or 30 times as great as local output.

Table 156. Colombia: Output, imports and apparent consumption of cotton

(Thousands of tons)

	Output	*Imports*	*Apparent consumption*
1952	11	18	29
1953	17	15	32
1954	28	6	34
1955	25	2	27
1956	23	12	35
1957	21[a]	15[a]	36[a]

Source: Information supplied by the Ministry of Agriculture, and *Boletín Mensual de Estadística.*
[a] Preliminary estimate.

Table 157. Colombia: Output, imports and apparent consumption of oil-seeds

(Thousands of tons of oil equivalent)

	Output		*Imports*		*Apparent consumption*
	Cottonseed	*Other*[a]	*Copra*	*Other*[b]	
1953	6	4	13	10	32
1954	8	4	23	4	40
1955	7	5	42	9	63
1956	4	6	50	9	69
1957	5	10	25	30	70

Source: Information supplied by the Programming Committee *(Comité de Planeación)* and the Cotton Development Institute *(Instituto de Fomento Algodonero)* (production in 1956/57).
[a] Sesame, copra, soya.
[b] Palm-oil, soya, etc.

Table 158. Colombia: Output, imports and apparent consumption of wheat

(Thousands of tons)

	Output	Imports		Apparent consumption
		Wheat	Wheat flour[a]	
1952	140	33	16	189
1953	145	23	16	184
1954	146	53	19	218
1955	166	53	11	230
1956	140	90	3	233
1957	110	107[b]	6[b]	223[b]

Source: Information supplied the Ministery of Agriculture, and *Boletín Mensual de Estadística.*
[a] In wheat equivalent, assuming an extraction rate of 72 per cent.
[b] Preliminary estimate.

as table 158 shows in the case of wheat. It seems that, in 1957, more than half the wheat consumed was imported, mainly under the United States surplus disposal programme.

Potato output was lower in 1956 and 1957 than in earlier years, although, as in the case of wheat, higher support prices were set for 1957 and improved seeds were distributed.[67]

Production of cacao and rubber also showed little apparent change. No real start has been made in developing these tropical commodities for the processing industries, and imports have tended to grow with rising consumption.[68] Sugar output did increase for a time, but the acreage under sugar ceased expanding rapidly in 1956, and the crop fell in 1957. The exports effected in 1956 turned out to be premature, especially since output of *panela,* was decreasing, and it became necessary to import sugar in 1957.

Statistics of the livestock sector are particularly weak. Yet there appears to have been some recovery in the output of livestock products from the very low levels of a few years ago. It is estimated that 1.63 million head of cattle were slaughtered in 1957, as against an average of 1.34 million in 1952-55.

Even allowing for export crops and livestock, the total increase in agricultural production in the past five years was not great. It probably fell behind the population increase, and the *per capita* output of food crops almost certainly declined. The reasons for the chronic stagnation of agriculture in Colombia are well-known.[69] Ownership still reflects the pattern of land grants dating back to the time of the *conquistadores.* The majority of the best land consists of latinfundia, mostly owned by absentee landlords. Land taxation is low and based on the owners' assessments. One of the main objects of holding land, especially in recent years, has been to make speculative profits. The land is traditionally used for raising livestock. (Increases in the herds often yield accounting losses which can be offset against other types of income for tax purposes.) Techniques are "extremely backward by most standards".[70] The grasses are not suitable; the cattle, which usually run wild "on the range", are of poor stock and subject to much disease.[71] Consequently, despite this concentration on livestock, most of the population suffer from a severe shortage of meat, butter and milk.

Crops are cultivated chiefly on inferior mountainous land in holdings too small to be efficient. They occupy less than 3 million of the 30 million hectares of cultivable land,[72] and half of the area cultivated is farmed for subsistence purposes. Rotation of crops and fertilization are almost unknown, and erosion is common. There has been persistent rural violence, partly attributable to the illegal occupation of idle land. Machinery or equipment are only recently being used; the total value of machinery and equipment in all Colombian agriculture in 1955 was less than that of the machinery installed in one of the breweries.[73]

A new agricultural policy, based on the International Bank's recommendations, was introduced by Decree 290 of November 1957 as a first step in the long process of remedying the fundamental and secular weaknesses of Colombian agriculture. The decree requires all land to be classified under one of four types according to its cultivation potentialities. Quotas are established for the proportions of each type to be cultivated on holdings of more than 50 hectares.[74] Owners who do not fulfil these quotas have to pay, in addition to their land tax, a fine rising from 2 per cent of the land value in 1958 to 5 per cent in 1961 and 10 per cent in 1962. (They are empowered to prosecute their tenants, if the latter fail to achieve the quotas.) Owners of more than 200 hectares have to make at least half-a-hectare available rent-free for each employee to cultivate. There are some fiscal inducements as well as penalties in the scheme. Investment in machinery and various types of equipment can be deducted in its entirety from taxable income, as can expediture on development of plantations of rubber, cacao, and oil-seeds. Agricultural corporations are also granted tax concessions.

The authorities are faced with the problem that the potential uses of land have not yet been fully mapped; this task is being undertaken by the Agustín Codazzi Geographical Institute *(Instituto Geográfico Agustín Codazzi).* While the classification is being made, the Ministry is proceeding as follows. Attention is being mainly devoted, in 1958, to four areas already classified, in which extension services are to be partly concentrated and the law is to be enforced. Owner in other areas are expected to have made their own returns in respect of their holdings of each class of land by the end of February 1958. It is hoped that the making of these returns, together with the publicity given to the new programme and the fear of further illegal oc-

[67] It is believed that these seeds, which are resistant to disease, could, with proper cultivation, yield 25 tons per hectare (even 50 tons in optimum weather conditions) as against the current average of 5 to 6 tons.

[68] The quality of rubber is as yet inferior to manufacturers' needs and domestic rubber has to be mixed with imports.

[69] See *The Economic Development of Colombia* (E/CN.12/365/Rev.1), United Nations Publication, Sales No.: 1957.II.G.3. and International Bank. *The Agricultural Development of Colombia, op. cit.*

[70] See International Bank Report, *op.cit.* p. 103.

[71] The ECLA study of Colombia shows that output per unit of capital, per hectare and per worker was much lower in livestock farming than in other types of land use *(The Economic Development of Colombia, op.cit.,* Part II, chapter II, section VI, 3 (*f*)).

[72] See International Bank Report, *op.cit.,* p. 29.

[73] *Ibid.,* p. 33.

[74] The quotas are 25 per cent on land suitable for tractors without danger of erosion, and 15 per cent on other land which can be cultivated, provided there is access to public transport in both cases. On good land too heavily wooded to be cultivated at present, owners are obliged to clear 10 per cent each year, or 10 hectares if the holding is between 50 and 200 hectares. All quotas can be raised by 50 per cent in the case of land benefiting from official drainage or irrigation schemes. Until the land has been classified, the obligation is limited to 10 per cent of land already suitable for crops and is not applicable to land in Chocó or the eastern *Intendencias.*

cupation, will stimulate cultivation generally, even this year. The extension service reported a high rate of application for seeds in the early weeks of 1958.

Simultaneously with this attempt to modify the pattern of land use, more financial resources have been made available to agriculture. The high level of coffee incomes means that resources are available for general agricultural investment. Since August 1957, commercial banks have been required to earmark 12 per cent—later 14 per cent—of their deposits for agricultural loans, and special departments are being established in banks to supervise small credit operations. In addition, a large part of the loans arising out of the sale of United States surplus agricultural commodities under Public Law 480, and amounting to 89 million pesos, has been lent to the *Caja Agraria* for approved agricultural projects.[75]

One of the approved projects, for which 32 million pesos of Public Law 480 funds have been made available, is the commencement of work on a plan for the Cauca Valley drawn up by the *Corporación Autónoma Regional del Cauca* (CVC), established in 1954. The CVC's complete plan for the Department includes electricity production and distribution, flood control, drainage and irigation, and will begin with the construction of an earth dam on the river Cauca at Timba. Apart from money derived from Public Law 480 funds, the CVC also has at its disposal the proceeds of a land tax,[76] and the Government is transferring to it a financial interest in a local electricity company. It has not yet been decided whether the whole programme should be undertaken. The projects to be carried out in the next two and a half years are three small land reclamation and flood control schemes in the valley, covering 75 000 acres,[77] and the rationalization and extension of the electrical transmission system. These are schemes which are expected to repay the capital outlay quickly, mainly through improvements on the land benefited, and they are considered justifiable on their own merits whether or not the whole CVC programme, with a lower yield per unit of capital, is eventually adopted.

Since the output capacity of coffee has been enlarged by new plantings in the last few years, it is very possible that Colombia's coffee production will expand somewhat in the near future.[78] Less rural unrest would make a more general increase in agricultural deliveries possible, but there do not appear to be prospects of a large increment in total agricultural output in the immediate future. In the longer run, the new programme may make a difference.

2. Manufacturing

While a vigorous official policy to encourage agricultural development was adopted in 1957, the industrialization programme experienced setbacks. It had previously been stimulated, particularly in the output of finished goods, by the low exchange rate for materials and equipment as compared with that for finished goods, by advances out of growing bank credits, and by the support of official institutions such as the institute of Industrial Development.

Both the company results and the small sample of manufacturing show a considerable increment in the total peso value of manufacturing output between 1953 and 1956, amounting in the former case to 50 per cent and in the latter to 40 per cent.[79] It seems that, with the exclusion of coffee, wholesale prices rose by about 20 per cent in the same period.[80] So the increase in real output was in the neighbourhood of 20 per cent over these three years. This appears to have been approximately true of the textile group as a whole, with the output of cotton rising more quickly than that of woollen textiles. Faster increases seem to have occurred in the food processing industries, in cement, in pharmaceuticals,[81] and in the rubber-using industries, in the last case owing to tyre manufacture. Company statistics also show a rapid development in metal-using trades, which is confirmed by the annual industrial survey for 1955. Particularly intensive progress was made in industries producing appliances—mostly those assembling imported parts (radios, television sets, refrigerators, typewriters, etc.—and also in vehicle repairs. Since many of the fastest-growing industries tended to depend heavily on imports—especially rubber, pharmaceuticals and appliances —there was a strong increase in the demand for imports.

In 1957, the difference between the exchange rates had disappeared, bank credit had stopped expanding and the policy of official institutions had changed. It is true that the domestic demand for manufactures remained generally strong and that the system of controlling imports eliminated a good deal of foreign competition, but this same system also made it very difficult to buy capital equipment, or even to extend existing capacity.

(a) *Steel*

The alteration in the exchange rate in 1957 made Paz del Río steel products competitive with imports for the first time. Output grew from 72 000 tons in 1956 to 90 000 tons in 1957. But the decline in construction has reduced the demand for reinforcing rods and forced the plant to expand the output of structural steel, an expansion which is somewhat difficult on account of inadequate rolling capacity. Imports fell sharply in 1957, but mainly because demand was lower (see table 159).

Inventories at Paz del Río are heavy; in value they amount to over a year's sales. This is partly because inventories of imported materials have to be high,[82] and partly because the lack of balance between different operations prevents continuous operation and compels the management to keep large stocks. The pace of operation is at present set by the blast furnace, and this in turn is affected by the high proportion of "fines" in the iron ore. Half the ore has to be thrown away, involving high costs, but even what is used by the furnace is of poor and unstable quality. This means that the furnace has to be cleaned frequently and that between cleanings it can produce less in each firing.

[75] Agriculture appears, however, from a statement made by the *Sociedad de Agricultores de Colombia* in May, to have been suffering from a shortage of credit in the opening months of 1958.

[76] 4 per mil on the value of holdings in the Department of Valle del Cauca which are valued at more than 50 000 pesos.

[77] One of the schemes is intended to provide residential building land, in order to relieve congestion in Cali, as well as agricultural land.

[78] See the ECLA/FAO coffee survey, to be published later in 1958.

[79] See Statistical Annex.

[80] *Revista del Banco de la República.* Index excludes other foodstuffs and beverages.

[81] The company statistics show a rise of only about 50 per cent in the value of output, but it appears that price rises were slower (up to 1956) than in other industries.

[82] At the end of 1957, shortage of dolomite forced the plant to reduce its rate of output, and the company has now built up large inventories against a recurrence of this difficulty.

Table 159. Colombia: Steel production and imports

(Thousands of tons)

	Production			Imports			Apparent consumption
	Paz del Río	Other	Total	Of products Paz del Río can make	Other	Total	
1953	—	—	—	125	308	433	433
1954	—	—	—	169	308	477	477
1955	35	7	42	133	296	471	471
1956	72	10	82	126	295	421	503
1957	90	12	102	44[a]	194	238[a]	340[a]

Source: Information supplied by Paz del Río, S. A.
[a] Preliminary estimate.

(In addition, the blast furnace will soon have to be closed for relining.) The steel furnaces could produce over twice as much if more pig were available, and the rolling mills could also handle considerably more.

The company therefore urgently needs a sintering plant to make the ore suitable for the blast furnace. It also needs, though less urgently, a coal-washing plant.[83] A total of 110 000 tons of final products is expected to be produced in 1958 with the entry into full production of an electric furnace using scrap, mostly the company's own, and thus by-passing the blast-furnace problem. Output of final products could in fact be still higher, but internal stocks are being built up against the time when the blast furnace has to be relined. Some 10 000 tons of final products are also be added to inventories.

Hence the company is not likely to make much further contribution to saving foreign exchange in 1958. If imports of steel decrease further, it will again be mainly because of the decline in internal demand, reflecting the falling level of construction and reductions of inventories at the steel-using centres. With the sintering plant, the capacity of Paz del Río could be raised, costs reduced substantially and more foreign exchange saved. Preliminary studies of this plant are advanced, but tenders will be invited rather later than would otherwise be the case in deference to the Government's plans for restricting investment.

(b) *Other industries*

Cement output climbed rapidly up to 1956, and there is now a net export surplus (see table 160). Output appears to have levelled off in 1957, reflecting the decline in construction in the second half of the year.

Imports of newsprint and paper continue to grow rapidly. No newsprint is produced in Colombia and the output of other types of paper has not kept pace with rising demand. The situation will be relieved by the projected construction of a new mill for newsprint and other papers using bassage as the basic material. The estimated capacity of this factory in the first year of operation is 17 000 tons, or about a quarter of current imports of paper products.[84]

[83] Output is at present straining the resources of the only coal mine in full production and stocks are precarious. However, other mines are being prepared for production.

[84] An import permit was issued in the second half on 1957 for machinery to the value of 7 million dollars, and a further 4 million dollars' worth is being imported in cash by the company concerned. A net annual saving of 5 million dollars is expected in foreign exchange. (Information taken from the half-yearly report of the Imports Department *(Superintendencia Nacional de Importaciones).*)

Table 160. Colombia: Output, imports, exports and apparent consumption of cement

(Thousands of tons)

	Output	Imports	Exports	Apparent consumption
1952	700	8	10	698
1953	873	9	20[a]	862
1954	962	11	17	956
1955	1 046	9	30	1 025
1956	1 220	6	65	1 161
1957	1 211	4[b]	53[a]	1 162[b]

Source: Foreign trade yearbooks and *Boletín Mensual de Estadística.*
[a] Preliminary.
[b] Grey cement only.

The experience of other industries in 1957 depended very much on whether imports were competitive with them, or whether they needed heavy imports of materials. The output of pharmaceuticals was considerably stimulated by the exchange reform and allied measures.[85] Prices rose, but, because demand is not very sensitive to price changes, sales continued at a high rate and local companies obtained a larger share. Consequently their output continued its upward trend in 1957 rather more rapidly.

In textiles, it was more difficult for suppliers to pass on changes in prices owing to increases in costs. At a time when many sectors of the community were suffering declines in real income, there was a tendency to economize on clothing purchases. The woollen section of the industry, which was particularly affected by the rise in prices of imported materials, was finding that inventories were beginning to accumulate at the end of the year. Sales to wholesalers were declining, especially sales of cloth to tailors who had difficulty financing their own inventories. Similar difficulties induced a falling-off in tyre and tube output by comparison with the previous year.

3. The current outlook

During 1957, there was an abrupt change in Colombian policy. Whereas early in the year the demand for imports had been kept in check by direct licensing, after June the authorities relied mainly on two influences to reduce the pressure of demand. These were devaluation, which raised

[85] One large company of distributors stated that 31 per cent of its previously imported pharmaceuticals were put on the prohibited list in June 1957, and 36 per cent required licences.

the prices of imports; and monetary restrictions, designed to check investment and thus the rise of incomes. Since then the decline in the certificate peso has further increased peso costs, while the new coffee policy and the additional monetary restrictions are having their effect on demand. These measures may eventually achieve the necessary reduction in imports, but industrial output will experience a downward pressure while they are in operation, except in the case of industries producing direct substitutes for imports.

Colombia's process of industrialization is therefore, at least temporarily, discouraged by inadequate demand. Capital investment in industry is also likely to fall to very low levels. A total of 25 million dollars was allowed in authorizations for imports of industrial and commercial equipment and spare parts in the second half of 1957.[86] If this is compared with the 163 million dollars worth of industrial equipment imported in 1956, it will be seen that investment in industry is being cut to a fraction of its previous level.

In so far as this check to industrialization means a reduced rate of development in the finishing industries, especially in industries producing non-essential goods, it may not adversely affect the future balance of payments.[87] But in some cases the development of industries producing materials for other commodities or semi-manufactures may be hampered as well, and this produces an almost immediate adverse effect on the balance of payments. The projected improvements at Paz del Río come into this category.[88] But agriculture, which has also suffered from a low rate of investment in the past, is being shielded from the effects of both disinflation and import restrictions. It is being financed directly and receives special treatment in foreign exchange allocations. If this agricultural policy succeeds, it will alleviate Colombia's external and internal problems substantially.

STATISTICAL ANNEX

Company statistics (tables I to XI)

The following tables contain material tabulated for ECLA by the Companies Department (*Superintendencia de Sociedades Anónimas*). Some statistical snags should be noted in connexion with these tables. Since 1931, companies in Colombia have been obliged to prepare half-yearly statements provided their paid-up capital exceeded 150 000 pesos. But, in 1952, they were allowed to submit annual statements instead. Since then, an increasing proportion has taken advantage of this option every year. In order to provide roughly comparable information throughout, it was necessary to add together the bi-annual and annual statistics. For inventories the December figures of both types were summed; and for production values and similar statistics of current operations, the two half-yearly sets of figures were added to the annual set. This inevitably involves some duplication in the case of companies which changed in the course of the year to annual statements, after having submitted a statement for the first half of the year. This duplication, which occurred in all years, is apparently not great, since there were normally only about five or 10 per cent more returns for the first half than for the second half of the year, but it does of course reduce the usefulness of the statistics, especially for the smaller industries, as indicators of year-to-year changes. Another unavoidable weakness is that there were radical changes in the corpus of companies in recent years. For fiscal reasons, a number of companies found it advantageous to revert to the unincorporated form, while, on the other hand, the growth of secondary industry led to the emergence of many new companies. So the stability in the total is misleading.

The sample of manufacturing (tables XII to XV)

These data were taken from a monthly questionnaire sent to over 200 manufacturers (mostly the large ones) by the Statistical Department.[89] The questionnaire asks for information on commodities produced each month, valued at the factory selling price, and on end-of-the-month inventories of commodities. Among other things, it also inquires about the value of inventories of raw materials.

A total of 83 firms returned comparable figures of production each month from January 1956 to December 1957.[90] Of these, 60 also provided complete comparable monthly information about the status of inventories. Finally, the records of the 1953 production census were examined for the same firms. For 41 of the latter ventories and output; and for 64 of the original 83 firms, comparable information was available on output for 1953 and the last group of 60 firms, comparable figures were available on both in-two years.

The link with 1953 serves two purposes. Firstly, it enables standard information to be compiled for the entire period and thus shows trends, particularly as regards the question whether inventories were excessive at the end of 1957. Secondly, it gives a rough idea of the extent to which Colombian industry is covered in 1956 and 1957.

The 64 firms for which comparable production figures were obtained for all three years produced 383 million pesos' worth of goods in 1953. The total gross output of manufacturing in 1953, according to the census, was 3 840 million pesos. The 64 firms common to both periods therefore accounted for about one-tenth of all manufacturing output in 1953. The same 64 firms produced 536 million pesos' worth in 1956, whereas the value of the output of all the 83 firms was 657 million pesos. If the 64 firms were still responsible for one-tenth of output, the 83 firms were producing about 12 per cent. Finally, the 60 firms providing consistent information on inventories during 1956 and 1957 produced 406 million pesos' worth of goods in 1956, or about 8 per cent of all industrial output, according to the same reasoning.

It should be noted that the inventory figures are not complete. They do not cover work in progress, spare parts, or bought components, for example. Again, the sample is non-random, the percentage coverage varies from industry to industry, and some industries are not included at all. This sample does not therefore necessarily give a complete and balanced picture. It should rather be considered a guide to approximate magnitudes, and its results should therefore be used with due reserve.

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[86] Including 7 million dollars for the paper mill.

[87] Projects for assembling motor-vehicles were abandoned in 1957, at least temporarily, by Government decision.

[88] Nevertheless, some projects of low economic priority are still being carried out; for example, work has started on a new 20-million-peso scheme for reducing traffic difficulties in Bogotá by constructing overpasses.

[89] This material was assembled for ECLA, in a form ready for tabulation, by the Department and the *Banco de la República*.

[90] Where information was missing for single months only, it was interpolated so as to preserve as large a body of information as possible, but where several months' data were missing, or where the data were obviously not consistent (if for example a very large jump was shown in the value of output from one month to the next), the firms concerned were excluded from the sample.

Table I. Colombia: Inventories and production of all companies, 1953-56

(Items 2 - 8 in millions of pesos)

	1953	1954	1955	1956
1. Number of companies	739	727	719	734
2. Inventories of materials[a]	188	197	206	253
3. Work in progress[a]	51	52	62	69
4. Inventories of spare parts, containers, etc.[a]	238	247	262	323
5. Inventories of finished good[a]	192	194	222	249
6. Total inventories[a]	669	690	751	893
7. Value of production	2 476	2 635	2 919	3 479
8. Value of materials used	567	737	756	813
9. Inventory-use ratio, materials[b]	0.332	0.267	0.272	0.311
10. Inventory-output ratio, finished goods[c]	0.077	0.074	0.076	0.072
11. Inventory-output ratio, total[d]	0.270	0.262	0.257	0.257

[a] End of year.
[b] Line 2 ÷ line 8.
[c] Line 5 ÷ line 7.
[d] Line 6 ÷ line 7.

Table II. Colombia: Inventories and production of petroleum companies 1953-56

(Items 2 - 8 in millions of pesos)

	1953	1954	1955	1956
1. Number of companies	31	16	12	9
2. Inventories of materials[a]	—	—	—	—
3. Work in progress[a]	—	—	—	—
4. Inventories of spare parts, containers, etc.[a]	30	20	16	17
5. Inventories of finished good[a]	26	2	2	2
6. Total inventories[a]	56	23	18	19
7. Value of production	268	103	80	82
8. Value of materials used	—	—	—	—
9. Inventory-use ratio, materials[b]	—	—	—	—
10. Inventory-output ratio, finished goods[c]	0.098	0.023	0.026	0.025
11. Inventory-output ratio, total[d]	0.209	0.221	0.219	0.234

See footnotes to table I.

Table III. Colombia: Inventories and production of all manufacturing companies, 1953-56

(Items 2 - 8 in millions of pesos)

	1953	1954	1955	1956
1. Number of companies	312	316	292	295
2. Inventories of materials[a]	187	195	203	247
3. Work in progress[a]	45	50	56	58
4. Inventories of spare parts, containers, etc.[a]	141	163	167	210
5. Inventories of finished good[a]	101	103	117	110
6. Total inventories[a]	474	511	543	624
7. Value of production	1 467	1 698	1 816	2 168
8. Value of materials used	550	652	669	777
9. Inventory-use ratio, materials[b]	0.341	0.300	0.303	0.318
10. Inventory-output ratio, finished goods[c]	0.069	0.061	0.065	0.051
11. Inventory-output ratio, total[d]	0.323	0.301	0.299	0.288

See footnotes to table I.

Table IV. Colombia: Inventories and production of companies in metal-using trades, 1953-56

(Items 2 - 8 in millions of pesos)

	1953	1954	1955	1956
1. Number of companies	13	12	16	25
2. Inventories of materials[a]	10	9	11	16
3. Work in progress[a]	8	3	3	2
4. Inventories of spare parts, containers, etc.[a]	5	5	5	7
5. Inventories of finished good[a]	2	2	2	4
6. Total inventories[a]	18	19	21	29
7. Value of production	27	41	43	72
8. Value of materials used	10	16	17	26
9. Inventory-use ratio, materials[b]	0.942	0.558	0.645	0.598
10. Inventory-output ratio, finished goods[c]	0.075	0.057	0.049	0.061
11. Inventory-output ratio, total[d]	0.687	0.466	0.492	0.405

See footnotes to table I.

Table V. Colombia: Inventories and production of companies in chemical and pharmaceutical trades, 1953-56

(Items 2 - 8 in millions of pesos)

	1953	1954	1955	1956
1. Number of companies	23	24	23	24
2. Inventories of materials[a]	3	3	4	4
3. Work in progress[a]	1	—	—	—
4. Inventories of spare parts, containers, etc.[a]	2	2	3	5
5. Inventories of finished good[a]	4	4	5	5
6. Total inventories[a]	10	9	12	14
7. Value of production	31	30	37	45
8. Value of materials used	8	3	9	10
9. Inventory-use ratio, materials[b]	0.367	0.347	0.425	0.392
10. Inventory-output ratio, finished goods[c]	0.115	0.136	0.135	0.114
11. Inventory-output ratio, total[d]	0.304	0.298	0.310	0.310

See footnotes to table I.

Table VI. Colombia: Inventories and production of companies in cotton textile trades, 1953-56

(Items 2 - 8 in millions of pesos)

	1953	1954	1955	1956
1. Number of companies	16	14	14	14
2. Inventories of materials[a]	38	39	25	35
3. Work in progress[a]	15	16	18	20
4. Inventories of spare parts, containers, etc.[a]	14	16	20	24
5. Inventories of finished good[a]	26	24	28	25
6. Total inventories[a]	93	95	92	104
7. Value of production	200	264	246	318
8. Value of materials used	82	101	94	106
9. Inventory-use ratio, materials[b]	0.467	0.388	0.260	0.331
10. Inventory-output ratio, finished goods[c]	0.128	0.090	0.115	0.078
11. Inventory-output ratio, total[d]	0.463	0.362	0.374	0.327

See footnotes to table I.

Table VII. Colombia: Inventories and production of companies in woollen textile trades, 1953-56

(Items 2 - 8 in millions of pesos)

	1953	1954	1955	1956
1. Number of companies	7	6	6	6
2. Inventories of materials[a]	6	6	9	10
3. Work in progress[a]	4	4	4	5
4. Inventories of spare parts, containers, etc.[a]	3	4	5	4
5. Inventories of finished good[a]	11	7	8	5
6. Total inventories[a]	24	22	26	24
7. Value of production	44	50	53	56
8. Value of materials used	27	31	33	33
9. Inventory-use ratio, materials[b]	0.211	0.203	0.266	0.306
10. Inventory-output ratio, finished goods[c]	0.261	0.148	0.155	0.089
11. Inventory-output ratio, total[d]	0.538	0.436	0.491	0.429

See footnotes to table I.

Table VIII. Colombia: Inventories and production of companies in silk textile trades, 1953-56

(Items 2 - 8 in millions of pesos)

	1953	1954	1955	1956
1. Number of companies	8	7	7	6
2. Inventories of materials[a]	11	10	13	7
3. Work in progress[a]	6	6	15	5
4. Inventories of spare parts, containers, etc.[a]	8	9	8	21
5. Inventories of finished good[a]	12	11	16	9
6. Total inventories[a]	37	35	52	41
7. Value of production	75	69	81	94
8. Value of materials used	32	28	36	36
9. Inventory-use ratio, materials[b]	0.325	0.349	0.357	0.199
10. Inventory-output ratio, finished goods[c]	0.163	0.153	0.200	0.091
11. Inventory-output ratio, total[d]	0.487	0.510	0.642	0.441

See footnotes to table I.

Table IX. Colombia: Inventories and production of companies in clothing trades, 1953-56

(Items 2 - 8 in millions of pesos)

	1953	1954	1955	1956
1. Number of companies	15	16	15	14
2. Inventories of materials[a]	6	8	9	8
3. Work in progress[a]	5	4	5	6
4. Inventories of spare parts, containers, etc.[a]	2	3	3	5
5. Inventories of finished good[a]	7	6	6	6
6. Total inventories[a]	19	21	22	24
7. Value of production	54	65	65	80
8. Value of materials used	24	30	30	36
9. Inventory-use ratio, materials[b]	0.234	0.275	0.283	0.224
10. Inventory-output ratio, finished goods[c]	0.125	0.097	0.092	0.071
11. Inventory-output ratio, total[d]	0.354	0.324	0.335	0.299

See footnotes to table I.

Table X. Colombia: Inventories and sales of companies in services,[a] 1953-56

(Items 2 and 3 in millions of pesos)

	1953	1954	1955	1956
1. Number of companies	157	170	180	193
2. Total inventories (end of year)	23	23	34	43
3. Total sales	214	235	282	331
4. Inventory-sale ratio, total[b]	0.107	0.098	0.122	0.129

[a] Transport, electricity, gas, communications, hotels, restaurants, cinemas, broadcasting, etc.
[b] Line 2 ÷ line 3.

Table XI. Colombia: Inventories and sales of companies in commerce,[a] 1953-56

(Items 2 and 3 in millions of pesos)

	1953	1954	1955	1956
1. Number of companies	166	158	168	175
2. Total inventories (end of year)	76	105	114	134
3. Total sales	475	560	689	803
4. Inventory-sales ratio, total[b]	0.160	0.187	0.165	0.167

[a] Distribution, finance, etc.
[b] Line 2 ÷ line 3.

Table XII. Colombia: Small sample of manufacturing (83 firms) monthly output, 1956-57

(Millons of pesos)

Groups	*Number of firms*	*January*	*February*	*March*	*April*	*May*	*June*	*July*	*August*	*September*	*October*	*November*	*December*	*Total Year*
						1957								
Flour milling[a]	16	15.3	13.5	10.3	10.7	11.7	16.7	15.2	4.7	10.9	13.7	15.9	13.6	152.2
Other food	22	11.5	12.4	13.3	13.8	13.8	16.2	16.1	16.9	16.5	18.8	15.7	15.7	180.7
Beverages	12	5.0	5.3	5.6	4.9	4.9	6.5	6.6	6.5	5.8	8.1	7.6	7.5	74.3
Tobacco	8	4.8	6.4	5.7	5.3	6.0	6.2	7.2	7.0	7.8	9.3	9.3	9.2	84.2
Textiles[b]	10	5.0	7.3	8.0	15.1	7.6	7.4	9.0	10.7	10.1	10.9	10.7	9.9	111.8
Rubber and chemicals	8	6.8	8.5	9.4	9.3	8.6	9.3	11.3	14.8	13.7	15.2	13.3	8.5	128.7
Cement	7	4.1	4.0	4.9	4.8	6.7	4.7	5.1	5.6	5.1	5.1	4.5	4.3	58.9
Total	83	52.5	57.4	57.3	63.9	59.3	67.0	70.5	66.2	69.9	81.1	77.0	68.7	790.8
						1956								
Flour milling[a]	16	11.9	13.4	8.9	10.0	15.2	10.9	10.6	8.8	8.1	11.8	12.1	13.3	135.0
Other food	22	12.9	13.1	12.2	14.2	14.3	14.0	14.1	14.8	14.1	16.0	15.6	11.0	166.3
Beverages	12	3.9	4.8	3.4	4.2	3.5	4.0	5.7	3.7	5.9	5.8	5.9	5.9	56.8
Tobacco	8	4.4	5.6	5.5	6.0	6.0	5.8	4.0	5.4	5.9	6.8	7.3	4.1	66.8
Textiles[b]	10	5.0	7.3	7.7	7.2	7.7	7.7	7.8	8.3	8.9	9.2	8.4	7.2	92.4
Rubber and chemicals	8	5.8	4.7	7.6	9.3	8.0	7.9	7.6	7.5	7.8	8.1	7.3	5.7	87.3
Cement	7	3.4	3.4	4.3	4.5	4.5	4.7	5.2	4.8	4.5	4.7	4.5	3.5	52.0
Total	83	47.3	52.3	49.6	55.4	59.3	55.0	55.0	53.3	55.2	62.4	61.1	50.7	656.6

Source: Monthly sample survey of manufacturing carried out by the Statistical Department *(Departamento Administrativo de Estadistica)*. Final tabulation by ECLA. Coverage; about 12 per cent of all manufacturing.

[a] Including coffee processing.

[b] Including shoes (other than rubber-soled).

Table XIII. Colombia: Small sample of manufacturing (60 firms) quarterly output and inventories 1956-57

(Thousands of pesos)

Industry	*Number of firms*	*1956*				*1957*			
		March	*June*	*September*	*December*	*March*	*June*	*September*	*December*
				(i) Value of output					
Flour milling[a]	9	2 887	2 906	3 134	3 240	2 899	3 058	4 200	3 046
Other food	15	7 072	8 327	9 599	7 105	8 506	12 050	11 533	10 949
Beverages	10	1 975	2 799	4 785	4 312	4 253	4 934	4 552	5 802
Tobacco	7	5 453	5 849	5 861	4 075	3 505	3 411	4 355	5 191
Textiles[b]	6	4 985	4 773	5 772	4 830	5 239	4 382	6 440	6 473
Rubber and chemicals	7	6 959	7 380	7 044	5 049	8 484	8 569	12 925	8 050
Cement	6	4 222	4 707	4 440	3 512	4 912	4 642	4 991	4 214
Total	60	33 553	36 740	40 636	32 123	37 798	41 046	48 997	44 086
				(ii) Value of inventories of finished goods					
Flour milling[a]	9	954	857	1 496	1 870	1 297	1 290	1 473	1 108
Other food	15	3 770	4 283	5 836	3 557	3 811	4 660	6 217	3 423
Beverages	10	826	2 899	4 614	4 484	4 300	3 939	5 081	4 980
Tobacco	7	3 212	3 435	3 903	3 751	2 254	1 903	3 510	5 130
Textiles[b]	6	4 124	4 078	4 419	3 386	2 892	3 126	2 935	3 301
Rubber and chemicals	7	12 828	17 696	16 165	12 307	11 504	14 102	17 901	19 731
Cement	6	321	471	350	392	393	451	312	380
Total	60	26 035	33 719	36 783	29 748	26 450	29 472	37 418	38 054
				(iii) Value of inventories of materials					
Flour milling[a]	9	1 365	2 047	1 961	2 668	2 524	1 117	1 729	3 093
Other food	15	12 990	9 944	10 175	9 584	9 456	10 921	10 719	10 121
Beverages	10	2 232	1 820	2 134	2 247	1 755	1 542	2 235	3 343
Tobacco	7	4 150	4 416	3 858	3 911	2 696	2 897	3 652	3 973
Textiles[b]	6	6 496	4 410	7 572	6 364	7 618	6 880	10 600	8 576
Rubber and chemicals	7	6 375	6 605	9 110	8 627	6 220	5 650	8 097	8 172
Cement	6	1 089	1 299	1 308	1 396	1 739	1 505	1 903	1 769
Total	60	34 697	30 540	36 104	34 796	32 007	30 513	38 935	39 047

Source: Monthly sample survey of manufacturing carried out by the Statistical Department *(Departamento Administrativo de Estadistica)*. Final tabulation by ECLA. Coverage: about 8 per cent of all manufacturing.

[a] Including coffee processing.

[b] Including shoes (other than rubber-soled).

Table XIV. Colombia: Small sample of manufacturing (60 firms) inventory-output ratios, quarterly 1956-57

Industry	Number of firms	1956				1957			
		March	June	September	December	March	June	September	December
(i) Ratio of inventories of finished goods to output									
Flour milling[a]	9	0.33	0.29	0.48	0.58	0.45	0.42	0.35	0.36
Other food	15	0.53	0.51	0.61	0.50	0.45	0.39	0.54	0.31
Beverages	10	0.42	1.04	0.96	1.04	1.01	0.80	1.12	0.86
Tobacco	7	0.59	0.59	0.67	0.92	0.64	0.56	0.81	0.99
Textiles[b]	6	0.83	0.85	0.77	0.70	0.55	0.71	0.46	0.51
Rubber and chemicals	7	1.84	2.40	2.29	2.44	1.36	1.65	1.38	2.45
Cement	6	0.08	0.10	0.08	0.11	0.08	0.09	0.06	0.09
(ii) Ratio of inventories of materials to output									
Flour milling[a]	9	0.47	0.70	0.63	0.82	0.87	0.37	0.41	1.02
Other food	15	1.84	1.19	1.06	1.35	1.11	0.91	0.93	0.92
Beverages	10	1.13	0.65	0.45	0.52	0.41	0.31	0.49	0.58
Tobacco	7	0.76	0.76	0.66	0.96	0.77	0.85	0.84	0.77
Textiles[b]	6	1.30	0.92	1.31	1.32	1.45	1.57	1.65	1.32
Rubber and chemicals	7	0.92	0.89	1.29	1.71	0.73	0.66	0.63	1.02
Cement	6	0.26	0.28	0.29	0.40	0.35	0.32	0.38	0.42
(iii) Ratio of total inventories to output									
Flour milling[a]	9	0.80	1.00	1.10	1.40	1.32	0.79	0.76	1.38
Other food	15	2.37	1.71	1.67	1.85	1.56	1.29	1.47	1.24
Beverages	10	1.55	1.69	1.41	1.56	1.42	1.11	1.61	1.43
Tobacco	7	1.35	1.34	1.32	1.88	1.41	1.41	1.64	1.75
Textiles[b]	6	2.13	1.78	2.08	2.02	2.01	2.28	2.10	1.83
Rubber and chemicals	7	2.76	3.29	3.59	4.15	2.09	2.31	2.01	3.47
Cement	6	0.33	0.38	0.37	0.51	0.43	0.42	0.44	0.51

Source: Monthly sample survey of manufacturing carried out by the Statistical Department *(Departamento Administrativo de Estadistica)*. Final tabulation by ECLA. Coverage: about 8 per cent of all manufacturing.
[a] Including coffee processing.
[b] Including shoes (other than rubber-soled).

Table XV. Colombia: Small sample of manufacturing

(Millons of pesos)

(i) *64 firms. Output, 1953, 1956 and 1957*

Industry	No. of firms	1953	1956	1957
Flour milling[a]	14	97.5	131.2	147.1
Other food	16	77.9	148.6	152.1
Beverages	10	74.0	54.4	71.0
Tobacco	6	35.4	47.0	60.3
Textiles[b]	7	31.5	45.7	61.1
Rubber and chemicals	6	49.9	84.2	121.9
Cement	5	13.6	24.8	27.0
Total	64	382.8	536.0	640.4

(ii) *41 firms. Output and year-end inventories, 1953, 1956 and 1957*

	No. of firms	Output			Inventories of finished products			Inventories of materials		
		1953	1956	1957	1953	1956	1957	1953	1956	1975
Flour milling[a]	7	22.3	32.9	36.3	0.62	1.68	1.02	1.33	2.20	2.61
Other food	9	48.0	81.0	94.5	0.87	1.85	1.34	4.66	7.45	8.51
Beverages	8	46.7	35.2	52.6	1.53	4.42	4.91	2.23	2.15	3.20
Tobacco	5	14.8	17.9	22.0	0.89	1.00	1.55	3.12	2.94	2.96
Textiles[b]	3	6.9	11.6	15.3	0.69	1.96	2.50	1.22	1.85	2.66
Rubber and chemicals	5	49.9	76.7	112.6	2.73	12.09	19.38	10.18	8.01	7.41
Cement	4	13.3	24.3	26.5	0.31	0.26	0.25	0.35	0.67	1.17
Total	41	202.0	279.6	359.7	7.64	23.26	30.94	23.07	25.26	28.51

Source: Monthly sample survey of manufacturing carried out by the Statistical Department *(Departamento Administrativo de Estadistica)*. Final tabulation by ECLA.
[a] Including coffee processing.
[b] Excluding shoes (other than rubber-soled).

Chapter V

CUBA

I. THE ECONOMIC SITUATION IN 1957 AND PROSPECTS FOR 1958

During 1957, Cuba's economic activity attained the highest level registered since the war. According to provisional estimates, the gross product at current prices was 11 per cent more than in 1956, when the economy had already regained the peak level reached in 1952. If price rises are taken into account, the growth of the gross product in real terms may be estimated at rather over 8 per cent.

In contrast to the two preceding years, when public investment was the main bulwark of Cuba's economic activities, the principal factor stimulating expansion in 1957 was the marked increment in export earnings, accruing chiefly from a rise in sugar prices on the international free market. Sugar production expanded 19.7 per cent, while its value rose 46.8 per cent (from 437.3 to 672.7 million pesos).

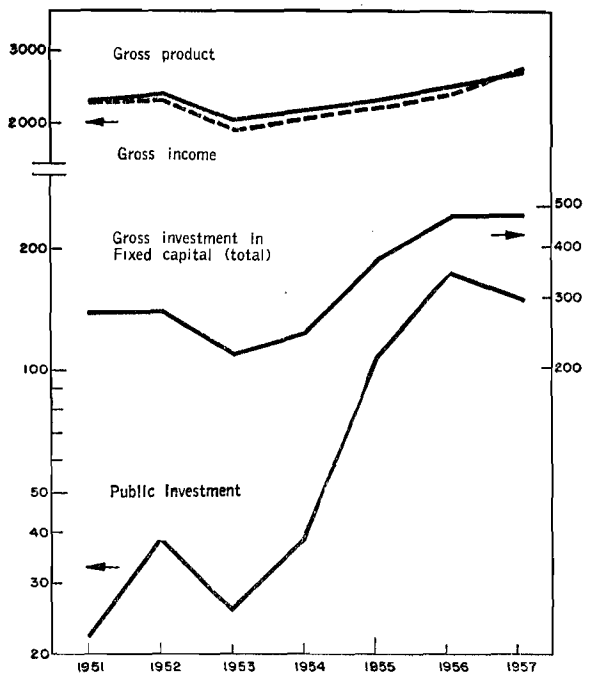
The big increase in the export price of sugar was also influential in determining the substantial improvement of almost 17 per cent in the terms of trade, since import prices rose, on an average, approximately 4 per cent. As a result, real gross income increased more than the gross product (by 13.3 per cent) in spite of the contraction in the volume of exports (see figure XIV). The fluctuations registered in other export items were, as will be seen later, less significant.

Figure XIV

CUBA: PRODUCT, INCOME AND GROSS INVESTMENT, 1951-57

(Millions of pesos at 1950 prices)

Semi-logarithmic scale



The prolongation of the public works programme, started in 1954 to counterbalance the depressive effects of the sugar slump, was also effective in raising income to such a high level in 1957. Public investment at current prices showed no more than a moderate decline from 170.5 to 156.8 million pesos, which was, in any case, more than counterbalanced by the increase in the Government's current expenditure. Moreover, private investment expanded more than 14 per cent as a result of the additional inflow of foreign capital and an extension in credit for development purposes granted by the official bank.

In the absence of restrictions on consumption,[1] the expansionist effect of larger export earnings and private investment and the high level of public expenditure had far-reaching repercussions on import demand. Imports increased in value at a faster rate than that of exports, and the 1957 trade balance showed the same small surplus as in 1956.

The deficit in the services account was also much greater than in the preceding year, chiefly because of extra expenditure on the servicing of foreign investment. The net result was that, in spite of a greater inflow of foreign capital, the deficit in the current account had to be financed from exchange reserves and by the mutual agreement, on the part of official credit agencies, to grant short-term credit abroad to a total of some 52.6 million dollars.[2]

Owing to the weakening of demand in the so-called world sugar market, which was signalled by a sharp drop in prices during the last few months of 1957, prospects will be much less favourable for the Cuban economy in 1958. For this reason, the sugar harvest was fixed at the previous year's level, in spite of the fact that there will be 16 per cent more cane for cutting than in 1957. If, as may be foreseen, the average price of sugar descends to its 1956 level, the total value of exports will be reduced by some 100 million dollars (approximately 12 per cent) in relation to 1957.

Another depressive factor in 1958 will be the probable contraction of public investment, since the bonds for 350 million pesos that were issued for investment purposes in 1954 had all been utilized by the end of 1957.[3] The possibility of another issue is limited not only by the slow-

[1] Among the different tax and credit measures contemplated to restrict consumption, only one was adopted at the end of 1957. This raised the rate of interest on credit for the importation and sale of durable consumer goods (Circular from the *Banco Nacional de Cuba*, 9 December 1957).

[2] *Banco Nacional de Cuba, La Economía Cubana en 1956-1957*, Havana, 1958, table 15, p. 98.

[3] In November 1957, a single additional credit grant of 30 million pesos was made for the continuation of the public works begun by the Government (see *Revista del Banco Nacional de Cuba*, November 1957, pp. 595-596).

ness of the legislative machinery but also by the fact that the market has reached saturation point, after having absorbed large quantities of public securities in the last four years.

The chief factor encouraging development in 1958 will probably be a large increase in direct foreign investment, particularly in electric energy, the telephone services and petroleum. But, it is anticipated that this expansion will be offset by a decrease in private domestic investment, partly caused by a curtailment of credit facilities granted by official development banks.

In spite of the expected contraction in export earnings and the probable reductions in public and private investment, it is anticipated that in 1958 the inflationary forces latent in the banking system's extreme fluidity will send prices soaring up and that the drain on international reserves will continue at the same time. The latter aspect of the process will be intensified if imported goods are stockpiled for speculative purposes before the new customs tariff enters into force in the middle of the year.

In order to check these tendencies, the *Banco Nacional de Cuba* adopted, in December and January, a number of measures to restrict credit. The most important were the following: a rise in the rate of interest on loans to the sugar industry from 5 to 6 per cent, and on loans to finance the importation and sale of durable consumer goods from 5 to 7 per cent; and an increase in the rediscount rate on ordinary operations from 3½ to 5½ per cent and on loans to the sugar industry from 2 to 4½ per cent. Furthermore, minimum reserves for sight deposits were increased from 25 to 30 per cent in January, and to 35 per cent as from 1 May 1958.[4]

To sum up, there will probably be important changes in tax and monetary policy in 1958 in relation to the four preceding years; these may lead to a marked decline in the rate of investment and less pressure on the balance of payments. Such changes will not be merely the outcome of the drop in world sugar demand, but will have been largely produced by the compensatory policy of recent years, and, as will be seen further on, by the way in which this was financed.

II. FOREIGN TRADE AND THE BALANCE OF PAYMENTS

The evolution of Cuba's foreign trade and balance of payments in the last few years has been largely determined by the sugar stabilization policy introduced in 1953 and by the internal measures adopted later to maintain satisfactory income and employment levels and to promote economic development.

1. EXPORTS

(a) *Sugar*

The weakening of demand on the world sugar market which occurred after the Korean hostilities coincided with a record Cuban sugar harvest of 7.2 million tons in 1952, and was the joint result of stockpiles amounting to almost 2 million tons and a sharp drop in world sugar prices. The value of Cuba's sugar exports, which had reached a maximum of 672 million dollars in 1951 fell to 94 million in 1952 (see table 161).

Table 161. Cuba: Production, exports, inventories and price indices of sugar, 1951-57

(Millions of tons and millions of dollars)

Year	Production	Export		Inventories at end of year	Price indices of exports to:	
		Volume	Value		United States	Other countries
					(1953 = 100)	
1951	5.8	5.5	672	0.3	94	167
1952	7.2	5.0	578	2.2	99	122
1953	5.2	5.5	529	1.5	100	100
1954	4.9	4.2	432	1.9	96	96
1955	4.5	4.6	473	1.6	92	95
1956	4.7	5.4	524	0.7	95	102
1957[a]	5.7	5.3	680	0.7	98	151

Source: Production, export volume: Cuban Sugar Stabilization Institute *(Instituto Cubano de Estabilización del Azúcar)*; export value and price indices: International Monetary Fund, International Financial Statistics. March 1957.
[a] Provisional figures.

From 1953 onwards, a restrictive policy was adopted in order to check the fall in prices. This consisted in the creation of a buffer stock of 1.75 million tons and a reduction in the sugar harvests for 1953-56. These measures, together with the conclusion of the International Sugar Agreement, which entered into force with effect from 1954, helped to stabilize world sugar prices. From December 1953 to October 1956, average monthly figures on the New York Exchange for prices of raw sugar f. o. b. Cuba remained between 3.13 and 3.40 dollar cents per pound. During the same period, the price of sugar destined for the United States fluctuated between 4.86 and 5.09 cents per pound.

In spite of the heavy reduction in sugar output in 1953-56, the stocks that had been accumulated in 1952 were not used up until the end of 1956. The export value, which had dropped to a minimum of 432 million dollars in 1953, rose to 473 million in 1954 and to 524 million in 1955, mainly owing to the larger volume of sales abroad.

The expansion in world demand for Cuban sugar, largely due to the replacement of stocks by European countries whose production had decreased in the previous year, was reflected in price increases during the last months of 1956 and the decline of Cuban stocks to their normal level of some 700 000 tons by the end of that year. These factors enabled Cuba to increase its production by approximately 21 per cent to 5.7 million tons in 1957. The spot price of sugar on the international market continued to rise rapidly during the first few months of 1957, passing from a monthly average of 5.83 dollar cents per pound in January to as much as 6.46 in April; but subsequently prices slumped again and, after considerable fluctuation, finally reached 3.75 cents per pound at the end of 1957.

The price deterioration during the second half of the year had little effect on the value of exports in 1957, since, out of total production, only a little under 515 000 tons still remained to be sold at mid-year. In fact, the unit value of aggregate sugar exports increased almost 50 per cent and the average price of those to the United States by 3 per cent. The total export value therefore rose approximately 30 per cent to 680 million dollars, although the volume decreased from 5.4 to 5.2 million tons (see again table 161). Out of this total, 2 479 535 tons were

[4] Circulars from the *Banco Nacional de Cuba,* 9 December 1957 and 23 January 1958.

destined for the world market. The leading importer in the world sugar market was Japan, which bought 443 954 tons, followed by the United Kingdom (416 908 tons) the Federal Republic of Germany (383 789 tons), and the Soviet Union (358 242 tons). Exports to the United States amounted to 2 753 522 tons.

It is possible that demand for Cuban sugar will contract in the years to come. In 1956 and 1957, the European countries bought more in order to replenish their stocks, but in future they will probably increase their own production. It is estimated that the increase in the United States quota in 1958 will not be enough to offset the expected reduction in purchases by the Federal Republic of Germany and the Soviet Union, which will probably lead to an increase in Cuba's stocks and a decline in its production. The production quota has been fixed at the same level as in 1957 (5.7 million tons), although there is sufficient sugar cane to produce over 6.2 million.

(b) *Other exports*

(i) *Tobacco.* In spite of the downward price trend, the value of tobacco exports was either maintained or registered slight increments in the last five years owing to an expansion in the export volume. This, together with the restrictions on production, indicates that the impediments to a rise in exports are to be found in demand rather than supply.

During the first nine months of 1957, the value of exports was 37.3 million dollars, or 3.7 million more than in the same period of 1956. The share of tobacco in total exports nevertheless contracted from 7.7 per cent in 1954 to 6.8 in 1956 and approximately 5 per cent in 1957.

(ii) *Minerals.* Minerals are Cuba's third most important export. In 1955 and 1956, their export value remained close to the peak level of 37.4 million reached in 1953. Yet their relative importance declined from 6 per cent in 1955 to 5.1 in 1956 and 4 per cent in 1957, owing to the slight increment in export value and large sugar sales.

Nickel is the most important of these minerals and its export volume was as much as 10 009 tons in the first half of 1957, i.e., 1 673 tons above its corresponding level in 1956, while its export value rose to 9.7 million, or 2.2 million more than during the same months of 1956. It is possible that even more will be produced and exported in future, as a result of the heavy investment placed in and projected for this sector of the mining industry.

Since Cuba's second most important mineral export is copper, the world copper slump in 1957 had an adverse effect on the country's economy. During the first six months of the year, 40 078 tons were exported, 7 154 more than in the first half of 1956, but their value amounted to only 4.9 million dollars, i.e., 2 million less than in the corresponding months of the previous year.

Manganese exports, which reached their peak in 1953 when their value was as much as 11.2 million dollars, thereafter gradually declined in importance as a result of a fall in prices. During the first six months of 1957 their value was only 1.7 million, or less than half that registered for the same period in 1956.

During the first half of 1957 iron exports were reduced to less than half their volume in the equivalent half of 1956, and their value rose to only 226 000 dollars. Exports of chrome, which were also fairly small, increased in 1957 when sales in one week alone exceeded those in any of the three preceding years.

(iii) *Coffee.* In addition to sugar, tobacco and minerals, coffee has also become a fairly important export item for Cuba since 1955, its three main markets being the United States, the Netherlands and Italy. During 1956, exports increased to 452 642 quintals, representing a value of 21.5 million dollars, and much the same figures were registered in 1957. Exports of washed coffee, which formed 44.5 per cent of the total in 1956, absorbed as much as 77 per cent in 1957.

2. The trade balance for goods and services

The evolution of the aggregate value of Cuban exports has naturally been parallel to that of sugar exports reviewed in the preceding pages.

The increment in the export value from 557.6 million dollars in 1954 to 810 million in 1957 was chiefly due to an expansion in export volume between 1955 and 1956 and a rise in prices in 1957. The price index for imports has been fairly stable since 1953. The terms of trade tended to improve, especially in 1957, and the rise in export value was translated into an increase in the capacity to import.

The depressive effects of the sugar slump reduced the value of exports in 1953 and 1954 almost 20 per cent in relation to the high level of 690 million dollars attained in 1952. A definite upward trend was observed after 1955, which became more pronounced in 1956 and raised the value of imports to 800 million dollars in 1957 (see table 162). This improvement in 1955 and 1956 was mainly due to the rise in imports brought about by the Government's public works programme and in 1957 it was boosted by the sizeable increase in sugar income.

Available data on import structure show that more cap-

Table 162. Cuba: Balance of goods and services from 1952 to 1957

(Millions of dollars)

	1952	1953	1954	1955	1956	1957[a]
Exports (f.o.b.)	688.2	668.9	557.6	607.3	686.0	810.0
Imports (f.o.b.)	—690.0	—546.7	—554.9	—575.1	—649.0	—800.0
Tourist industry (net)	— 13.0	— 11.2	— 7.6	— 3.0	4.3	10.0
Transport (net)	— 67.6	— 53.4	— 53.5	— 56.9	— 60.5	— 66.0
Investment yield (net)	— 52.5	— 27.7	— 32.2	— 40.9	— 50.6	— 80.0
Miscellaneous (net)	10.8	9.8	17.3	15.8	20.0	20.0
Net balance	—124.1	39.7	— 73.3	— 52.8	— 49.8	—106.0

Source: 1952-56: International Monetary Fund, *International Financial Statistics;* 1957: Estimated by ECLA on the basis of official statistics.
[a] Provisional figures.

ital goods and raw materials were brought into the country during the last three years. This was a result of the substantial increments in public and private investment during that period.

Owing to the high level of imports, the trade balance showed only a small surplus in 1956 and 1957, in spite of the striking recovery of sugar exports. Moreover, the deficit in the services account was larger than in previous years and thus prolonged the disequilibrium which has been manifest in the balance of goods and services since 1954 (see again table 162).

With regard to income from the tourist industry, it should be noted that, since 1956, this has not been sufficient to cover the outflow of money spent by Cuban tourists abroad. However, the latter level of expenditure has been more or less stable during recent years, while income from foreign tourist traffic has increased considerably and showed a positive balance of 10 million dollars in 1957.

Current expenditure on transport and investment servicing has traditionally shown a deficit in Cuba's balance of payments. The negative balance for transport costs declined appreciably in 1953, when imports were heavily reduced, but, in spite of Cuban shipping activities, it began to rise again after 1954 to approximately 66 million dollars in 1957.

The deficit corresponding to investment servicing was cut by half in 1953 when the sugar industry's profits were reduced, but after 1955 it increased rapidly as sugar exports recovered. In 1956, the deficit was 50.6 million dollars in comparison with 52.5 million in 1952 and is estimated to have reached approximately 80 million in 1957.

3. Financing of the deficit in the current account

The way in which the deficit in the current account was financed has been analysed already and is further clarified in table 163.

Over-all movements of private capital, which had shown a negative balance in 1953, helped to finance the deficit in current transactions from 1954 onwards. But, owing to the unfavourable movements of portfolio and short-term capital investment, the amount was more than 20 million dollars less in 1956 than in 1955, when it came to 57.9 million dollars. It should also be remembered that part (10 million) of the total of 58.5 million comprising direct investment in 1956 represented the re-investment of profits by foreign enterprises, and that returns transferred abroad by such companies amounted to 41.4 million. This meant that such investments brought in only 7.1 million net in foreign exchange. Although exact figures are not available for 1957, the net positive balance of private capital movements was probably greater than in 1956 as a result of more direct investment in public utilities and the development of manufacturing.

Since imports are independent of the export process and private capital movements have proved inadequate as a compensatory factor, the flow of imports constituted a heavy burden on the foreign assets held by official development banks and the *Banco Nacional de Cuba*.

In 1954, the international reserves of the *Banco Nacional de Cuba* were reduced by 27.1 million, thereafter increasing by 38.6 million in 1955 and dropping once again to 26.1 and 25.5 million in 1956 and 1957 respectively. Foreign assets held by commercial banks, on the other hand, increased by 7.3 million in 1956, but registered decreases of 5.6 and 7.1 million respectively in 1954 and 1955. In 1957, they finally came close to stability.

With regard to special financing by official banks, it should be noted that, after the short- and medium-term dollar loans obtained abroad rose to considerable proportions—41.9 and 90.9 million dollars in 1954 and 1955 respectively—they were reduced to 23 million in 1956 and 27.1 million in 1957. The loans referred to were endorsed by the *Banco Nacional de Cuba* which pledged its international reserves as collateral.

According to table 163, the sugar slump and compensatory public expenditure led to financing by means of international assets and foreign loans, which totalled 74.6 million dollars in 1954 and 59.4 million in 1955. When the value of exports rose appreciably in 1956, this sum dropped to 41.8 million, but at the end of November 1957, in spite of the striking increase in exports, the total was as much as 52.9 million dollars.

Table 163. Cuba: Financing of current account deficit, 1952-57

(Millions of dollars)

	1952	1953	1954	1955	1956	1957[a]
Direct foreign investment	14.0	— 3.0	27.0	23.0	58.5	...
Other movements of private capital[b]	1.0	—19.6	—18.7	34.7	—22.4	...
Short-term and medium-term credits to official development banks	—	20.0	41.9	90.9	23.0	27.1
Fluctuations in international assets:						
Banco de Cuba	47.4	—33.4	27.1	—38.6	26.1	25.5
Commercial banks	28.1	6.2	5.6	7.1	— 7.3	0.3
Miscellaneous[c]	— 4.3	—12.3	— 0.6	— 6.4	— 1.1	...
Total	86.2	—42.1	82.3	110.7	76.8	...

Source: 1952-1956: International Monetary Fund, *International Financial Statistics*. 1957: *Banco Nacional de Cuba, La Economia Cubana en 1956-1957*, op. cit. table15.

[a] January-November.

[b] Including small private donations.

[c] Mainly net movement of official long-term capital and reduction agreements; 1953: purchase of *Ferrocarriles Unidos de Habana*.

III. COMPENSATORY AND DEVELOPMENT POLICIES, 1953-57

1. Compensatory policy

The repercussions on the Cuban economy produced by the sugar slump after 1953 can be observed from table 164. Net national income at current prices dropped 14 per cent in 1953, partly because of the 38 per cent decrease in sugar earnings and, to a lesser degree, because of the decline in public and private investment.

Sugar income remained at a low level until 1957, when it showed an improvement as a result of the steep rise in sugar prices and recovered almost 93 per cent of its 1952 total. Income in the non-sugar sector of the economy followed a marked upward trend after 1955 and in 1957 was 22 per cent more than in 1952. The unequal development of the two sectors was largely attributable to the Government's compensatory policy during the period in question and, as will be seen later, to an expansion in private investment induced by official financing measures.

Table 164. Cuba: Evolution of net national income by sectors, and of public and private investments, 1951-57

(Millions of pesos at current prices)

Year	Net national income[a]				Gross investment in fixed capital[b]		
	Total (1)	Sugar sector (2)	Non-sugar sector (3)	2/1 % (4)	Total (5)	Public (6)	Private (7)
1951	2 015	659[c]	1 356	32.7	292	23	269
1952	2 084	668	1 416	42.1	299	41	258
1953	1 784	414	1 370	32.2	227	27	200
1954	1 827	443	1 384	24.2	261	40	221
1955	1 907	431	1 476	22.6	381	108	273
1956	2 086	455	1 631	21.8	499	171	328
1957[d]	2 345	624[c]	1 721	26.6	532	157	375
Indices: 1952 = 100							
1951	97	99	96		98	56	104
1952	100	100	100		100	100	100
1953	86	62	97		76	66	78
1954	88	66	98		87	98	86
1955	92	65	104		127	263	106
1956	100	68	115		167	417	127
1957	113	93	122		178	383	145

Sources: Net national income: 1951-1956, *Revista del Banco Nacional de Cuba,* May 1957, table 3, p. 560 and table 5.1.1e. pp. 681-682; 1957: *Banco Nacional de Cuba, La Economía Cubana en 1956-1957,* table 1; gross investment in fixed capital, *ibid,* tables 3 and 4.

[a] Net territorial income (including yield from foreign investment).

[b] The figures for total investment (col. 5) and private investment (col. 7) for the years 1951-1954 are slightly under-estimated, since they do not include some of the capital goods imported free of customs duties. The figures for public investment (col. 6) relate only to public works expenditures charged to loans and do not include capital expenditures charged to the regular budget, which are of minor importance (See table V-5, note b).

[c] ECLA estimates based on official data published in the above sources.

[d] Provisional figures.

The Government's expenditure policy was originally intended to stabilize income and employment levels, which explains why its main interest lay in public works programmes requiring maximum utilization of manpower. However, as so often happens with such programmes, the policy was not implemented with sufficient despatch. In fact, governmental expenditure on public works was cut by 34 per cent in 1953—at the nadir of the sugar depression—and, by 1954, had barely recovered its 1952 level. It was not until 1955 that the public works programme gained momentum. It was able to do so owing to the approval, in August 1954, of a bond issue to the value of 350 million pesos to finance the Economic and Social Development Programme (*Plan de desarrollo económico y social*).[5] The Programme provided for the expenditure of this sum within a period of four years (1954/55-1957/58) on fifteen categories of public works and development projects. After the programme was initiated in 1955, expenses increased to 108 million pesos, i.e., more than two and a half times the previous year's figure. In 1956, the maximum amount of 171 million was spent, which, in the following year, dropped to 157 million (see again table 164).[6]

The compensatory policy was limited to public works programmes. The ordinary budget underwent no special structural modification as regards income and expenditure,

[5] Legislative Decree No. 1589, 4 August 1954.

[6] Total expenditure in 1955-57 (436 million pesos) included projects financed by funds from an issue of advance (veterans, tribunals and works) bonds, and a bond issue by the *Financiera Nacional de Cuba.*

Table 165. Cuba: Current public expediture and income, 1951-52 to 1956-57

(Milions of pesos)

Year[a]	Current expenditure[b]		Current income		Surplus or deficit
	Total	Index (1951/52 = 100)	Total	Index (1951/52 = 100)	
1951/52	324.5	100	326.8	100	2.3
1952/53	340.6	105	309.5	95	—31.1
1953/54	303.5	94	270.2	83	—33.3
1954/55	329.3	101	303.4	93	—25.9
1955/56	325.3	100	328.7	101	3.4
1956/57	357.9	110	370.8	113	12.9

Source: Accounts Branch, *(Tribunal de Cuentas),* Department of Preventive Control *(Dirección de Fiscalización Preventiva)* and State Budget Control *(Control de Presupuestos del Estado).*

[a] Financial years ending 30 June.

[b] Including capital expenditures in respect of repairs to roads and buildings and equipment replacements, which normally do not exceed 7 per cent of the budget. (see *Revista del Banco Nacional de Cuba,* August 1955, p. 138).

since tax policy played a more or less passive role, and both income and expenditure were left to adjust themselves, after a certain time-lag, to the changes in national income. The compensatory effects of the deficits incurred in the fiscal years 1953/54 and 1954/55 were limited, since they operated at lower levels of expenditure than in 1952/53 (see table 165). The main reason for such deficits was reduced income levels caused, to a great extent, by lower profits in the sugar industry.

From the foregoing it may be inferred that the public works programme was an effective instrument of compensatory policy during two out of the four years of the sugar slump, i.e., in 1955 and 1956. The maintenance of public investment at a high level in 1957 strengthened the inflationary forces generated by the notable recovery in the export sector and by the increase in private investment. These forces were, as already pointed out, considerably weakened by an expansion in imports obtained at the cost of a substantial reduction in international reserves.

2. Development policy

As may be observed in table 164, gross private investment in 1954-56 increased at the same rate as public investment, although it was slower to begin with. In 1957 it expanded 14 per cent in comparison with the previous year, as against a decline of 8 per cent in public investment.

If the price improvement is taken into account, the expansion in private investment was approximately 8 per cent in real terms in 1957. In terms of the gross product, it increased almost 12.5 per cent which was much the same increment as in 1956 and more than that (10.1 per cent) in 1952,[7] hitherto the peak year for the Cuban economy. Moreover, the level of aggregate gross investment rose from 11.8 per cent of the gross product in 1952 to 19.4 per cent in 1956, chiefly as a result of the rapid expansion in public investment. In 1957, it declined slightly to 18.1 per cent, in response to the cut in public investment (see table 166).

The growth of private investment may be partly attributed to more direct foreign investment in recent years,

[7] These figures refer to gross private investment in fixed capital. In 1952, gross capital formation was higher, owing to the accumulation of large sugar surpluses after the exceptionally abundant sugar harvest that year.

Table 166. Cuba: Gross investment in fixed capital, 1952-57

(Millions of pesos at 1950 prices and percentages of the gross product)

Year	Public investment		Private investment		Total	
	Value	Percentage	Value	Percentage	Value	Percentage
1952. . .	39	1.7	238	10.1	277	11.8
1953. . .	26	1.3	194	9.5	220	10.8
1954. . .	39	1.8	209	9.7	248	11.6
1955. . .	109	4.8	266	11.7	374	16.5
1956. . .	171	6.8	309	12.5	480	19.4
1957. . .	151	5.6	334	12.4	485	18.1

Sources: Calculated by ECLA on the basis of data of current prices published in *La Economía Cubana en 1956-1957*, op. cit., tables 2, 3 and 4.
Method: The public investment series at current prices was deflated by the index implicit in the calculation of the real net income of the *Banco Nacional de Cuba* (see *La Economía Cubana en 1956-1957*, table 9). The private investment series was obtained by deflating the various items of imported capital goods by the corresponding import price indices and by applying the general index to domestic investment expenditures.

principally in public utilities, mining and the production and refining of petroleum. Total private investment increased from 29 million dollars in 1954, to 46.5 in 1955 and to 58.5 in 1956.[8] and is estimated to have expanded at the same rate in 1957.

Nevertheless, private investment was strongly-stimulated by the public works programme and by the more energetic Government development policy adopted in recent years. The fundamental objectives of this policy were the extension of credit facilities by means of the development banks set up in the last five years and the granting of tax incentives to encourage the establishment of new industries and the growth of agriculture.

So far as tax measures are concerned, the system of total or partial exemptions for new industries was consolidated and extended to cover customs duties, consular fees, profits taxes and other internal changes.[9] Additional facilities were also granted to promote the refining of petroleum and ores, assembly industries, tourist traffic and the production of cotton and kenaf. Although the effects of these measures cannot be accurately assessed, they undoubtedly facilitated the installation of new plants for producing rayon, chemicals and foodstuffs and refining petroleum, and, more recently, the construction of several hotels in the Havana area.

Even more important were the credit facilities extended by governmental banks. These are the *Banco de Fomento Agrícola e Industrial de Cuba*, which began to operate in 1951; the *Financiera Nacional de Cuba*, set up in 1953 to finance self-liquidating projects, especially those related to public works; the *Banco Cubano de Comercio Exterior*, founded in 1954 to encourage exports, especially to soft-currency countries; and the *Banco de Desarrollo Económico y Social*, established in 1955 to administrate the Development Programme.

Total credits granted by these four banks are classified in table 167 by types of industry or by projects. Between December 1952 and September 1957, credits rose from 4.1 to over 277 million pesos, the greater part of this increment taking place after 1954.

As these statistics include part of the financing of projects carried out under the Development Programme, the contributions of official banks to the financing of private investment were considerably over-estimated. These contributions included credits granted to agriculture and industry, which increased from 4 to 97.2 million pesos during the

[8] *La Economía Cubana en 1956-57, op. cit.*, table 7, p. 49.

[9] Legislative Decree No. 1038, 15 August 1953.

Table 167. Cuba: Breakdown by market destination of credit granted by official development banks, December 1952-September 1957[a]

(Millions of pesos)

	1952	1953	1954	1955	1956	1957	
						Value	Percentage of total
Total agriculture	2.8	10.4	17.3	22.3	15.5	17.0	6.1
Total industry	1.2	7.1	7.8	18.7	52.9	80.2	28.9
Tourist industry	—	—	—	6.3	9.2	22.0	7.9
Bagasse treatment	—	—	—	2.5	15.5	18.2	6.6
Building materials	—	0.4	1.4	2.4	2.3	11.9	4.3
Petroleum refining	—	—	—	—	4.1	9.0	3.2
Textiles	0.1	4.7	4.1	4.1	4.2	3.8	1.4
Foodstuffs	0.6	0.9	0.7	0.5	1.6	1.6	0.6
Urban building	—	—	—	—	3.3	0.6	0.2
Minerals and metallurgy	—	0.2	0.8	0.8	0.9	0.7	0.2
Miscellaneous	0.5	0.8	0.7	2.0	13.9	12.9	4.6
Total public services	—	21.2	29.1	86.4	122.1	173.6	62.6
Transport	—	20.0	10.0	30.7	53.8	61.9	22.3
Electric energy	—	—	8.5	19.3	27.0	41.8	15.1
Aqueducts	—	—	7.2	14.5	19.1	20.4	7.4
Ports and maritime terminals	—	—	—	0.2	0.8	7.1	2.6
Markets	—	—	—	—	0.8	1.2	0.4
Miscellaneous[b]	—	—	—	2.1	20.7	41.1	14.8
Loans to official autonomous bodies and miscellaneous loans	—	—	—	5.6	6.1	6.3	2.3
Total	4.1	38.7	54.1	132.9	196.7	277.1	100.0

Sources: *Revista del Banco Nacional de Cuba*, March 1957, table 2, p. 279, and November 1957, table 1.8 i.e., p. 700.
[a] The figures relate to the debit balances of loans at the end of the years indicated (1957, on 30 September).
[b] Mainly credits for the construction of the new central toll road *(Vía Banca)* and the tunnel under Havana bay.

period under review.[10] The major part of the remaining credits, to the value of 173.6 million pesos, was used to finance public utilities in accordance with the Development Programme, and may thus be considered as direct government investment.

Table 167 shows that out of the total credits conceded at the end of September 1957, a comparatively small proportion (6.1 per cent) was destined for agriculture and approximately 29 per cent for industry. The greater part (62.6 per cent) was assigned to public utilities, which included such public works projects as the tunnel under Havana bay and the new central highway (*Via Blanca*). In view of this, and the fact that the major share of the Government's investment expenditure not channelled through official banks was intended for the construction of public works,[11] it may be concluded that most of the investment either effected or financed by the Government during the last four years was in public works or basic services with a high capital coefficient, and that only a relatively small proportion was set aside for agriculture and industry.

The main short-term effects of this investment policy were the reduction of unemployment and maintenance of purchasing power, although it should be repeated, after a certain time-lag. The indirect repercussions of unemployment and production were not important since surplus productive capacity is mainly to be found in the export sector, whose activities are independent of domestic demand. None the less, the credit policy pursued by official banks, together with the other development measures referred to before, led to a sizeable increment in agricultural production for the domestic market, and stimulated the development of some sectors of industry.

Again, the rate of increase in the production of consumer goods failed to keep pace with the growth of domestic demand which was encouraged by the public works programme, and the consequent surplus had to be met by raising imports. This circumstance, together with the direct imports required by the investment programme, explain the continuous pressure on the balance of payments in the last four years and the resulting decline in foreign exchange reserve.

Towards the end of 1957 it was patent that, given the stagnation in the export trade, an investment policy primarily intended to finance public works and utilities could not be continued indefinitely without incurring the risk of chronic inflation, since although such investment had helped to increase basic social capital, it had not been accompanied by an adequate expansion in the productive capacity of agriculture and industry or by any marked improvement in employment figures.

The announcement of a new protectionist tariff with more clearly defined objectives to be introduced in July 1958 may be an indication that policy is veering towards a more intensive encouragement of manufacturing industries and greater diversification in agriculture. This would constitute a definite step forward in solving the problem of structural and seasonal unemployment.

The magnitude of the problem was revealed when the findings of the first unemployment survey recently undertaken by the Government were published. These showed that during the relatively prosperous interval between May 1956 and April 1957, the average number of unemployed was 361 000, i.e., 16.4 per cent of the labour force. This total rose to a maximum of 457 000 (20.7 per cent) in the so-called "slack" period (August-October 1956) and dropped to 200 000 (9.1 per cent) during the sugar harvest in February-April 1957.[12]

3. Financing

It has already been explained that the Government's public works programme between 1954 and 1957 was financed by means of three long-term bond issues with a total value of 350 million pesos.

Official banks also floated their own bonds to finance the programme, which rose in value from 3.2 million pesos at the end of 1953 to 112.7 million by December 1956.[13] Other important sources consisted of loans and advances from the *Banco Nacional de Cuba,* Government capital contributions and loans from foreign banks.

Full information on the placing of the public debt is not available, but existing data indicate that most of the bonds floated recently by the State and official banks were absorbed by commercial banks and the *Banco Nacional de Cuba.* Hence, investment in public securities by commercial banks increased from 55.4 million in December 1953 to 230.4 million in November 1957. During the same period, holdings of public securities by the *Banco Nacional* rose from 9.8 to 134.5 million.[14] Other large-scale holders are probably insurance companies, capital formation banks and private insurance firms and pension funds.[15]

Table 168 gives a more complete picture of the exact proportion of the compensatory and development policy that was financed by the banks, and presents, in a systematic way, the consolidated balances of the commercial banks and the *Banco Nacional de Cuba.*

From mid-1952 to mid-1957, by far the most oustanding factor behind the monetary expansion appears to have been the credits granted to the Government and to official bodies, which increased almost fourfold (from 125.3 to 483.2 million pesos). By contrast, credits to the private sector expanded by only 35 per cent, after keeping fairly stable during the first two years of the sugar slump.

The foregoing statistics underestimate the credit expansion generated by the public sector, since they do not include foreign short- hand medium-term loans obtained by official banks to finance part of the direct and indirect foreign exchange requirements of the development programme. The net amount of these loans, which were guaranteed by

[10] Accurate figures are not available. According to previous tentative estimates by the *Banco Nacional de Cuba,* total credits granted to agriculture and industry by official banks rose from 9.5 million to 73 million pesos between 1952 and 1956 (see *La Economía Cubana en 1955-56, op. cit.,* table 25, p. 100).

[11] The product of the first bond issue of 100 million pesos for the Development Programme was allocated as follows: public works and construction equipment (62.7 per cent); transport (24.4 per cent); contributions to autonomous development agencies (7 per cent); national defence (3.5 per cent); miscellaneous and pending assignment (2 per cent). There is no information on the allocation of further issue (see *Revista del Banco Nacional de Cuba,* August 1955, p. 137).

[12] See *Consejo Nacional de Economía, El empleo, el subempleo y el desempleo en Cuba,* Havana, January 1958, tables 2 and 6.

[13] *Revista del Banco Nacional de Cuba,* March 1957, table 3, p. 280.

[14] *Revista del Banco Nacional de Cuba,* January 1955, pp. 62 and 65, and November 1957, pp. 636 and 639.

[15] At the end of 1956, these institutions held 46.7 million out of a total of 112.7 million in securities issued by official banks (see *Revista del Banco Nacional de Cuba,* March 1957, *loc. cit.*)

Table 168. Cuba: Assets and liabilities of the banking system[a], 1952-57

(Millions of pesos)

	June 1957						
	1952	*1953*	*1954*	*1955*	*1956*	*1957*	*Index (1952 = 100)*
Assets							
Foreign assets	614.4	552.9	560.8	528.4	553.9	548.4	83.9
Credits to the foreign sector	17.5	28.2	23.7	27.1	25.3	22.8	130.3
Credit to the Government and official bodies	125.3	169.6	218.1	249.1	351.3	483.2	385.6
Credit to the private sector	402.2	421.1	416.6	472.5	473.0	541.6	134.7
Other assets	81.8	75.6	72.1	77.9	90.7	117.4	143.5
Total	1 241.2	1 247.4	1 291.3	1 355.8	1 494.2	1 713.4	138.0
Liabilities							
Means of payment (total)	967.2	974.7	968.6	988.9	1 070.0	1 178.9	121.9
Monetary deposits	585.2	593.2	589.0	604.5	673.5	760.8	130.0
Currency in circulation	382.0	381.5	379.6	384.4	396.5	418.1	109.5
Savings and fixed-term deposits	140.0	170.2	185.3	221.2	258.9	358.5	256.1
Government deposits	68.7	30.7	60.2	59.2	69.5	61.2	81.1
Capital accounts and other liabilities	65.4	71.7	77.1	86.6	95.8	114.8	186.7
Total	1 241.3	1 247.3	1 291.3	1 355.9	1 494.2	1 713.4	138.0

Source: *La Economia Cubana en 1956-1957*, table 11, p. 81.
[a] Consolidated balance of the *Banco Nacional de Cuba* and associated commercial banks.

the banks' international reserves, increased from 35 million pesos in June 1954 to 172.1 million in June 1957.[16] If these figures are taken into consideration, the statistics in table 168 for credit to the public sector would show an increase of from 125.3 million pesos in mid-1952 to 655.4 million in mid-1957, and net foreign assets would drop from 614.4 to 376.3 million.

In view of the striking expansion of credit generated by the public sector an increase in the amount of currency in circulation might have been expected, with more serious inflationary consequences than those that actually occurred. Yet the means of payment maintained their stability during the first two years and thereafter rose at a moderate rate until by June 1957 they were only 22 per cent more than in 1952 (see again table 168). This may be attributed only partially to the depression in the sugar industry, since the latter was largely offset by the recovery of sugar prices in the first half of 1957. The correct explanation should therefore be sought in the figures for savings and fixed-term deposits, which show a jump from 140 million in mid-1952 to 358.5 million in June 1957—an increment of more than two and a half times their original value. This implies that a considerable share of the income derived from the public works and development programmes was absorbed by the entrepreneurial sector which has the lowest propensity to consume,[17] and whose increased savings could not find sufficient outlets in domestic investment.

This increment in private savings was one of the principal anti-inflationary factors which, together with rising imports and steady import prices, determined the comparative stability of domestic prices during the period 1953-56. In 1957, a sharp upward trend was observed. Havana's retail food-stuffs index rose 7 per cent and the wholesale index approximately 3.4 per cent. Estimates by the *Banco Nacional de Cuba*, which included such consumption items as income and services that retained their stability, placed the rise in the cost of living at 4 per cent in 1957.[18]

At the beginning of 1958, it was feared that the price increases might give fresh impetus to the inflationary forces latent in the economy's high degree of liquidity. Its main components were the large quantities of public bonds held by commercial banks and the unusually high level of the savings deposits in the hands of the public, which, it should be stressed, were attributable to the financing of the public works and development programmes.

The first factor would be the easiest for the central bank to control, since, in view of the limited market for public securities in Cuba, commercial banks would be virtually unable to sell their holdings except through the *Banco Nacional*. But the withdrawal of savings deposits in the private sector is not subject to specific monetary controls and might be accelerated if the rise in prices acquired momentum. It may have been this probability, combined with the possible hoarding of imported goods for speculative purposes, that induced the monetary authorities to adopt, in early 1958, the rather stringent credit restrictions described at the beginning of this chapter.

The stabilizing effect of these measures may, however, be nullified, unless it is at least accompanied by a limitation of expenditure on public works, since, if the latter is at an equally high level in 1958, there will be a further extension of bank credit to the public sector. In view of the economy's high degree of liquidity and the rising level of prices, there is no hope that the impact of such a credit expansion could be neutralized by an increase in savings in the private sector. The repercussions would therefore be more violent than in the last few years, and this, in an open economy such as that of Cuba, would lead to a substantial rise in imports. In view of the anticipated contraction in export earnings in

[16] *La Economia Cubana en 1956-1957*, *op. cit.*, table 14, p. 93.
[17] It should be noted that the figures in table 164 refer to savings and fixed-term deposits (30-90 days) in commercial banks. They do not include small post office savings accounts or, of course, savings transferred abroad.
[18] *La Economia Cubana en 1956-1957*, *op. cit.*, p. 20.

Table 169. Cuba: Quantum indices of agricultural production and its main components, 1949-50 to 1957-58

(1954-56=100)

Component	*1949-1950*	*1950-1951*	*1951-1952*	*1952-1953*	*1953-1954*	*1954-1955*	*1955-1956*	*1956-1957*	*1957-1958*[a]
Total	95.3	105.9	106.6	124.3	102.0	101.8	97.3	100.9	114.6
Total sugar	74.0	89.5	85.3	84.9	92.1	99.4	99.1	101.5	107.0
Crops	95.6	107.4	108.0	127.8	102.4	102.1	97.0	100.9	116.3
Export	103.7	116.0	117.4	143.2	106.3	103.4	95.4	101.2	118.8
Domestic consumption	69.2	79.5	77.7	77.6	89.6	97.7	102.2	100.1	108.3
Livestock for domestic consumption	92.5	94.2	95.4	98.2	99.5	99.9	99.5	100.6	101.4
Crops and livestock for domestic consumption	77.6	84.8	84.5	85.0	93.2	98.5	101.2	100.3	105.9

Source: Calculated by ECLA on the basis of statistics supplied by the National Economic Council *(Consejo Nacional de Economia)*.
[a] Provisional.

1958, this rise would then have to be financed by Cuba's international reserves.

IV. EVOLUTION OF AGRICULTURE

1. Agricultural production

During the five-year period under review, the depression in the sugar sector exerted a decisive influence on the behaviour pattern of agricultural production as a whole. The quantum index, which had attained its peak for the current decade—124.3 per cent (1954-56 = 100)—in 1952, declined in subsequent years until it reached a minimum of 97.3 per cent in 1955; grew slightly in 1956; and entered upon a definite process of recovery in 1957, in which year it rose to 114.6 per cent, a figure almost 12 per cent higher than the average for 1949-51 (see table 169). However, it can be deduced from the analysis that, if sugar is excluded, the expansion of the other production sectors has continued almost uninterruptedly since 1949. The level achieved in 1957 was nearly 30 per cent above the 1949-51 average, an increment which implied an annual cumulative growth rate of 3.7 per cent.

(a) *Export commodities*

Where commodities other than sugar were concerned, agricultural production both for domestic consumption and for export expanded. The output of pineapples, for example, was 10 per cent larger in 1957 than in the three-year period 1949-51, while that of tobacco increased by 30 per cent, totalling 44 000 tons (see table 170).

The increment in tobacco production was due to several factors. These comprised the favourable world market demand conditions prevailing for raw tobacco in recent years, in consequence of less intensive competition from Indonesia and the Philippines; the increase in domestic consumption of processed tobacco products; and a clearly-defined tobacco stabilization, development and improvement policy. Important elements in this latter were the establishment of production quotas- the programme covering guarantee prices, purchases and stocks; the distribution of improved seed; and the application of strict standards of quality.

(b) *Commodities for domestic consumption*

Over-all agricultural production for domestic consumption also expanded at an annual rate of 3.7 per cent, which when adjusted to take into account the growth of the population, gives an annual *per capita* increment of 1.6 per cent.

Table 170. Cuba: Agricultural production, 1949-51 to 1957-58

(Thousands of tons)

Commodity	*Average 1949-51*	*1956-57*	*1957-58*[a]
Maize	236.9	185.0	190.0
Hulled rice	82.3	172.5	200.0
Beans	39.6	55.2	56.0
Peanuts	14.0	15.0	15.0
Bananas[b]	5 068.3	6 500.0	6 600.0
Centrifuged sugar	5 114.9	4 740.0	5 670.0
Pineapples	118.1	128.0	130.0
Tomatoes	103.9	105.0	110.0
Green coffee	33.4	45.3	50.0
Raw tobacco	33.8	42.0	44.0
Henequen	13.1	10.0	8.0
Potatoes	97.3	120.0	125.0
Pigs[c]	592.1	648.0	654.0
Cattle[c]	491.7	518.0	522.0

Source: National Economic Council *(Consejo Nacional de Economia)*.
[a] Provisional.
[b] Thousands of stems.
[c] Thousands of head.

Crops were really responsible for this progress, as the annual rate of increase in the production of cattle and pigs was barely 1.1 per cent.

The rapid expansion in crops grown for domestic consumption was the result of noteworthy increases—ranging from 30 to nearly 50 per cent between 1949-51 and 1957—in the rice, coffee, bean, banana and potato harvests (see again table 170). The output of maize, on the other hand, not only fluctuated but showed a definite downward trend throughout the period. In 1957 the harvest fell 20 per cent below the 1949-51 average; thus the relative importance of maize, which in the latter triennium had accounted for almost 15 per cent of the volume of crop production for domestic consumption, was reduced by a little less than half in 1957.

2. Agricultural policy

The development of crop production for domestic consumption was expedited by a whole set of favourable circumstances, including relative prices which afforded an important incentive to private undertakings on the part of farmers and commercial banks, as well as the implementation of public credit programmes and the establishment of guarantee prices. The significance of credit lies not only in the provision of considerable funds for the expansion of crop production, but also in the fact that it involved the

setting-up of legal, institutional and organizational mechanisms which have endowed the country with the kind of specialized banking system needed for the development of agriculture.

The other instrument of the policy applied to agricultural production for domestic consumption—guarantee prices—was wielded with a view to the stabilization and more efficient operation of the rice, bean, maize and coffee markets. To this end, a series of semi-autonomous institutions were created, such as the Rice Stabilization Administration *(Administración de Estabilización del Arroz)*, the Maize Stabilization Administration *(Administración de Estabilización del Maíz)* and the Coffee Sale and Purchase Administration *(Administración de Compra y Venta de Café)*. These organizations put their purchasing programmes into effect with the financial support of the recently established credit institutions, such as the *Banco de Fomento Agrícola e Industrial de Cuba* and the *Banco Cubano del Comercio Exterior*. To fulfil their aims, they set to work to install purchasing agencies and storage facilities in the principal producer areas.

(a) *Rice*

Rice production increased by 45.8 per cent between 1949-51 and 1956, in consequence of the favourable relative prices prevailing throughout this interval, and the institution of an import quota system which reserved a large share of the home market for domestic production. The allocation of official credits, which in 1952-56 amounted to 6.5 million pesos, also contributed to the development of rice-growing. All acted as a stimulus to the more intensive process of technical improvement which Cuban agriculture has been undergoing in recent years, and which has comprised heavy investment in machinery, irrigation equipment and fertilizers.

(b) *Coffee*

A more complex picture emerges when an attempt is made to establish the relationship between the measures of agricultural policy adopted and the striking progress achieved by coffee production, which, with the 50 000 tons obtained in the 1957/58 picking, reached a level 50 per cent higher than the average for 1949-51. Broadly speaking, this movement of production was strongly influenced by the prevalent high coffee prices, and by the effects of guarantee prices and direct incentives to the expansion of coffee-planting. The role played by credit was relatively insignificant.

The guarantee price programme had been established in respect of coffee since 1936, but it was not until 1954 that it became really effective following the creation of the Coffee Sale and Purchase Administration. This institution set up a purchasing centre in the Oriente producer area, and fulfilled its stabilizing function by buying and selling 1 400 and 6 800 tons during the 1954/55 cycles, respectively.

Since production has succeeded in catching up with domestic consumer requirements, a credit institution which is interested in broadening export possibilities for high grade coffee has taken over the responsibility for direct measures to encourage coffee production, such as improvements in the processing mills, foreign publicity and training of technical personnel.

(c) *Maize*

The programmes developed during recent years have aimed at stabilizing the market through the fixing of guarantee prices, advance credit operations and arrangement for storage of part of the crop. The 30-per-cent production increment registered between 1951 and 1954 is a measure of the effectiveness of such programmes (see again table 170). Nevertheless, the fact that the average 1949-51 level has not yet been regained, taken in conjunction with the decline in 1955—largely due to the adverse effects of drought—indicates the existence of a long-term problem which cannot be solved without the adoption of a programme for introducing more up-to-date practices and improved techniques in maize-growing.

3. Changes in the structure of production

The differing rates of variation registered by its components during recent years have determined certain structural changes in Cuba's over-all agricultural production.

In its boom period, sugar came to represent almost three-fourths of the total quantum of agricultural production and over 90 per cent of the volume available for export. In contrast, during the slump years, its relative importance declined to under 60 per cent of the total and 86 per cent of the volume earmarked for export (see table 171).

The chronological position of two normal phases—at the beginning and the end of the period under review—is such that significant comparisons can be made with respect to the diversification of agriculture, the achievement of which is unquestionably a problem of long-term trends.

Such comparisons reveal the existence of a positive balance which was partly the result of the agricultural policy in force. The relative importance of sugar decreased by 8.2 per cent between 1949-51 and 1957, at absolute production levels which were slightly higher in the latter year. Some improvement, too, although a modest one, was achieved in the structure of production for export. The lines concerned, excluding sugar, accounted for a proportion equivalent to 13.8 per cent of the total volume of commodities for export in 1957, whereas in 1949-51 their contribution had amounted to 10.8 per cent.

However, the greatest progress was registered in crop production for the home market. Its share in total production rose from 15.2 per cent in 1949-51 to 19.6 per cent in 1957, which implied an improvement of nearly 30 per cent. Despite the slow growth of meat production, of which the relative position remained unchanged, the rapid ex-

Table 171. Cuba: Pattern of agricultural production, 1949-57
(Percentage of quantum)

Component	*Average 1949-51*	*1952*	*Average 1953-56*	*1957*[a]
Total	100.0	100.0	100.0	100.0
Export commodities	74.0	77.8	68.3	70.0
Sugar	66.0	71.2	58.8	60.6
Others[b]	8.0	6.6	9.5	9.4
Commodities for domestic consumption	26.0	22.2	31.7	30.0
Crops	15.2	12.9	20.0	19.6
Livestock	10.8	9.3	11.7	10.4

Source: Calculated by ECLA on the basis of statistics supplied by the National Economic Council *(Consejo Nacional de Economía)*.
[a] Provisional.
[b] Tobacco and pineapples.

pansion of crops determined a similar development in aggregate agricultural and livestock production for domestic consumption, which represented 30.0 per cent of total production in 1957, as compared with 26.0 per cent in 1949-51.

As diversification entails an increase in the volume produced for home consumption domestic production simultaneously made some advance towards covering a larger proportion of the internal supply of agricultural commodities. The importance of this target, from the standpoint of the expansion of the capacity to import capital goods with a view to over-all economic development, is patent if it is remembered, for example, that imports of crop and livestock commodities represented on an average one-fourth of Cuba's total external purchases during the three-year period 1949-51 (see table 172). Considerable improvements have been achieved. By 1955 this proportion had decreased to 19.5 per cent and by 1956 to 17.3 per cent of the total import quantum, which represented reductions of 21 and 30 per cent respectively in the relative position of external purchases of agricultural commodities.

This progress must be attributed to the substitution of domestic production for imports of rice, beans, coffee and potatoes, which, as was shown above, have been the object of special attention on the part of agricultural policy. The volume of imports of these commodities, which in 1949-51 accounted for almost 50 per cent of crop and livestock imports, amounted to barely 27.6 per cent in 1955. In absolute terms, the quantum of such imports in 1957 stood at 26 million dollars (at 1950 prices), which implied a reduction of ever 50 per cent in relation to the 1949-51 average. On the other hand, imports of the remaining agricultural commodities increased by 7.4 per cent during the same interval (from 63.5 to 68.2 million dollars).

The effect of this process on the source of domestic supplies of the commodities listed was that imports of coffee ceased altogether, small exportable surpluses being available by the end of the period, while the share of domestic production rose from 22.4 to 61.6 per cent in the case of rice, from 52.9 to 63.4 per cent in that beans, and from 74.5 to 84.2 per cent in that of potatoes (see table 173).

Table 172. Cuba: Quantum of total imports and agricultural imports, 1949-56

(Millions of dollars at 1950 prices)

Year	*Total*	*Agricultural commodities*	*Percentage*
1949	424.9	111.4	26.2
1950	514.9	124.6	24.2
1951	571.2	133.3	23.3
1952	548.8	118.7	21.6
1953	453.2	106.4	23.5
1954	464.3	106.3	22.9
1955	483.3	94.2	19.5
1956	541.3	93.9	17.3

Source: Calculated by ECLA on the basis of data supplied by the General Directorate of statistics *(Dirección General de Estadística)*, Ministry of Finance.

Table 173. Cuba: Domestic sources of supply of selected agricultural commodities, 1949 and 1955

(Percentages)

Commodity	*Average 1949-51*		*1955*	
	Production	*Imports*	*Production*	*Imports*
Rice	22.4	77.6	61.6	38.4
Beans	52.9	47.1	63.4	36.6
Potatoes	74.5	25.5	84.2	15.8
Coffee	92.5	7.5	100.0	...

Source: Calculated by ECLA on the basis of data supplied by the National Economic Council *(Consejo Nacional de Economía)* and the General Directorate of Statistics *(Dirección General de Estadística)*, Ministry of Finance.

4. Agricultural development prospects

(a) *Export commodities*

As has been pointed out, the sugar sector may be expected to remain stationary in the next few years. Nor are there any very considerable prospects of expansion for tobacco, pineapples and coffee.

In the case of tobacco and pineapples, the difficulties are on demand side. With reference to tobacco, the first point to be noted is the contraction of world demand for processed tobacco. Secondly, it must be repeated that the increases registered in recent years served mainly to offset the decline in supplies from other producer countries.

Similar market factors operate in respect of pineapples, exports of which are showing a definite downward trend. Recent studies suggest that this movement may be attributable to the saturation of the consumer market for fresh fruit and the technological shift of United States consumer demand from consumption of tinned to that of frozen fruit.

As far coffee is concerned, everything seems to indicate that in the course of the next few years the Latin American exporter countries will find themselves confronted by more or less serious world market surplus problems. This, the conditions in which Cuba has regained a footing in the international market are not as propitious as they might be for the development of its exports.

On the supply side, it must be borne mind that possibilities of enlarging the area sown to coffee are extremely limited, which suggests that major production increments must be sought by means of improvements in unit yields. The promotion of appropriate farm practices forms part of the programmes that are being developed under the auspices of a banking institution, but their positive effects will certainly not make themselves felt immediately.

(b) *Commodities for domestic consumption*

With respect to imports for which domestic production began to be substituted in recent years—coffee, rice, beans and potatoes—the process seems to have been carried practically as far a possible. The limiting factors are trade commitments with the United States in the case of rice, and the technical difficulties attaching to the storage of potatoes during the months immediately preceding the harvesting of the domestic crop. Perhaps only beans may hold out prospects for further substitution.

It is in relation to other imports—oils and fats, pulses, meat and dairy produce—that the greatest progress may be hoped for in the development of production to satisfy domestic consumption. Of the total quantum of imports of these commodities, which amounted to 68.2 million dollars (at 1950 prices) in 1955 and 63.2 million in 1956, the proportion for which domestic production could be substituted may be estimated as fluctuating between 75 and

Table 174. Cuba: Quantum of agricultural imports, 1949-51, 1955 and 1956[a]

(Millions of dollars at 1950 prices)

Item	Average 1949-51	1955	1956
Total	65.5	68.2	63.2
Replaceable commodities	43.3	54.4	49.6
Vegetables and pulses[b]	8.5	10.0	8.8
Vegetable fats	3.7	5.9	3.9
Lard	16.6	22.0	21.4
Meat[c]	6.0	5.6	9.6
Dairy produce[d]	6.6	8.5	4.7
Eggs	1.9	2.4	1.2
Non-replaceable commodities	20.2	13.8	13.6
Grains[e]	14.9	10.0	8.8
Fruit[f]	5.3	3.8	4.8

Source: Calculated by ECLA on the basis of data supplied by the General Directorate of Statistics *(Dirección General de Estadística)*, Ministry of Finance.

[a] Excluding imports of rice, beans and potatoes.
[b] Peas, chick-peas, vegetables, garlic and onions.
[c] Fresh and salt beef, pork and mutton, bacon, jerked beef and ham.
[d] Butter, cheese, condensed, evaporated, powdered and skim milk.
[e] Chiefly wheat and flour.
[f] Fruits from temperate zones.

80 per cent (see table 174). In absolute terms, the degree of substitution that could be effected would represent some 50 million dollars, which is much the same level as was taken as a point of departure in the development of coffee, rice, beans and potatoes.

The importance of this process is seen to be still greater than can be deduced from the figures given above, when it is realized that imports of most of these commodities are increasing more rapidly than the population of Cuba. In fact, while the population growth rates were respectively 11.2 and 13.3 per cent in 1955 and 1956, in relation to 1950, imports of commodities for which domestic production could be substituted expanded by 26 and 15 per cent during the same intervals.

The commodities for which substitution would take the least time to effect vegetables and eggs. In the aggregate, these represent 20 per cent of the volume of import substitution determined as a possible maximum. Several problems arise in connexion with the encouragement of production of vegetables, including the need for short- hand medium-term credits and the stabilization of the market through price programmes and processing of the commodities concerned.

The substitution of domestic production for imports of poultry and eggs was embarked upon some three or four years ago. The volume of eggs produced in 1958 is expected to exceed 20 million dozen, which will mean that imports can be reduced by about 50 per cent (from 2 000 to 1 000 tons).

However, the future expansion of this line of production will depend upon the timely solution of the problem created by the shortage and costliness of poultry feed. This in turn is due to the inadequacy of the maize output, which will necessitate increasing recourse to imports from 1958 onwards. In December 1957, immediate import requirements were estimated at 4 500 tons. More recent data suggest that during the first half of 1958 they will rise to over 20 000 tons, that is, more than 10 per cent of the 1957/58 output. It is clear from long-term maize production trends that this is no passing difficulty, but, on the contrary, is likely to be aggravated in the next few years, unless maize development programmes are established. The problem will have to be solved by reducing production costs and increasing both the area under cultivation and unit yields.

Lastly, the imports for which it will be hardest to substitute domestic production are animal oils and fats, meat and dairy produce. In the case of oils and fats, the findings, of a research and experimental programme must be awaited before it can be determined which lines of production should be developed as raw materials. To judge from studies carried out on available natural resources and recommendable improvements in diet, another probable requisite will be the widespread substitution of vegetable oils for animal fats. This, combined with the need for heavy investment in processing plants, gives some idea of the complexity of the task of achieving a higher degree of self-sufficiency in respect of edible oils and fats.

Similar problems arise in connexion with meat and dairy produce. Here too consideration would have to be given to the necessity of processing practically all commodities. The question of maize supplies for processed feeds would also have to be taken into account, as well as the fact that an expansion of meat production entails an equally significant increase in livestock availabilities and a considerable improvement in productive capacity. Because of the special nature of this activity, such development calls for substantial investment and will take a relatively long time.

V. MANUFACTURING INDUSTRIES AND ENERGY

1. Manufacturing industry

(a) *Production in 1957*

In 1957 the output of those manufacturing industries for which data are available continued to rise rapidly, although, on the whole, the exceptionally high rates of increase achieved in 1956 were not exceeded (see table 175).[19]

A remarkable increase was registered in the chemical fertilizer industry which had remained at a standstill between 1953 and 1955 as the result of the restrictions on sugar output. From 1956 onwards, following the increased demand for Cuban sugar, production began to recover and registered an increase of 38.1 per cent between the farm years 1955/56 and 1956/57 attaining the peak figure of 266 000 tons.

At the beginning of 1956, the rise in customs duties on imported tyres considerably stimulated this industry which between 1950 and 1955 had been operating at an annual average rate of 57 per cent of capacity.

As a result, production rose by 20.1 per cent in 1957, when 156 200 units were produced as compared with 130 100 in 1956.

Imports of raw cotton, which went up 12.7 per cent in 1956 as compared with the previous year, increased by 15.1 per cent in 1957. In view of the fact that direct information about textile production is lacking and that Cuba does not produce cotton, this trend in the imports of fibre seems to indicate that the production of woven cotton fabrics underwent a substantial increase in 1957.

The demand for cement continued to rise and reached the peak figure of 825 000 tons. This high level of con-

[19] As regards some of these industries, see at the end of this chapter the annex showing series for capacity, production, imports and apparent consumption.

Table 175. Cuba: Quantum of manufacturing production, 1952-57

	Units	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*	*1956/1955*	*1957/1956*
Cement	(Thousands of tons)	418.7	405.4	420.1	462.6[a]	613.2[a]	650.8	32.5	6.1
Chemical industry									
Mixed fertilizers[b]	„	181.4	102.4	116.3	138.4	192.3	265.6	38.9	38.1
Superphosphates (20 per cent)	(Tons)	29 573	26 890	34 515	31 437	35 070	37 213	11.6	6.1
Viscose rayon	„	8 288	8 877	9 739	9 377	10 166	9 786	8.4	— 1.8
Sulphuric acid[c]	„	24 281	25 967	31 909	27 471	32 204	32 184	17.2	— 0.1
Rubber manufactures									
Tyres	(Thousands of units)	94.4	84.8	101.8	101.1	130.1	156.2	28.8	20.1
Inner tubes	„	46.2	39.6	46.0	47.0	58.0	59.1	23.4	1.9
Cotton textiles									
Apparent consumption of cotton[d]	(Tons)	6 718	5 055	7 569	6 916	7 797	8 976	12.7	15.1
Foodstuffs and beverages									
Wheat flour	„	30 327	67 257	48 203	49 145	66 309	64 887	34.9	— 2.1
Beer	(Thousands of litres)	143.7	116.4	120.2	117.9	120.5	129.2	2.2	7.2
Tobacco									
Cigars	(Millions of units)	390.8	375.1	316.0	339.7	377.2	408.8[e]	11.0	8.4
Cigarettes	(Milions of packets)	560.9	546.3	584.8	583.9	596.2	622.7[e]	2.2	7.2

Sources: Cement, superphosphates, viscose rayon, sulphuric acid, tyres, inner tubes and wheat flour: producer enterprises. Chemical fertilizers: Ministry of Agriculture, Agricultural Chemical Laboratory. Beer and imported raw cotton: Ministry of Finance, Statistical Department. Cigars and cigarettes: National Commission for the Protection and Promotion of Havana Tobacco *(Comisión Nacional de Defensa y Propaganda del Tabaco Habano)*.

[a] Correcting statistics in earlier *Surveys*.
[b] Agricultural years, 1 July-30 June.
[c] Excluding production of oleum, which averaged some 2,250 tons in the last few years.
[d] Imports of raw cotton.
[e] Estimated on the basis of nine months, production.

Table 176. Cuba: Quantum indices of manufacturing production, 1953-57

(1952 = 100)

	1953	1954	1955	1956	1957
Cement	96.8	100.3	110.5	146.5	155.5
Chemical industry					
Mixed fertilizers	56.4	64.1	76.3	106.0	146.4
Superphosphates (20 per cent)	90.9	116.7	106.3	118.6	125.8
Viscose rayon	107.1	117.5	113.1	122.7	118.1
Sulphuric acid (98 per cent)	106.9	131.4	113.1	132.6	132.3
Rubber manufactures					
Tyres	89.8	107.8	107.0	137.8	165.5
Inner tubes	85.7	99.4	101.6	125.4	127.8
Cotton textiles					
Apparent consumption of cotton	75.2	112.7	102.9	116.1	133.6
Foodstuffs and beverages					
Wheat flour	221.8	158.9	162.1	218.6	214.0
Beer	81.0	83.7	82.1	83.8	90.0
Tobacco					
Cigars	95.6	80.9	86.9	96.5	104.6
Cigarettes	97.4	104.3	104.1	106.3	111.0

Sources: As in table 161.

sumption was due to continuing public works expenditure and to the growing rate of private building. It is estimated that this latter sector represents a value of some 90 million dollars, an increase of 16 per cent over the 78 million dollars invested in 1956. Thus domestic production of cement increased from 613 000 tons in 1956 to 651 000 in 1957, i.e., by 6.1 per cent.

Other industries which increased their output in 1957 were those producing cigars, beer, cigarettes and leather footwear. The cigar industry, which in recent years has been exporting about 15 per cent of its production, registered an increase of 8.4 per cent with an estimated output of 409 million units. The brewing industry, which had attained its maximum production in 1952 with 143.7 million litres, registered in 1957 an increase of 7.2 per cent over the previous year with an output of 128.2 million litres. Cigarette production increased by 4.4 per cent, attaining a total figure of 623 million packets. Production of leather footwear rose from 13.9 million pairs in 1956 to 15.3 million in 1957 (10.3 per cent) and apparent consumption went up from 14.7 to 16.1 million pesos between the same years.

Among the industries which registered decreases in output were those producing rayon fibres and wheat flour. Approximately 75 per cent of the rayon fabric produced is sold abroad. In 1957, the contraction in external demand and, to a lesser extent, in the home market, brought about a decrease in production of 1.8 per cent as compared with the previous year. Production, which in 1956 had attained its peak (some 10 200 tons of rayon), therefore fell in 1957 to 9 800 tons. In spite of growing consumption, the production of wheat flour went down by 2.1 per cent to 64 900 tons as the result of strong competition from imported flour.

(b) *Evolution of manufactures, 1953-57*

The period 1953-57 was characterized by a substantial expansion of production in certain sectors, by capacity increases in others as a result of rising demand and by an upsurge in private investment, in some cases, as a result of the prospects offered by national development and, in others, as a result of the credit policy initiated by some departments of the official bank.

If 1952 is taken as the base year, it will be seen that, in 1957, the production index of tyres had risen to 165.5, that of cement to 155.5, that of chemical fertilizers to 146.4, that of sulphuric acid to 132.3, that of superphosphates to 125.8 and that of rayon to 118.1. Other industrial sectors registered smaller increases (see table 176).

Industrial investment was practically stationary between 1948-52—during which period the rayon plant, the integrated fertilizer factory and the modern flour mill entered into operation—and the middle of 1955, when a new cement plant was opened. After the latter date, important additions were made to existing industries, certain new industrial plants were inaugurated and plans for the installation of other important factories were speeded up so that they are now in construction.

(c) *Increases in productive capacity*

(i) *Cement.*[20] Cement production capacity, which until 1955 consisted of the 408 000 tons manufactured by the Pinar del Río Plant, was increased in that year to 591 600 tons, when a second plant entered into operation in Santiago de Cuba, to the extreme east of the island. In May, 1957, at this latter plant, a second kiln was put into service, with an annual capacity of 198 900 tons, so that Cuba's total capacity went up to 790 500 tons. It is estimated that the total investment for this equipment, which was partly financed by a bank, was 4.5 million dollars.

It is to be hoped that Cuba will become self-sufficient in cement about 1958-59 when a third plant, with an estimated initial output capacity of 150 000 tons annually, will enter into operation at Pinar del Río.

(ii) *Rayon.*[21] In 1955, the rayon plant increased its total productive capacity by 9.5 per cent to a figure of 10 700 tons. This expansion consisted of an increase of 20 per cent in the capacity to produce high-tenacity cord for tyres (from

[20] See tables I and II of the annex.

[21] See tables VI and VII of the annex.

4 536 to 5 443 tons) and an increase of 5.5 per cent in short fibre (from 4 082 to 4 309 tons). At the same time, there was a drop of 13.3 per cent in textile yarn (continuous filament) output capacity from 1 361 to 979 tons. These changes represented the first stage of a larger expansion programme designed to exploit foreign demand for high tenacity cord since external demand for textile yarns is low and domestic demand is restricted by the limited consumption of domestic weaving mills using synthetic fibres.

(iii) *Tyres.*[22] As a result of the increased duty on tyre imports, one of the plants in operation was able to raise its output to some 30 000 units annually in 1957 and two other enterprises installed new plants with annual capacities of 120 000 and 125 000 units respectively. The first of these plants began to produce at the end of 1957, and the second will probably do so in the course of 1958. With this increase in productive capacity, which is now higher than present consumption, Cuba will be self-sufficient in this important item by about 1959. A large motor-car and lorry assembly plant to be established at Havana during 1958 will provide an additional market for this productive capacity.

(iv) *Petroleum refining.* In 1957, petroleum refining capacity increased from 9 100 to 59 100 barrels per day following the inauguration of a new refinery in Havana with a daily capacity of 30 000 barrels and another in Santiago de Cuba with a daily capacity of 20 000 barrels. The expansion of the old Havana refinery —from, 8 500 to 35 000 barrels—which will soon be completed, will raise Cuba's total refining capacity to 85 600 barrels per day as against an estimated consumption of 60 000 barrels. This new capacity involves an investment of 68 million dollars of which a national agency has provided 10 million.

(v) *Further expansion of capacity in 1957.* Other important achievements in the manufacturing sector in 1957 are worthy of mention. They include a modern foundry producing centrifugal steel tubes for aqueducts with an annual capacity of 22 000 tons; a plant for the manufacture of copper wire and cables, using domestic raw materials; and a new factory producing aluminium sheets for food-packing, in which 5 million dollars have been invested.

(vi) *Projects under construction.* At the moment, certain important industrial plants are under construction and are expected to be completed in 1958 or early in 1959.

The industry which has received the greatest booster from private investment is the manufacture of paper from bagasse. Several projects have been initiated for utilizing this important by-product of sugar. The economically most important one is situated in the province of Matanzas; by using a new process, it should produce 25 000 tons of newsprint per year and supply the whole of the national market. This factory, which involves an investment of 7.2 million dollars, has been financed to a large extent by domestic capital. In addition, at a cost of 14 million dollars, a plant is to be installed in the province of Las Villas; it is designed to produce 100 tons per day of bleached and unbleached pulp from bagasse and also bleached and unbleached paper and board. A third enterprise has obtained a loan of 1.5 million dollars from the Export-Import Bank, as part of the total investment of 3.67 million dollars. It will be situated in the province of Camagüey and will produce paper board of different qualities for the building industry.

There are two other projects for the utilization of bagasse. One of them, with an estimated investment of 7.5 million dollars, is sponsored by a United States company which has acquired considerable experience in this type of production in Peru. The other will produce board from bagasse and its estimated investment amounts to 1.7 million dollars.

Another large-scale project is now under way near Havana at an estimated cost of 16 million dollars. It is a new plant for the production and rolling of steel and will be under the technical supervision of one of the leading United States iron and steel companies. It will utilize a Siemens-Martin blast furnace employing imported pig iron and domestic scrap. It will roll corrugated rod, structural shapes and wire, and will also produce welded tubes, thus largely replacing imports of these commodities.

At an outlay of 6.5 million dollars, it is also hoped to finish, in 1958, the installation of a completely mechanized plant for producing glass containers. This factory, which is also under United States technical supervision will have an annual estimated capacity of 25 000 tons of glass containers and will produce about 72 million bottles annually for the brewing, soft drinks and dairy industries, phials for the pharmaceutical industry and containers for the food-packing industry, all of which have so far been imported.

Finally, a second flour mill is now being built in Santiago de Cuba with a projected annual capacity of about 45 000 tons. It is hoped that production will begin in the early months of 1958.

The purpose of these investment programmes in the manufacturing sector is to make Cuba completely self-sufficient at an early date in cement, tyres and tubes, glass containers, aluminium sheet and copper wire and cables, and relatively self-sufficient in light steel products for building, welded tubing, and centrifugal steel wire and tubing. National production of wheat flour will supply about 65 per cent of consumption. The new plants for producing newprint and other types of paper from bagasse have been designed to satisfy the national market and, in certain cases, to leave small exportable surpluses.

2. Electric energy

(a) *Trends in generation and consumption*

During 1957 the generation of electric energy by the main public utility enterprise in Cuba, which represents about 90 per cent of the country's public installed capacity, registered an increase of 12.2 per cent and reached a figure of 1 282.1 million kWh. Generation thus surpassed by 65 per cent the figure of 774.7 million kWh achieved in 1950. This annual growth rate is the highest in the last six years and is slightly above the already high figure of 12.1 per cent recorded between 1955 and 1956 (see table 177).

Out of a total of 1 282.1 million kWh generated, 444.0 were consumed by households, 428.1 by the commercial sector and 270.9 by the industrial sector, excluding sugar. Remaining consumption—139.1 million kWh—was divided under the following headings: agricultural irrigation, Government, municipalities, public utilities, inter-departmental, and miscellaneous. According to this information, in 1957 the percentage share of household consumption in the total was 34.6 per cent, that of the commercial sector 33.4 per cent, while that of the industrial sector was only 21.1 per cent.

[22] See table IX and X of the annex.

Table 177. Cuba: Generation and consumption of electric energy in public utilities, 1952-57

Year	Generation		Consumption (Millions of kWh)			
	Millions of kWh	Annual percentage increment	Residential	Commercial	Industrial	Miscellaneous
1952	774.7	9.7	242.9	246.8	165.6	119.4
1953	815.5	9.9	281.3	273.2	171.9	125.2
1954	928.1	9.0	312.2	300.5	189.8	125.4
1955	1 020.4	9.9	348.7	334.2	211.0	126.6
1956	1 143.1	12.1	393.5	376.1	242.3	131.2
1957	1 282.1	12.2	444.0	428.1	270.9	139.1
Percentage coefficient of cumulative annual increment	10.60		12.82	11.65	10.34	3.1

Source: Main public utility enterprise.

If the electricity consumption trend between 1950 and 1957 is analysed, it will be seen that the annual average coefficient relating to the public sector was 10.6 per cent. This was largely the result of heavier demand in the household sector, which grew at an annual rate of 12.8 per cent, and in the commercial sector (11.7 per cent). The annual rate of increase in the industrial consumption of electricity generated by public utilities was 10.3 per cent, i.e., lower than that of total consumption.

No exact data are available on the output of energy by that part of the industrial sector which has its own generating capacity. However, on the basis of an estimate made for the sugar industry[23] and the generating capacity installed in other industrial plants, it may be inferred that electricity consumption for industrial uses represented about 50 per cent of total consumption in 1957.

(b) *Increases in generating capacity*

Cuba's main public utility enterprise, foreseeing that the demand for electricity would rise as a result of the improvement in the national economic situation, began to make long-term plans in 1944 for the expansion of capacity and related services and during the initial period was able to finance them from its own resources. Nevertheless, at the end of the war, since the estimated amount was inadequate, a loan of 12 million dollars was secured from the Export-Import Bank which, during the period 1944-52, helped to finance an additional capacity of 57 000 kW as well as 2 240 kilometres of transmission and distribution lines and new services for more than 284 000 consumers at an outlay of more than 55 million dollars.

Between the beginning of 1953 and the end of 1957, the public utility enterprise increased its generating capacity by 123 000 kW from 180 390 to 303 315 kW. This expansion was made up of 8 000 kW installed in 1953, 36 000 in 1954, 40 000 in 1955, 1 400 in 1956 and 35 000 in 1957 (see table 178).

This programme required an investment of some 87 million dollars, of which, in the light of the enterprise's experience, one-third was used for the installation of generating equipment and the rest for sub-stations, transmission and distribution lines and new services. The average cost was 240 dollars per installed kW. The investment was largely financed through loans of 24 million dollars from the Export-Import Bank, 30 million dollars from a national agency and 22.9 million dollars from the parent company. Between 1953 and 1957 mortgage bonds to the value of 9.8 million were sold to the public.

In 1957, the generating capacity of the main public utility enterprise increased by 13.0 per cent and reached the figure of 303 315 kW. This increase was the result of the installation of 10 000 kW in the province of Camagüey and the addition of a unit producing 10 000 kW in the Santiago de Cuba plant. Furthermore, 15 mobile units, each generating 1 000 kW entered into operation.

On 31 December 1957, Cuba's generating capacity, both in the public and private sectors, was about 700 000 kW. In the private sector, the sugar industry is self-sufficient in electric energy and the 161 sugar mills in operation have a generating capacity of 288 000 kW. In addition, many large enterprises have installed and are operating their own generating plants. Among the most notable of these are units in the two cement factories (generating 7 000 and 5 500 kW respectively), in Cuba's largest cotton-weaving mill (10 300 kW) and in the rayon plant (9 000 kW). The main plant for the treatment of copper ore, the nickel-oxide factory, the new glass container industry and many other minor enterprises also have their own generators.

It is hoped that by the end of 1958 two additional units,

Table 178. Cuba: Installed capacity for generation of electric energy in public utilities, 1952-57

(Thousands of kW)

Year	Thermo-electric	Hydro-electric	Total	Annual percentage increment
1952	180 390	2 700	183 090	8.9
1953	188 390	2 700	191 090	4.4
1954	224 215	2 700	226 915	18.7
1955	264 215	2 700	266 915	17.6
1956	265 615	2 700	268 315[a]	0.5
1957	300 615	2 700	303 315[b]	13.0

Source: Main public utility enterprise. The data include approximately 90 per cent of total installed capacity in public utilities.

[a] In 1956, 2 600 kW were withdrawn and four mobile units of 1 000 kW each were put into service.

[b] Including 15 mobile units of 1 000 kW each which were put into service during the year.

[23] This figure, which naturally fluctuates according to the amount and duration of each sugar harvest, was estimated at 508.0 million kWh for 1954. See *"La energía eléctrica en la industria azucarera"*, *Revista del Banco Nacional de Cuba,* Year I, No. 12 (December, 1955), pp. 613-618.

generating 18 000 and 11 000 kW respectively in the plants of Vicente and Santiago de Cuba, will be installed in the public sector. In addition, another unit of 66 000 kW is being installed in the Regla plant which supplies the City of Havana and the neighbouring municipalities. It will enter into production in the early-months of the year. Including this unit, the total generating capacity of this enterprise will increase by 31 per cent (from 303 000 to 398 000 kW) towards the end of 1958 and that of Havana to 236 000 kW, i.e., by 59 per cent.

Statistical Annex

Series relating to capacity, production, imports and apparent consumption of selected industries in Cuba

A. Cement

Table I. Cuba: Production and apparent consumption of cement, 1950-57

(Tons)

Year	Production	Imports	Apparent consumption	Percentage of consumption satisfied by domestic production
1950	316 251	95 087	411 338	76.9
1951	381 854	171 418	553 272	69.0
1952	418 659	150 347	569 006	73.6
1953	405 382	122 037	527 419	76.9
1954	420 070	191 469	611 539	68.7
1955	462 645 [a]	257 645 [b]	720 290	64.2
1956	613 175 [a]	175 631 [b]	788 806	77.7
1957	650 809	173 886 [c]	824 695	78.9

Sources: Production, producer enterprises; imports, Statistical Department, *(Dirección General de Estadísticas)*.
[a] Correction of statistics in previous *Surveys*.
[b] Provisional estimate.
[c] Provisional estimate on the basis of nine months' imports.

Table II. Cuba: Theoretical production capacity, production and utilized production capacity of cement, 1950-57

(Tons)

Year	Theoretical capacity [a]	Production	Percentage of utilized capacity
1950	408 000	316 251	77.5
1951	408 000	381 854	93.6
1952	408 000	418 659	102.6
1953	408 000	405 382	99.4
1954	408 000	420 070	103.0
1955	591 600 [b]	462 645 [c]	89.8 [d]
1956	591 600	613 175 [e]	103.6
1957	790 500 [e]	650 809	94.2 [f]

Sources: Producer enterprises.
[a] Estimated on the basis of 300 working days *per annum*.
[b] Entry into operation of furnace No. 1 in the Santiago de Cuba plant on 1 June 1955, with a daily capacity of 612 tons.
[c] Including cement produced with imported clinker in the Santiago de Cuba plant.
[d] Estimated on the basis of available effective capacity of furnace No. 1 in the Santiago de Cuba plant during seven months of operation.
[e] Entry into operation of furnace No. 2 in the Santiago de Cuba plant in May 1957, with a daily capacity of 663 tons.
[f] Estimated on the basis of available effective capacity of furnace No. 2 in the Santiago de Cuba plant during seven months of operation.

B. Fertilizers

Table III. Cuba: Chemical fertilizers sprayed by main crops, crop years to 1950/51 1956/57

(Tons)

Crop year	Sugar-cane	Tobacco	Rice	Potatoes	Vege-tables	Total five main crops	Other crops	Total ferti-lizers sprayed	Sugar-cane in total	Five main crops in total
									(Percentage)	
1950/51	147 552	27 199	1 634	19 272	9 878	205 555	10 905	216 460	68.2	94.9
1951/52	140 961	25 663	1 830	26 540	6 073	201 067	10 927	211 994	66.5	94.8
1952/53	18 817	33 016	8 569	28 445	7 514	96 361	8 431	104 973	18.0	92.0
1953/54	23 076	29 610	24 070	21 402	12 816	110 975	13 900	124 875	18.5	88.9
1954/55	37 000	29 576	33 375	14 068	20 378	134 398	14 118	148 515	24.9	90.5
1955/56	101 026	32 711	25 618	20 359	16 411	196 124	11 945	208 069	48.6	94.3
1956/57	221 512	27 409	19 109	16 928	24 507	309 464	11 173	320 637	69.1	96.5

Source: Ministry of Agriculture, Agricultural Chemical Laboratory *(Laboratorio Químico Agrícola)*.

Table IV. Cuba: Production and apparent consumption of chemical fertilizers, crop years 1950/51 to 1956/57

(Tons)

Year	*Production*	*Imports*	*Apparent consumption*
1950/51	200 323	9 433	209 756
1951/52	181 444	25 040	206 484
1952/53	102 370	2 127	104 497
1953/54	116 326	8 544	124 870
1954/55	138 436	9 738	148 174
1955/56	192 311	12 630	204 941
1956/57	265 622	48 339	313 961

Source: Ministry of Agriculture, Agricultural Chemical Laboratory.

Table V. Cuba: Production of superphosphates (20 per cent), 1950-57

(Tons)

Year	*Production*
1950	27 569
1951	30 627
1952	29 573
1953	26 890
1954	34 515
1955	31 437
1956	35 070
1957	37 213

Source: Producer enterprises.

C. Rayon

Table VI. Cuba: Rayon production, 1950-57

(Tons)

Year	*High-tenacity cord*	*Yarn for textiles (Continuous filament)*	*Rayon staple*	*Total*
1950	2 871.0	1 527.7	3 096.7	7 495.4
1951	4 116.3	1 573.3	3 423.4	9 113.0
1952	3 618.4	1 265.9	3 403.8	8 288.1
1953	4 686.7	731.4	3 458.4	8 876.5
1954	4 963.3	519.4	4 256.1	9 738.8
1955	4 379.4	728.3	4 269.6	9 377.3
1956	4 968.9	819.1	4 378.1	10 166.1
1957	4 454.1	574.4	4 757.6	9 786.1

Source: Producer enterprises.

Table VII. Cuba: Production capacity of rayon, 1954 and 1955

(Tons)

	1954	*1955*	*Percentage increment*
High-tenacity cord	4 536	5 443	20.0
Rayon staple	4 082	4 309	5.5
Yarn for textiles (continuous filament)	1 361	979	—13.3
Total	9 979	10 731	9.5

Source: Producer enterprise.

D. Sulphuric acid

Table VIII. Cuba: Production of sulphuric acid and oleum, 1950-57

(Tons)

Year	*Sulphuric acid (98 per cent)*	*Oleum*
1950	25 297	—
1951	26 881	220
1952	24 281	1 197
1953	25 967	2 235
1954	31 909	2 845
1955	27 471	2 758
1956	32 204	2 419
1957	32 184	1 989

Source: Producer enterprises.

E. Tyres

Table IX. Cuba: Production and apparent consumption of tyres and inner tubes, 1950-57

(Units)

Year	Tyres			Inner tubes		
	Production	*Imports*	*Apparent consumption*	*Production*	*Imports*	*Apparent consumption*
1950	85 622	169 903	255 525	45 881	125 619	171 500
1951	109 916	179 329	289 245	51 162	96 476	148 638
1952	94 421	161 979	256 400	46 238	114 630	260 868
1953	84 822	177 760	262 582	39 640	114 388	154 028
1954	101 801	335 234	437 035	45 972	83 440	129 412
1955	101 069	211 716	312 785	46 994	86 882	133 876
1956	130 139	209 000[a]	339 139	57 993	127 000[a]	184 993
1957	156 233	226 700	383 933	59 093	193 000[b]	252 093

Sources: Production, producer enterprises; imports, Statistical Department.
[a] Provisional estimates.
[b] Provisional estimates on the basis of nine months' imports.

Table X. Cuba: Production capacity of tyre industry, 1954-58

(Units)

	1954	*1956*	*1957*	*1958*
Plant No. 1	114 000	120 000	120 000	120 000
Plant No. 2	54 000	66 000	96 000[a]	96 000
Plant No. 3	—	—	120 000[b]	120 000
Plant No. 4	—	—	—	125 000[c]
	168 000	186 000	336 000[d]	471 000

Source: Producer enterprises.
[a] Expansion effective from 31 August 1957.
[b] Entry into operation of new plant on 15 November 1957.
[c] New plant expected to enter production in September 1958.
[d] Adjusted capacity available during 1957: 211 000 units.

F. Wheat flour

Table XI. Cuba: Production and apparent consumption of wheat flour, 1950-57

(Tons)

Year	Production	Imports	Apparent consumption
1950	—	143 085	143 085
1951	—	152 010	152 010
1952	30 327	119 972	150 299
1953	67 257	82 569	149 826
1954	48 203	87 951	136 154
1955	49 145	93 984	143 129
1956	66 309	83 513	149 822
1957	64 887	104 196[a]	169 083

Sources: Production: producer enterprises; imports: Statistical Department.
[a] Provisional estimate on the basis of nine months' imports.

G. Beer

Table XII. Cuba: Production and apparent consumption of beer, 1950-57

(Thousands of litres)

Year	Production	Imports	Apparent consumption
1950	104 293	827	105 120
1951	125 538	805	126 343
1952	143 669	1 068	144 737
1953	118 768	905	119 673
1954	120 215	1 074	121 289
1955	117 919	729	118 648
1956	120 458	905	121 363
1957	129 155	1 857[a]	131 012

Source: Statistical Department.
[a] Provisional estimate on the basis of nine months' imports.

Chapter VI

CHILE

INTRODUCTION

Chile's economic experience during 1956 and 1957 is of far more than merely nation-wide interest. For the first time in many years vigorous and resolute steps were taken to check a long-standing inflationary process that had become unusually acute from 1953 onwards. The positive result of this reaction was a perceptible deceleration in the rate at which prices increased in 1956 and 1957; but at the same time the economic stagnation observable ever since 1953 became more acute, and there were unmistakable symptoms of growing unemployment of the output factors and a fall in the investment coefficient.

It is common knowledge that, when a prolonged inflationary process is brought more or less abruptly to a stop, the consequence may be a temporary decline in economic activity, especially if the inflation originated in excessive demand, as is usually the case in the more developed countries. Such a decline may be either the result of a Government decision or an unexpected outcome of the policy adopted. As a rule, however, this transient suspension of activity is accompanied by a halt in the upward movement of prices. Chile's case is clearly different. Apart from the fact that economic stagnation has been intensified without entailing the looked-for stabilization of prices, the disequilibrium in question is mainly a structural phenomenon, similar to that apparently existing in other under-developed countries. Herein lies the importance of Chile's experience for other countries in Latin America.

The sources of the serious internal disequilibrium in Chile are to be found, as will be shown, in the structure of the economy itself, which is such that certain sectors and branches of production are characterized by a striking inelasticity of supply in face of the rise in income and demand and the changes that have taken place in the composition of this latter. But the situation has also been influenced by economic policy in general and, in particular, by exchange, monetary and fiscal policy. Hence a survey of developments in 1956 and 1957 must take into account both the ways in which the structure of the economy has altered and the processes whereby these changes have been brought about in the course of time, together with their cumulative inflationary effects, which came to a head in 1954 and 1955.

The present chapter is an attempt to show these developments in their proper perspective. In section I, a brief account will be given of the structural changes that have affected production, employment, the channelling of investment, income distribution and the pattern of total expenditure. Section II cursorily reviews, against the background of these structural transformations, the evolution of the Chilean economy between 1940 and 1955, in terms of its inflationary process. Next come three sections describing the economic situation in 1956 and 1957 and analysing the factors which retarded the upward trend of prices and those which influenced the stagnation of the economy. Finally, the last section sums up the conclusions to be drawn, which seem to suggest that the Chilean economy is faced with a choice between two alternatives: on the one hand, the removal of the structural obstacles to more rapid development combined with stability; and, on the other, either inflation, or economic stagnation and increasing unemployment together with relative internal stability.

I. CHANGES IN THE STRUCTURE OF THE ECONOMY

In order that structural changes in the Chilean economy during the interval between 1940 and 1957 may be viewed in truer perspective, the features which characterized it at the beginning of this period may usefully be reviewed in broad outline. By 1940 *per capita* income had reached a level of some 256 dollars at 1950 prices. The composition of the product by sectors showed that agriculture contributed 18 per cent to the total product, mining 10 per cent, industry 12 per cent and other activities 60 per cent. The structure of employment differed little from that of the product. The population totalled approximately 5 million persons, nearly two-thirds of whom were urban dwellers.

In the distribution of income sharp contrasts were observable. The workers' and employees' sectors, which comprised 67 per cent of the active population, did not receive more than 44 per cent of the national income. The adverse influence that such a situation might exert on economic development, as a factor tending to narrow the domestic market, was not offset by a favourable structure of expenditure in Chile, since the investment coefficient was extremely low.

Despite some significant changes, these basic characteristics of the Chilean economy underwent no radical alteration in the course of the period mentioned. The total gross product rose by 60 per cent. As was to be expected, this expansion necessarily involved fairly substantial changes in the sectorial composition of the product, capital and employment. However, as these transformations were not always effected in the most advantageous direction or on the scale that might have been desired, the result was a redistribution of income which aggravated the defects noted in respect of the year 1940. At the same time, expenditure was modified along lines calculated to reduce still further the proportion of resources earmarked for investment purposes.

1. Structure of the product, capital and employment by sectors

Consideration may first be given to the evolution of the gross product by sectors between 1940-45 and 1951-55. The proportion of the total gross product represented by the product of agriculture decreased considerably, partly in consequence of the stagnation in crop and livestock pro-

duction, and partly because the product of other sectors expanded. Exactly the same was true of mining (see table 179). Industry, on the other hand, witnessed an appreciable increase in its relative importance, as did the public sector. Personal services and trade also made larger contributions to the total products.

In 1956 and 1957 the trend described was to some extent modified. Since the total product, as well as that of industry and the public sector, tended to remain stationary, and construction and transport declined, the agricultural and mining sectors, without making any very notable progress, acquired greater relative significance within the total. However, despite the importance of the economic events of the last two years, the changes in the structure of the product between 1940 and 1957 clearly determined a relative contraction in these two sectors of primary production.

Alongside this alteration in the pattern of production, another very similar modification was taking place in the distribution of the territorial capital by sectors (see table 180). It is perhaps through the latter that the changes in Chile's economic structure can be yet more clearly perceived. It is worth while to note, for example, the sharp decrease in the proportion of capital invested in agriculture, the stagnation of the corresponding proportion in mining and its striking increase in industry, transport, trade and the public sector.

Together with these changes in the stock of capital by sectors, the slow growth of the total amount of capital should be noted. Between 1940 and 1953, capital increased by only 34 per cent, a figure which shows that the annual increment barely kept pace with the rate of growth of the population during the same interval.

Table 179. Chile: Gross product by sectors

(Percentage of total)

	1940-45	1946-50	1951-55	1956[a]	1957[a]
Agriculture . .	16.7	16.0	14.0	15.3	15.2
Mining	7.8	6.1	5.4	5.8	6.2
Industry	15.4	16.9	18.8	19.6	19.1
Construction . .	2.9	3.3	2.8	1.9	1.2
Government . .	7.5	8.4	10.8	10.7	10.9
	6.8	7.0	7.0	5.5	5.4
Others	42.9	42.3	41.2	41.2	42.0

Source: 1940-50: Development Corporation *(Corporación de Fomento de la Producción* (CORFO); 1951-57: same as for table 187.
[a] Provisional.

Table 180. Chile: Stock of territorial capital

(Percentage distribution)

	1940-45	1946-50	1951-53
1. Agriculture	19.3	16.5	14.4
2. Mining	4.7	4.2	4.2
3. Industry	17.5	20.5	23.1
4. Transport and public utilities.	17.4	18.6	19.1
5. Trade and finance	1.7	2.2	2.4
6. Urban property	24.5	22.1	20.4
7. Public works and fiscal institutions	14.9	15.9	16.4

Source: Ewald Hasche S., *El Proceso de Capitalización en Chile, 1938-50* (University of Chile, Institute of Economics, 1951). These estimates were checked against fuller and more recent calculations made by CORFO in respect of capital in certain basic sectors. For a more comprehensive account, see *Economic Survey of Latin America*, 1951-52, (E/CN.12/291/Rev.2), United Nations publication, Sales No.: 1953.II.G.3.

Table 181. Chile: wage-earning population

(Percentage of total)

	1940-45	1946-50	1951-55	1956	1957
Agriculture	49.6	44.5	40.6	38.4	...
Mining	3.9	3.4	3.1	3.0	...
Industry	13.6	15.8	16.8	16.8	...
Government	5.4	5.9	6.5	6.9	...
Construction. . . .	2.5	3.4	3.6		...
Transport and communications . . .	4.0	4.3	4.2	34.9	...
Others	21.0	22.7	25.2		...

Source: CORFO.

The employment of the labour force was also gradually adjusted, between 1940 and 1956, to the structural characteristics previously mentioned with reference to the gross product and capital. The disparity in the relative significance of each sector was most patent in the case of employment. Convincing proof of this is afforded by table 181, which shows that in practice both agriculture and mining were unable to offer remunerative employment to the vegetative population increments in their respective sectors. It fell in reality to industry, the public sector and services—especially the latter—to fulfil the function of absorbing active population.

2. Income distribution and the structure of national expenditure

The pattern followed by the redistribution of real income between the wage-earning and non-wage-earning sectors in the course of the period 1940-57 can be deduced from average real income per employed person. Table 182 shows the relationship between average *per capita* income in the economy as a whole and income in the wage-earning and non-wage-earning sectors, as well as their separate growth during the period under review.

The ratio between income per wage-earner and average income in the economy as a whole gradually rose in 1946-50 and 1951-55, in consequence of the increase in average and total income and of that registered in the employees' sector, since average income per worker followed a downward trend. In 1956 and 1957 this ratio fell below its 1940-45 levels, as did also the absolute level of average income in the wage-earning sector. On the other hand, average *per capita* income in the non-wage-earning sector, of

Table 182. Chile: Average real income per employed person

Period	*Average income of employees and workers*	*Average income of other sectors*	*Average income in the economy as a whole*
	(Percentage of average income)		
1940-45	63.8	173.1	100.0
1946-50	64.3	176.6	100.0
1951-55	66.4	173.8	100.0
1956[a]	62.1	182.9	100.0
1957[a]	61.1	185.9	100.0
	(Growth indices: 1940-45 = 100)		
1946-50	109.2	110.7	108.5
1951-55	124.1	119.7	119.2
1956[a]	116.5	126.5	119.7
1957[a]	112.9	126.7	117.9

Source: 1940-54: CORFO; 1955-57: ECLA estimates.
[a] Provisional.

Table 183. Chile: Distribution of national income

(Percentage of total)

Year	Total	Gross domestic investment [a]	Consumer expenditure			
			Total	Employees and workers	Public sector [b]	Non-wage-earning sector
	(A)	(B)	(C)	(D)	(E)	(F)
1945	100.0	10.9	89.1	40.5	2.5	46.0
1950	100.0	11.3	88.7	40.5	1.9	46.3
1951	100.0	10.0	90.0	39.7	2.0	48.3
1952	100.0	8.5	91.5	40.7	2.0	48.8
1953	100.0	12.8	87.2	42.4	2.3	42.5
1954	100.0	7.9	92.1	40.6	2.2	49.3
1955[c]	100.0	6.7	93.3	39.5	2.0	51.8
1956[d]	100.0	8.9	91.1	38.8	2.5	49.8
1957[d]	100.0	7.4	92.6	36.5	3.4	52.7

Source: Column A (gross product minus exports plus imports) for 1945 and 1950: CORFO and National Statistical Service *(Servicio Nacional de Estadística)*; for 1951-57: same as for table 187; for foreign trade statistics: National Statistical Service. Column B: same as for table 187. Column C: difference between columns A and B Columns D and F: based on figures in tables 181 and 184. Column E: Ministry of Finance.

A = B + C

C = D + E + F

[a] Including changes in inventories.

[b] Excluding salaries and wages paid by the public sector.

[c] The low proportion corresponding to investment this year is attributable to the considerable reduction in in copper stocks.

[d] Provisional.

which the relative share decreased only in 1951-55, steadily increased in absolute terms from 1940 onwards, and in 1957 alone showed a tendency to remain stationary as a result of the decline in total income.

Linked to this distribution of real average income among the sectors of the population is the structure of total expenditure. Attention should be drawn in the first place to the low proportion of expenditure represented by investment, which on several occasions hardly sufficed to cover the annual depreciation of the stock of capital. Secondly, it should be noted that, in the distribution of consumer expenditure between the wage-earning and non-wage-earning sectors, the share of the latter gradually increased, until by 1957 it accounted for 52.7 per cent of total expenditure, as against the 36.5 per cent corresponding to workers and employees (see table 183).

II. CHARACTERISTICS OF ECONOMIC DEVELOPMENT AND INFLATION BETWEEN 1940 AND 1955

The foregoing brief survey of the structure of production provides the essential material for an analysis of the factors and obstacles that in recent years led to the stagnation of income and the aggravation of an internal disequilibrium which came to a head in 1955. These two phenomena, which together constituted the salient feature of the evolution of the economy, are closely linked to the structural changes that took place, and in fact represent the culmination of trends which date back at least to 1940 although since then they have varied in intensity and in the characteristics displayed.

Among the main obstacles which must be removed if the Chilean economy is to attain a satisfactory degree of growth combined with stability, the following may be mentioned: *(a)* the high propensity to consumption on the part of that sector of the population whose capacity for saving is greatest; *(b)* the special directions in which investment is channelled and the low rate of capital formation; *(c)* the instability and inelasticity of exports; *(d)* the import structure, determined by the failure of agricultural output to respond to the additional demand deriving from the growth of population and of income, as well as by the development of branches of industry based almost entirely on imported raw materials; *(e)* the structure of public expenditure, which renders it extremely inflexible in face of fluctuations in internal income; and *(f)* the regressiveness and inelasticity of the tax system in relation to income increments and their distribution, together with its marked dependence on duties accruing from foreign trade.

As will be shown, the interplay of these factors gradually created the conditions which bred the great internal disequilibrium that reached its climax in 1955, the almost unremitting pressure on the balance of payments and the continual changes in the redistribution of internal income. While such changes were a result of the unbalanced development of the economy and the efforts of the different social groups to shift the burden of the growing inflation on to one another's shoulders, they were in themselves one of the elements chiefly responsible for soaring prices.

1. THE PERIOD 1940-46

To give a clearer idea of the influence exerted on the Chilean economy by the structural factors described, the evolution of the economy as from 1940 must be reviewed even if only cursorily. Between 1940 and 1946 Chile's foreign trade was characterized by a sharp rise (of 62 per cent) in the dollar value of exports, a 100 per cent increase in dollar import prices and a 20 per cent reduction in the purchasing power of exports. The effect of these factors in the aggregate was definitely expansionist. The upswing in dollar export values, combined with the maintenance of the exchange rate, was bound to generate an increment in internal monetary income. Again, both the contraction of the capacity to import and the rise in import prices opened up greater market possibilities for domestic producers, or

at any rate intensified the supply shortage which is a typical concomitant of an increase in monetary income.

Since the outbreak of war found Chile in a estate of economic depression, that is, with a large proportion of its production capacity standing idle, the expansion of monetary income was reasonably likely to promote that of domestic production. This was in fact the case. Between 1940 and 1946, real income rose by 40.1 per cent and the proportion of income which accrued from the production of goods by 33.5 per cent.

The combination of all these factors—the increase in real and monetary income, the rise in import prices and the reduction in the purchasing power of exports—was sufficient in itself to provoke an increase in internal prices and a trend towards balance-of-payments disequilibrium. In fact, internal prices rose by 150 per cent in the course of the period.

Had a compensatory policy been adopted during the period referred to, whereby the expansionist influence of the growth of exports would have been allowed to affect the monetary economy only in so far as was necessary for the encouragement of internal development, prices would probably have increased to a much more moderate extent. Such a policy would have meant that the other factors of expansion—especially public expenditure—would have had to be kept at constant levels and the balance of payments stabilized by means of devaluation.[1]

But, on the contrary, the economic policy pursued was one of unequivocal monetary expansion. Government outlays expanded to a much greater extent than exports themselves, trebling between 1940 and 1946, while the level of private investment was seven times as high in the latter as in the former year. The growth of monetary demand implicit in these upward movements was enough to generate a rise in prices not only much greater than that provoked by international conditions, but even considerably in excess of the increase actually registered. How was it, then, that the effective increment amounted to only 150 per cent?

There are several devices which can be used to prevent the free interplay of monetary pressures from influencing price levels. Among those brought into operation during the period in question, the following were the most important: *(a)* price controls, including subsidies; *(b)* over-valuation of the exchange rate; and *(c)* the regressive redistribution of income.

It is pointless to discuss price controls, since they are known to have been imposed on a large number of items, although with differing degrees of effectiveness. Subsidies were also frequently applied, especially in the case of imported goods.

The redistribution of income was by no means insignificant, but less sweeping than might have been expected, given the inflationary forces in operation. In fact, if real income per wage-earner (employee or manual worker) is compared with real income per active person the ratio can be seen to have decreased from 100 in 1940 to 93 in 1946. The situation of workers (as distinct from salaried employees) deteriorated still further, as the ratio declined from 100 to 88.[2] The redistribution of income took place notwithstanding the efforts made to compensate partially for the relative losses of income suffered by the wage-earning groups through the simple procedure of adjusting their monetary salaries and wages in accordance with the rise in the price index. The application of this procedure, given the general inflationary character of the economic policy adopted, was bound to entail real or virtual devaluation of the exchange rate to a greater extent than was dictated by world trade conditions. But such devaluation would also have meant a more extensive redistribution of income and a sharper rise in prices. To avert the consequences of this process, an over-valued exchange rate was maintained. In fact, by 1946 the parity exchange rate (i.e. preserving the 1937 ratio between internal and world prices) had risen to 47 pesos to the dollar, while the effective import rate was still 29.6 pesos to the dollar, and the export rate even lower.

Thus it was that the post-war boom found Chile handicapped by a serious shortage of foreign exchange, unequivocal inflation and a cumulative series of disequilibria which sooner or later were bound to make their presence overtly felt.

2. The period 1947-52

During the interval between 1947 and 1952 the characteristics of foreign trade and the internal situation altered. The rate of increase of the dollar value of exports doubled, while the trend of import prices in dollars was towards stabilization, as they rose by only 41 per cent. The capacity to import began to improve in 1950, and by the end of the period was 37 per cent higher than in 1947. In contrast, the rate of internal development declined to 19 per cent.

The conditions attending the evolution of the economy were still definitely expansionist. The sum of total Government expenditure and private investment was 3.5 times as great (a smaller increment than in the preceding period), but this time, whereas public expenditure increased fivefold, private investment only doubled. Meanwhile, the rise in the cost of living in 1947-52 was 220 per cent, as against 150 per cent in 1940-46.

There was a relative improvement in the position of the wage-earning sectors in relation to average income, in the shape of a reversion to the 1940 situation; but of the two groups involved, the manual workers were worse off than before, the whole benefit of the recovery being reaped by salaried employees. Once again, as in the preceding period, despite the substantial increment in the cost of living, the protection given to the lower-income groups took the form of insulating prices from the full impact of the inflationary forces of the economy. The parity exchange rate reached 117 pesos to the dollar in 1952, whereas the effective rate stood at 62 pesos. The ratio between these two rates of exchange, which gives some idea of the over-valuation and latent inflation, fell from 0.63 in 1940 to 0.53 in 1952.

The first signs that the existing pressures could no longer be controlled began to appear in mid-1947. By

[1] Devaluation would itself have determined a rise in prices through imports, but in any case the less expansionist policy suggested here would have wholly or partially counteracted this increase. At all events, prices would have risen less than they actually did.

[2] It should be noted, however, that this deterioration in the relative position of the wage-earning sectors was not accompanied by a reduction of their 1940 income in absolute terms. On the contrary, an average increase of 15 per cent was registered, although real income per manual worker rose by only 9 per cent.

August of that year the foreign exchange availabilities for the whole twelve months were exhausted,[3] and exports too were feeling the effect of the disequilibrium between internal costs and world prices. For example, the relationship between the sum of gross profits, interest and reserves, and the f. o. b. value of the sales effected by the large copper mining companies, declined from 45 per cent in 1940 to 28 per cent in 1947-48. It became clear that the exchange rate could no longer be kept at the level established in 1940. This was the beginning of an almost unbroken process of devaluation which brought the average rate from 30 in 1946 to 62 in 1952, but did not succeed in serving its twofold purpose of facilitating exports and restricting imports. This failure was due to the continuance of the expansionist internal policy and to insistence on the need for avoiding the redistribution of income which devaluation brings in its train, and without which balance-of-payments equilibrium and stability of the exchange rate cannot be achieved.

In this connexion, attention should be drawn to the role played by imports of goods required for the wage-earning sectors. Devaluation raises the prices of such imports, and, as the lower income groups are the more seriously affected, a regressive income distribution is the result. But since income levels in the less privileged groups are so low, the redistributive influence of devaluation can hardly be allowed to produce its effect. If an attempt is made to compensate it, for example, by raising monetary wages, prices rise to a greater extent than the exchange rate falls, and the effect of devaluation is cancelled out.

This was why, at the end of the period 1947-52, prices began to rise more rapidly and signs of an aggravation of the accumulated disequilibria appeared. As has already been shown, the ratio between the effective and the parity exchange rates fell to 0.53 in 1952.

3. The period 1953-55

The characteristics of the economy altered yet again during the years between 1952 and 1955, inasmuch as the external expansionist factors which had formerly been so active ceased to operate. In fact, the rising trend in the value of exports was halted, dollar import prices decreased and the capacity to import improved. The price increment, however, which was 23 per cent in 1952, was as much as 76 per cent in 1955, the total increase during the four years amounting to 277 per cent. This acceleration of the inflationary process was patently the result of persistence in an expansionist internal policy which paradoxically endeavoured, on the one hand, to redistribute income in favour of the more privileged groups and, on the other, to prevent those in the lower income brackets from suffering losses. In the early 'forties it was possible for this policy to be put into effect without its causing violent inflation, thanks to the moderating influence of over-valuation, but by the fifties this device had lost its efficacy, and, on the contrary, became yet another factor in the acceleration of the inflationary process. During the period under review, devaluation alone, whereby the exchange rate was raised from 62 pesos to the dollar in 1952 to 162 in 1955, must have forced up internal price levels considerably.

As time went by, the cumulative effects of inflation themselves increased the difficulty of combating them, besides making it impossible to preserve the distribution of real income that had prevailed in 1940. Indeed, given a particular form of income distribution, if prices are to remain stable, the structure of production must be such that the composition of demand resulting from that distribution pattern can be satisfied. For example, according to a study carried out by the Institute of Economics *(Instituto de Economía)* of the University of Chile, employees' and workers' families spend 66 per cent of their income on foodstuffs and clothing. Families in the higher-income brackets of course devote a much smaller proportion to these two items. Consequently, a redistribution of income in favour of the wage-earning sectors implies, *mutatis mutandis,* the need to expand production of foodstuffs and clothing and to curtail that of other goods consumed by families in the higher-income groups. If income is rising, an expansion of both groups of goods and services is possible, but availabilities of goods for the wage-earning sectors will have to increase more rapidly than supplies of other goods and services.

Statistical evidence that the structure of production at the end of the period under analysis made it impossible for the 1940 income distribution to be maintained without forcing up price levels can be obtained by comparing the relative importance of the production of goods and services. Demand for services prevails, as a rule, among the higher-income groups. In 1955, services accounted for 57 per cent of the total product, a proportion so unusually large that it cannot reasonably be looked for even in countries with such high income levels as the United States. In 1940 only 43 per cent of the product had been constituted by services. In other words, these latter accounted for 78 per cent of the total 61 per cent increment in the product between the years in question.

For the original income-distribution situation to have been maintained, production of services would have had to increase, but to a lesser degree than that of goods. Once structure of production was distorted by the inflationary process itself, the growth of income and the consequent additional demand for the goods needed by the wage-earning sectors resulted in further pressures on their prices.

The changes which took place in the structure of production also failed to allow a return to the original distribution concurrently with the maintenance of stable prices. What course, for example, would agricultural production have had to follow in order to preserve income distribution? Every 1 per cent increase in the income of the wage-earning groups means that their demand for foodstuffs expands by 0.8 per cent.[4] If the 1940 income distribution had been maintained, total income of employees and workers would have risen by 70 per cent and the corresponding demand for foodstuffs by 57 per cent. Comparison of this figure with the 20 per cent increase in availabilities of foodstuffs from all sources—domestic and foreign—will give a reasonably clear idea of the pressures that were bound to be created by the lack of proper balance between the structure of production and the distribution of income. The same thing happened in the case of clothing, although on a smaller scale. Had income distribution been maintained, demand would have expanded by 70 per cent, whereas total availabilities improved by only 49 per cent.

[3] *Banco Central de Chile, Memoria Anual 1947,* p. 15.

[4] This coefficient is an ECLA estimate presented in earlier studies.

III. SALIENT CHARACTERISTICS OF THE EVOLUTION OF THE ECONOMY IN 1956 AND 1957

The intensification of the internal disequilibrium, which, as has been shown, reached its climax in 1955, called for energetic counter-measures. Outstanding among those adopted in 1956 were the introduction of a new and restrictive monetary policy, salary and wage readjustments on a scale proportionately smaller than the increase in the cost of living, some degree of caution in the expansion of public expenditure, and an exchange reform which signified, in practice, a 66 per cent devaluation of the peso and a new import control system. Prevailing conditions at the time when these measures were put into effect were characterized by the economic stagnation already described and the prospects of a fall in world copper prices. In view of the importance of this situation, it must be considered in some detail.

To the series of adverse factors which in 1956 retarded economic development, there was added the sharp decline in the price of copper on the international market which became effective in 1957. Total gross income, which in 1956 had fallen by 2.3 per cent, contracted in 1957 by slightly more than 2 per cent. Thus, average *per capita* income during this two-year period declined by 10 per cent.

The decrease of 2.6 per cent in the total gross product registered in 1956 was followed by a stationary trend in 1957. In this same period, the average *per capita* product also declined, by about 8 per cent. In other words, the Chilean economy underwent a marked contraction during the years 1956 and 1957.

The different trends observed in the evolution of the total gross product and the total gross income in each of these two years were the result of the behaviour of the terms of trade which, in turn, were determined by fluctuations in the price of copper. In 1956, the price of this metal was exceptionally high, and partly offset, in terms of income, the appreciable decline in the product. In 1957, on the other hand, the sharp drop in prices combined with the standstill in the product to cause the contraction in total gross income already mentioned (see table 184).

The price of copper on the world market, which from 1955 onwards rose continually to the point where in April 1956 it was 46 dollar cents per pound (the average price during 1956 being 40.3), went down in January 1957 to 33 cents and continued falling until at the end of the year it reached 22 cents, the lowest figure since 1950. On the basis of annual averages, the 1957 price was 31 per cent lower than during the previous year.

Besides its general effect on the national economy, the decline in foreign earnings struck a particularly heavy blow at tax income, the foreign exchange rate and prices of imported goods in local currency. The stabilization measures, together with the rise in import prices, led to an important change in the structure of prices and hence in the distribution of income.

Table 184. Chile: Gross product and income, and terms-of-trade effect, 1950-57

(Millions of pesos at 1950 prices)

Year	*Gross product*	*Gross income adjusted (A) + (B)*	*Terms-of-trade effect*
	(A)	*(B)*	*(C)*
1950	159.1	159.1	—
1951	161.6	163.7	2.1
1952	174.9	179.0	4.1
1953	185.3	190.6	5.3
1954	179.0	181.8	2.8
1955	184.1	190.3	6.2
1956[a]	179.4	187.3	7.9[b]
1957[a]	180.1	181.8	1.7[b]

Source: For gross product: table 187; for terms-of-trade effect: basic data from National Statistical Service. Note that column (B) corresponds to the term "gross income" as used by ECLA, the connotation being different from the traditional concept of national income. The two concepts are therefore not comparable.

[a] Provisional.

[b] On an eight-months basis.

1. Redistribution of income

In 1956, the movement in internal relative prices was less marked than in 1957, although the effects of the stabilization measures were more strongly felt. So far as the average prices of domestic goods were concerned only livestock products fell abruptly in 1956, while certain manufactured goods (building materials) declined less sharply. By contrast, crop production and the general range of manufactured goods kept to the average. In 1957, the marked change in the price structure tended to favour the crop sector and the production of processed foodstuffs to the detriment of the rest of the manufacturing industry and the livestock sector. The decline in the latter was so great that its index of relative prices was only 62 per cent of the ratio registered in 1955 (see table 185).

To supplement the brief description given above, mention must also be made of the decline in the remuneration of employees and workers and the contraction in the building industry. Thus, the fall in total income in 1957 through its redistribution seems to have affected mainly employees and workers, the livestock and construction sectors and a number of branches of industry.

This process of redistribution in part resulted directly from the limitation of wage and salary increases to levels below the rise in the cost of living and from the decline in public expenditure and was partly the indirect outcome of the changes in the structure of total demand brought about by the fall in gross income.

2. Changes in demand

The drop in the real income of employees and workers, who constitute 65 per cent of all consumers, forced them to change their demand structure in order to maintain their former level of food consumption. The consequent contraction of the market for industrial commodities is reflected in the decline of relative prices and in the drop in the volume of production, which shows that the demand for industrial products among other sectors of the population has not completely offset the fall in the demand of employees and workers.

While the demand for goods produced by domestic industry evolved in this way, the volume of imports increased, for three main reasons. In the first place, the redistribution of internal income tended to benefit certain sectors whose demand for imported products or domestic products requiring a high coefficient of foreign inputs is very elastic. Secondly, the prospects of an upward movement in the exchange market noted since the beginning of 1957 must have stimulated imports of certain manu-

Table 185. Chile: Wholesale price indices and relative prices, by groups of commodities, 1956-57

Year	Domestic production								Imports	Over-all index
	Agricultural commodities		Industrial goods					Total		
	Crops	Live-stock	Food-stuffs	Tex-tiles	Building mate-rials	Miscel-laneous	Total			
	A. *Wholesale prices (1955 = 100)*									
1956	160.0	126.4	163.4	157.2	151.2	166.6	161.4	156.7	181.4	164.0
1957	247.3	145.2	214.3	191.1	184.8	200.5	221.8	213.1	296.0	234.2
	B. *Relative prices for each group in relation to the over-all index*									
1956	97.6	77.1	99.8	95.9	92.2	101.6	98.5	95.6	110.7	100.0
1957	105.6	62.0	108.5	81.6	78.9	85.6	94.7	91.0	126.4	100.0

Source: Data taken from the *Boletín Mensual del Banco Central de Chile.* No. 358. December 1957, p. 977.

factured goods and raw materials—cotton, for example. Finally, the possibility that the imports of certain goods might be prohibited or that duties and prior deposits in respect of them might be raised, because of difficulties in the balance of payments, must have also encouraged and hastened foreign purchases of such goods.

3. Evolution of costs

Besides the repercussions of changes which have taken place on the pattern of demand, the evolution of costs and the restrictive monetary policy adopted in pursuance of the stabilization programme also affected the Chilean economy.

The exchange reform of April 1956 involved an initial devaluation in the Chilean peso of 66 per cent with respect to the dollar. During 1957, there was a gradual external devaluation of the peso which exceeded 40 per cent. This persistent rise in the cost of foreign currency influenced the prices of imported goods and consequently the costs of enterprises, whose foreign inputs doubled in value during the last two years. It affected the costs of the different industrial sectors in varying degrees, weighing most heavily on those whose inputs were most dependent on foreign purchases. Readjustments in wages and salaries, though in recent years less than the increase in the cost of living, also helped to raise the nominal costs of industrial undertakings. The rise in the bank rate also had the same effect. The interest rate applied by the central bank in its discount operations with the public rose from 8 to 9 per cent during 1955, to 12 per cent in 1956 and to 14 per cent in 1957. Rediscount operations conducted by subsidiary banks with the central bank were also subject to higher rates of interest, which varied in accordance with the relationship between the total of rediscounts and the capital and reserves of each bank. A basic rate of 6 per cent is now applied to rediscounts which do not exceed 50 per cent of the capital and reserves of the bank concerned; the rate goes up 1 point for each 10 per cent rise in total rediscounts above this level and until it reaches as much as 11 per cent when they exceed 90 per cent of capital and reserves.

In addition to this increase in the bank rate, monetary policy was designed to restrict the expansion of accomodations, loans and discounts. This measure, together with the large deposits required for imports, which increased throughout 1957, exerted pressure on the liquidity of undertakings. In so far as they had recourse to credit outside the banking system, they had to pay much higher rates of interest than those described above.

4. Gross investment

The most important causes of the marked decrease in construction activities in 1956-57 were the drop in public expenditure under this head and the changes in the system of financing private building which was in force up to 1955. Construction activity declined by 38 per cent in 1956 and by more than 35 per cent in 1957. It thus fell to a level which is only comparable with that of the 1930 slump. Then, however, the decline in construction and, generally, in the coefficient of investment, was accompanied by another depression feature: a drop in wholesale prices of more than 17 per cent. On the other hand, in 1956-57, wholesale prices continued to rise, although more slowly than in 1955.

The reduction in apportionments for development corporations and public investment had what might be called a negative multiplier affect, which, together with the influence of other factors, caused the weakening of effective demand observable in the last two years and particularly in 1957.

As a result of decreased investment in the public sector, the execution of infrastructural projects was postponed and less was spent on conserving the stock of capital. For example, in 1955, 14 000 metres of bridges were repaired and in 1956 only 12 500. A similar reduction occurred in the repair of roads. The sharpest decline, however, occurred in the construction of houses by the public sector: from 5 077 houses built in 1956 the number dropped to 2 600 in 1957.[5]

The contraction in public investment and private building caused such a drop in total gross investment that the 1957 figures are comparable only with those recorded in the 1930 crisis or in certain years of the Second World War. Indeed, the coefficient of investment in Chile, which, during 1954 and 1955, was one of the lowest in Latin America (9.4 and 10.2 per cent respectively of the gross product) contracted even further in 1956 and 1957, being 8.5 per cent and 7.5 per cent respectively (see table 186). If the available estimates of depreciation in the stock of capital are accepted—they amount on the average to about 8 per cent of the gross product—it may be concluded that in 1956 gross investment only sufficed to make up for wear

[5] Building carried out through the Housing Corporation *(Corporación de la Vivienda).*

Table 186. Chile: Gross domestic fixed investment, 1954-57

(Millions of pesos at 1950 prices)

	1954	1955	1956[a]	1957[a]
1. *Machinery and equipment*	6 460	7 633	7 730	8 036
Imported capital goods	5 652	6 816	6 878	7 223
Domestically produced capital goods	444	449	468	495
Durable consumer goods purchased by entrepreneurs	364	368	384	318
2. *Construction, etc.*	10 364	11 077	7 516	5 410
Building	7 590	8 469	5 233	3 375
Public works	1 844	1 733	1 517	1 365
Miscellaneous	930	875	766	670
3. *Total investment*	16 824	18 710	15 246	13 446
4. *Investment coefficient* (Gross investment as a percentage of the gross product)	9.4	10.2	8.5	7.5

Source: For 1954-56: data at current values from CORFO deflated by CORFO's prices indices up to 1954 and ECLA's after that date; for 1957: basic data from the National Statistical Service.
[a] Provisional.

and tear in existing equipment. In 1957, the situation deteriorated still further; investment not only failed to cover replacements but there was also a net decrease in the stock of capital.

Table 186 shows the evolution of the main items which make up gross internal investment. The predominant feature, as already pointed out, was the sharp decline in investment in building and public works between 1954 and 1957. If these two items are taken together the decrease was 50 per cent and, if building is considered separately, it was 60 per cent.

Imports of capital goods increased between 1955 and 1957, mainly as a result of new investment made by the big copper-mining companies (130 million dollars up to mid-1957). Imports designed to re-equip and enlarge the transport system also increased. On the other hand, imports of capital goods for industry have tended to decrease and apparently gross investment in this sector has done likewise. The effect of the decreased demand for domestically-manufactured goods and the situation with regard to costs and liquid funds in this sector have contributed to the decline in investments in the manufacturing industry. Domestic production of capital goods—accounted for principally by steel mills, foundries, workshops and the repair of transport equipment—increased moderately between 1955 and 1957, and in the latter year represented 8 per cent of investment in machinery and equipment.

5. The decline in economic activity

The following were the three main factors that affected internal activity in 1957: (i) the changes that took place in the level of the current value of exports; (ii) the reduction of investment, attributable to the contraction in public investment, to the altered methods of financing private construction activities and, in part, to the rise in the rate of interest; and (iii) the redistribution of income. In consequence of the combined action of these factors, industry, which since 1940 had been the most dynamic sector of the Chilean economy, showed signs of instability and increasing unemployment[6] (see table 187).

The branches of industry most severely affected included textiles, clothing, sugar-refining, gas, cement and glass. It was in 1957, too, that the processed foodstuffs industry evinced the first symptoms of a contraction, its output falling by 4 per cent in the course of the year. The only industries whose production increased steadily were beer and aerated beverages on the one hand and iron and steel on the other. The latter, thanks to exports, recovered from the decline registered in 1955, although in the last two years it has had to face a contraction in domestic demand.

IV. FACTORS DETERMINING THE DECLINING RATE OF GROWTH OF PRICES IN 1956 AND 1957

The stagnation in economic development was accompanied by a visible slowing-down in the rate of growth of prices. The cost of living, which registered an annual rise of 72 and 75 per cent respectively in 1954 and 1955, mounted by only 43 per cent in 1956 and 28 per cent in 1957. The percentage rises were smaller almost entirely due to the fact that the causes of such rises were rendered less effective by wage and salary adjustments for public and private workers and employees which were less than the rise in the cost of living, the restriction and selective use of bank credits, and, on a much smaller scale, the cut in the budget deficit in 1956-57.

1. Readjustment of remunerations

It must be repeated that the yearly adjustment in the remuneration of Chile's wage-earning sectors cannot be considered in itself as an initial inflationary factor. Since these adjustments came only after a rise in prices, they merely compensated for the previous deterioration in these

[6] See *Ocupación y desocupación en el Gran Santiago*, provisional report by the Institute of Economics of the University of Chile. The number of unemployed rose from 15 200 to 30 300 between 1952 and June 1957. These figures respectively represent 4 and 6 per cent of the labour force in the area. The definition adopted in the report conceals a form of unemployment which is not represented as such in the survey. It covers personnel who have not been officially dismissed by enterprises but remain without remunerative occupation for a period not exceeding 30 days in succession.

Table 187. Chile: Gross product by sectors of origin, 1950-57

(Millions of pesos at 1950 prices)

	1950	1951	1952	1953	1954	1955	1956[a]	1957[a]
1. Crop and livestock production	23 548	23 501	23 171	24 160	24 984	25 997	26 774	26 609
2. Fishing industry	318	341	434	392	522	785	687	687
3. Mining	9 228	9 819	9 763	8 859	9 163	10 142	10 465	11 147
4. Manufacturing industry	27 208	29 466	32 051	34 364	35 588	34 908	35 180	34 418
5. Construction	4 614	4 245	4 190	5 606	5 491	5 463	3 382	2 182
6. Electricity, gas and water	955	1 107	1 032	1 142	1 141	1 057	1 126	1 123
7. Trade	26 730	27 211	31 274	35 952	29 857	32 905	31 515	36 717
8. Financial agencies and insurance	3 660	3 678	4 004	4 626	3 594	3 455	3 554	
9. Transport and communications	10 979	10 737	13 241	12 922	13 647	11 638	9 771	9 683
10. Government services	16 388	15 339	19 518	19 108	19 141	22 239	19 223	19 588
11. Personal services	22 434	22 681	22 232	23 847	20 841	20 841	21 582	21 970
12. Housing	13 047	13 517	14 026	14 273	15 082	14 717	16 087	15 959
Gross domestic product at market prices	159 109	161 642	174 936	185 251	179 051	184 147	179 346	180 083
Index	100.0	101.6	109.9	116.4	112.5	115.7	112.7	113.2
Percentage of annual growth	—	1.6	8.2	5.9	— 3.4	2.8	— 2.6	0.4

Source: 1950: for total, CORFO; for distribution by sectors, the share of each sector in the total internal income estimated by CORFO was used; for 1951-57 the values were obtained by extrapolating the 1950 figures by the following quantum indices: *crop production, fishing industry, mining* and *construction*: National Statistical Service; *livestock production*: Department of Agrarian Economy of the Ministry of Agriculture; *manufacturing industry*: National Statistical Service, with weighting changed to 1953 in accordance with the joint survey made by the National Statistical Service, the *Banco Central* and ECLA; *electricity, gas, water, trade, finance and insurance, transport and communications, Government sector, personal services* and *rentals* for 1951-56; data based on sectorial income indices estimated by CORFO (at August 1957 prices converted to 1950 prices by ECLA); for 1957: ECLA estimates.

[a] Provisional.

sectors' real income and re-established the original level of total demand that had existed prior to the deterioration. On the other hand, they did contribute substantially to the inflationary process by producing a general rise in costs with its well-known chain-reaction effect. Thus the smaller salary adjustments in 1956 and 1957 played a role in limiting further inflation as regards both demand and costs; on the one hand, although the redistribution of income produced by price rises was not completely cancelled out in those years, the respective shares of workers and employees in the gross product contracted, and real demand in this sector of the population was thereby prevented from regaining its previous level, which would have resulted in more pressure on the prices to wage-earners of goods whose production is known to be rather inelastic; on the other, the rise in wage-costs was proportionally lower and therefore exerted less inflationary pressure on total costs.

If the process of stabilization is fairly prolonged, there is reason to ask whether future salary adjustments can be kept down to a fraction of the rise in prices, as in 1956 and 1957. This is no idle question, since real income in the sector in question was relatively low when the policy of limited adjustments was first put into affect, and further deteriorated during the last two years. Apart from the social problems that would arise from a prolongation of the process, demand would decline in a large sector of the population and the market would contract. Although there are no corroborative data available, there is no doubt that the deterioration in real wages and salaries has once more modified the structure of demand in the wage-earning sector. The level of demand for essential goods—chiefly foodstuffs—would be largely maintained, and the brunt of the reduction in real income would be borne almost entirely by demand for a large number of manufactured goods which can be done without for fairly short periods.

Income redistribution policy endeavoured to adjust demand to supply by sectors. But, since demand for foodstuffs is inelastic and the supply so inadequate, the former continued to exert pressure on food prices. For the policy in question to have been successful, income redistribution would have had to be carried to extremes. Since this did not take place, the whole burden of restriction was borne by sectors producing goods for which demand is elastic. Herein lies the explanation of the conclusion reached above.

However this may be, the above-mentioned discrepancy between the structure of production and pattern of demand has reappeared. If foodstuffs availabilities in 1956 and 1957 are compared with those of 1946-50, it will be seen that there was also a fairly marked change in the Chilean diet, characterized by an almost universal decrease in the intake of better-quality foodstuffs and a relative increase in the consumption of staple food items (see table 188).

Table 188. Chile: Apparent *per capita* availabilities of staple foodstuffs

(Production plus imports minus exports and seeds)

Commodity	*Unit*	*Average 1946-50*	*1956*[a]	*1957*[a]
Wheat	Kilogrammes	145.7	144.4	121.5
Barley	„	5.2	10.9	12.5
Rice	„	12.0	7.1	10.9
Potatoes	„	77.3	85.2	73.5
Sugar	„	27.7	...	49.8
Beans	„	4.4	5.2	7.0
Peas	„	1.1	0.8	1.1
Beef	„	32.8	23.4	29.9
Mutton	„	7.7	5.1	5.1
Goat flesh	„	1.6	1.3	1.2
Pork	„	7.3	6.2	6.6
Milk	Litre	111.3	117.0	132.3

Source: National Statistical Service and Department of Agrarian Economy of the Ministry of Agriculture.
[a] Provisional.

2. Fiscal policy

Fiscal policy has played a minor part in checking the upward trend of prices. The expansionist effect of this policy derives not only from the traditionally inflationary method of financing the budget deficit but also from income and expenditure policy itself, i.e., the continous expansion of current expenditure and investment during the last few years, and the rigidity and regressiveness of the present tax system.

Chile's budget deficit, in addition to being of considerable size, has recorded several large increments in recent years. This is borne out by table 189, which shows the rate of growth of the deficit from 1952 to 1957, and the appreciable proportion of total expenditure it represents. Nevertheless, the expansionist or inflationary effects of the deficit are not simply the result either of its size or its increases, but largely of the way in which it is financed. Besides inflation, the lack of a large and well-organized finance market has prevented private savings from financing the heavy budget deficit in a non-inflationary way. On the contrary, the two expedients to which the Government has most often resorted are bank credit and the placing of Government bonds or debentures in social security institutions. In so far as the latter operations have not implied a transfer of these organizations' purchasing power, their inflationary effects have been added to that part of the deficit that is covered by bank credits. Thus the proportion shown in table 190 as being financed in this way must be taken as somewhat under-estimated. Hence it is clear that this type of financing covered, on an average, no less than one-third of the total deficit between 1952 and 1954.

As a result of the measures adopted in 1956 in respect of income and expenditure and credit policy, the budget deficit increased at a slower rate in 1956-57 than the average registered in preceding years and to a lesser extent than the cost of living. At the same time, the more restrictive monetary policy followed in 1956 reduced the proportion of the deficit that was financed by bank credits

Table 189. Chile: Annual variations in expediture, income, deficit and cost of living

Year	*Total expenditure*	*Income*	*Cost of living*[a]	*Deficit*	*Total deficit as a percentage of total expenditure*
	(Percentage variation in relation to the preceding year)				
1952			22.2		23.1
1953	30	20	25.3	58	28.1
1954	50	63	72.2	25	23.5
1955	90	69	75.2	100	24.9
1956	45	72	56.0	— 27	12.3
1957[b]	37	53	32.2	60	12.6

Source: Department of the Controller (*Contraloría General de la República)* and National Statistical Service.
[a] Variations in annual average from one year to another.
[b] Provisional.

Table 190. Chile: Proportion of the budget deficit financed by the bank sytem

Year	Total deficit	Increase in Government liabilities to banking system	Proportion of the budget deficit financed by the bank system
	(Thousands of millions of pesos at current prices)		(Percentage)
1952	9.7	3.4	35
1953	15.2	4.1	27
1954	19.1	3.0	16
1955	38.8	10.0	28
1956	28.4	3.2	11
1957[a]	44.8	11.8	26

Source: Department of the Controller and *Banco Central de Chile.*
[a] Provisional.

to only 11 per cent. Instead of resorting so freely to such credits in that year, the Government left heavy commitments with its suppliers in arrears. However, in 1957 the difficulty of pursuing this policy compelled the Government once again to have recourse to credit. In consequence, the proportion of the deficit financed by the bank system rose sharply to 26 per cent. Even so, it is evident that, in the last two years, the financing of the budget deficit has had less serious inflationary effects than before.[7]

As has already been stated, for a long time the growth of the volume of Government expenditure, which as a rule exceeded that of national income, was so intensive as to constitute a source of inflationary pressure. Indeed, if such outlays increase very rapidly from one period to another, it is hardly likely that the resources involved in their expansion can be transfered from the private to the public sector. Thus, whether they are financed by taxation or by issues of banknotes, a rise in prices is inevitable.

A comparison between Government expenditure and the national product shows that the relationship between them was maintained at about 10 per cent up to 1946; in 1947 it rose to 12 per cent, at which level it remained until 1950, increasing thereafter to 15 per cent, and then again, in 1955, 1956 and 1957, to 16 per cent. This in itself bears witness to the effort made to channel a larger proportion of Chile's resources through the public sector and to the degree achieved—a statement that is corroborated by employment figures in the public sector, which rose by 55 per cent as from 1940.

The unprecedented increase in public expenditure in 1955 (90 per cent more than in 1954) is in contrast to the far more modest though still significant increments which were registered in 1956 and 1957. The stabilization programme had little influence on the growth of current outlays, but a great deal on investment expenditure. In fact, it was this latter that determined the slower rate of increase of total public expenditure in 1956 and 1957. In any event the inference is that public expenditure during those two years lost some of its inflationary force.

Meanwhile, no reforms conducive to a more stable fiscal situation were introduced in the tax system. Since 1945 the rate of internal taxation[8] has been maintained at quite a low average level—about 9.5 per cent—despite the great increase in the domestic product and the striking redistribution of income in favour of the higher-income groups best able to pay taxes. Neither has the rate of total taxation been raised. In 1940 it was 12 per cent, and from 1945 onwards it remained below that figure until 1956.

The treasury is less dependent now on export and import duties than it was 17 years ago. In 1940, such duties contributed 49 per cent of total tax revenue; this proportion had dropped to 34 per cent by 1950, but in 1956 rose to 38 per cent. The fact that in the meantime the rate of internal taxation has remained constant shows that this trend is simply a reflection of the more rapid development achieved by domestic activities than by those producing for export.

Of course, so close a dependence of tax revenue upon export means that fiscal income must necessarily fluctuate widely. At the present time, every "returned value" dollar earned by the large copper mining companies puts approximately 520 pesos in the coffers of the treasury.[9] It is enough to recall that the average year-by-year fluctuations of Chile's exports are in the neighbourhood of 18 per cent, for the impossibility of pursuing a reasonable fiscal policy in such conditions to become manifest.

Besides being unstable, Chile's fiscal income is inflexible; in other words, if domestic activity expands or price levels rise without any accompanying change in the rates of taxation, the growth of tax revenue is likely to lag behind that of economic activity and prices. Even the yield on income tax, or aggregate supplementary taxation, of which the rates are progressive, turns out to be inflexible in periods of acute inflation, as payment is made on the basis of the preceding year's income and evasion is very easy indeed. The anti-inflationary policy adopted also failed to provide measures that would impart greater flexibility to the tax system.

The combination of rigid expenditure with irregular and inflexible tax revenue is sufficient in itself to lead to the automatic creation of deficits. Supposing, for example, that exports contract and fiscal income declines. As expenditure is inflexible, it is financed with a deficit. This is bound to produce a rise in internal prices and therefore to affect Government overheads, thus tending to aggravate the debit balance. If taxation were flexible, after a certain interval deficit financing would bring about an increase in tax revenue whereby the deficit would gradually be reduced.

Lastly, mention must be made of the regressive character of taxation, or the fact that it consists largely in indirect or company taxes, all of which can be transferred to prices. If the taxes paid by the large mining companies

[7] The total cumulative increase in the deficit in 1956 and 1957 was only 33 per cent in relation to 1955, when, in contrast, the 1954 figure had been doubled.
[8] Total taxation minus export duties, in relation to the total product excluding exports.
[9] Taking into account taxation on copper itself and on the imports financed with this foreign exchage.

Table 191: Chile: Proportions contributed by direct and indirect taxation of total tax revenue (excluding the large mining companies)

(Percentage of total)

Year	Direct taxation	Indirect taxation
1952	36	64
1953	31	69
1954	39	61
1955	38	62
1956	39	61
1957[a]	30	70

Source: Department of the Controller and National Statistical Service.
[a] Provisional.

are discounted, it will be seen that indirect taxation constitutes about two-thirds of the tax burden (see table 191). None of the measures adopted in 1956 and 1957 to bring more revenue into the treasury was a suitable antidote to the regressiveness of the tax structure. In fact, the proportion of indirect taxes in the whole tax burden—excluding taxation on the big mining companies—was almost the same in 1956 as in the two previous years, and rose sharply in 1957, when it approached the peak level recorded in 1953.

3. Monetary policy

It cannot be said that Chile's monetary policy has played a very active part in the inflationary process. On the contrary, its role has been rather passive than otherwise, which by no means implies that it was either neutral or innocuous. In fact, it was one of the foremost elements contributing to price increases. From 1940 to 1954, the relationship between the means of payment and monetary income was characterized by a marked degree of stability. Thus the monetary system was extremely elastic in its response to the main pressures exerted upon bank credit.

In practice, this policy was relaxed in certain years, which led to the financing of speculative stockpiling on the part of business undertakings—with the inevitable repercussion on prices—and the diversion of bank resources to consumption and business speculation. Alongside this development, which may be considered to have actively fomented the inflationary process, the other aspects of bank policy —increases in the money in circulation with a view to cover in tax increments affecting enterprises, the financing of a considerable percentage of the budget deficit and the covering of wage and salary adjustments—played, as has been pointed out, a purely passive role.

The credit restriction policy introduced at the end of 1955 was intensified in the next two years. The rate of increase of the money in circulation declined appreciably, especially in 1957 (see table 192).

It is important to stress that total issues by the Central Bank, which had increased by 18.2 per cent in the first 11 months of 1956, registered an increment of only 6.6 per cent during the corresponding period in 1957. The expansion in the former year was determined mainly be the accumulation of foreign currency reserves, whereas the 1957 increase was the result of bank pressure for additional resources. In fact, direct issues during the first 11 months of 1957 decreased by almost 8 800 million pesos (19.3 per cent). This decline was due to the absorption of 26 099 million pesos through exchange operations—currency sales in excess of purchases, advance import deposits and deposits for the purchase of United States agricultural surpluses—which more than offset the 17 310 million pesos represented by direct issues through transactions with the treasury, private individuals and official bodies. Indirect issues—for the benefit of the banking system—increased by nearly 14 000 million pesos in the first 11 months of 1957, and it was this increment, as has just been pointed out, that carried decisive weight in raising the Central Bank's total issues by 6.6 per cent.

Table 192. Chile: Annual increments in money in circulation, bank loans, gross product and cost of living, 1952-57

(Percentage increase in relation to the preceding year)

Year	Money in circulation	Bank loans		Gross product at current prices	Cost of living
		To the public sector	To the private sector		
1952	31.7	160.7	32.9	—	22.2
1953	52.8	83.6	35.6	33.0	25.3
1954	41.6	29.9	43.9	59.3	72.2
1955	65.8	39.7	44.7	83.9	75.2
1956	42.9	28.8	42.0	46.5[b]	56.0
1957	17.4[a]	46.0[a]	38.8[a]	30.0[b]	33.2

Source: *Banco Central* and National Statistical Service. The figures for the gross products are ECLA estimates based on table 184.
[a] November.
[b] Provisional.

While it is true that direct issues, by providing the banks with liquid resources, enabled them to expand their credits and loans to the full extent authorized, it is equally undeniable that the interplay of the absorption factors mentioned deprived the economy as a whole of a good deal of its liquidity, as can be seen from the slower rate of growth of the means of payment (see again table 192). This was most marked in the case of industry and trade, as considerably more credit was extended to agriculture. For example, between January and November 1957 loans and credits granted by the agricultural department of the *Banco del Estado* increased by somewhat more than 40 per cent.

V. The stagnation of the economy and the structural factors of inflation

1. Economic stagnation

The stagnation of economic development, which has been observable throughout the past four years but reached its lowest ebb in 1956 and 1957, cannot be attributed to events in the external sector. Chile's capacity to import rose considerably and, in 1957, was even one of the highest registered during the last 17 years. Moreover, the stagnation became apparent at the very time when this expansion of the capacity to import was taking place most rapidly.

Its cause must probably be sought in the factors affecting decisions regarding savings and investment and in those determining the channelling of investment towards different fields. During the war, the fixed investment coefficient stood at a level below 8 per cent of the product. From 1946 onwards the coefficient rose to an average of 9.5 per cent, only to dicline once more in 1956 and 1957. Private fixed investment, on the other hand, remained relatively stationary at an extremely low level, fluctuating between 4.5 and 5.5 per cent. This suggests that for such little development as Chile has been able to achieve in recent years the credit is due to the capital formation effort of the public sector.

It cannot be asserted that the lack of incentives has been the chief handicap to the growth of private investment. As has already been shown, the tax burden is not unduly heavy, and profits have steadily increased. However, the economic process described above has caused a distortion of relative profitability as a result of which private investment resources tend to flow towards speculation in real estate and the erection of luxury buildings. It is a well-known fact that large-scale industrialists have used a significant proportion of their profits for purchasing farms. Furthermore, residential building, mainly of a luxury type, came to absorb 45 per cent of fixed investment in 1955; this is a disproportionate share by any standards. Consequently, the effect

of the changes in relative profitability is twofold. On the one hand, it reduces the investment resources available for financing the growth of fixed capital; on the other hand, it encourages those forms of capital accumulation—such as leasehold buildings—whose productivity is very low. If purely economic needs are taken into account, the productivity in question is virtually nil.

As regards the resources available, there are two obvious factors that are affecting the stagnation of the economy, namely, the chronic foreign exchange shortage and the inability of Chilean agriculture to improve productivity and expand its output.

Since 1946, Chile has earmarked for the purchase of capital goods a proportion of its foreign exchange which has varied between 30 and 35 per cent of total imports. An examination of the purposes for which the remaining foreign exchange is used leads to the conclusion that, given the current structure of domestic production, very little more can be spent on equipment. Any change of direction compels established industries to curtail their activity, or forces down the standard of living of the lower-income groups.

In order to increase the rate of capital formation Chile needs to import not only capital goods but also foodstuffs so that a larger proportion of the active population can be released for employment in the construction and installation of production equipment. Unless more foodstuffs are available, any attempt to transfer part of the labour force to activities of this type will create inflationary pressures. Attention was called at an earlier stage to the stagnation of agricultural production in Chile.

2. Structural factors of inflation

Economic events in 1956 and 1957 have had few favourable effects on the factors influencing private investment and the structure of the economy. On the positive side, the severe discrimination against exports which characterized the previous 15 years has sucessfully been eliminated, and some progress has no doubt been made towards changing the structure of relative profitability, chiefly at the expense of speculation in real state and low-productivity investment.

Changes in agricultural policy, based on more liberal price and credit measures, had already been put into effect without avail in earlier periods, and there do not seem to be any new factors to justify the assumption that at the present time the outcome would be different.

From the standpoint of the structure of demand, the regressive redistribution of income has contracted still further the markets for goods required by the wage-earning sectors. To the negative effect of income redistribution on economic development must be added yet another, which had operated through public investment. In 1957 the latter bore most of the brunt of fiscal restrictions.

If economic events in 1956 and 1957 aggravated the stagnation of the product, noticeable from 1953 onwards, it is also true that they did nothing to change the special characteristics of the structure of production, as the foregoing remarks have shown. Hence the structural factors of the inflationary process are continuing to exert pressure just as in previous years. In reality, the slower rate at which inflation has advanced in the last two years must be attributed only to the circumstance that the propagating factors operated less actively. But the repercussions of the structural factors continue to make themselves felt, as can be seen from the continuing upward trend of prices and from the existing inflationary pressures. It is also patent that the discrepancy between the structure of production and the pattern of demand, which was already pointed out as the characteristic feature of the development of inflation in Chile, still persits.

VI. PROSPECTS

The foregoing analysis of Chile's inflationary process leads inexorably to one basic conclusion; if in the future a satisfactory rate of growth of *per capita* income is to be promoted in conjunction with internal stability and a minimum degree of pressure on the balance of payments, the structure of production must be altered. A necessary means to this end is the systematic formulation of an integrated economic development policy focused primarily on the diversification and encouragement of the export trade; a substantial increase in productivity and agricultural production; an expansion of industry which will absorb the population increment, and the surplus rural population that is bound to result from the introduction of modern farm techniques; and saving of foreign exchange, especially in public expenditure and in imports of luxury goods.

Clearly fiscal and monetary policy can be of use in this connexion. If greater flexibility is imparted to public income and expenditure, the tax system is remodelled on less regressive lines and a reasonable degree of credit stability is maintained, Chile can certainly control violent inflationary processes. It must be noted, however, that, as recent experience shows, such devices, applied solely to the factors that promote inflation, can give only a relative measure of stability at the very high cost of a reduction and redistribution of income, growing unemployment and the stagnation of development.

If, on the other hand, an expansionist process aimed at stimulating the growth of *per capita* income were once more to be embarked upon without complementary action designed to modify the present structure of the economy, there can be no doubt that, for the reasons already adduced, the inflationary spiral would again be set in motion, bringing with it all its well-known train of detrimental effects, and, what is more, accompanied by a very low rate of economic development.

Thus, if the structural obstacles responsible for the lack of development and the acute inflationary process are not removed, the Chilean economy will find itself confronted with two alternatives—on the one hand, relative stability accompanied by growing unemployment together with economic stagnation and even decline, and, on the other, an increasing degree of inflation in conjunction with slow development.

Chapter VII

MEXICO

INTRODUCTION

Mexico's rate of economic growth was the same in 1957 as in 1956, although lower than in two previous years. The main deterrents to economic activity in 1957 were weakening of external demand and the smaller income generated by agricultural production of basic foodstuffs.

The combined effect of these factors on domestic demand retarded the expansion of private investment and consumption. Nevertheless, economic activity was able to develop at the same rate as in the preceding year, thanks to a considerable increase in public investment as well as in income from the tourist industry. A further influence in the same direction was exerted by an increment in the output of mining commodities and cotton, partly due to tax reductions intended to soften the impact of the fall in world market prices.

The effects of the decline in export earnings were largely offset by the higher income from the tourist industry, long-term official credits, and, to a lesser exent, an increase in direct foreign investment. Mexico's international reserves thus contracted by only 27.8 million dollars.

Prices for cotton and coffee—Mexico's staple exports—remained stationary during the first three months of 1958. The bigger output of cotton in 1957/58 ensures that exports of this commodity will not be restricted as regards supply. Where coffee is concerned, despite a falling-off in production, the exportable surplus for 1958 is in excess of the quota fixed under the Mexico Agreement. Prospects for the tourist industry seem promising, to judge from the larger receipts obtained in the first two months of the year.

Among the factors that will condition economic activity in 1958 may be mentioned a series of Government measures to stimulate investment and strengthen the balance-of-payments position, which were announced at the beginning of April. They include (*a*) reduction of export duties and exemption from payment of internal taxes on manufactures for export; (*b*) the provision of fiscal incentives to the purchase of domestically-produced machinery and equipment through a revision of the income tax regulations, which authorize the accelerated amortization of such equipment; (*c*) selective increases in import duties; (*d*) arrangements with international credit institutions for new economic development loans; and (*e*) as a means of encouraging domestic saving, the issue of petroleum bonds for 200 million pesos with a constant purchasing power clause linked to the wholesale price index.

I. THE CAPACITY TO IMPORT AND IMPORTS

Mexico's foreign trade was affected in 1957 by the weakening of world demand and lower quotations for the country's staple export commodities; by a contraction in the volume of cotton exports, partly due to an acceleration of these exports in 1956, as a result of which the year opened with a low level of stocks; and by a decline in the internal supply of maize. The first two factors caused decreases of 11.6 per cent in the value of exports of goods and 10.8 per cent in their volume, while the third meant that exceptional quantities of maize had to be imported. The latter accounted for most of the 13.6 per cent increment in the total import quantum, since if maize is excluded the increase in the quantum is seen to have been only 1.3 per cent, partly because imports of capital goods expanded to a lesser degree.

The capacity to import generated by exports—measured through the quantum and terms-of-trade indices—fell 6.9 per cent below its 1956 level. The cause of this decline was the contraction in the volume of exports, as the terms of trade improved by 4.4 per cent in relation to 1956.

The effect of the reduction in export earnings was largely offset by an increase in income from the tourist industry, by long-term official capital and, to a smaller extent, by heavier direct foreign investment and the financing of part of the country's maize imports with external credits. Moreover, the prices paid for imported maize were as much as 15.4 per cent lower than in 1956, a fact which accounts for the improvement in the terms of trade in relation to 1956.

Consequently, foreign exchange income totalled 4.2 per cent less than in the previous year, as against a 7.8 per cent increment in the value of imports of goods. The Government's international reserves decreased by only 27.8 million dollars.

1. EXPORTS

The value of exports declined by 11.6 per cent in 1957, dropping to 736 million dollars as compared with 833 million in 1956. This decrease was mainly attributable to the 10.8 per cent contraction of the export quantum (see table 193). Average export prices pursued the downward trend noted since 1954, falling 1.0 per cent below their 1956 level.

The situation in 1957, as summed up here, is attributable to reductions in the volume and prices of cotton and copper. In the case of lead and zinc, the larger volume exported did not suffice to compensate for the fall in prices. The drop in coffee prices, on the other hand, was more than offset by the increase in the volume of exports, the current value of which rose by 3.5 per cent. Among mining products, sulphur alone registered a substantial increment in the value and volume of exports between 1956 and 1957, thanks to an expansion of production and to the high level of world demand. Where petroleum was concerned, on the contrary, the effect of the rise in prices on the value of these exports was more than counterbalanced by the decrease in their volume. Their current value fell by 28.6 per cent.

(a) *Cotton*

Both the volume and the prices of cotton exports were lower in 1957 than in the two preceding years. Their volume

Table 193. Mexico: Value and volume of exports, by main commodities, 1954-57

Commodity	Current values (Millions of dollars)				Quantum indices (1950 = 100)			
	1954	1955	1956	1957[a]	1954	1955	1956	1957[a]
Cotton	184.3	250.5	263.1	172.9	159.4	216.6	259.4	174.5
Coffee	98.4	104.4	105.1	108.8	149.9	181.2	160.6	192.8
Copper	59.0	67.8	73.3	37.2	123.5	125.0	123.5	89.6
Lead	62.0	56.3	52.1	51.5	77.1	69.7	58.8	65.2
Zinc	21.0	24.4	43.2	41.6	72.7	93.7	143.5	157.3
Petroleum	38.4	50.8	53.2	38.0	147.5	174.3	165.1	97.7
Sulphur	—	5.1	13.6	22.0	—	...	...	...
Miscellaneous	198.0	232.3	229.1	264.4	94.0	114.7	112.0	130.3
Total	661.1	791.6	832.7	736.4	117.0	143.9	152.9	136.4

Source: Calculated by ECLA on the basis of statistics of the *Anuario de Comercio Exterior*, adjusted for the revaluations of the *Banco de México*.
[a] Provisional estimates.

contracted by 32.7 per cent in relation to 1956, and their prices declined by 2.3 per cent, which determined a reduction of 90.2 million dollars in their current value.

As has already been stated, the decrease in the volume of exports in 1957 is mainly attributable to the fact that in 1956, faced with the possibility that the United States' cotton surplus disposal policy might have adverse effects on the world market, Mexico speeded up its exports, and entered upon the year 1957 without any very considerable stocks of cotton. Then again, the output was 20 per cent smaller in 1956/57 than in the preceding cycle, a fact which further lowered the level of exports in the first six months of 1957. During the second half of the year, however, by virtue of a 14.5 per cent production increment, 240 000 tons were exported, that is, only 3.2 per cent less than in the corresponding period in 1956.

If both exports during the second half of the year and availabilities for domestic consumption are deducted from the total 1957/58 output of 463 000 tons, the exportable surplus at the beginning of 1958 works out at about 115 000 tons, or, in other words, 25 per cent of production. This situation is approximately comparable with the position in the early months of 1955 and 1956.

The decline in exports of Mexican cotton in 1957 was more marked in the case of direct exports.[1] In particular, shipments to Japan and to the Federal Republic of Germany, which in recent years had constituted markets of increasing importance for Mexico, were cut down by 45.7 and 57.9 per cent respectively (see table 194). Apart from the falling-off in the total volume of exports, this curtailment may have been due to an increase in the production of long fibre, which enabled Mexico to supply 65 per cent of the total United States long-fibre import quota of over 200 000 tons, as against only 35 per cent of a quota of 100 000 tons in the preceding year.

The measures which the Mexican Government had adopted a year before to mitigate the effects of the United States cotton surplus disposal policy were maintained in force during 1957. It is especially noteworthy that the import value represented by clearing agreements concluded during that year amounted to 122.5 million dollars, or 71.3 per cent more than in 1956, of which more than 70 per cent derived from the exchange of motor-car assembly parts for cotton. The value of imports effected in 1957 under these agreements—90 per cent of which were financed with cotton—was 74.0 million dollars.

In 1958, Mexico's cotton exports are not likely to be limited on the supply side. Apart from the exportable sur-

[1] As has been pointed out in earlier surveys, almost the whole of Mexico's exports to the United States are really in transit to other markets, so that total exports to each of these various markets cannot be determined.

Table 194. Mexico: Cotton exports by countries, 1955-57

(Thousands of tons)

	1955	1956	1957	Percentage difference 1956/1955	Percentage difference 1957/1956
Total	352.4	421.9	283.9	19.7	—32.7
Direct exports					
Belgium	5.9	4.1	3.6	— 30.5	—12.2
Canada	3.8	6.3	4.1	65.6	—34.9
Federal Republic of Germany	18.3	17.8	7.5	— 2.7	—57.9
France	0.9	9.4	4.5	1 044.4	—52.1
Japan	62.1	82.6	44.9	33.0	—45.7
Netherlands	6.3	7.0	6.9	11.1	— 1.4
United Kingdom	6.9	10.8	5.5	56.5	—49.1
Others	6.0	8.5	13.3	41.7	56.5
Exports to the United States and in transit to other markets	242.2	275.4	193.6	13.7	—29.7

Source: Dirección General de Estadística. *Anuario de Comercio Exterior.*

plus of some 115 000 tons which the country had at its disposal at the beginning of the year, a preliminary estimate of the 1958/59 harvest suggests that this will probably be about 500 000 tons, that is, 8 per cent larger than the preceding year's and approximately equal to the 1955/56 bumper crop. Consequently, export prospects will depend rather upon world market conditions.

(b) *Coffee*

The value of coffee exports was higher in 1957 than in previous years, totalling 109 million dollars. The increase of 3.5 million dollars over the value of exports in 1956 was achieved through the 20.0 per cent increment in the export quantum, since prices fell by 13.8 per cent.

The measures adopted by the most important Latin American coffee producers with a view to stabilizing world coffee prices, first under the Mexico City Agreement in October 1957, and subsequently as a result of the meetings held at Río de Janeiro and Mexico, fixed the effective export quota for the period from November 1957 to the end of March 1958 at 330 890 bags, or 80 per cent of the exportable surplus deriving from the 1957/58 harvest.

As regards the effects of the Mexico Agreement on export prices for Mexican coffee, spot quotations for Coatepec rose in November 1957 from 0.54 to 0.56 dollar cents per pound. Subsequently the price was stabilized at about 0.55 cents.

As an additional measure to improve the price paid to coffee producers, in March 1958 the Government lowered the official price from 115.50 to 9.75 pesos per kilogramme for purposes of the 25-per-cent *ad valorem* tax on exports. Hence the export duty was in effect reduced by 15.3 per cent. With respect to coffee export prospects, the decline in production in 1957/58 (to about 10.0 per cent below the figure for the preceding crop) and the restriction of supply as a result of the application of the Mexico Agreement, will mean that even if prices remain stabilized at the level attained in the early months of 1958, the total value of exports will be lower than in 1957.

(c) *Staple mining products*

The unfavourable world market conditions which for several years have been affecting some of Mexico's mining sectors were intensified in 1957. The value of copper, lead and zinc exports dropped by over 38 million dollars, or 22.7 per cent, in relation to 1956. This was mainly owing to the fall in prices, as the quantum was reduced by barely 1.1 per cent. The United States' decision to suspend the accumulation of strategic reserves, and the uneasiness prevailing on the world market as to the tariff policy which may be adopted in 1958 in respect of lead and zinc, helped, to accentuate the downward trend of export prices.

The flooding of the world copper market in 1957 brought the volume and prices of exports down to levels lower than those registered in 1954. In relation to 1956, the decrease in prices amounted to 30.0 per cent and the contraction of the volume to 27.4 per cent, so that export earnings were cut by approximately one-half. While for zinc matters did not go so far as for copper, the current value of Mexico's zinc exports was also reduced in 1957 by 5.6 million dollars since prices fell by 12.2 per cent although the volume exported increased by 9.6 per cent. Of the ores under consideration, lead alone registered an increment in the volume exported (10.8 per cent) large enough to offset the 10.9 per cent price decline, thus keeping the value of exports approximately the same as in the preceding year but 4.8 million dollars below its 1955 level.

The volume of petroleum exports was 41 per cent lower in 1957 than in 1956, so that although the best prices since 1950 were quoted, their value decreased by 15.2 million dollars. This downward movement was not attributable to any difficulty in finding foreign markets, but rather to the enlargement of refining capacity with a view to satisfying the country's expanding domestic consumption.

Sulphur exports, which began to acquire significance in 1956, when they reached a value of 13.6 million dollars, represented 22.0 million in 1957, or, in other words, increased by 62 per cent. This underlines Mexico's position as the world's second producer, as well as the growth of its share in the world market. The difference between the selling price of Mexican sulphur and that of United States exports, which had amounted to 2 dollars per ton, was reduced in September 1957, when the price reverted to 23 dollars per ton, or only 1 dollar below that of sulphur from the United States.

2. Total capacity to import

From 1954 to 1956 the growth of total foreign exchange income outstripped that of imports of goods and services. The income in question was 4.2 per cent lower in 1957 than in 1956, mainly, as was previously shown, because of a 6.9 per cent decrease in the capacity to import generated by exports of goods, since the other main components of the foreign exchange supply, such as net income from the tourist industry, direct foreign investment and long-term official credits, increased in relation to the preceding year (see tables 195 and 1956).

Gross income accruing from the tourist industry and frontier trade has been moving rapidly upward; from 336.8 million dollars in 1954 it rose to 508.2 million in 1956 and 590.5 million in 1957. Expenditure under the same head, on the other hand, expanded more slowly. Consequently, net income from such sources increased from 164 million dollars in 1954 to 348 million in 1957, so that its contribution to the country's total foreign exchange income, which had stood at 19.1 per cent in 1954, reached 29.3 per cent in 1957.

The inflow of foreign exchange through direct external investment progressively increased from 104.6 million dollars in 1954 to 140 million in 1957. A major part of this investment was financed with additional capital from abroad, which represented about 70 per cent of the total for the period. Direct foreign investment was channelled primarily, to a growing extent, towards manufacturing industry, trade and the electrical industry. Expenditure on the servicing of such investment rose more rapidly, from 75.3 million dollars in 1954 to 123 million in 1957. Consequently, the net foreign exchange contribution for which this item accounted, which had been 3.5 per cent in 1954, dropped to 0.8 per cent in 1956, increasing only to 1.4 per cent by 1957.

Except in 1956, net foreign exchange receipts in the form of long-term official credits expanded at a more rapid rate than direct foreign investment. Such credit resources increased from 63.5 million dollars in 1954 to 148.5 million in 1957, whereas over the same period amortization rose by barely 37 million. When amortization and interest

Table 195. Mexico: Total capacity to import, commodity imports and changes in official international reserves, 1954-57

(Millions of dollars)

	1954	1955	1956	1957[a]
1. Commodity exports (f.o.b.) . . .	661.1	791.6	832.7	736.4
2. Tourist industry and border trade (net)	163.6	263.1	292.7	348.3
3. Yield of direct foreign investment .	— 75.3	— 79.6	— 120.0	— 123.2
4. Direct foreign investment	104.6	111.8	129.7	140.0
5. Long-term credit	63.5	101.7	114.7	148.5
6. Amortization of long-term credit .	— 34.4	— 44.2	— 65.3	— 71.3
7. Other capital movements (net) . .	— 27.9	47.2	26.1	— 17.5
8. Total capacity to import[b]	858.0	1 212.3	1 241.5	1 188.8
9. Commodity imports (c.i.f.) . . .	—787.2	— 883.7	—1 071.6	—1 155.2
10. Changes in international reserves of the *Banco de México*	— 35.1	200.2	60.5	— 27.8

Source: Calculated by ECLA on the basis of statistics supplied by the *Banco de México*.
[a] Provisional estimates.
[b] Apart from the items indicated in the table, the total capacity to import comprises remittances from seasonal workers abroad, income from other services and production of gold and silver (gold and silver utilized in the country for industrial purposes and the silver bars included under exports being deducted).

Table 196. Mexico: Volume and price indices for exports and imports, terms of trade and capacity to import generated by exports, 1954-57

(1950 = 100)

Year	Export indices		Import indices		Terms of trade	Capacity to import
	Volume	Prices	Volume	Prices		
1954 . . .	117.0	107.7	129.4	109.5	98.4	115.1
1955 . . .	143.9	104.8	139.1	114.3	91.7	132.0
1956 . . .	152.9	103.8	162.9	118.4	87.7	134.1
1957[a] . . .	136.4	102.9	185.1	112.3[b]	91.6[b]	124.9[b]

Source: Calculated by ECLA in the basis of statistics of the *Anuario de Comercio Exterior*.
[a] Provisional estimates.
[b] If the effect of maize imports is excluded, the import price index is 122.6, the terms of trade are 83.9 and the capacity to import is 114.4.

are deducted, the net inflow of foreign exchange deriving from long-term credits represented 3.6 per cent of total income in 1955, decreased to 2.7 per cent in 1956, and by 1957 attained 60.7 million dollars, that is, 5.1 per cent.

A break-down of long-term credits by source shows a decline in the aggregate share of the International Bank and the Export-Import Bank, which had consituted 65 per cent of the total in 1954, but fluctuated between 25 and 35 per cent from 1955 onwards. As from this latter year, a considerable proportion of the long-term credits granted were issued by private United States banks and industrial suppliers and utilized mainly by official bodies for purposes of industrial development, construction, promotion of crop and livestock activities and the petroleum industry. In addition, loans conceded by industrial suppliers in the Federal Republic of Germany, France, Italy and Switzerland for the purchase of capital goods and raw materials have in recent years acquired greater importance as a source of credit for private enterprise.

As regards the uses for which long-term credits were earmarked, a major proportion was absorbed by the railways, the petroleum industry and agriculture (22.7, 17.0 and 8.0 per cent respectively in 1957). The share of other activities, such as construction of transport equipment, electric energy or the iron and steel industry, was also fairly large. In 1957 the credits utilized for these purposes represented 62 per cent of the total, as against 79.9 per cent in 1956.

The evolution of the various items in the balance of payments in 1957 was such as to bring reserves down by 27.8 million dollars, the total registered on 31 December 1957 being 441.2 million. It should be pointed out that in December 1957 the agreement with the United States on the 75-million-dollar stabilization fund to which Mexico can resort in the event of temporary pressure on its international reserves—apart from its right to draw upon its International Monetary Fund quota—was renewed for a period of two years.

3. Structure of imports

In 1957 the quantum of imports increased by 13.6 per cent, i.e., at a slower rate than in the preceding year. This increase was mainly due to heavy maize imports of 818 000 tons, a figure more than 100 per cent higher than the previous record volume of 373 000 tons imported in 1953. Were maize to be excluded, the import quantum increment in 1957 would amount to only 1.3 per cent.

Almost one-fourth of total maize imports was financed by means of dollar credits for terms of three to five years negotiated with the Commodity Credit Corporation. Furthermore, in October an agreement was signed between

Table 197. Mexico: Structure of imports, 1954-57

(Millions of dollars at 1950 prices)

Commodity group	*1954*	*1955*	*1956*	*1957*[a]	*Percentage difference* $\frac{1957}{1956}$
Non-durable consumer goods	96.8	58.1	77.5	192.3	+148.1
Maize	23.2	0.1	19.8	131.3	+563.1
Durable consumer goods	50.4	49.6	56.3	60.3	+ 7.1
Fuels and lubricants	54.3	53.6	66.4	76.3	+ 14.9
Raw materials for industry	200.5	228.4	250.5	239.6	— 4.4
Materials for capital goods	27.8	34.3	49.5	44.0	— 11.1
Building materials	31.5	34.7	37.4	41.7	+ 11.5
Capital foods for agriculture	27.2	36.5	36.2	35.3	— 2.5
Capital goods for industry and mining	160.2	175.1	215.4	247.5	+ 14.9
Capital goods for transport	70.2	92.8	116.2	91.4	— 21.3
Total	718.9	773.1	905.4	1 028.4	+ 13.6

Source: Calculated by ECLA on the basis of statistics of the *Anuario de Comercio Exterior.*
[a] Provisional estimates.

the Mexican and United States Governments relating to the purchase of 500 000 tons of maize with a national currency value of 352.5 million pesos, to be effected before July 1958.[2]

If maize is excluded, the principal changes in the composition of imports in 1957 reflect the decline in the rate of growth of gross investment, setting aside construction activities. Imports of building materials, which during the last two years had been expanding at a rate of about 9 per cent, increased in 1957 by approximately 12 per cent. Those of capital goods for transport and of materials for capital goods, which had registered a considerable increment in 1955 and 1956, contracted by 21.3 and 11.1 per cent respectively in 1957. On the other hand, imports of capital goods for industry and mining, which had also increased in 1956 by the exceptional amount of 23.0 per cent, continued to expand, although by only 14.9 per cent. Imports of agricultural equipment and machinery, which rose by 34 per cent in 1955, have remained relatively stationary since that time. Perceptibly fewer tractors, however, were purchased abroad in 1957, this being the main reason underlying the 2.5 per cent decrease in the volume of capital goods imported for agriculture (see table 197).

The quantum of imports of raw materials for industry decreased by 4.4 per cent in 1957, in comparison with increments of 9.4 and 13.9 per cent in 1956 and 1955, respectively. This trend was partly a reflection of the slower rate of growth of manufacturing in the last two years, and, to a greater extent, of the promotion of wheat production which culminated in 1957 in the complete substitution of domestic for imported wheat.

Imports of non-durable consumer goods, excluding maize, expanded by 5.7 per cent in 1957. It should be noted, however, that a declining trend has been followed since 1954, mainly owing to the substitution of domestic production for imports of foodstuffs and pharmaceutical products.

The upward trend in fuel imports continued in 1957, when their quantum rose by 14.9 per cent. The principal cause was a 19 per cent increment in the volume of petrol imports, due both to the need to supply the expanding consumption of the north and north-western zones not yet served by domestic production, and to the increase in the number and capacity of the country's storage plants. The growth of refining capacity and the better transport and storage facilities at present under construction are mainly intended to meet the needs of those parts of the country which hitherto, chiefly for want of such services, have been unable to satisfy their requirements with domestic production.

[2] This operation was effected under the United States Act No. 480. Forty-eight per cent of its value will be earmarked for long-term credits to the Mexican Government. Another 25 per cent will be utilized for loans in local currency to Mexican private enterprise and United States firms operating in Mexico. The United States Government will use most of the remainder to finance its expenditure in Mexico.

II. DOMESTIC DEMAND TRENDS

1. Domestic demand

As in 1956, Mexico's economic situation was mainly determined in 1957 by the weakening of external demand and the unfavourable weather conditions which kept agricultural production below the preceding year's level. The effect of these factors on internal demand made itself felt in a reduction of the rate of growth of private investment and consumption. However, economic activity was able to develop at more or less the same rate as in 1956, partly owing to the larger income deriving from the tourist industry and to a considerable expansion of public investment. Preliminary estimates indicate that in real terms the gross product improved by about 4.5 per cent in 1957, just as in 1956, although its rate of growth was lower than in the two previous years (see table 198).

The most important change in domestic demand in 1957 was the marked decrease in the rate of expansion of private investment. This was due to the contraction in export earnings, and in some degree to delays in the implementation of investment programmes in other sectors of the economy. Furthermore, as was pointed out earlier, direct foreign investment also increased more slowly than in 1956.

In consequence of these factors, the increment in private investment in real terms was only 6 per cent in 1957, as against 19 per cent in the preceding year and almost 23 per cent in 1955. Most of the 1957 increase was generated in the construction sector, which expanded by 15 per cent. The aggregate growth of the other components of private investment amounted barely to 2-3 per cent, and among these agricultural investment, to judge by the decline in imports of agricultural equipment, may even have decreased. The expansion of construction activities is mainly attribut-

Table 198. Mexico: Product and income in 1957, and annual variations, 1954-57

	Millions of pesos at 1950 prices	*Annual percentage variations*			
	1957	1954	1955	1956	1957
1. Gross product	64 392	8.3	9.7	4.5	4.6
2. Terms-of-trade effect in relation to 1950	— 370	—	—	—	—
3. Gross income	64 022	8.6	8.9	4.0	5.4
4. Gross investment	9 987	2.6	11.5	14.9	7.7
Private	7 203	— 3.0	22.9	19.0	6.0
Public	2 784	14.4	— 9.1	5.0	12.5
5. Product by sectors:					
Agriculture	12 281	16.6	12.5	— 3.8	— 0.3
Mining	1 653	— 5.2	16.5	— 1.7	6.5
Petroleum	1 161	10.5	5.7	7.9	8.4
Energy	416	10.1	12.3	11.5	8.0
Manufactures	13 486	5.3	10.8	8.7	7.0
Construction	1 296	— 3.0	7.5	7.3	12.0
Trade	22 515	6.3	10.6	5.9	4.9
Transport	3 185	1.2	11.3	6.0	7.0
Governments	3 596	13.1	— 3.6	13.0	4.0
Others	4 803	11.9	3.8	4.5	4.6

Source: Calculated by ECLA on the basis of official statistics.

able to the rebuilding and completion of residential and commercial premises in Mexico City, the building of hotels as a result of the growing number of tourists in recent years, and the incentive provided by new urban improvement projects, especially in the Federal District.

Public investment increased by 12.5 per cent, as against a 5 per cent increment in 1956. The Federal Government was responsible for a major share of the additional public investment in 1957, since its capital expenditure in real terms rose by about 23 per cent, whereas that of local authorities, state enterprises and autonomous bodies did so by only 3.9 per cent. Of total public investment, 49.5 per cent was earmarked for communications and transport, 25.9 per cent for energy and fuels, 16.9 per cent for irrigation, and the remainder for housing, urban services, education and activities complementary to private investment. The more marked increase in public investment in 1957 partly compensated for the decline in the rate of growth of private investment, so that gross investment in the economy as a whole rose by 7.7 per cent in real terms, and came to constitute, as in 1956, 15.5 per cent of the gross product. The compensatory role of public investment has been one of the typical features of the Mexican economy's behaviour pattern since 1954 (see again table 198), in contrast with the situation in previous years.

The current expenditure of the public sector, on the contrary, did not increase in real terms, chiefly as a result of the Federal Government's budget policy, the aim of which in recent years has been, broadly speaking, to keep such expenditure within the bounds of fiscal revenue. According to preliminary estimates, the 1957 Federal budget closed with a deficit of 75.0 million pesos, which corresponds to less than 1 per cent of fiscal income. This result was obtained despite a fall of 6.2 per cent in export duty yields, due partly to a reduction of the rates of such taxation in 1956, and still more to the decline in the value of exports. However, the downward movement registered under this head was more than offset by the increases of 8.9 and 12.1 per cent in the income tax yield and in revenue from taxation on production and trade, respectively, so that the Federal Government's total income rose by 5.4 per cent.

Private consumption in 1957 failed to keep pace with the growth of the gross product, and apparently expanded less than in 1956, mainly because of the decrease in the real income of the agricultural sector producing mainly for the home market, which comprises the majority of landowners and farm workers. The weakening of demand in this sector was reflected in the relative stagnation of the output of non-durable consumer manufactures, in face of an increase of 14.5 per cent in the case of production goods. The depressive influence exerted by this factor and by lower export earnings on the rest of the economy also affected, although in a lesser degree, demand for durable consumer goods, especially articles for household use.

2. Prices

Price movements in 1957 partly reflected the weakening of domestic demand, the increases registered being smaller than in the preceding year. Wholesale prices in Mexico City rose on an average by 4.3 per cent, as against 4.7 per cent in 1956 and 13.6 per cent in 1955 (see table 199).

In the case of consumer goods the increment was higher, amounting to 4.7 per cent, mainly on account of the falling-off in the domestic supply of basic foodstuffs during the first half of the year. The foodstuffs price index rose steadily from 119.6 in January to a maximum of 134.2 in August, after which it gradually declined, reaching 128.1 by the end of the year, in consequence of improved availabilities of imported maize, as well as of the pulse and fruit harvests from September onwards. Within this group, the largest increases in relation to 1956—17.5 and 8.4 per cent respectively were registered by cereals and pulses. On the other hand, the expansion of wheat production caused prices of flour and flour products to fall by 4 per cent.

Higher foodstuffs prices constituted the factor which

Table 199. Mexico: Wholesale price indices[a]

(1954 = 100)

	1955	1956	1957	1957			
				First quarter	*Second quarter*	*Third quarter*	*Fourth quarter*
Over-all index	113.6	118.9	124.0	120.2	123.2	126.3	126.5
Consumer goods	114.7	120.9	126.6	121.9	125.8	130.6	128.4
Foodstuffs	114.1	120.5	127.1	120.9	126.4	132.2	128.8
Miscellaneous	116.0	122.0	125.5	124.1	124.5	125.9	127.6
Production goods	112.1	116.0	120.5	117.9	119.5	120.4	123.9
Raw materials	111.1	114.7	118.4	116.0	116.8	118.5	122.5
Fuels and energy	114.0	117.0	121.4	121.0	120.7	121.0	122.8
Vehicles and accessories	115.6	122.6	131.9	125.4	134.2	134.1	134.1

Source: Banco de México, Department of Economic Studies.
[a] Wholesale price indices (210 items) in Mexico City.

most powerfully influenced the 5.8 per cent rise in the workers' cost-of-living index in Mexico City in 1957.[3]

Wholesale prices for production goods increased by almost 4 per cent. A decisive determinant of this upward movement was the expansion of demand for building materials, prices of which rose on an average by 11.2 per cent. The increment in prices for fuels and energy was slightly smaller than in the case of production goods, amounting to 3.8 per cent. For motor vehicles and spare parts prices were 7.6 per cent higher, in consequence of the rise in import prices.

III. PRODUCTION

1. Over-all trends

Except in the case of agricultural production, which was limited by the prolonged drought, all sectors of the Mexican economy attained higher production levels in 1957 than in the preceding year. Manufacturing and business activities, however, were affected by the slackening of demand for consumer goods, inasmuch as they expanded at a slower rate than in 1956 (see again table 198).

Export activities, on the other hand, despite the lower prices quoted for staple export commodities, substantially raised their output, so that the unsatisfactory levels reached in 1956 were succeeded by a recovery. In mining, an improvement on the two previous years was registered, largely thanks to the marked increase in sulphur extraction. Production of metal ores (except zinc) also expanded, although at a more moderate rate. This growth was partly attributable to the reduction of export duties and to exemptions from internal taxation on additional investment, which stimulated the activity in question notwithstanding the unfavourable conditions prevailing on the world market.

Within the agricultural sector producing for export, the largest increments were registered by the most important commodities, i.e., cotton and coffee. Cotton production was encouraged not only by favourable weather conditions but also the need to build up stocks, the level of which was exceptionally low as a result of restrictions on production and the acceleration of exports in the preceding year. Another incentive was the reduction of export duties, which partly offset the effect of the decline in world market prices. In the case of coffee, a similar compensatory role was played by the expansion of the volume of exports which favourable weather conditions, and the resultant increase in the 1956/57 output, rendered possible.

Construction was the most dynamic sector of the economy, in consequence of the more rapid rate of residential and commercial building, especially during the second half of the year, and of the notable increase in public investment. This gave impetus to the capital goods industries, such as those manufacturing cement, wire rod and structural iron, in which considerable production increments were recorded.

Petroleum production, despite a falling-off in the extraction of crude oil, expanded at a higher rate than in 1956. This development was a reflection of the growth of installed refining capacity in the last two years, which allowed of a substantial increase in the production of derivatives.

Generation of electric energy pursued its upward trend in 1956, although less rapidly than in the preceding year, owing to the slower rate of growth of industrial demand and to the severe droughts which in the last two years had restricted the output of the hydroelectric plants. Installed generating capacity expanded considerably, thus reflecting the intensive investment effort in this sector, the aim of which was to cope with the speedy growth of industrial and household consumption.

Activities in the transport sector expanded faster than in 1956, mainly owing to a 9 per cent increment in the railway freight load, which rose to some 10 300 ton/kilometres, net. This was possible partly on account of the increased availabilities of rolling-stock supplied by the growing domestic industry. To judge from petrol consumption, the volume of road transport expanded by some 7 per cent.

2. Agriculture

In 1957 agricultural production remained at the same level as in the preceding year, that is, about 6 per cent below the 1955 figure. Despite the extension of the irrigated areas, the marked defects of the drought on non-irrigated crops prevented the attainment of the higher over-all level predicted half-way through the year.

Production for export expanded by 8.5 per cent in relation to 1956, while that for domestic production declined by about 8 per cent (see table 200). Hence domestic foodstuffs supply conditions deteriorated, especially in the case

[3] This index does not include rents, and is therefore particularly sensitive to movements of foodstuffs prices.

Table 200. Mexico: Agricultural production indices, 1954-57

(1949-53 = 100)

	1954	1955	1956	1957[a]
Total production	126.2	141.6	134.1	133.2
For export	135.2	165.9	140.8	152.8
For domestic consumption	119.7	124.1	129.3	118.7

Source: Calculated by ECLA, on the basic of official statistics.
[a] Provisional estimates.

of maize, the result being the heavy maize imports to which allusion has already been made.

The prolonged drought in the north also adversely affected livestock production; pasturage was exhausted, and far more cattle on the hoof were therefore exported.

(a) *Export commodities*

In 1957 the output of *cotton,* Mexico's most important export crop, reached a total of 455 000 tons, which was 8 per cent higher than the 1956 figure. The area harvested amounted to approximately 900 000 hectares, and the production increment was due to the improvement in unit yields, which rose from 470 kilogrammes in 1956 to 506 kilogrammes. Almost 50 per cent of the preceding year's serious decrease in production was thus made up.

The *coffee* crop, which ranks second among agricultural exports, was almost 10 per cent smaller in 1957-58, declining from the 93,862 tons registered in 1956/57 to about 84 700 tons. This downward movement, contrasting as it did with a 9.6 per cent increment in 1956/57, was mainly due to the unfavourable weather conditions at the end of November and the beginning of December, which caused considerable losses on the high-altitude coffee farms in Soconusco (Chiapas), where picking is late, and rather less severe damage on the shade plantations in Veracruz.

Production of other agricultural export commodities reached almost the same levels as in 1956, except in the case of *cacao,* where an increase of 13 per cent brought the output up to 16 000 tons.

(b) *Commodities for domestic consumption*

Poorer maize, bean and potato harvests accounted for the over-all decline in the domestic consumption category, as larger volumes were obtained in the case of wheat, sugar-cane and tobacco. *Maize* production continued to follow a downward trend in 1957, owing to drought, which had already affected the agricultural sector in the preceding year. The 1957 harvest is estimated at 3.9 million tons, that is, 7 per cent smaller than the previous year's, and almost 14 per cent below the high level attained in 1955. Owing to this further decline, the shortage which had begun to make itself felt in 1956 became more acute, and exceptionally heavy additional imports were effected to meet 1957 consumer requirements and provide the necessary stocks for storage, with a view to offsetting possible deficits in 1958.

Contrary to the mid-year forecasts of a better *bean* harvest, the results of the current growth cycle (1957/58) indicate a 44 per cent decrease in relation to the preceding year. According to estimates, the volume of this crop contracted from 432 000 tons in 1956 to 240 000 in 1957. This downward movement was mainly due to the same droughts that affected maize, with which beans are frequently interspersed.

Wheat and sugar-cane were the most important among those commodities for domestic consumption of which the output substantially improved. *Wheat* production attained the unprecedented volume of 1 320 000 tons, which exceeded the previous cycle's exceptional harvest by 9 per cent. Contributory factors were the favourable conditions prevailing in the producer areas during the growth period, and the expansion of the area sown to wheat, partly in consequence of the reduction of the area under cotton in 1956. The area harvested amounted to 940 000 hectares, with an average yield of 1 400 kilogrammes per hectare, as compared with 1 280 kilogrammes in the preceding farm year.

Thanks to this expansion of wheat production, imports were completely eliminated in 1957, a development which, in combination with the abundant availabilities in the hands of the institutions responsible for regulating the supply, meant not only that the flour industry was able to obtain all the wheat it needed, but also that moderate reserves could be accumulated for the next farm year.

The *sugar* harvest also constituted a record for Mexico. Centrifugal sugar production reached an all-time peak of 1 018 000 tons, 36 per cent higher than its 1956 level. The determining factors included favourable irrigation conditions, the extension of the areas sown and harvested and the growing tendency to introduce more up-to-date farm techniques. Thanks to this expansion of production, the volume of sugar exports was more than double that recorded in the preceding year, so that the country was able to cover the international quotas assigned to it beforehand.

Up to the end of November it was estimated that the next crop cycle would witness a further production increment of approximately 8 per cent, which would bring the output up to 1.2 million tons. Results did not come up to expectations, however, owing to the damage caused by December frosts in plantations in the northern states. Even so, the outlook is promising for an expansion of sugar production. Work was recently begun on projects to raise the capacity of the existing sugar-mills, which is at present 1.3 million tons annually, to 1.6 million tons.

Among other commodities for domestic consumption on which data are available, *tobacco* and *oranges* registered increases of 10 and 9 per cent respectively. *Rice* production remained unchanged at about 235 000 tons, while that of *potatoes* declined slightly—by 2 per cent—to 175 000 tons.

Apart from the production movements reviewed, achievements in respect of irrigation and credit are deserving of mention. Projects carried out in 1957 enabled 65 902 hectares of new land to be incorporated into the total irrigated area, while in addition another 154 680 hectares were provided with improved irrigation facilities. These statistics take large and small-scale irrigation works into account. The aggregate total for the country increased by nearly 8 per cent, rising to 2.6 million hectares. Expenditure in 1957 is estimated to have totalled 545.7 million pesos, of which 350.5 million were earmarked for major and minor irrigation projects and for 500 new plans to exploit underground waters, while 197.0 million were used for other projects carried out in the Papaloapan, Tepalcatepec and Del Fuerte river basins, and elsewhere.

Loans granted by the two public agricultural credit institutions—the *Banco Nacional de Crédito Ejidal* and the *Banco Nacional de Crédito Agrícola* reached a total of 1 406 million pesos in 1957, which represented an increment of 2.4 per cent. In this respect, there is a tendency to channel credit funds towards livestock production and highly lucrative crops, such as coffee, chili peppers, bananas and sugar-cane, as well as to redistribute them in favour of the country's most productive areas. Nevertheless, cotton and maize are still the main items on the portfolio of the institutions in question.

A vigorous impetus was given to credit for livestock production in 1957 through foreign loans to a value of 10 million dollars. With these it was possible to finance imports of high-productivity dairy and beef cattle, and they were supplemented with domestically-financed credits to provide stock farms with water, fences and improved pasturage.

With reference to other special credit programmes, the *Banco Nacional de Comercio Exterior* continued to grant reconstruction loans and advances to encourage production of eggs and poultry. By means of this programme, which was initiated in 1954, domestic production replaced imports of such products to the value of 71 million pesos in 1954 and 23 million in 1957.

3. Manufactures

In 1957 manufacturing production expanded at a rate of 7 per cent, almost entirely determined by the intensive development of capital goods manufactures, which increased at a rate of 14.5 per cent, whereas manufactures of consumer goods remained at the same level as in the preceding year. This situation represented the prolongation of a trend which has been observable for years in Mexico's manufacturing industry. Between 1954 and 1957 the production goods sector expanded by 61 per cent, while that of final consumer goods registered only a 10 per cent increment. During the same period total manufacturing output rose by 29 per cent (see table 201).

This development on the part of manufacturing industry reflects the intensity of capital formation in the last ten years, and has given rise to the installation of new industries of considerable importance and to a rapid expansion of basic industries. In general terms, it has also led to the substitution of domestic production for a growing proportion of imports. The integration and diversification of the iron and steel industry has permitted the establishment of numerous iron and steel transforming industries, on which new plants for the manufacture and assembly of transport equipment, electric appliances and motors and machinery can draw for their supplies. Also worthy of note are the consolidation of the modern chemicals industry, with its increasing and diversified output, and the rapid development of the paper industry.

The broadening of markets for production goods and the strengthening and enlarging of the country's basic industrial structure have constituted the most salient characteristic of industrial development in recent years. In order to expedite this process, which is still under way, it has been necessary to solve serious problems in connexion with integration among industries themselves and even between these and the transport, energy and other sectors. As has already been pointed out, rates of growth have consequently been very low in other branches of manufacturing industry.

Table 201. Mexico: Manufacturing production indices

(1950 = 100)

	1954	*1955*	*1956*	*1957*
Total production	120.9	133.9	145.5	155.7
Consumer goods	115.3	123.9	126.4	126.8
Production goods	142.8	171.4	201.4	230.6
Pig iron	110.7	144.2	179.2	188.6
Steel	151.5	186.0	227.8	269.0
Rolled products	131.3	153.1	185.4	229.7
Cement	127.2	150.3	164.0	181.4
Sulphuric acid	245.4	291.7	366.1	418.6
Caustic soda	223.6	441.3	480.0	634.8

Source: Calculated ECLA, on the basis of official statistics and data supplied by producer enterprises.

(a) *Production goods industries*

In the course of 1957 the output of steel for the first time exceeded 1 million tons. The 1 049 500 tons produced represented an 18.1 per cent increase over the 888 400 tons registered in 1956. Nevertheless, 123 600 tons of ingots were imported, as against 53 360 in 1956, so that apparent consumption reached 1 173 100 tons, or, in other words, was 24.6 per cent higher than in the preceding year.

Estimates suggest that the output of rolled products was approximately 880 000 tons, or 23.9 per cent greater than in 1956. However, owing to the reduction of imports of rolled steel products from 318 190 tons in 1956 to 287 530 tons in 1957, the rate of growth of apparent consumption of such goods was only 13.6 per cent, bringing it up to 1 167 000 tons in 1957.

Production of pig iron registered a more moderate increase, from 407 000 to 429 000 tons (5.3 per cent), despite the fact that at the present time the industry's total annual capacity amounts to 805 000 tons, distributed among five blast furnaces, of which one, with a theoretical annual capacity of 140 000 tons, was out of service during the year for repairs and expansion. To judge from the low utilization of the capacity for production of pig iron, in conjunction with the substantial imports of scrap, which amounted to approximately 257 200 and 264 000 tons in 1956 and 1957 respectively, it would seem that a fairly significant structural maladjustment still exists in Mexico's iron and steel industry.

The country's total steel-making capacity expanded by 49 per cent, reaching 1 303 000 tons annually. In the course of the year the Monclova mill installed a fifth Siemens-Martin furnace with an annual capacity of 84 000 tons, while at Piedras Negras a steel-making furnace of the same type, with a capacity of 48 000 tons yearly, entered operation. A third mill, in the Federal District, installed a new electric furnace with a capacity of 37 500 tons.

Similarly, by the end of 1957 the seamless steel tubing plant doubled its rolling capacity to 100 000 tons annually; it will thus be able to cater for a large proportion of domestic consumption of such tubing, which is estimated at some 120 000 to 150 000 tons yearly. A steel-making department of this plant, which has hitherto been utilizing mainly imported ingots, is being installed on the basis of electric furnaces, and is expected to enter operation in the course of 1958.

Cement production pursued its rising trend, expanding by 10.6 per cent and thus reaching 2.5 million tons. This determined a 90.4 per cent utilization of capacity, which is the highest registered in recent years. Production capacity, which had been 2 787 000 tons annually at the end of 1956, remained unchanged in 1957; by the end of the latter year, however, new installations with a projected annual capacity of 1 million tons, mainly for the expansion of existing plants, were in course of construction.

Like the iron and steel industry, the heavy chemicals industry is one of those that have expanded most rapidly in recent years. In 1957 its rate of increase continued without interruption. The output of sulphuric acid rose by 14.3 per cent to 181 600 tons; that of ammonium sulphate, by 13.2 per cent to 99 200 tons; and that of caustic soda registered an exceptional increment of 32.2 per cent, thanks to an output of 34 200 tons, while production of superphosphates increased substantially to 91 900 tons, that is, by 22.3 per cent.

At the same time, a considerable expansion of production capacity was achieved in the sulphuric acid and caustic soda branches of the chemicals industry. In the former, capacity rose from 195 000 tons in 1956 to 238 000 in 1957, that is, by 22 per cent. A major contribution to this result was made by the installation of a new plant with an annual capacity of 45 000 tons, whose output will be largely utilized for the manufacture of artificial rayon fibre; and other determinants were less significant expansion projects in respect of existing plants. Capacity for the production of caustic soda was significantly increased both by the installation of several new low-capacity plants, and by the enlargement of certain existing factories. The industry's capacity therefore improved by 63.4 per cent, rising from about 25 000 to approximately 41 000 tons annually.

As has been shown, production of chemical fertilizers —ammonium sulphate and superphosphates—increased from from 189 500 to 191 000 tons between 1956 and 1957, that is, by 12.7 per cent. Apparent consumption of these fertilizers expanded at a lower rate of about 6 per cent, inasmuch as between the two years it rose from 372 500 to 395 000 tons. In 1957 imports were slightly heavier than in 1956, amounting to approximately 204 000 tons.

With a view to making Mexico's agriculture less dependent upon imported chemical fertilizers, fairly extensive expansion projects are at present being executed in this industry. The biggest chemical fertilizer plant, situated in the State of Mexico, is enlarging its daily production capacity by 150 tons of sulphuric acid and ammonium sulphate and 70 tons of superphosphate. Furthermore, a new ammonium nitrate factory, with an annual production capacity of 66 000 tons, is being built in Monclova to utilize gases from the coking plant. Both these sources of additional capacity are expected to enter operation in the course of 1958, and by 1959, when they will be producing at their normal rates, the country's total capacity, estimated at an annual figure of some 300 000 tons, will make Mexico largely self-sufficient as regards chemical fertilizers.

Two other longer-term projects exist; construction of one of these is already under way, and the implementation of the other is approved. The first consists in the installation of a triple superphosphate plant, with a daily capacity of 150 tons of sulphuric acid and phosphoric acid, in Coatzacoalcos (Puerto México). The other will be in Salamanca, and its object is the reduction of 100 tons of anhydrous ammonia daily. These two projects will enter operation in 1960-61.

Among the production goods industries on which data are available, the artificial rayon fibre industry was the only one which, for the first time in many years, reduced its output. This contraction was further characterized by a shift to different types of rayon products. Thus, in the viscose rayon sector, the production of high-tenacity cord for tyres, embarked upon for the first time in Mexico in 1955, expanded by 9.5 per cent, and that of continuous filament increased by 25 per cent, while the output of short fibre was cut down considerably. With respect to rayon acetate, production of short fibre more than trebled, while that of continuous filament very substantially contracted.

Data supplied by the National Chamber of Paper Industries *(Cámara Nacional de las Industrias del Papel)* show that in 1957 production in this industry continued to expand, very large increments being obtained in respect of board (57.9 per cent) and printing and writing paper (32.8 per cent), while for kraft a more modest increase (14.9 per cent) was achieved. During the year the new pulp mill in the State of Chihuahua, which had entered production on an experimental basis in January 1956, began to produce at a normal rate, utilizing approximately 70 per cent of its 48 000-ton production capacity.

Similarly, progress was made in the construction of Mexico's first newsprint factory, which will be situated in Tuxtepec (Oaxaca) and will have an annual production capacity of 30 000 tons of mechanical paste and 35 000 tons of newsprint. This plant, whose output will satisfy about 50 per cent of Mexico's consumption of newsprint, is expected to enter operation towards the end of 1958.

Another longer-term project is that of installing a further newsprint factory near Uruapan (Michoacán), with an annual production capacity of 35 000 tons of mechanical paste, 40 000 tons of newsprint and 32 000 tons of sulphate pulp.

(b) *Final consumer goods industries*

With the exception of the cotton textile industry, which is one of the most important in the country from the standpoint of employment, the production of most of those final consumer goods industries on which data are available remained more or less stationary in 1957.

According to data published by the *Banco de México,* the output of cotton textiles was 4 per cent larger than in 1956. In contrast, that of artificial fibre textiles declined by about 14 per cent in 1957, to judge by apparent consumption of fibre.

Production of tyres for automobiles and lorries made no progress in 1957; neither did that of beer and vegetable oils. The output of tinned foodstuffs contracted by 7.6 per cent. In the tobacco industry an expansion of barely 1.2 per cent was registered.

4. Mining

(a) *Production*

Mining activities expanded by about 6.5 per cent in 1957, thus regaining the ground lost in the previous year (see table 202). The rate of growth was 6.3 per cent for precious ores and 6.5 per cent for industrial ores.

Table 202. Mexico: Mining production indices

(1950 = 100)

	1954	1955	1956	1957
Total	97.8	113.9	110.8	118.0
Lead	91.0	88.5	83.8	90.3
Copper	88.8	88.6	89.0	98.4
Zinc	100.1	120.5	111.4	108.7
Silver	81.2	97.5	87.6	95.9
Sulphur	1 009.6	4 265.2	6 947.5	9 615.3

Source: Calculated by ECLA, on the basis of data supplied by the Ministry of Economy, Department of Mines and Petroleum *(Dirección de Minas y Petróleo)*.

The output of gold declined from 11 to 10.8 tons and that of silver rose from 1 340 to 1 467 tons. As regards the main industrial metals for export, production of lead increased by 7.7 per cent, rising to 214 900 tons, and that of copper by 11.6 per cent, reaching 60 700 tons; while the output of zinc contracted by 2.4 per cent to 243 000 tons. In the course of the year, 167 800 tons of lead, 55 500 tons of copper and 164 300 tons of zinc were exported. These figures represented an increment of over 10 per cent in the volume of lead exports, and decreases of 28 per cent for copper and 9 per cent for zinc.

Sulphur production continued to follow a sharp upward trend, reaching a level of over 1 million tons in 1957, which was 36.5 per cent above the 775 200 tons obtained in the preceding year. Of this output 94 per cent, or 1 008 800 tons, were mined in the Isthmus of Tehuantepec, and the remainder was obtained from the Huascamá mine and the Poza Rica desulphurizing plant belonging to *Petróleos Mexicanos*. The rate of growth of Mexico's sulphur production has been exceptionally high in the last 4 years. The output in 1957 was almost ten times as great as in 1954, in which year exploitation of the Isthmus deposits had been initiated, and 115 000 tons had been produced.

Other minerals which registered production increments of some significance were manganese, antimony and mercury. The output of manganese increased by 28.7 per cent, reaching 79 700 tons; that of antimony by 13.9 per cent, which raised it to 5 200 tons; and that of mercury by 8 per cent, so that it amounted to 726 tons. Only a very slight expansion—from 1 408 100 tons in 1956 to 1 420 800 tons in 1957—was achieved for coal.

(b) *Development policy*

Since the beginning of 1956, when the new Mining Taxation and Development Act *(Ley de Impuestos y Fomento a la Minería)* was brought into force, Government policy has been aimed at the development of this vitally important branch of the national economy. Under this Act a system of fiscal arrangements and subsidies was set up with the object of creating an atmosphere favourable to new investment, facilitating production on the basis of capital already invested and granting special treatment to small and medium-scale producers, most of whom operate with domestic capital.

These measures were motivated partly by the importance attaching to mining within the Mexican economy. In 1957 the chief export commodities of mining origin—silver, copper, lead, zinc, sulphur and cadmium—accounted for about 23 per cent of the total value of exports, and mining contributed nearly 3 per cent of the national product.

Besides the mining production movements reviewed, the additions to refining capacity installed in the course of the year, though relatively small, are deserving of mention. They comprised eight plants for the joint processing of copper, zinc and silver ores, with a total daily capacity of 815 tons. The most important of these are at Coahuila (250 tons), Sinaloa (150 tons), Nayarit and Veracruz (100 tons each).

5. Electric energy

(a) *Generation*

The rate of growth of consumption of electric energy was lower in 1957 than in previous years, partly because industrial demand also expanded more slowly. The electric energy generated amounted to 8.4 million kWh, which represented an 8 per cent increase over 1956. This increment was smaller than those recorded in the three previous years, which had fluctuated between 10.2 and 12.2 per cent. At the same time a reduction was registered in the water reserves of the hydroelectric systems and in generation from hydraulic sources, which dropped from 4.2 million kWh in 1956 to 3.7 million in 1957.

In face of the possibility that this decline in hydraulic production might cause an electricity shortage, the principal public utility enterprise in the central zone of Mexico adopted emergency measures, putting into operation in November 1957 a mobile thermo-electric unit with a capacity of 10 000 kW. Furthermore, the entry into production of the hydroelectric plant at Tingambato, which is the largest of this type in the country, and its inter-connexion with the central grid at the end of the year, helped to relieve the shortage and avert rationing, although the water levels in its three reservoirs were low.

Several plants for private use were also inter-connected with the public service networks. At the same time the grid voltage was reduced by 5 per cent. In view of these measures, up to the end of 1957 no restrictions on distribution in the central system of inter-connexions had been established. As the annual consumption served by this network grows at such a rapid rate, 95 000 kW from thermo-electric sources are at present in course of installation, in order to ensure regular supplies in 1958.

Energy shortages were registered in various parts of the country, such as Monterrey, Zacatecas, Tampico and Guanajuato. In Monterrey inter-connexion with the Falcón reservoir did not suffice to overcome the relative scarcity, because there was not enough water; in the other places mentioned, mobile units were brought into service, or new power stations were inaugurated, as at Tampico.

In contrast, the emergency measures adopted during the last two years in Jalisco have relieved the serious energy shortage previously registered, although it is estimated that the longer-term satisfaction of demand for energy in this area will entail the construction of two hydroelectric plants which are at present projected.

(b) *Generating capacity*

In 1957, 200 781 kW were added to total electric energy generating capacity. It had stood at 2 069 411 kW in 1956, and an increment of 9.7 per cent now raised it to

2 270 192 kW. This was the largest expansion of Mexico's energy production capacity registered since 1950, as up to 1957 the peak year had been 1952, when capacity increased by 171 394 kW.

Almost the whole of the 1957 expansion was attributable to the power stations brought into operation by the Federal Electricity Commission *(Comisión Federal de Electricidad)*, including the 135 000 kW hydroelectric plant at Tingambato, which forms part of the "Miguel Alemán" hydroelectric network. With this addition, the system attained a total capacity of 366 775 kW, inter-connected with the grid belonging to the main public utility enterprise in the central zone of the country. The new plant was connected with Mexico City by a 150 000-volt transmission line 148 kilometres long. Furthermore, in 1957 the Federal Electricity Commission installed an additional 44 000 kW in various parts of the country, revised its previous calculations of capacity requirements where these had been under-estimated, and constructed 2 417 kilometres of transmission lines. In the course of the year two private enterprises also jointly installed some 13 600 kW for public utility purposes.

(c) *Projects*

The Federal Electricity Commission's plans for 1958 include the entry into operation of about 150 000 additional kW. Some of the plants to be installed will contribute to the electrification of areas in the initial stages of development, such as Oaxaca, Guerrero and Sinaloa.

The chief public utility enterprise in the central zone is completing work on the installation of the new 82 400-kW thermo-electric unit at the Lechería power station, near Mexico City, which will raise its total potential to 148 400 kW. Furthermore, 12 500 kW will be added to the existing 66 000 at the Nonoalco power station. It is expected that both these expansion projects will be completed during the first half of 1958. Total capacity in this area, which is at present 841 670 kW (if the inter-connected potential belonging to the Federal Electricity Commission is included), will then rise to 936 570 kW.

Similarly, another enterprise which supplies electricity in 17 Mexican states is constructing 10 plants in different parts of the country, with a capacity of 133 000 kW, of which approximately 100 000 kW will probably be brought into operation in the course of 1958. At present the capacity at the disposal of this enterprise is 369 700 kW.

If these programmes are fully implemented, some 350 000 additional kW will be placed at the service of the public in 1958.

6. Petroleum

(a) *Production of crudes and derivatives*

Aggregate production of crude petroleum and derivatives increased by 8.4 per cent in relation to 1956. The volume of crude petroleum extracted fell from 94.1 to 92.2 million barrels. Yet the amount of crude oils refined during the year—86.4 million barrels—was larger than in the preceding year, when only 82.1 million barrels had been subjected to refining. Moreover, total production of derivatives rose from 12.8 million cubic metres to 13.5 million (that is, by 5.4 per cent), the output of certain derivatives, some of which were of very high value, being substantially greater.

Production of high-octane petrol trebled between 1956 and 1957, and that of two other types of petrol increased by 21.2 and 22.0 per cent respectively. The output of gas and diesel oils expanded by 38.1 per cent, and that of kerosene by 27.1 per cent; 18.1 per cent more liquid propane was produced, and 13.8 per cent more lubricants.

(b) *Drilling and reserves*

The number of wells drilled decreased from 402 in 1956 to 389 in 1957; nevertheless, in the former year drillings totalled 662 578 linear metres, and in the latter 766 514 metres. Furthermore, of all the wells drilled in 1956, 266 proved productive, whereas in 1957 the number of productive wells was 275.

Reserves, according to official statistics, rose to 3 373 million barrels—2 065 of oil and 1 308 of gas in terms of petroleum equivalent. This represented a considerable increase over the preceding year.

A new oilfield yielding light crudes was discovered in the State of Veracruz early in the year, and began to produce at a rate of 19 000 barrels daily.

In August Mexico began to export natural gas from the absorption plant at Reynosa to the United States, at a daily rate of 115 million cubic feet. Such an export rate implied an annual income of 6 million dollars under this head. The contract signed with a firm of distributors in Texas provides for deliveries of up to a miximum of 200 million cubic feet of natural gas daily. At the same time, heavy imports of gas were still effected in 1957, mainly for household consumption, to a value of over 100 million pesos.

(c) *Additions to capacity*

Production of petroleum derivates expanded by 35 per cent in 1954-57, although the increment in that of crudes was only 8 per cent (see table 203). This was the result of increased investment in the expansion of refining capacity, which was channelled towards the substitution of domestic production for imports of high-value derivatives, so as to relieve the pressure exerted by these latter on the balance of payments. The enlargement of the oil-pipeline network and the tanker fleet was calculated to overcome supply difficulties in the north-west of the country, which is one of the areas where the rates of economic and demographic growth are highest.

An oil-pipeline 490 kilometres long, which runs from Tampico to Monterrey and has a daily capacity of 50 000 barrels, entered operation in 1957. At the same time a storage deposit with a capacity of 211 700 barrels was opened in Monterrey, together with the corresponding distribution plant. Two other shorter pipelines were also brought into service. One, in Tamaulipas, is 22 kilometres long and has a daily capacity of 49 000 barrels; the length of the

Table 203. Mexico: Petroleum production indices, 1954-57

(1951 = 100)

	1954	1955	1956	1957
Total	127.6	134.9	145.3	157.5
Crude petroleum	115.0	123.7	127.4	124.9
Refined products	137.9	144.0	159.8	184.1

Source: Calculated by ECLA, on the basis of data supplied by *Petróleos Mexicanos*.

other, which connects Monterrey and Reynosa, is 17 kilometres, and its daily capacity, 3 600 barrels of derivates.

The construction of the new absorption plant at Pemex City (Tabasco) was approaching completion at the end of the year, and it was expected that the plant would enter production early in 1958. Plans were also afoot to bring into operation by mid-1958 the new disintegrating unit at the Atzcapotzalco refinery in Mexico City, which will increase capacity for production of aviation spirit from 1 200 to 3 000 barrels daily.

Part III

PRESSURES ON THE BALANCE OF PAYMENTS

PRESSURES ON THE BALANCE OF PAYMENTS

INTRODUCTION

The elements constituting the balance-of-payments assets—exports of goods and services, capital inflow and terms of trade—have already been analysed in a fair amount of detail.[1] The changes in liabilities, that is, in c.i.f. imports, will be dealt with in section I of the present chapter. Fluctuations in the current account and aggregate balance of payments and their more direct causes will be studied in section II by comparing the trends of the different balance-of-payment components.

In 1957, the pressures on Latin America's external equilibrium became more serious and more numerous, particularly as regards current transactions. In general, imports increased very substantially, while the "current"[2] capacity to import either diminished or showed a slight improvement, mainly owing to the drop in export prices. The deficit in real terms was frequently aggravated by a deterioration in the terms of trade. On the other hand, larger capital inflows lessened the impact of the deficit on total external transactions, and the imbalance in the aggregate balance of payments tended to be less pronounced than in the current account. A few countries even showed a substantial surplus, although in a greater number of cases, the balance of payments registered a heavy deficit.

The fairly marked discrepancy between the evolution of the capacity to import and that of imports is, in the final issue, no more than a characteristic symptom of external disequilibrium. The real cause underlying the imbalance should be looked for in the pressure exerted by total domestic demand on the productive capacity of the country concerned. Internal conditions have already been reviewed in Part Two of the *Survey,* and it now remains to be seen such conditions combine to bring about external equilibrium or disequilibrium. This will be analysed after the description of the balance-of-payment accounts, i.e., at the end of Section II of the present chapter.

It is clear that in order to deal with the imbalance in external transactions one of the following two policies could be adopted: (*a*) the deficit could be continued and financed by the utilization of gold and foreign exchange reserves and/or the accumulation of short-term debts; or (*b*) the disequilibrium could be totally or partially eliminated. The second alternative will sooner or later have to be faced, since, for obvious reasons, the first solution cannot be applied indifinitely. From the analysis made in section III of compensatory financing of the balance-of-payments deficit, it may be inferred that several Latin American countries are arriving at the stage at which they must at any cost eliminate their respective deficits.

Experience has shown that such and objective cannot be attained simply by imposing strict controls on foreign trade, since these would affect the symptoms rather than the underlying causes of the disequilibrium. It is also patent that no country can carry a foreign debt which increases faster than its repayment capacity. In the last few years, various changes have been introduced in exchange and trade policies, all tending towards liberalization. Section IV of this chapter is an examination of these changes. Obstacles have occasionally arisen to impede the application of new measures and there are still many internal conditions in Latin America—apart from several external factors—which prevent the re-establishment of lasting equilibrium in the balance of payments.

[1] See Part One of the *Survey,* chapters II, III, and IV.

[2] A definition of this concept is to be found in Part One, chapter IV, introduction.

I. IMPORTS

1. Trends during 1947-56

In Latin America, the salient and most generalized feature of the medium-term evolution of imports at current values during the decade 1947-56 was its marked upward trend (see table 204). The one exception to the rule was Argentina, which appreciably curtailed its purchases abroad. In 11 countries—among them, Colombia, Mexico, Peru, Venezuela and the Central American republics—average annual imports in 1954-56 were over 45 per cent more than in 1947-49. In the remaining countries, the corresponding

Table 204. Latin America: Percentage variations in imports between 1947-49 and 1954-56

Country	*Percentage variations between 1947-49 and 1954-56*	
	Current prices	*Constant prices*[a]
Latin America		
A. *Countries whose imports increased more than 45 per cent at current prices*		
Colombia	100	84
Costa Rica	95	85
Dominican Republic	80	78
Ecuador	100	120
El Savador	150	140
Guatemala	70	65
Honduras	65	52
Mexico	62	40
Nicaragua	172	190
Peru	95	82
Venezuela	46	30
B. *Countries whose imports increased less than 45 per cent at current prices*		
Bolivia	10	3
Brazil	19	23
Chile	22	17
Cuba	8	15
Haiti	40	40
Panama	21	16
Paraguay	22	10
Uruguay	20	42
C. *Countries whose imports decreased*		
Argentina	— 19	— 34

Source: Official foreign trade statistics for each country.
[a] At 1950 prices.

rate of increase oscillated around 20 per cent, dropping to a minimum of 8 per cent in the case of Cuba.

Foreign purchases showed an upward trend in most of the Latin American republics, principally because of the larger volume of imports and, to a lesser degree, the rise in unit value. In Argentina, the decline in the quantum was even more marked than in current values. Nevertheless, the average unit value of imports in some countries fell, while the volume of such purchases increased more than total current value. This was the case in Brazil, Cuba and Uruguay. As already pointed out,[3] the decrease in the unit value of foreign purchases cannot by any means be considered as a faithful reflection of the over-all price evolution of exports from industrialized countries. In fact, it was primarily determined by the changes in total imports, which reduced the share of those commodities whose prices had mounted rapidly in favour of whose prices rose at comparatively slower rate.

In an earlier publication, the changes in the composition of Latin American imports from 1948-50 to 1954-55 were analysed at length.[4] Both their evolution in 1947 and information available on 1956 enabled the findings of that analysis to be applied—sometimes even more pointedly—to the period 1947-49 to 1954-56. It will be sufficient at this juncture to reproduce the most important of those findings. In countries where industrialization was under way, purchases of raw materials and consumer goods constituted increasing shares of the total, at the expense of finished and capital goods respectively. The contrary took place in other countries,[5] but since these represented less than 10 per cent of Latin America's total imports, the first-named trends were more general and characteristic.

The distribution of imports by zones of origin also changed considerably during 1947-56. The distinguishing trend was the decrease in the relative importance of the United States as a source of supply for the Latin American republics (see table 205). This decline was of greater magnitude in soft-currency countries, but also took place in those forming part of the dollar area. For instance, Chile, which has a non-convertible currency so far as trade transactions are concerned, was the only country listed in table 205 to buy a larger proportion of its imports from the United States in 1955-56 than in 1948-49.

In a great number of cases, the relative decline in the United States share of Latin American imports was matched by an expansion in purchases from Western Europe.[6] The re-appearance of the Federal Republic of Germany as a large-scale exporter of manufactured goods and importer of Latin American commodities partly explains the shift in favour of Western Europe. Other factors consisted of the competitive level attained by European prices—largely owing to the 1949 devaluations—and fairly liberal credit facilities granted by that region.[7] Thus, the advantages which the United States might have had as regards delivery dates and a more powerful trade and financial organization were more or less neutralized.

With respect to Latin America's own share of intra-regional import trade, its proportion increased appreciably in the cases of Brazil and Argentina. The converse was true of Venezuela and Peru, which considerably augmented their purchases, since their additional imports consisted mainly of machinery and durable consumer goods not produced in the region. Intra-regional trade for Latin America as a whole rose on a par with total trade and maintained its proportion of the latter at 10 per cent.

2. Trends in 1957

The tendencies observed since the end of the war in import trade have been borne out by many aspects of development in 1957. Sixteen countries increased their purchases

[3] See Part One, chapter IV, section II.

[4] See special study A in the *Economic Survey of Latin America, 1956* (E/CN.12/427/Rev. 1), United Nations publication, Sales No.: 1957.II.G.1, pp. 115 *et seq.*

[5] The "other countries" consist of Bolivia, Costa Rica, the Dominican Republic, Guatemala, Haiti, Honduras, Nicaragua, Panama and Paraguay. All the most important Latin American countries as regards population and income are included in the first group.

[6] The position of Japan also improved. See the article on "Recent developments and prospects in trade between Latin America and Japan", *Economic Bulletin for Latin America,* Vol. II, No. 1, February 1957, pp. 68 *et seq.*

[7] See Part One, chapter III, section II of the *Economic Survey of Latin America, 1954* (E/CN.12/362/Rev. 1), United Nations publication, Sales No.: 1955.II.G.I, pp. 62 *et seq.* This contains an examination of Europe's trade policy in Latin America and the latter's progress in this field.

Table 205. Latin America: Imports of selected countries by sources

(Percentage of total)

	Source					
	1948-49			1955-56		
	Latin America	*United States*	*Western Europe*	*Latin America*	*United States*	*Western Europe*
Importer countries						
Argentina	10	38	36	16	16	34
Brazil	12	47	27	16	26	31
Chile	26	42	17	22	44	28
Colombia[a]	7	71	16	2	62	26
Cuba[a]	4	81	5	3	74	12
Peru	21	54	14	7	49	34
Mexico[a]	1	86	8	1	78	14
Uruguay	24	33	30	25	17	39
Venezuela[a]	4	74	15	1	59	31
Others	8	60	30	16	57	23
Total: Latin America	10	58	23	10	49	27

Source: United Nations, *Direction of International Trade.*

[a] Countries in the dollars area.

Table 206. Latin America: Value of imports (c.i.f.) in Latin America and individual countries, 1954, 1956 and 1957

(Millions of dollars)

	Current values			Constant values (at 1950 prices)		
	1954	1956	1957[a]	1954	1956	1957[a]
Latin America	7 585	8 179	9 407	7 030	7 391	8 265
A. *Countries which imported more in 1947 than in 1956*						
Argentina	979	1 128	1 310	886	981	1 154
Brazil	1 640	1 232	1 520	1 524	1 242	1 500
Chile[b]	344	391	445	297	321	369
Costa Rica	80	91	103	73	82	89
Cuba	608	720	843	579	680	773
Dominican Republic	94	125	130	87	109	111
Ecuador	121	96	98	121	86	94
El Salvador	87	105	116	80	93	99
Guatemala	86	137	154	79	129	137
Mexico	857	1 152	1 214	779	976	1 046
Nicaragua	68	69	81	69	67	75
Panama	83	105	112	80	99	100
Paraguay	38	29	31	37	31	30
Peru	250	361	400	249	340	380
Uruguay	274	217	227	296	197	197
Venezuela	1 129	1 346	1 947	1 008	1 176	1 609
B. *Countries which imported less in 1957 than in 1956*						
Bolivia	75	92	91	74	101	88
Colombia	667	657	467	611	567	406
Haiti	48	59	52	43	55	46
Honduras	57	67	66	51	60	62

Source: Official foreign trade statistics for each country.
[a] Partial estimates.
[b] Figures for Chile's imports and exports have not been adjusted owing to the lack of data. An approximate adjustment was made of the aggregate balance-of-payments estimate, which implies that exports are rather lower and imports rather higher than the figures in the respective tables would indicate.

abroad; and of the four remaining, only one—Colombia—reduced them to any great extent. Even more significant is the fact that imports in 1957 also showed an upward trend in countries whose export levels had fallen, as, for example, Brazil, Chile, Mexico and Uruguay (see table 206). On the other hand, although the rise in the unit value of c.i.f. imports affected more countries in 1957 than in the past, the decisive factor in the evolution of imports contined to be their increase in volume, which was in some cases stimulated by a liberalization of trade policy.

Such was the case in Chile. In spite of several years of direct controls, Chilean imports have risen steadily since 1950 in so far as restrictions permitted them. In 1951, they were 30 per cent larger than in the preceding year, and have subsequently remained above that level. In 1957, they showed a fresh increment of 12 per cent, which led to serious difficulties in the balance of payments owing to a reduction in export earnings.

In Brazil and Uruguay, the 1957 increment in imports followed on the heels of heavy reductions of some 25 per cent in the two previous years. Even in 1957, imports were not able to recover their 1954 level. Mexico's imports rose by only 7 per cent in 1957, chiefly owing to greater industrial investment, translated into increments of 24 and 10 million dollars in imports of industrial machinery and iron and steel scrap respectively. A purely circumstantial factor —the poor maize harvest—imposed an additional burden of 33 million dollars for imports of this grain.

The trends observed throughout the decade 1947-56 underwent changes in 1957 in a number of countries. The changes were slight in Bolivia, Honduras and Panama but in others were quite marked. In Argentina, for example, imports which had contracted considerably in all years since 1949, except 1951, increased in 1957 by 16 per cent as compared with 1956, but they still remained well below the level—in current values—of 1948 or 1951. The change in economic policy which occurred at the end of 1955 and the consequent relative liberalization of foreign trade, together with the rise in the cost of petroleum, were responsible for the increase in Argentina imports in 1957 which had already begun in 1956. It led to easier and more ample supplies from abroad particularly of machinery, raw materials and intermediate goods.

Also in Colombia there were important changes which affected import movements in 1957 but they followed a trend opposite to that in Argentina. As compared with 1956, Colombian exports fell by 14 per cent, their total current value being barely higher than that of 1952. This decline was not accompanied by a proportionate reduction in current income. In fact, it was engineered deliberately in order to obtain a surplus which could be used to repay some of the trade debts formerly contracted as a result of large-scale foreign buying. On the other hand, the fall in Haitian imports is largely attributable to the export decline in 1957.

As may be seen from table 207, a series of sweeping cut were made in maritime freight rates during 1957, except on the regular cargo lines. At the beginning of the

Table 207. Index of selected maritime freights

(Norwegian index, 1953 = 100)

	1954	1955	1956	1956		1957				1957
				III quarter	IV quarter	I quarter	II quarter	III quarter	IV quarter	
Tramps	106	148	174	177	194	192	151	120	105	142
Tankers	91	132	249	228	407	408	128	73	59	167
Time charters	117	205	288	289	341	334	223	137	118	203

Source: International Financial Statistics and International Monetary Fund.

year, rates were very high, especially for tankers, owing to the rise in prices set off by the Suez crisis. Once conditions in the Middle East had returned to normal, the upward trend rapidly changed to a downward movement. Furthermore, from the second quarter of the year, maritime freight rates for tramps and tankers sank to a much lower level than in the third quarter of 1956, i.e., before the Suez crisis. Finally, the annual average of these rates was considerably below that recorded in 1956. Regular cargo line rates did not follow the same pattern, but the rise was in general quite moderate: only in isolated cases—for instance, freight charges for machinery carried between New York and the west coast of Latin America—was it as much as 10 per cent.

The fluctuations in maritime freight charges during 1957 had striking repercussions on the aggregate and unit values of c.i.f imports in each quarter. Yet the effect of the high rates in force during the first few months of the year seems to have been counterbalanced very often by the decline in the second half of 1957. In most cases, the cost of transport during the year as a whole showed no great variation from its 1956 level. It was only in Argentina and Brazil, which import large quantities of fuel, and in Chile, which was affected by a re-adjustment of conference rates, that the rise in freight charges was apparently instrumental in causing an over-all increase in c.i.f. imports.

Information about the import breakdown in 1957 was slight at the time when this report was being prepared. However, it may be stated that in Mexico the share of consumer goods increased although, as already explained, this was the result of unusual maize purchases. In the other countries, the most general trend was in the opposite direction, namely, towards a relative increase in imports of capital goods, which represents to a certain extent a change as compared with previous years (see table 208). In this connexion, it should be stressed that medium-term loans from abroad expanded in 1957 and it is precisely these which can be utilized most effectively in order to import machinery.

Table 208. Latin America: Relative magnitude of capital goods imports in selected countries

Country	*Percentage ratio of capital goods imports to total imports*	
	1956	1957
Argentina	27	30
Brazil	26	37
Chile	38	43
Mexico	40	34
Peru	36	36
Venezuela	53	62

Source: Official foreign trade statistics for each country.

Table 209. Latin America: Share in total of imports from the United States (c.i.f.)

(Millions of dollars)

	1955	1956	1957
Imports from United States	3 624	4 196	5 040
Total imports	7 529	8 179	9 407
Ratio of imports from United States to total	48	51	54

Sources: Foreign trade statistics for Latin American countries, and data in the *Survey of current business*, March 1957 and March 1958.

To judge by partial data the breakdown of imports according to their origin has often followed a trend contrary to that which had predominated in the recent past. The share of the United States has gone up (see table 209), while that of Japan and Latin America itself has gone down.[8] Undoubtedly, the very marked increase in Venezuelan purchases, of which traditionally a large percentage came from the United States, played a major role in these changes. Furthermore, the stationary trend in imports from Latin America itself largely reflects the standstill in trade between Argentina and Chile consequent upon temporary exchange difficulties. The increasing volume of United States surpluses of wheat, cotton, etc. sold to Latin America must be considered as one of the factors which have contributed to the relative progress made by imports from this source at the expense of those from other parts of Latin America.

II. PRESSURES ON EXTERNAL EQUILIBRIUM

1. CHANGES IN THE CURRENT ACCOUNT AND BALANCE OF PAYMENTS

(a) *Trends during the period 1947-56*

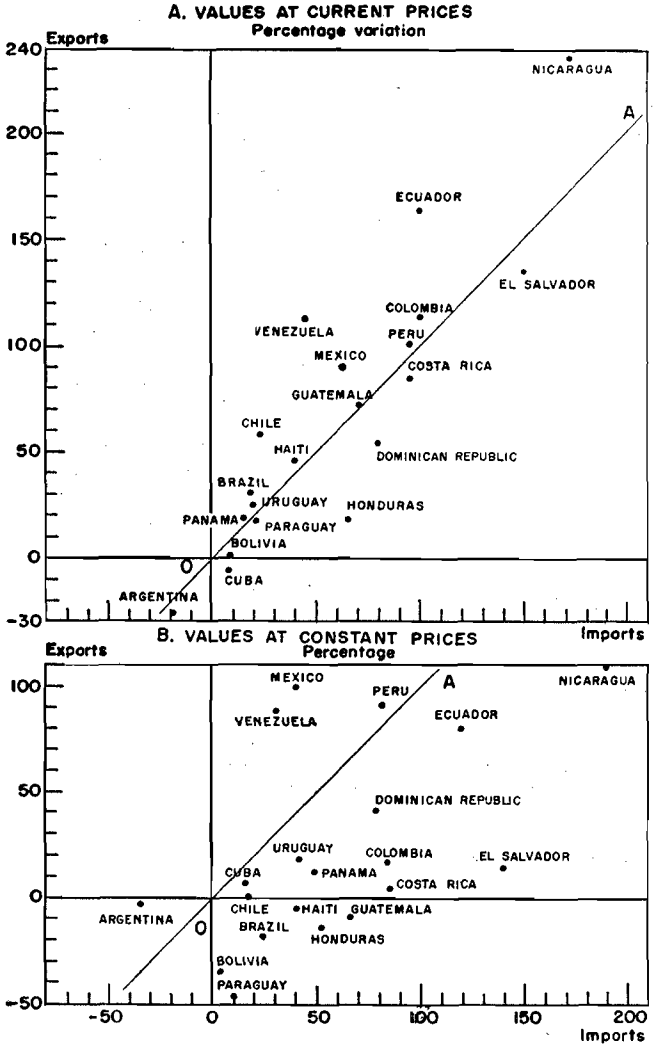
Although the movements of capital and, to a less extent, of services have played an increasingly important role in the balance of payments since the war, exports and imports continue to be by far the most significant foreign transac-

[8] Apparently, there has been no appreciable change in the share of imports from Europe. While direct information is lacking, provisional data are available on exports from the industrial countries. A comparison of the values for the first nine months reveals the following fluctuations in 1957 with respect to 1956: exports to Latin America from the United States: + 22.5 per cent; from eight European countries (Belgium, Federal Republic of Germany, France, Italy, Netherlands, Sweden, Switzerland and United Kingdom): + 22.4 per cent; from Canada: + 45.8 per cent; from Japan: — 14.9 per cent.

Figure XV

LATIN AMERICA: FLUCTUATIONS IN EXPORTS AND IMPORTS BY COUNTRIES, 1954-56/1947-49

Natural scale



tions in Latin America. It may be said that the levels and trends of exports and imports occupy the first place among, the most direct causes of external equilibrium or disequilibrium.

During the decade 1947-56, the current value of merchandise sales abroad tended to grow at a slightly or appreciable higher rate than the value of imports in 12 Latin American countries, i.e the majority (see figure XV, part A). The opposite occurred in six republics, mainly in Central America. On the other hand, only in Argentina did both exports and imports decline between 1947-49 and 1954-56 while Cuba is the only case where a decrease in sales coincided with an increase in purchases. Moreover, in figure XV it will be seen that many countries are situated close to the straight line OA, i.e., the dotted line corresponding to an increase or a decrease of equal proportions for exports and imports.[9] Thus there was a fairly close correlation between the credit and debit movements in current values in the merchandise account, although the former tended to evolve more favourably than the latter.

In terms of constant values, the conclusions to be derived from the analysis of foreign trade movements are quite different and sometimes completely opposed to those described in the previous paragraph. As may be seen in figure XV, part B, only in Mexico, Peru and Venezuela did the volume of exports expand more rapidly than that of imports. In the other countries, excluding Argentina, the increase in the volume of foreign purchases was much greater than that of sales or was accompanied by a decline in sales. Thus, while exports tended to represent a larger proportion of the current value of total trade, their share in the volume of such trade declined, while the share of imports correspondingly rose. The large discrepancy between the evolution of the physical structure of total foreign trade and that of its breakdown in current values is attributable to the improvement in the terms of trade between 1947-49 and 1954-56. Two cases—that of Chile and of Brazil—are particularly good examples. In 1954-56, Chile sold approximately the same amount of goods as in 1947-49. Nevertheless, in spite of the increased volume of its purchases, its exports in current values increased much more rapidly than its imports as a result of the rise in copper prices during this period. In Brazil, the export volume contracted appreciably between 1947-49 and 1954-56 but, on the other hand, as a result of the remarkable increase in the price of coffee, it received more foreign exchange. Hence, it could import more intermediate goods and fuels since the rise in the prices of such commodities was much less than that of coffee. But in some countries the terms of trade deteriorated considerably and had an unfavourable effect on total trade resources and the import quantum. The combined effect of the decrease in wheat and wool prices and the gradual rise in those of manufactured goods meant that Argentina had to reduce its import quantum to an extent much greater than the decline in the volume of its foreign sales in order to maintain a certain harmony between export and import trends. In Cuba, the increase in the export quantum was not enough to offset the depressive effects of the fall in sugar prices on the current value of exports (see again figure XV, parts A and B).

Although in most cases, thanks to the favourable behaviour of the terms of trade, trade receipts at current values registered a more intensive increment than expenditure between 1947-49 and 1954-56, this does not imply that all pressure was withdrawn from the merchandise account. In actual fact, pressure continued to be exerted in several countries—Brazil, Chile, Ecuador and Uruguay—but its effects were moderated by the strengthening of import restrictions, i.e., effective purchases fell progressively behind potential requirements. Moreover, the fact that the volume of imports frequently surpassed that of exports indicates that expansions in the physical productive capacity tended to lag behind the rate of growth of consumption and real investment. Demand was prevented from exercising undue pressure on total supply by an improvement in the terms of trade which led to a more rapid increment in availabilities than in the national product. Nevertheless, this situation rested on a very tenuous basis, since it was largely due to the exceptional rise in world market prices for some primary commodities.

As regards the evolution of the balance of payments, it is clear that the respective variations in current exports and imports have no special significance in themselves.

[9] The scale for both axes are the same and the straight line OA bisects the right angle between them.

They should rather be considered in relation to the situation prevailing at the outset of the period under review and linked to the movements affecting other external transactions, i.e., income and expenditure on services, and capital inflow.

In 1947-49, the trade balances of half the Latin American republics nearly always showed a sizeable deficit (see table 210). The remaining countries, except Cuba and Venezuela, registered very small profits. Mainly owing to the tendency of their current exports to increase more than their imports, 11 countries' current accounts in 1954-56 had either less unfavourable or more favourable balance than in 1947-49. This improvement was not, however, significant except in the cases of Brazil, Chile, and especially Venezuela. There were fewer instances of a deterioration, but each was of greater magnitude. For example, the trade balance showed a serious falling-off in Argentina, Colombia and Peru. In fact, it may be asserted that the number of countries with a negative balance in their current accounts was exactly the same in 1954-56 as in 1947-49.

There is no doubt that the movements of foreign trade and of the balance of payments show certain similarities (see again table 210). The balance of payments was more favourable in ten Latin American republics but deteriorated in the other ten. Yet on several occasions the changes in the aggregate balance of payments differed widely from those in the trade balance, that is to say, the movements of external transactions, excluding those dealing with goods, had a notable influence on the former. In Brazil and Mexico, the balance of payments improved more than the situation of the merchandise account, as a result of increased capital inflows and an unusually large income from the tourist industries respectively. Argentina, and Peru in particular, were able to finance part of the growing deficit in their trade balances by means of medium-term foreign credits. The aggregate balance of payments followed a less favourable course in other countries than the merchandise account. This was true of Venezuela, where remittances of profits by petroleum companies absorbed a large proportion of the enormous trade surplus.

Although the balance of payments improved in ten countries, the ratio of gold and foreign exchange reserves to imports was higher in 1954-56 than in 1947-49 in only six. The case of Mexico, as described in table 210, provides the best illustration of this. In the other Latin America republics, the relevant ratio showed a sharp overall drop, whether because the balance-of-payments deficit —although lowered—had not been totally eliminated, or because the external disequilibrium had become progres-

Table 210. Latin America: Balances on merchandise account and total balance-of-payments accounts and ratio between gold and foreign exchange reserves and import (c.i.f.), 1947-49 and 1954-56

(Annual averages in millions of dollars)

	Balance on merchandise account		*Total balance of payments*		*Gold and foreign exchange reserves expressed in months of imports*	
	1947-49	1954-56	1947-49	1954-56	1947-49	1954-56
Countries whose balance on current account increased between 1947-49 and 1954-56						
Brazil	— 19	100	— 90	70	7	2
Chile	21	119	— 9	7	3	2
Ecuador	— 15	— 5	— 15	— 24	6	4
El Salvador	7	13	4	— 1	10	6
Guatemala	1	3	0	1	9	6
Haiti[a]	1	1	7	8	3	3
Mexico[a]	—153	—137	— 9	95	3	5
Nicaragua	— 6	— 4	— 10	— 9	4	2
Paraguay[a]	3	3	2	2	3	4
Uruguay	— 23	— 16	4	— 35	15	9
Venezuela[a]	147	813	119	186	6	7
Countries whose balance on current account decreased between 1947-49 and 1954-56						
Argentina	— 53	—126	— 17	— 62	6	4
Bolivia	12	8	— 16	— 10	5	2
Colombia	— 34	— 49	— 30	— 74	4	4
Costa Rica[a]	— 4	— 10	— 3	— 7	2	3
Cuba	133	51	110	61	14	10
Dominican Republic	16	9	14	—	6	5
Honduras[a]	14	— 3	— 4	— 9	4	4
Panama	— 40	— 47	8	— 13	8	6
Peru	— 11	— 27	— 10	— 6	4	3

Source: Official foreign trade statistics for each country, and International Monetary Fund, *Balance of Payments Yearbooks*.

[a] Countries in which the proportion of imports covered by gold and foreign exchange reserves rose between 1947-49 and 1954-56. In the case of Haiti and Honduras, the increase was less than one month's imports.

sively worse. In addition, the surplus shown by the balance of payments in some countries in 1954-56 was in complete contrast to the situation in 1950-53. For example, Chile, and more particularly Brazil, showed large deficits in that period, and were forced to draw extensively on their international reserves to finance them. The positive balance registered in 1954-56 was not the consequence of a natural tendency for the capacity to import to increase more rapidly than import requirements. The principal factor was a reduction in foreign purchases which was obtained by means of increasingly stringent direct and indirect controls. It was hoped that such restrictions would lead to just such a trade surplus as would serve to reconstitute, at least in part, the country's gold and foreign exchange holdings.

(b) *Balance-of-payments situation in 1957*

During 1957, the volume of imports continued to increase much more rapidly than that of exports in most of the Latin American countries. As the terms of trade concurrently deteriorated, the value of exports in a good many countries, in contrast to its 1947-56 trend, rose slowly or declined, while that of purchases rose by leaps and bounds. Even in Venezuela, where exports easily surpassed their 1956 figure, the rate of growth of imports was still more rapid.

As a result of the drop in prices for a number of primary commodities, the medium-term trends of the merchandise account in the post-war period were frequently reversed. The rise in the current value of exports lagged behind that of imports for several years, but from 1955 onwards, and especially in 1957, its relative slowness tended to become accentuated and generalized. In some cases, such as that of Mexico, an expansion in income from services.[10] helped to counterbalance the influence of unfavourable foreign trade movements on the current account. On the contrary, remittances of interest and profits by other countries, particularly Argentina and Brazil, tended to increase, thereby enhancing the adverse effects of the trade deficit.

It may be observed from table 211 that the ratio of the current account balance to c.i.f. imports deteriorated in every country except Colombia where the industrial sector is relatively very important within the national economy and registered—and is sometimes still registering—intensive development.[11] This constitutes further proof of Latin American economic vulnerability to external factors. Such vulnerability was, to a much greater and more specific extent, the result of a decline in the expansion of exports than to demand for imported goods, and was therefore conditioned by fluctuations in export prices, which were more marked than those of imports. To put this in another way, the domestic resources of the countries concerned became more and more incapable of maintaining external equilibrium. Colombia appears to be an exception to the rule, but its imports in 1957 were not truly representative of the country's requirements, since, as was already pointed out, they were cut down rigorously in order to help reimburse part of the debts accumulated in previous years.

On the whole, the evolution of the aggregate balance of payments was less unfavourable and, it may even be said, more favourable than that of the current account. Although its exports dropped, Colombia was one of the ten Latin American countries whose balance of payments was more favourable in 1957 than in 1956 (see table 212). Nevertheless, it should be noted that Colombia's surplus was not only due to a reduction in its imports but also to consolidation loans which enabled it to lessen its amortization payments. The increased financial income enjoyed by Venezuela was a decisive factor in the highly favourable evolution of its balance of payments, since the increment was more than enough to offset the heavy deficit registered in the current account for the first time in many years. Capital movements also played a very important part in four out of the remaining eight cases in which aggregate external transactions continued to be stable or showed a profit; this was especially evident in the cases of Guatemala and Nicaragua.

The role of foreign capital was even more striking in the countries whose balance-of-payments situation either deteriorated or was consistently difficult in 1957. If the respective situations of the current account and aggregate balance of payments are compared, the favourable influence of financial income was particularly clear and far-reaching in Argentina, Brazil, Mexico and Peru (see again table 212). For instance, foreign capital financed half of Argentina's current deficit, and so much capital entered Brazil that the total balance-of-payments deficit was less than 158 million dollar, whereas the gap between the country's income from exports of goods and services, on the one hand, and its expenditure, on the other, exceeded 345 million dollars.

With respect to the evolution of the balance of payments by monetary zones, the aggravation of the over-all disequilibrium tended to derive from relations with the dollar area. Data on each Latin American country or on the whole of the zone in question are not yet available, but the trend referred to can be clearly distinguished from an examination of Latin America's preliminary balance of payments with the United States. These transactions were virtually stable in 1956, but showed a deficit of almost 550 million dollars against Latin America in 1957. If Venezuela, which had an ample surplus, is excluded, this deficit may be estimated at some 800 million dollars, i.e. 15 per cent of Latin America's imports from the United States. The main factor behind the accentuated imbalance in transactions with the dollar zone was the heavy increase in

[10] Especially the tourist industry.

[11] This ratio, which had hitherto been positive, became strikingly negative on many occasions in 1957. This meant that an increasingly large share of imports could not be financed from current income.

Table 211. Latin America: Percentage relationship between the balance on current account and imports c.i.f. in selected countries

	1954	*1956*	*1957*
Argentina	— 6	—16	—26
Brazil	—14	4	—17
Chile	—13	— 5	—30
Colombia	— 1	—11	3
Cuba	— 9	— 9	—11
Mexico	— 9	— 7	—20
Peru	— 9	—18	—24
Uruguay	—13	1	—33
Venezuela	— 1	2	—18
Latin American	— 6	— 6	—17

Source: International Monetary Fund, *Balance of Payments Yearbooks.*

Table 212. Latin America: Balance on currency account and total balance of payments in 1954, 1956 and 1957

(Millions of dollars)

	Balance on current account			Total balance of payments		
	1954	1956[a]	1957[a]	1954	1956[a]	1957[a]
Latin America	−490	−470	−1 598	− 97	580	− 32
A. *Countries whose balance of payments improved or continued to show a surplus in 1957*						
Colombia	− 46	− 74	12	+ 15	− 61	+131
Costa Rica	− 1	− 19	− 8	− 2	− 13	1
Dominican Republic	21	− 5	31	16	− 2	5
Ecuador	− 13	− 8	8	2	− 4	12
El Salvador	8	− 6	28	3	− 5	6
Guatemala	0	− 22	− 43	− 3	8	4
Honduras	− 12	− 5	− 6	− 7	− 3	− 2
Nicaragua	− 12	− 10	− 23	− 2	− 10	6
Paraguay	− 3	3	1	− 5	4	1
Venezuela	− 8	31	− 343	− 1	414	420
B. *Countries whose balance of payments deteriorated or continued to show a deficit in 1957*						
Argentina	58	−184	− 336	85	− 49	−191
Bolivia	− 14	− 19	− 24	5	− 3	− 3
Brazil	−223	65	− 347	−125	198	−158
Chile[b]	− 44	− 15	− 135	− 12	− 4	− 71
Cuba	− 73	− 61	− 87	− 30	− 11	− 40
Haiti	5	− 4	− 18	3	− 1	− 21
Mexico	− 79	− 83	− 241	− 19	97	− 31
Panama	3	10	7	− 3	12	− 13
Peru	− 22	− 64	− 97	12	− 4	− 33
Uruguay	− 35	—	− 76	− 29	16	− 55

Source: International Monetary Fund, *Balance of Payments Yearbooks*, and official statistics for each country.
[a] Partial estimates.
[b] See table 3, footnote.

imports, accompanied by stagnation and an occasional drop in exports. On the other hand, the position of creditor, which Latin America had enjoyed with other parts of the world in 1956, underwent little change.[12]

To sum up, the disequilibrium in trade in goods and services expressed in real terms was accentuated in 1957. The current capacity to import in terms of volume either remained at a standstill or showed a slight increase, while the volume of effective purchases abroad continued to expand rapidly. The imbalance is not of recent origin, and persisted during 1947-56 without creating any special difficulties for current transactions, thanks to an improvement in the terms of trade. When the terms of trade deteriorated in 1957 and the deficit in real terms simultaneously increased, the current account suffered a *débâcle*. However capital receipts mounted in a good many countries and the total capacity to import was re-inforced slightly. In this way, a credit balance was produced and overwhelming pressure on the total balance of payments was avoided.

The utilization of foreign capital therefore tended to replace the introduction of high export prices as a means of keeping the volume of imports at a substantial level. This new solution, which was imposed by the disappearance of the once exceptionally favourable but transitory market for primary commodities, has the limitations and characteristics of any type of borrowing: the amount of foreign capital available is dependent upon the lenders' possibilities and the debtor country's capacity for repayment. Experience has shown that the transfer of interest and above all, the remittance of profits, leads to a heavy and ever-increasing outlay of foreign exchange.

2. Internal factors contributing to external disequilibrium

(a) *Chronic causes of disequilibrium*

As pointed out above, the trend towards an increase in the import quantum of goods and services which is greater than that in the quantum exported indicates that productive capacity is growing more slowly than consumption and total investment. If the terms of trade take an unfavourable turn and if no net contribution of capital is received from abroad, the problem of the deficit in the balance of payments derives in the final analysis from the inability of the domestic product to satisfy national needs. In the long run, if the external disequilibrium is to be eliminated, internal pressures of demand upon supply must be removed.

Such pressures are likely to occur in any country. For example, a series of inaccurate forecasts of long-term trends in the consumption of energy may lead to bottlenecks in certain sectors. However, the disequilibrium be-

[12] It should be emphasized that this observations is applicable only to Latin America as a whole. Although data are lacking, it may be said that the situation of the different countries in the region varied in each case.

tween demand and supply is, for various reasons, much commoner and deeper in less advanced areas which are in the process of economic and social development. In the first place, the structure of production, being still somewhat inflexible, is slow to adopt itself to changes affecting the pattern of consumption and investment consequent upon increased income.[13] Furthermore, through lack of savings, especially transferable savings, the formation of basic social capital lags behind and bottlenecks tend to multiply as the process of urbanization is accelerated. Finally, in the under-developed countries, the measures taken to reduce domestic consumption often lead to a stagnation or a decline in total output instead of producing an increase in exports or a decrease in imports. Either world markets cannot immediately absorb a larger quantity of exports or goods normally imported cannot be produced domestically within a reasonable period of time.

Consequently, in most Latin American countries, the external disequilibrium has tended to worsen in real terms during the decade 1947-56. Of course, many countries have attained a fairly rapid rate of industrialization and, in particular, have succeeded in replacing various commodities which formerly were bought abroad. But the rate of saving has generally remained low and, except in Mexico and Brazil, efforts have been mainly directed towards the replacement of industrial consumer goods, both durable and non-durable. Hence, imports of foodstuffs, raw materials and fuels have risen considerably. At the same time, an increasingly small proportion of foreign resources, which in any case are inadequate, has been used to finance imports of capital goods needed to avoid bottlenecks in the basic sectors as well as to impart greater flexibility and balance to economic development.

Again, in certain countries official economic policy has led to stagnation in the export sectors—mainly agriculture—or to a marked decline in their tempo of growth, while encouraging indirectly the domestic consumption of goods produced by these sectors. In several cases, inflation and its usual corollary, monetary over-valuation, has discouraged foreign sales and stimulated imports.

While external disequilibrium expressed in real terms worsened throughout most of Latin America, a different trend occurred in Mexico, Peru and Venezuela. The volume of their imports grew at a slower rate than their exports, thus reflecting the tendency of productive capacity to expand more rapidly than aggregate real demand. Common factors which contributed to this trend in the three countries mentioned included (*a*) the hight rate of savings and investment resulting from the maintenance of a fairly uneven distribution of income,[14] the encouragement of foreign capital and/or financial policy; and (*b*) the priority assigned as a matter of economic policy to the development of exports by means of exchange and credit measures, even at the expense of domestic consumption. There were, of course, other reasons peculiar to each of these three countries. Mexico, for example, experienced a boom in the tourist industry, which may be considered to a large extent as a natural resource and for which there is a rapidly rising demand in the United States. In Venezuela, the discovery and rapid exploitation of petroleum deposits, which are considerable both in absolute terms and in relation to the country's economic and social development, perhaps exerted a greater influence than the factors already mentioned. Furthermore, unlike other primary commodities, petroleum seems to have benefited from very elastic—if not virtually unlimited—markets.

Although, in Argentina, the volume of imports declined more than that of exports, pressures of demand on supply were still felt. Actually, in 1947-49 the decline in productive capacity, as compared with total domestic consumption and investment, was very marked and was reflected in a heavy foreign trade deficit.[15] Subsequently, the deterioration in the terms of trade, together with the decrease in export balances, made it essential to reduce foreign purchases. Yet, as a result of internal pressures, this reduction was not sufficient to re-establish external equilibrium. Furthermore, as these pressures were attributable to surplus current expenditure and not to excess investment demand, the share of imports of raw materials and fuels (mostly for the consumer goods industry) in total foreign purchases increased. At the same time, the decline in imports of capital goods was so great, both in absolute and relative terms, that the total amount of real investment in production equipment fell by nearly 20 per cent between 1948-50 and 1954-55. Consequently, productive capacity stagnated, bottlenecks in basic sectors multiplied and import needs increased considerably. The decrease in the volume of effective imports contrasted with the rising trend in potential demand and was due to very strict rationing of foreign purchases.

(b) *Experience in 1957*

The disequilibrium in real terms between exports and imports, which affected many Latin American countries, became worse during 1957 in spite of the increase in exportable production which was often reflected in a greater volume of foreign sales. While, in Venezuela, the amount of petroleum extracted increased considerably, there was a considerable improvement in wheat and linseed crops in Argentina,[16] of sugar in Cuba and Peru, and of coffee in Brazil and Costa Rica. Although less marked, the progress made in copper production in Chile is also worthy of mention.

The fact that import demand and the effective import quantum often grew very rapidly, and in any case at a greater rate than exports, may seem somewhat paradoxical at first sight. Internal pressures on the supply of consumer goods tended to decrease as a result either of the decline in unit and/or aggregate income from the export sector (as in Argentina, Brazil and Mexico) or of the impact of anti-inflationary measures applied in such countries as Bolivia and Chile. Generally speaking, the ratio between imports and gross income rose steeply during 1957 in some of the economically most important countries of the continent, except in Colombia.[17] This rise was particularly

[13] See at the end of this volume the *Special study on trade in agricultural commodities in Latin America,* which outlines the present deficiences in the contribution of agricultural output to the dynamic process of Latin American economic development.

[14] The distribution has tended to become less uneven in recent years and, at the same time, certain pressures on the balance of payments have become apparent.

[15] In 1947 mainly; the deficit was also attributable to purchases made to satisfy import needs which had formerly been postponed as the result of the war.

[16] On the other hand, bad weather caused a partial failure of the maize crop in Argentina.

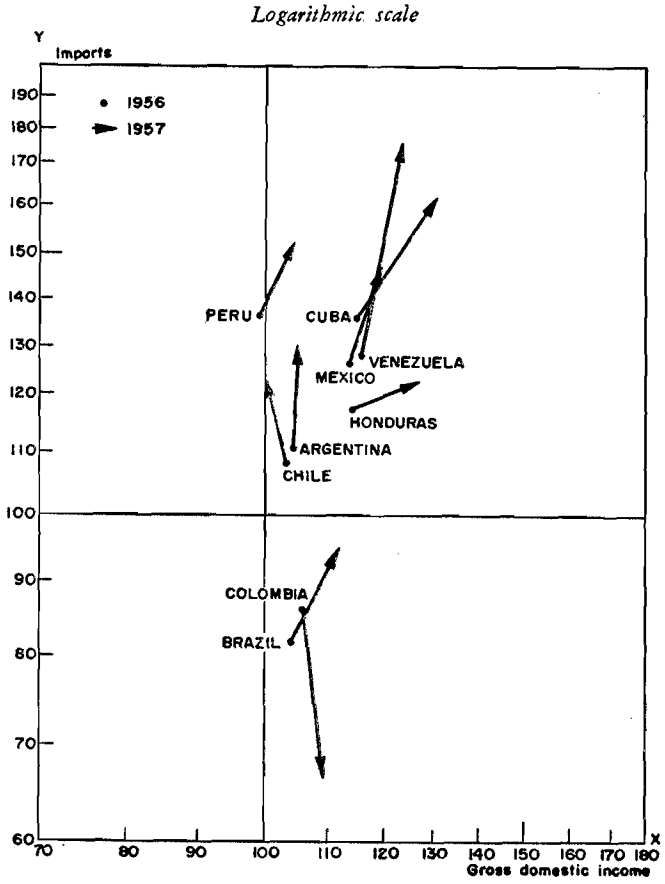
[17] As already stated, the drop in Colombian imports was not due to the free play of market forces but to the application of much stricter import controls.

Figure XVI

LATIN AMERICA: INDICES OF IMPORTS AND OF GROSS INCOME IN SELECTED COUNTRIES AT CONSTANT PRICES

(1954 = 100)

Logarithmic scale



remarkable in Argentina, Brazil, Mexico and Venezuela. It also was observable in Chile, where gross income decreased (see figure XVI).

The trend towards a greater contraction in the volume of foreign trade was more often due to a change in the structure of internal demand rather than to the heavier pressure of consumer expenditure and investment upon supply. The coefficient of investment went up in Argentina, Brazil, Peru and Venezuela. Most of this increase was concentrated in the transport sector and/or in the dynamic raw materials and manufacturing industries—particularly petrochemicals and iron and steel—or, in other words, in investments with a high import content. The same process occurred in Chile although the rate of over-all investment diminished. Indeed, the replacement of rolling stock tended to occupy a larger share of total investment than building expenditure, which included a very high proportion of domestic materials.

The case of Cuba is different, although it is also related to a change in the pattern of demand. Here, the rise in the price of sugar has led to a considerable improvement in personal income. The resulting increase in demand has been directed mainly towards durable consumer goods which have a high income-elasticity and which usually must be imported (motor cars, for example).

Another factor which contributed to the boom in foreign purchases was the relaxation of official controls in Argentina, Brazil, Chile and Uruguay. During the preceding years, these countries' imports had become increasingly inadequate as compared with potential needs. The elimination of certain import restrictions and a more liberal quota policy caused an immediate increase in imports, in some cases, at the expense of the demand for domestic commodities. In Chile, for example, people with high incomes, whose economic situation has been relatively little affected by the anti-inflationary policy, have taken advantage of the elimination of certain controls to satisfy more fully their requirements. Hence the contrast, in this country, between imports and the decline in total gross income.

Apart from these circumstances, which are particularly related to the year 1957, the traditional internal pressures have continued to contribute to external disequilibrium as already described.[18] Here, it suffices to recall two trends which appeared very clearly in 1957. In Chile, the structural inflexibility of agriculture again made it necessary to import large quantities of foodstuffs.[19] Argentina experienced serious bottlenecks in fuels and electricity.

Although the disequilibrium in the current accounts of many countries became worse, one aspect of developments in 1957 which may be considered as favourable was the increase in investment in the basic sectors and in the dynamic industries of several Latin American republics. Progress was thus made during the year in the replacement of imports of raw materials and capital goods. Productive capacity and the economic structure also became more flexible. Consequently, some advances have been made towards the future relaxation of pressures on external equilibrium.

Although this increase in investment has produced a greater trade disequilibrium in real terms, it has not depressed to the same extent the financial deficit in the total balance of payments. A large proportion of imports of capital goods has been covered by foreign investment. The utilization of outside capital to accelerate essential import substitution is one of the cases in which foreign loans are economically most justified. Indeed, the debt of a country incurred with foreign lenders may be amortized by using part of the foreign currency saved by the substitution process.

III. COMPENSATORY FINANCING OF THE BALANCE-OF-PAYMENTS DEFICIT

As may be seen from the above analysis, neither the high export prices, which prevailed until the beginning of 1957, nor the larger capital imports of more recent years have been able to prevent the building-up of considerable deficits in the balance of payments of a number of Latin American countries. For a time, these deficits were covered with reserves of gold and foreign exchange. Subsequently, a less normal method was sometimes used: the accumulation of unpaid trade debts. Finally, in 1957, the International Monetary Fund granted relatively large short-term credits. But external aid of this kind is strictly limited and the efforts made in 1957 to lessen the disequilibrium affecting international payments in many countries of the world have considerably reduced the resources available for this purpose.

[18] See sub-section (*a*) above.

[19] Mexico had to import more maize than in 1956, domestic output having suffered from drought.

In accordance with the traditional system of payments, one of the main methods used since the war to cover deficits in the balance of payments has been the accumulation or utilization of gold and foreign exchange reserves. Only in six Latin American republics was the balance-of-payments situation sufficiently favourable to cause an increase in the ratio between international monetary holdings and annual imports. Except in Mexico and Venezuela, this increase was very small. In Mexico, in 1954-56, reserves represented five months of imports, as against three months in 1947-49. In Venezuela, the figures were seven and six months respectively.

In the other countries, the proportion of imports which might be financed from reserves has fallen, usually to a large extent. At the end of the Second World War, total monetary holdings were exceptionally high because imports could not be maintained at normal levels during hostilities. Yet the average figures for 1954-56 may still be considered as very low. In most countries, total reserves did not represent more than the value of imports for a period varying between two and four months. At the same time, it must be remembered that Latin American exports of primary commodities fluctuate considerably from one year to the other.

Again, in certain countries the total gold and foreign exchange reserves in the hands of the financial authorities and the banking system was lower than the total of unpaid commercial debts. It was thus impossible to finance the foreign deficit completely from this source and the authorities preferred to suspend payment of current commitments rather than to continue calling on reserves until they were exhausted. Consequently, the total of unpaid debts accumulated at an increasing rate, reaching the figure of 500 million dollars in Brazil and Argentina at the end of 1952 and 1955 respectively. The total of outstanding commitments in Colombia at the end of 1956 was also fairly high: approximately 370 million dollars.

Such a method of covering the deficit in the balance of payments must be considered as completely abnormal. In fact, it has proved harmful in some cases by causing the suspension of shipments by certain foreign exporters and/or the subsequent withdrawal of commercial credits.[20] However, the debtor country has usually reached an agreement with its creditors; the most common solution has been the granting of various funding loans.[21] In this way, the reduction of imports, which might have been necessary for the immediate liquidation of current commitments, has been avoided. This process is tantamount to confirming *a posteriori* the former excess of imports over the actual capacity to import. But it should be remembered that it is an exceptional solution applied to an exceptional problem.

In short, the situation as regards the means available to cover balance-of-payments deficits was unfavourable at the beginning of 1957. The level of reserves was low and various temporary palliatives had already been applied. Two countries, Argentina and Colombia, instead of contracting new short-term debts, sought to pay part of their outstanding commitments and to postpone reimbursement of the remainder. Although in fact they attained their objectives, they had to contract new short-term debts, private or official, in order to pay part of their outstanding debts in cash.

During 1957, nine countries of Latin America experienced an increase in the absolute values of their gold and foreign exchange reserves, but only in Venezuela was this increase really significant (see table 213). Moreover, in all these countries, except Ecuador and Nicaragua, the ratio between reserves and imports fell because the latter increased more quickly than the former.

The fall in this ratio was considerably sharper in the other republics, because their reserves diminished as the result of their balance-of-payments deficits, while in general imports rose (see table 214). In six out of the ten countries whose balance-of-payments deficit increased in 1957, gold and foreign exchange holdings represented on the average barely 2 months of imports at the end of 1957 as against 2.8 months at the end of 1956. In absolute

[20] For example, between 1951 and 1956 many exports from the United States to Argentina had to be paid at the time of shipment from United States ports.

[21] See Part One, chapter III, section II, 1.

Table 213. Latin America: Balance-of-payments situation and changes in clearing accounts of selected countries

(Millions of dollars)

Country	Balance-of-payments situation		Clearing accounts					
			Gold and foreign exchange reserves		Trade arrears amortized (+) or contracted (—)		Credits from the International Monetary Fund and other sources	
	1956	1957[a]	1956	1957[a]	1956	1957[a]	1956	1957[a]
Argentina	— 49	—191	— 49	—116	—	—		— 75
Brazil	198	—158	+180	—110	—10	— 10	28	— 38
Chile	— 4	— 71	— 4	— 40	—	—	—	— 31
Colombia	— 61	131	+ 9	— 9	—70	+140	—	—
Mexico	97	— 31	+ 60	— 27	+37	— 4	—	—
Peru	— 4	— 33	— 4	— 33	—	—	—	—
Venezuela	414	420	+414	+420	—	—	—	—
Cuba	— 11	— 40	+ 2	— 28	—	—	—13	— 12
Others	— 1	— 59	+ 37	— 38	—33	— 16	— 5	— 5
Latin America	580	— 32	+646	+ 19	—76	+110	+10	—161

Source: Official statistics provided by each country, and International Monetary Fund, *Balance of Payments Yearbooks*.

[a] Partly estimated.

Table 214. Latin America: Gold and foreign exchange reserves in months of imports

	1954	1956	1957
Argentina[a]	5.8	3.1	2.5
Bolivia[a]	2.9	0.7	...
Brazil[a b]	3.5	5.9	3.9
Chile[a]	2.1	2.6	1.3
Colombia	5.0	3.5	3.3
Costa Rica	2.9	2.1	1.4
Cuba[a]	11.0	9.7	6.0
Dominican Republic	7.1	4.7	4.2
Ecuador	3.8	4.0	4.8
El Salvador	6.9	5.1	4.1
Guatemala	5.6	6.3	5.8
Haiti[a]	3.0	2.8	1.4
Honduras	5.5	3.4	2.7
Mexico[a]	3.4	5.7	4.2
Nicaragua	2.7	1.5	1.7
Panama[a]	7.0	5.2	3.1
Paraguay	3.1	5.3	2.3
Peru[a]	3.4	2.8	1.0
Uruguay[a]	7.8	8.6	9.7
Venezuela	5.8	10.1	8.3

Source: Trade statistics for each country and data published in *International Financial Statistics*.
[a] Countries whose balance of payments deteriorated in 1957.
[b] Taking into account only gold and foreign exchange reserves of the *Banco do Brasil* and making no adjustment for short-term debts.

terms, the biggest decreases in reserves were registered in Argentina, Cuba, Chile and Peru.[22]

These decreases might have been even greater if the countries affected had not obtained various credits from the International Monetary Fund. As is well known, one of the Fund's main activities is to help Member States redress temporary disequilibria in their balance of payments. The two primary objectives are (*a*) to maintain monetary stability and (*b*) to eliminate exchange restrictions. The amount of foreign exchange—usually in the form of United States dollars—which a given country may obtain from the Fund is established in accordance with its original contribution, 25 per cent of which is payable in gold and the remainder in national currency. Purchases of exchange which do not exceed the total contribution in gold are authorized almost automatically and those up to 50 per cent of the quota have been granted fairly liberally. On the other hand, loans above these percentages are subject to strict conditions. In fact, they have been limited to a few countries in particularly difficult situations which have undertaken to carry out a very strict programme of financial reform.

Foreign exchange may be acquired from the Fund in a single operation and payment is made within the limits already described and in accordance with the situation of buying country at the time of the agreement signed by both parties. Another means of using the Fund's resources is known as the stand-by arrangement. This is an agreement whereby the Member State can, at any time during a given period, buy a certain quantity of exchange up to a pre-arranged maximum, whatever its position at the time when the transaction becomes effective. This type of agreement has been used mainly in order to provide a real or potential increase in the supply of exchange when certain countries have liberalized their exchange system. The time-limit normally set for the repayment of the national currency formerly sold to buy hard currency is generally not more than three years and may in no case exceed five years. The financial aid given by the Fund is essentially short-term and, according to official statements, must be considered as a temporary addition to a country's reserves, designed to enable it to carry out within a limited period of time a constructive programme for re-establishing economic stability.[23]

Since the war, various Latin American countries have had recourse to the Fund. Some of them have done so on a large scale, but in most of them substantial debts were not incurred. During the decade 1947-56, the total amount of payments made to the region as a whole by the Fund amounted to 295 million dollars, while reimbursement reached the figure of 185 million dollars. Thus, at the end of the period under consideration, Latin America's net debt did not exceed 110 million dollars. The resources obtained in this way were to cover disequilibria in the balance of payments caused by an excess of consumer expenditure and/or investment (as in the case of Brazil) or by seasonal fluctuations in export earnings (as in the case of Cuba). Various stand-by arrangements were signed with certain countries for the purpose of facilitating the campaign against inflation and the return to a free exchange system, but until December 1956 they remained practically unused.

On the contrary, in 1957, the resources of the Fund were used on a large scale as a result of the increased pressure on the balance of payments (see again tables 212 and 213). While in 1956 the net obligations of Latin America to the Fund diminished by 10 million dollars, in 1957 they increased by 149 million; new credits amounted approximately to 200 million and total redemptions to 51 million. Thus, the withdrawals made by the countries of the continent as a whole represented 38 per cent of their quota, a proportion somewhat higher than the figures of 35, 23 and 21 per cent registered for the sterling zone, Europe and the other countries respectively. In various countries of Latin America, the Fund's financial aid considerably relieved payments difficulties arising in relation with countries of the dollar zone, as the result of a shortage of foreign currency. The resources provided by the Fund covered half the dificit in Argentina's balance of payments. In the case of Brazil the proportion was also high, although the credit granted to this country was only 38 million dollars or half that granted to Argentina. In the case of Cuba and, above all, Chile, the Fund's assistance also meant a considerable saving in gold and foreign exchange.

This expansion in the Fund's activities in 1956 benefited not only the Latin American countries but also many other countries of the world and for the reasons already stated.[24] As a result, its net resources in gold and fully convertible exchange were reduced from 3 669 million in September 1956 to 1 348 million at the end of February 1958. If disbursements continue at the same rate as in the past year, the present availabilities of the Fund will be rapidly ex-

[22] The figures relating to Mexico are still very provisional estimates likely to contain a wide margin of error.

[23] This information is based on the statement made on 24 September 1957 by the Managing Director of the Fund in presenting the annual report of the Executive Directors to the Executive Board. In another statement, made in April 1957 during a meeting of the Economic and Social Council, the Managing Director stressed the fact that the Fund was a "revolving fund", i.e., a financial organization whose normal operation required the reimbursement within a relatively short time of the credits allocated by it.

[24] See Part One, chapter I.

hausted. For this reason, the Fund has been applying recently a stricter policy for granting credits greater than 50 per cent of the quota contributed by the borrowing country. Also, the authorities of the Fund have expressed their intention of limiting their aid to the financing of very short-term deficits.[25]

The Latin American countries most affected by external difficulties have already used up a large part of the Fund's availabilities for compensatory financing. Bolivia, Colombia and Chile owe it about 76 per cent of their quota, while Argentina, Brazil and Cuba owe it 50 per cent. Furthermore, in Latin America, the deficit in the balance of payments, instead of being temporary, tends in many countries to become chronic or at least to recur frequently. Hence the aid which such countries can request from the Fund in the future seems to be fairly limited.

All these circumstances, together with the gradual exhaustion of reserves, have brought about fairly far-reaching changes in exchange and trade policies during the second half of 1957 and the early part of 1958. By these means, it is hoped to eliminate the most direct causes of external disequilibrium, although it is generally understood that, to attain complete and lasting stability, the pressure of internal demand upon productive capacity must be removed and the world trade situation must improve.

IV. RECENT CHANGES IN EXCHANGE AND TRADE POLICIES

After the boom attendant upon the Korean hostilities, Latin American payments difficulties became more acute and widespread. One of the remedies often applied to meet this situation was to establish severe restrictions on foreign trade or to strengthen those already in force. The aim was to remove the disequilibrium in the balance of payments, although usually little was done to eliminate certain of its basic couses, such as internal inflation, upon which governmental action could have some effect.

Exchange policy was sometimes the only instrument which was used to avoid still greater inflationary pressures as well as for other purposes. As inflation weakened internal purchasing power, official quotations for domestic currencies tended to become increasingly overvalued. When, finally, it became essential to devalue them, in order to re-establish export prices at more competitive levels, the national authorities had recourse to multiple exchange systems or increased still further the number of selling and/or buying rates. The operation of these systems required in turn the tightening of controls on commercial and monetary relations with other countries.

In this brief account of the main changes which have taken place in exchange and trade policies in recent years it is impossible to analyse the results—favourable or unfavourable—of the application of direct controls, combined with over-valuation and multiple exchange rates. To do so would require very detailed and careful research. Suffice it to say that, by and large, the short-term advantages of these measures have not always outweighed the disadvantages. Over the long term, they do not constitute the best means of stimulating exports and discouraging imports.

In any case, several Latin America countries have been tending lately to reduce trade restrictions and to establish flexible, simple, and realistic monetary systems, whereby the exchange rates reflect the real levels or fluctuations in production costs and in the purchasing power of the currency. The number of import controls has been decreasing and direct restrictions have been replaced by an indirect system based on the real level of prices and so-called prior deposits.[26] Of course, these reforms were accompanied by other measures designed to combat monetary instability at home and in particular to moderate the tempo at which means of payments are issued.

Among the Latin America republics which subjected their foreign trade to various controls during the decade 1947-56, so far, only Peru (since 1949) and Paraguay (in 1957) have re-established a system of really free trade. The other countries have merely followed to a greater or less degree the path outlined above. The dates and patterns of their exchange reforms have varied greatly. Brazil was one of the first countries to use price machinery as a control device by dividing up the majority of imports into five categories and by auctioning the amount of foreign exchange available for financing each category. The new *ad valorem* tariff, adopted in 1957, assigns considerable importance, for purpose of protection, to the characteristics and economic usefulness of the various commodities bought abroad and has enabled imports paid for with auctioned exchange to be reclassified into only two categories.

In Argentina, the official exchange rate, which had been devalued and unified in October 1955, remained the same.[27] But often part of the exchange earned by exports or required to finance imports may be sold or must be bought in the free market, where prices fluctuate with absolute freedom. Therefore, in practice, the export or import exchange rates fluctuate. This is what has been happening in Colombia for some time now and is mainly the result of the surrender price system for coffee exports. In addition, during the second half of 1957 the rate of exchange started to fluctuate again following the exchange reform introduced in June. In Chile, the official exchange rate does not fluctuate in the strict sense of the word, but, since the reform carried out in May 1956, the Central Bank has been authorized to adjust it at any time in the light of economic and monetary conditions at home and abroad. In fact, the adjustments have been rather frequent. As in Argentina, the Colombian and Chilean authorities have imposed certain import controls. On the other hand, in August 1957, Paraguay eliminated all quantitative restrictions on imports and at the same time allowed a fluctuating free rate of exchange. But in Paraguay, as in Argentina, Colombia and Chile, the system of prior deposits is in force. The case of Chile is very revealing in

[25] Of course, another method of making good the recent decrease in the Fund's resources would be to increase contributions from all countries. The original quotas were usually fixed at the end of the Second World War or a little later. Since then the total value in current dollars of world trade has risen by approximately 140 per cent.

[26] This system requires importers to maintain on deposit in a bank for a determined period a sum in national currency or in foreign exchange, the amount of which depends on the extent to which the goods imported are considered essential. It is generally returned when the goods are released from customs.

[27] Duties are charged on certain commodities exported through the official market, i.e. certain percentages are deducted from the official exchange rate. On the other hand, certain of the imports made through the free market are liable to a higher exchange rate. The export duties were imposed originally as a temporary measure in order to mitigate the effects of devaluation. Now they are gradually being eliminated.

this connexion: this system, together with a policy of high rates of interest and credit restrictions, constitutes the main instrument of indirect control in Chile. Sometimes the rates for prior deposits are so high that they are tantamount to almost complete prohibition.

The relaxation of exchange and trade controls has sometimes produced an increase in imports in recent years, especially in 1957. On the other hand, as a result of structural or circumstantial factors—for example, the bad weather which has affected certain agricultural commodities—exports reacted fairly slowly to the stimulus of devaluation. In 1957, the decrease in the price of many primary commodities was an additional factor. Although the return to exchange freedom was one of the causes of increased external disequilibrium over the short term, the unfavourable trend in world markets for many Latin American exports played an even greater role. The internal factors of various kinds which have already been described[28] also exerted an important influence.

In any case, various Latin American countries sought to reduce the increase in their balance-of-payments deficit during the second half of 1957. The usual method—it was applied in Argentina, Colombia and Chile—has been to increase compulsory deposits for many imports. In Argentina, the indirect control on imports, or the stimulus given to exports, resulting from the establishment of high exchange rates, was also strengthened by transferring a substantial proportion of external transactions to the free market. The re-establishment of direct restrictions, prohibitions, or temporary suspensions such as occurred in Uruguay in October 1957 and in Argentina more recently was less frequent.

Thus, the return to a relatively liberal system has encountered various obstacles and, for the moment, has not brought about any improvement in the balance-of-payments situation. This is partly to be explained by the fact that difficulties always arise whenever a system is changed radically. In addition, the unfavourable trend in external conditions have made it difficult to apply new measures.

It is still very early to evaluate the long-term implications of these exchange liberalization measures. Still, a few brief comments may be made here. Firstly, to judge by Mexican experience since the war, exchange freedom combined with a number of direct import controls and the periodic adjustment of the exchange rate in the light of external and internal conditions has brought about a significant expansion in total foreign trade without accompanying serious or lasting disequilibria. Yet the relatively diversified structure of Mexican exports has undoubtedly helped to reduce fluctuations in external income and hence has obviated the need for an official policy of stabilization. In any case, the common frontier of more than 2 000 kilometres with the United States would have made the applications of strict quantitative controls very difficult.

Secondly, developments in Brazil and Chile before the relaxation of exchange control show that, even in periods of economic prosperity and high prices, the over-valuation of the exchange rates has often made in difficult to increase exports, particularly of secondary products.[29] Undoubtedly, these unfavourable effects are aggravated when the over-valuation of the currency persists of occurs at the same time as an economic decline in the industrial centres and a weakening of demand for primary commodities. On the other hand, the official reclutance to devalue the currency may sometimes help to protect the export prices of certain Latin American commodities over the short term. This might be the case when the exporting country occupies, among suppliers and *vis-à-vis* buyers, a strong position in the international market as a result of the preponderant share of its sales in the total world supply of a given commodity.

[28] See section II, 2, of this chapter.

[29] Indeed, in certain cases, like that of Brazil in 1952 and part of 1953, exchange over-valuation caused a steep decline in secondary exports.

SPECIAL STUDY ON TRADE IN AGRICULTURAL COMMODITIES IN LATIN AMERICA

SPECIAL STUDY ON TRADE IN AGRICULTURAL COMMODITIES IN LATIN AMERICA

I. GENERAL CONSIDERATIONS

INTRODUCTION

Agriculture is clearly one of the most important activities in Latin America besides giving work to more than half the population, it produces in terms of value a quarter of the goods obtained from the area and 65 per cent of the commodities sold abroad. The mere statement of these facts suffices to show that the economic development of Latin America is closely linked to the evolution of the agricultural sector.

In certain Latin American countries, agriculture has played the dynamic part expected of it and the expansion of the other sectors has depended on its development. However, in most countries, the backwardness of agriculture is a serious impediment to the accelerated development of the economy as a whole.

The study of the contribution of agriculture to the process of economic growth undoubtedly requires very thorough and detailed research and the Commission intends to forge ahead with this work. This special study, which the secretariat is including in the *Economic Survey of Latin America, 1957* marks the first step. It analyses one aspect of the problem: the part played by the agricultural sector in meeting internal and external demand. Priority has been given to this particular aspect since it is perhaps best suited to show clearly and definitely the influence of agricultural development on economic progress as a whole. If the supply of agricultural commodities is not adequately maintained, countries will be either progressively dependent on exports to meet domestic demand, faced with increasing reductions in export balances, or both. The inevitable pressures will be exerted on their balance of payments, and their capacity to import the capital goods and raw materials necessary for more rapid and balanced economic development will consequently be restricted.

The economic development of most of the Latin American countries has been characterized *inter alia* by a persistent tendency towards lop-sided sectorial development. As a result, agricultural production throughout Latin America as a whole has lagged behind that of other sectors during the last quarter of a century. This fact would not be of major significance had not agricultural output tended to grow at a slower rate than the population, so that *per capita* farm production is now less than before the Second World War. Thus, in many countries unisatisfactory food standards persist.

Of course, in a healthy economy, a balance must be maintained between agricultural and industrial development. The latter generates increased earnings which are soon reflected in heavier demand for foodstuffs and raw materials which agriculture must supply. Furthermore, the financing of economic development may be based to a large extent on increased exports of agricultural commodities, thus adding further pressure to demand for them. At the same time, accelerated industrial and urban development may lead to a marked reduction in the economically-active population in the rural areas. Improved agricultural techniques must therefore be introduced in order to increase labour productivity as well as total output.

In Latin America this process is not going forward smoothly. The rural areas usually contain a real or apparent surplus of active population which has an unfavourable influence on wages and farm prices. The introduction of new techniques is thus impeded. In addition, the population is growing rapidly. Hence, in Latin America as in any underdeveloped area, industry and activities directly or indirectly dependent on industrial development must absorb manpower surpluses. However, they will be unable to fulfil this task—thus creating problems of disequilibrium and unemployment—unless they develop parallel with or in advance of technical improvements in agriculture. On the contrary, if industry develops and creates a demand for manpower, while agriculture does not improve its productive techniques, short-term difficulties for over-all development will arise because insufficient supplies are forthcoming from the agricultural sector. When the process of economic development has reached a certain level, these disequilibria tend to disappear. Progress then becomes automatic, because, on the one hand, industrial growth acts as a constant stimulus to rural productivity, and, on the other, the agricultural sector becomes an important market for industrial goods.

As a result of the inadequate development of production throughout Latin America, there is a stationary trend in agricultural exports and a marked expansion in corresponding imports. During the last 20 years, the total volume of exports of agricultural commodities has remained virtually at a standstill and has even declined slightly, if only those shipped to countries outside the continent are considered. Hence, in view of the rapid increase in the population, *per capita* exports from the agricultural sector have fallen.

In the case of some commodities, this stagnation was due to the lack of markets but, in the case of others, it was due entirely to the indequacy of the Latin America supply. On other hand, agricultural imports grew at a faster rate than the population.

This development would not have been so unfavourable if it had been occasioned by an increase in inter-Latin American trade resulting from national or sub-regional specialization. The diversity and magnitude of Latin American natural resourses may indeed enable the region to attain self-sufficiency and conduct its trade within a planned framework of economic integration. But this has not in fact happened. On the contrary, national autarky has been the overriding aim so that production has been inefficient and costly. These facts, together with the lack of development in agriculture, have caused almost complete stagnation in inter-Latin American trade in agricultural commodities between 1934-38 and 1952-55. The deficit has had to be made up by increasing imports from outside the region.

Between 1934-38 and 1952-55 the position of Latin America, as a net exporter of agricultural commodities, underwent a marked decline: 13 per cent in the aggregate and 39 per cent *per capita.* If favourable prices had not temporarily prevailed during the latter period so that the real value of *per capita* exports between both periods declined by only 14 per cent, these facts could have had serious repercussions on the economic development of the region.

Apart from the general analysis of the problems mentioned, which will be dealt with subsequently and will be confined to an examination of certain commodities,[1] this study will attempt to make a special analysis of five countries.[2] The cases of Argentina, Brazil, Colombia, Chile and Mexico offer, in their diversity, characteristics truly representative of the general problem which is considered here and can throw light on its different aspects.

Thus, for example, in Colombia, export production has increased substantially, while that for the home market has progressed only at the same rate as the population. Hence, Colombia has been compelled to import more and more foodstuffs and agricultural raw materials to meet growing *per capita* consumption. Consequently, it did not take full advantage of the rapid growth in export production in order to import capital goods, since part of the earnings under that head had to be diverted for the purchase abroad of consumer foods which could have been produced at home.

In Argentina, total and *per capita* agricultural production has undergone a marked decline. Domestic output has developed sufficiently to meet the needs of the home market, thanks to the increase in the production of traditional items as well as new crops which were rapidly extended and enabled imports to be replaced. On the other hand, the export sector, which is the most important, considerably reduced its output and, as internal demand for these commodities grew rapidly, the decline in exportable surpluses became even greater.

In other countries—Chile is a good example—agricultural production both for export and domestic consumption is at a standstill and its progress is slow when compared with the increase in the country's needs. The burden thus placed on the balance of payments increases progressively with the reduction of exportable surpluses and increased imports of foodstuffs and raw materials.

Finally, in a few isolated cases, agriculture has played the dynamic role expected of it. Mexico is perhaps the most representative of these. As a result of large capital investments in irrigation projects and roads, extensive areas of fertile land have been brought under the plough and modern agricultural techniques have been developed. This process had led to remarkable increases in production for home and foreign markets. Agricultural exports have soared and self-sufficiency has been achieved in commodities like wheat and sugar, which formerly were in short supply. However, total agricultural imports did not decrease because there was a more than proportionate rise in imports of maize, beans and animal and poultry products.

The large sums of foreign exchange earned by agricultural exports did much to speed up economic development, because they considerably increased Mexico's capacity to import. All these developments have been reflected in the high rates of growth registered in the country's *per capita* income.

1. Agricultural exports

This sub-section deals with the evolution, the changes in composition, and the prices of agricultural exports throughout the region.

(a) *Evolution*

Although agricultural commodities play the most important role in Latin American exports, their significance has been declining recently because they have remained almost at a complete standstill while non-agricultural exports have been steadily expanding. In 1934-38, agricultural commodities accounted for three-quarters of the quantum of Latin American exports and 65 per cent of their value (see table I).

In the period of intense economic activity following the war (1946-51), there was a slight increase of 10 per cent

[1] See section II.

[2] See section III.

Table I. Latin America: Total exports to the rest of the world

(*Annual averages*)

Period	Quantum				Value			
	Agricultural	Non-agricultural	Total	Percentage of agricultural in the total	Agricultural	Non-agricultural	Total	Percentage of agricultural in the total
	Total							
	(Millions of dollars at 1955 prices f.o.b.)				(Millions of dollars)			
1934-38	4 105	1 227	5 332	77	1 068	564	1 632	65
1946-51	4 498	2 140	6 638	68	3 661	1 629	5 290	69
1952-55	4 110	2 674	6 784	61	4 280	2 474	6 754	63
	Per capita (Dollars)							
1934-38	36	11	47		9	5	14	
1946-51	30	14	44		24	11	35	
1952-55	24	16	40		25	15	40	

Source: Official statistics.

in the trade quantum of these commodities as compared with the average for 1934-38. This increase was not maintained in the four following years; exports remained approximately at the same levels as before the war. On the other hand, the quantum of non-agricultural exports rose by 74 per cent between 1934-38 and 1946-51 and was more than double the pre-war level during the years 1952-55. As a result, in recent years, agricultural goods have represented approximately 60 per cent the quantum and value of all foreign commodity trade. This change in the break-down of the total export trade of Latin America implies that the present *per capita* level of the export quantum is 15 per cent lower than before the war, because the contraction of 33 per cent in agricultural exports was offset only partially by the 45 per cent increase in other exports.

The relative stagnation of Latin American agricultural exports must be attributed particularly to Argentina whose export quantum declined markedly as a result of its general lack of progress in agriculture and the drop in its output for foreign markets.

If Argentina is excluded, the general picture of the region as an exporter is different. The total export quantum no longer remains stationary between 1952-55 and 1934-38 but increases by about 20 per cent. That of Argentina, by contrast, fell by 47 per cent. Its share in total exports from the region was 29 per cent before the war; in 1952-55 it was reduced to only 15 per cent (see table II).

The standstill in agricultural exports did not occur only in Latin America. The crisis which began in the early 'thirties seems to have marked a decisive point in the development of international trade in agricultural commodities which until then had been growing fairly regularly and in harmony with the general intensification of economic activity. After 1930 this over-all progress in the agricultural sector ceased and expansion was limited only to certain commodities.

The slowing-down in international trade in agricultural commodities appears due to two main causes. On the one hand, the growing trend towards self-sufficiency has become more marked in most countries since the crisis of the 'thirties as the result of their efforts to correct disequilibria in the balance of payments and to stabilize or improve rural income. On the other, the expansion in the world economy and particularly the accelerated growth of the industrial countries, achieved as a result of capital formation and technical developments, substantially increased productivity and income in general. The reduction in the differences between urban and rural earnings consequent upon economic development has stimulated the introduction of new agricultural techniques, thus leading to considerable advances in production. Hence, certain industrialized countries have almost achieved self-sufficiency or at least decreased their dependency on the peripheral countries which are the traditional exporters of primary commodities. Moreover, as the latter lagged behind in the various aspects of technical development, their production increased only slightly, while the pressure of the home market, tending to reduce export surpluses, progressively increased. Thus, quite often, as the result of the lack of supplies from the peripheral countries, the industrial nations were compelled to undertake production of commodities they could no longer obtain from abroad.

Table II. Latin America: Quantum of agricultural exports including and excluding Argentina: Annual averages

(*Millions of dollars at* 1955 *prices f.o.b.*)

	Excluding Argentina	*Argentina*	*Total*
1934-38	2 923	1 182	4 105
1946-51	3 610	888	4 498
1952-55	3 482	628	4 110

Source: Official statistics.

Various inquiries show that between 1913 and 1927-30, the volume of world trade in agricultural commodities increased by 40 per cent, a proportion similar to that of manufacturing production.[3] On the other hand, between 1927-30 and 1954-55, a period of marked manufacturing expansion (130 per cent), the volume of trade in agricultural commodities fell by 20 per cent. However, this contraction has certain special characteristics. The reduction in trade affected mainly commodities which may be produced economically and fairly easily in the principal industrialized countries. They themselves have supplied almost the whole increment in the demand originating from population growth and the rise in incomes, thus increasing domestic production. Grains and meat in particular are in this position.

By contrast, international trade in commodities which cannot be produced economically in the industrialized countries or replaced by natural or synthetic substitutes, and whose consumption is very high in such countries, has increased more and more. This is the case with coffee, cacao, bananas, etc. The expansion of trade has been more limited in other commodities where there has been a certain degree of substitution, such as rubber, butter, etc.

This general trend in world trade in agricultural commodities in also reflected in Latin America. As has just been seen, excluding Argentina, the quantum of regional exports is increasing. Such exports mainly consist of tropical-zone commodities which are difficult to obtain in the industrialized countries and for which demand is rising on international markets.

On the other hand, Argentina, the region's biggest exporter of temperate-zone products like wheat, maize and meat, reduced its exports. It thus caused somewhat of a contraction in world trade in those commodities and both exporting and importing countries in other regions were encouraged to produce them themselves.

(b) *Geographical distribution*

Agricultural exports are shipped mainly to countries outside Latin America, most of the raw materials, foodstuffs and stimulants finding a market in the big industrial centres (see table III).

Nevertheless, inter-Latin American trade in agricultural commodities intensified during 1946-51, and its volume was approximately 50 per cent larger than in 1934-38. This upward trend was not maintained in subsequent years in spite of the notable increase in Latin American imports of these commodities, but latterly, 9.5 per cent of such exports have gone to countries in the region, in contrast to the pre-war figure of 6.4 per cent.

[3] See, for example, "Factors influencing the International demand for agricultural products" in FAO, *The State of Food and Agriculture 1956*, Rome, 1956.

Table III. Latin America: Quantum of intra-regional and extra-regional agricultural exports

(Annual average in millions of dollars at 1955 prices f.o.b)

	Agricultural exports to		Total	Percentage of inter-Latin American exports
	Latin America	Rest of the world		
1934-38	262	3 843	4 105	6.4
1946-51	380	4 118	4 498	8.4
1952-55	389	3 721	4 110	9.5

Source: Official country statistics.

As already stated, Latin America has such a wide variety of climates and ecological conditions that it offers a most propitious field for the fullest possible integration of agricultural trade. There is hardly any commodity that cannot be produced under highly efficient conditions in some part of the region, and the over-all integration of such production could undoubtedly make Latin America completely self-sufficient in this respect.

Since nutritional standards are low in most of the Latin American countries, the urgent need to improve them, combined with the rapid growth of population, suggests the emergence of a highly important market on which to build up a large-scale expansion of production, provided that optimum conditions exist for greater trade integration. The tremendous possibilities of the Latin American market are particularly important in view of the slow development of international markets and the limited prospects for certain commodities.

It would be very useful if the necessary research could be undertaken for constructing medium and long-term projections of demand for Latin American foodstuffs and raw materials so that the countries concerned might plan their agrarian policy in accordance with regional market possibilities.

(c) *Composition*

There is relatively little diversification in Latin America's agricultural exports; nine staples—coffee, sugar, cotton, wool, meat, wheat, bananas, timber and cacao, in order of importance—compose almost 90 per cent of the corresponding quantum.

Although aggregate figures have varied little, the percentage represented by each commodity has fluctuated widely since before the war. These changes have been partly due to the general trend of trade, which, as has been seen, was distinguished by an expansion in exports of tropical-zone commodities and a fairly intensive contraction in those from temperate zones. Between 1934-38 and 1946-51, the quantum of the former increased 26 per cent and the share of such exports in total agricultural sales rose from 62 to approximately 80 per cent. Exports of sugar, coffee, cotton, bananas and timber registered the highest figures. (see table IV).

Coffee is Latin America's leading export. In 1952-55, it represented more or less 43 per cent of the total quantum of agricultural exports, and was followed by sugar, whose annual average sales volume rose from 3.3 million to 6.1 million tons between the pre-war period and 1952-55, thereby

Table IV. Latin America: Quantum of agricultural exports

(Annual averages)

Agricultural exports	1934-38	1946-51	1952-55	1934-38	1946-51	1952-55
	(Millions of dollars at 1955 prices f.o.b.)			(Percentage)		
1. *Tropical-zone commodities*	2 535.6	3 125.4	3 190.7	61.8	69.6	77.7
Coffee	1 598.9	1 812.5	1 765.7	38.9	40.3	42.9
Sugar (refined and raw)	299.5	538.4	542.4	7.3	12.0	13.2
Cacao	133.9	130.6	130.8	3.3	2.9	3.2
Vegetable fibres[a]	18.6	24.3	19.8	0.5	0.5	0.5
Fresh fruit	159.1	143.6	179.8	3.9	3.2	4.4
Raw cotton	215.4	281.9	378.4	5.2	6.3	9.3
Raw tobacco	20.5	29.4	25.9	0.5	0.7	0.6
Timber[b]	89.7	164.7	147.9	2.2	3.7	3.6
2. *Temperate-zone commodities*	1 409.3	1 112.0	780.0	34.3	24.8	18.9
(a) *Grains*	674.2	269.5	264.3	16.4	6.1	6.5
Wheat and wheat flour	240.1	155.9	184.4	5.8	3.5	4.5
Maize	431.6	106.6	72.8	10.5	2.4	1.8
Malt	2.5	7.0	7.1	0.1	0.2	0.2
(b) *Livestock products*	421.8	462.2	244.8	10.2	10.3	5.9
Pigs, sheep, and cattle	34.8	41.0	17.0	0.8	0.9	0.4
Meat (chilled and tinned)	377.2	399.9	213.2	9.2	8.9	5.2
Dairy produce[c]	9.8	21.3	14.6	0.2	0.5	0.3
(c) *Fats*	45.5	75.2	29.6	1.1	1.6	0.7
Oils and fats	25.0	64.6	13.2	0.6	1.4	0.3
Oil-seeds[d]	20.5	10.6	16.4	0.5	0.2	0.4
(d) *Wool*	260.8	298.0	232.3	6.4	6.6	5.6
(e) *Dried fruit and wine*	7.0	7.1	9.0	0.2	0.2	0.2
3. *Miscellaneous*[e]	160.1	260.8	139.2	3.9	5.8	3.4
Total sample	4 105.0	4 498.2	4 110.0	100.0	100.0	100.0

Source: Official statistics.
[a] Including jute, hemp, flax, henequen and sisal.
[b] *Quebracho, tagua,* wood in the round, intermediate and finished wood products, posts and sleepers.
[c] Milk, butter and cheese.
[d] Walnuts, peanuts, copra, palm oil, cotton-seed, sorghum, sesame and sunflower seed.
[e] Unhulled rice, tinned fruit and vegetables, beans.

ousting maize which had been second in importance before the war. During those years, the proportion ofsugar in the total quantum of agricultural exports rose from 7 to over 13 per cent. Cotton showed an equally favourable trend: its sales increased from 329 000 to 577 000 tons and its share of the quantum from 5 to 9 per cent. Timber exports expanded by a little more than 50 per cent. The increments registered for all four items offset the decrease in temperate-zone, commodities. What is more, the increment in sugar and cotton sales was proportionately greater than the growth in external demand and thereby enlarged Latin America's contribution to world market supplies.

The situation of the temperate-zone commodities was quite different. Latin America has lost its once privileged status as an exporter of maize, wheat and meat. The quantum of total exports of this type was reduced to almost half (45 per cent), and their share in over-all agricultural exports decreased from 34 to 19 per cent. Except for dairy produce, dried fruit and wine, which were of scant importance, exports of all other items in 1952-55 were far below their yearly pre-war averages. Certain cases were truly remarkable. For instance, maize exports, which amounted to 6.6 million tons before the war, declined to a little over 1.1 million in 1952-55, and their share of the total from 11 to less than 2 per cent. There was an equally substantial—although less striking—reduction in sales of wheat, meat, oils and fats, oil-seed and wool. This marked decline was largely due to Latin America's inadequate supplies, which encouraged other producer countries to step up their export trade, in some cases to a very considerable degree.[4] Argentina played a decisive part in the over-all trend, owing to the heavy drop in its exportable surpluses brought about by a stagnation in production and an increase in domestic consumption.

(d) *Prices and purchasing power*

The variations in the composition of Latin America's agricultural exports are bound up with more or less important price fluctuations. Although the present study has been deliberately confined to an analysis of the situation in the last few years, including some comparison with the inmediate pre-war period, it is advisable to go back as far as 1925-29 in order to form a general and more or less complete idea of the effect of the terms of trade on the purchasing power of aggregate Latin American exports. Since the quinquennium in question was a boom period it constitutes a good criterion for assessing the post-war economic situation. Between 1925-29 and 1955-56, two sharply differentiated periods should be distinguished as regards the influence of the terms of trade on the purchasing power of exports in general and agricultural commodities in particular. The first period, up to and including 1945, was extremely unfavourable for Latin America, since the purchasing power of exports increased less than their quantum in relation to 1925-29 figures (see table V).

This was mainly a by-product of the world depression (1930-33), when the terms of trade deteriorated by almost 30 per cent. In the years immediately preceding the Second World War, they recovered partially but deteriorated again from 1939 to 1945 without, however, sinking to the low levels of the depression years. At all events, they were some 20 per cent lower than in 1925-29.

The second period began at the end of the war, at a time when the world economy was entering upon a phase of active recovery, which had very favourable consequences for Latin America. The proportionately higher rise in total export prices in the first six years (1946-51) helped to improve the terms of trade 10 per cent in relation to their pre-war level, and thus re-established the 1925-29 situation. In the next four years, when this improvement was further intensified, the terms of trade were almost 10 per cent higher than in 1925-29 and approximately 20 per cent higher than in pre-war years. Nevertheless, part of the ground recovered was already beginning to be lost after 1956.

[4] See section II.

Table V. Latin America: Terms of trade, 1925-56

(1950 = 100)

Period	*Annual average*
1925-29	92.5
1930-33	66.7
1934-38	83.8
1939-45	74.2
1946-51	92.5
1952-55	100.1
1955-56	97.2

The evolution of the purchasing power of agricultural exports on the world market will now be considered, for which purpose their terms of trade have been determined. The relevant figures, which have been gathered together in table VI, show that the post-war situation was inclined to be more favourable for them than for other types of exports, thanks to the proportionately larger increment in world market prices for agricultural commodities. In fact, the terms of trade improved 26 and 47 per cent between the pre-war period and 1946-51 and 1952-55 respectively. It should be remembered that these proportions were only 10 and 20 per cent in the case of total exports.

If the terms of trade had been stable or shown an unfavourable trend as in the 'thirties and mid-forties, the purchasing power of such exports would have been maintained or diminished, with highly adverse result for Latin America. Nevertheless, owing to the above-mentioned improvement in the terms of trade, the purchasing power of agricultural exports in 1952-55 exceeded its pre-war figure by 47 per cent; as this was a very similar proportion to that of population growth, the *per capita* figure remained at the same levels (see again table VI).

In the country analysis,[5] it is established that the terms

[5] See section III.

Table VI. Latin America: Quantum and purchasing power of agricultural exports and agricultural terms of trade

(Annual averages in millions of dollars at 1955 prices f.o.b.)

Period	*Quantum*	*Agricultural terms of trade*[a] (1950 = 100)	*Purchasing power*
1934-38	4 105	69.3	2 845
1946-51	4 498	87.6	3 940
1952-55	4 110	101.8	4 184
	Per capita[b]		
1934-38	36		25
1946-51	30		26
1952-55	24		25

[a] Estimated on the basis of the price indices of Latin America's agricultural exports and total imports.
[b] Dollars.

Table VII. Latin America: Difference in volume of exports and real average prices of staple commodities between the pre-war years and 1952-55

Commodity	Volume of exports (Thousands of tons)		Percentage difference	Index of real unit value, 1952-55[a] (1934-38 = 100)
	1934-38	1952-55		
Coffee	1 390	1 546	11	251
Cacao	186	181	— 3	240
Cotton	329	577	75	95
Wool	116	125	8	112
Tobacco	55	69	25	98
Sugar	3 346	6 060	81	99
Wheat[b]	3 445	2 617	—24	99
Meat[c]	593	241	—59	133
Maize	6 620	1 116	—83	133

[a] The average price of each Latin American export commodity was deflated by the price index for the regions' total imports.
[b] Including wheat flour.
[c] Fresh, chilled and frozen beef, mutton and pork.

of trade had different repercussions on each country according to its export structure. In Colombia, and Brazil, the terms of trade more than doubled between 1934-38 and 1950-54, while they deteriorated almost 15 per cent in Argentina. Since Brazil's and Colombia's relatively favourable situation in this respect was repeated in most of the tropical-zone countries, the terms of trade were satisfactory for Latin America as a whole. This was due to the structure of agricultural exports. As regards both their real prices and their volume, exports of tropical-zone commodities such as cacao, coffee, cotton and tobacco are precisely those which have improved their position most on the world market (see table VII). In the case of coffee, for example, an increment of 11 per cent was registered in volume and its real price more than trebled, whereas cacao was stable in volume but its price also virtually trebled. Cotton and sugar were the only crops which showed no special variation in real prices, although their export quantum expanded by 75 and 81 per cent respectively.

Commodities from temperate zones present a very different picture. The real prices of meat and maize also mounted, although on a lower scale—33 per cent in both cases. Those of wheat were virtually at a standstill. By contrast, the volume of all three was reduced, by 24 per cent in the case of wheat, 59 per cent in that of meat and 83 per cent in that of maize. These fluctuations in price and volume were reflected in the respective shares of the different commodities in total Latin American earnings from agricultural exports. For example, that of tropical-zone commodities rose from slightly over 50 per cent before the war to almost 80 per cent in 1952-55, while that of the temperate-zone commodities declined from 40 to 18 per cent. Between 1934-38 and 1952-55, the share of coffee increased from a little under 25 per cent of the total value to 43 per cent, and some improvement was also registered for sugar, cacao, bananas and timber (see table VIII).

The proportion of income from grains fell sharply. Before the war this item represented 21 per cent of agricultural dollar earnings, i.e., a percentage very similar to that of coffee, but recently it earned only 7 per cent of the value exported. The two principal grains exported by Latin America—wheat and maize—showed a contraction in volume and value, which was accentuated in the case of maize. Before the war, the latter was the second most important export after coffee in respect of value which amounted to

Table VIII. Latin America: Value of agricultural exports

(Annual averages)

Agricultural exports	Million of dollars			Percentage		
	1934-38	1946-51	1952-55	1934-38	1946-51	1952-55
1. *Tropical-zone commodities*	558.4	2 417.0	3 329.5	52.3	66.0	77.8
Coffee	245.8	1 070.5	1 854.5	23.1	29.2	43.3
Sugar (refined and raw)	117.8	630.0	572.5	11.0	17.2	13.4
Cacao	22.6	98.6	145.0	2.1	2.7	3.4
Vegetable fibres[a]	9.5	43.0	29.4	0.9	1.2	0.7
Fresh fruit	40.8	83.9	162.0	3.8	2.3	3.8
Raw cotton	85.7	291.9	388.1	8.0	8.0	9.1
Raw tobacco	16.0	59.6	53.6	1.5	1.6	1.2
Timber[b]	20.2	139.5	124.4	1.9	3.8	2.9
2. *Temperate-zone commodities*	87.8	238.2	242.1	40.5	27.2	18.4
(a) *Grains*	219.9	386.9	284.7	20.6	10.5	6.6
Wheat and wheat fluor	98.1	257.1	205.7	9.2	7.0	4.8
Maize	121.3	125.7	74.1	11.3	3.4	1.7
(b) *Livestock products*	114.5	291.7	230.6	10.7	8.0	5.4
Pigs, sheep and cattle	7.1	29.9	22.6	0.7	0.8	0.5
Chilled and tinned meat	104.1	243.4	192.4	9.7	6.7	4.5
Dairy produce[c]	3.3	18.4	15.6	0.3	0.5	0.4
(c) *Fats*	10.9	80.1	30.9	1.0	2.2	0.7
Oils and fats	5.2	66.6	12.7	0.5	1.8	0.3
Oil-seeds[d]	5.7	13.5	18.2	0.5	0.4	0.4
(d) *Wool*	83.9	229.5	230.1	7.8	6.3	5.4
(e) *Dried fruit and wine*	3.9	8.7	12.0	0.4	0.2	0.3
3. *Miscellaneous*[e]	76.9	247.2	162.0	7.2	6.8	3.8
Total sample	1 068.4	3 661.1	4 279.9	100.0	100.0	100.0

Source: Official statistics.
[a] Including jute, hemp, flax, henequen and sisal.
[b] *Quebracho, tagua*, wood in the round, intermediate and finished wood products, posts and sleepers.
[c] Milk, butter and cheese.
[d] Walnuts, peanuts, copra, palm oil, cotton-seed, sorghum, sesame and sunflower seed.
[e] Unhulled rice, tinned fruit and vegetables, beans.

Table IX. Latin America: Quantum of intra- and extra-regional imports of agricultural commodities

(Annual averages in millions of dollars at 1955 prices)[a]

Product	*1934-38*	*1946-51*	*1952-55*
Grains			
Total	160.6	245.8	305.3
Extra-regional	68.8	174.6	203.0
Intra-regional	91.8	71.2	102.3
Livestock commodities			
Total	46.7	160.9	193.9
Extra-regional	24.3	100.0	162.3
Intra-regional	22.4	60.9	31.6
Tropical-zone commodities			
Total	102.6	169.7	154.6
Extra-regional	28.5	32.6	28.4
Intra-regional	74.1	137.1	126.2
Oils and fats			
Total	53.6	73.4	125.0
Extra-regional	48.6	62.5	113.6
Intra-regional	5.0	10.9	11.4
Miscellaneous			
Total	115.0	168.3	159.1
Extra-regional	67.6	68.5	78.3
Intra-regional	47.4	99.8	80.8
Total sample			
Total	478.5	(818.0)	937.9
Extra-regional	237.8	438.2	585.6
Intra-regional	240.7	379.9	352.3

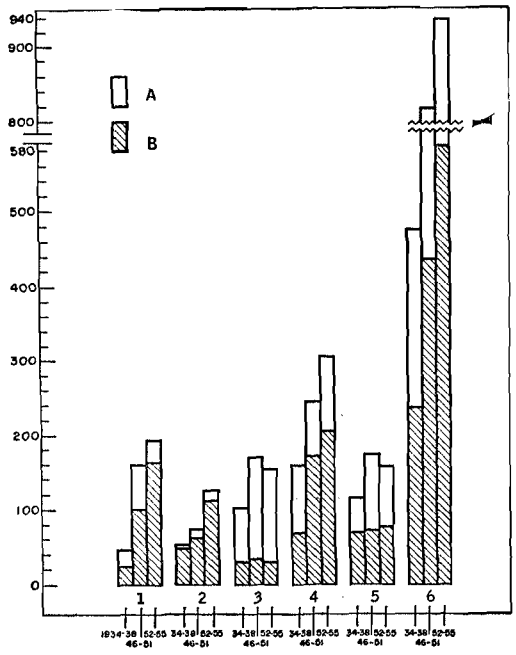
[a] F.o.b. prices for Latin American imports were used for weighting.

Figure A

LATIN AMERICA: QUANTUM OF INTRA-REGIONAL AND EXTRA-REGIONAL AGRICULTURAL IMPORTS

(Millions of dollars at 1955 prices)

Natural scale



A. Intra-regional. B. Extra-regional.
1. Livestock. 2. Oils and fats. 3. Tropical commodities. 4. Cereals. 5. Others. 6. Total.

11.3 per cent, and was followed by sugar with 11 per cent. Maize sales have now been relegated to a much lower position, however, and represent only 1.7 per cent, i.e., 74 million dollars in comparison with the figure of 572 million (13 per cent) for sugar earnings. Equally serious, although less marked, was the deterioration in the value of meat exports.

2. Imports of agricultural commodities

(a) *Evolution*

The various Latin American countries' imports of agricultural commodities increased steadily and much faster than the population; their volume almost doubled between the pre-war years and 1952-55[6] (see table IX and figure A).

The two factors responsible for a considerable expansion in Latin America's demand for agricultural commodities were (*a*) the high rate of population growth, and (*b*) the rise in income, since at the latter's present low levels the income-elasticity of demand for foodstuffs and raw materials of vegetable origin is considerable.

Apart from the tendency of agricultural production to grow a little more slowly than the population, in many countries it was production for domestic consumption that chiefly failed to develop. The less powerful economic incentives usually afforded to this type of production, and the shortcomings of its marketing, storage and transport systems as compared with those available to production for export, are the main causes of this disequilibrium between domestic supply and demand.

Among these agricultural imports, grains held the foremost place and registered one of the most intensive increments. Purchases of rice were those that expanded least, as the rapid development of domestic production, which was accelerated still further during the Second World War, eliminated to a large extent the need for supplies from abroad. Nevertheless, wheat imports, despite the growth of production in importer countries,[7] followed a persistent upward trend, rising by about 105 per cent between 1934-38 and 1952-55 (see table X).

Livestock imports constituted another outstanding item; it was really these that showed the greatest proportional increase. Their volume is now almost 3 times as great as in the pre-war period. In the case of dairy produce, the gap between domestic supply and demand is growing steadily wider; almost six times as large a volume as before the war is now purchased abroad. Meat imports have almost quadrupled. Domestic production of oils and fats is so far from meeting requirements that at the present time aggregate imports of these commodities stand at a level 175 per cent higher than in the pre-war years.

Imports of tropical-zone commodities as a whole registered the smallest increases and in many instances even declined.[8] In other cases, such increments represented a very small proportion of the increase in current consumption in relation to the pre-war period.[9] Lastly, there are still other commodities which the temperate-climate countries of

[6] The quantum of imports was estimated at 1955 export prices, so as to facilitate the subsequent determination of the foreign trade balance.

[7] See section II, 1.

[8] For example, maté and vegetable fibres, with the exception of cotton.

[9] Sugar, cotton and tea are cases in point.

Table X. Latin America: Quantum of agricultural imports

(Annual averages in millions of dollars at 1955 prices)[a]

Product	*1934-38*	*1946-51*	*1952-55*
Grains	*160.6*	*245.8*	*305.3*
Rice	35.2	33.4	23.5
Wheat and wheat flour	113.7	182.5	230.6
Malt	11.0	26.6	40.1
Maize	0.7	3.3	11.1
Tropical-zone commodities	*102.6*	*169.7*	*154.6*
Cacao	7.6	11.2	12.9
Coffee	32.8	58.3	44.4
Tea	6.9	7.0	7.4
Maté	18.1	14.5	12.5
Cotton	6.3	35.5	34.3
Vegetable fibres	7.2	6.7	5.0
Sugar	19.8	31.3	34.5
Tobacco	3.9	5.2	3.6
Livestock products	*46.7*	*160.9*	*193.9*
Chilled and frozen meat	4.0	16.7	22.6
Beef, pork and mutton	18.0	39.0	14.0
Dairy produce	20.7	91.5	139.0
Wool	3.0	12.0	11.5
Raw hides	1.0	1.7	6.8
Oils and fats	*53.6*	*73.4*	*125.0*
Oil-seeds	10.7	3.8	6.9
Oils and fats	42.9	69.6	118.1
Miscellaneous	*115.0*	*168.3*	*159.1*
Total sample	*478.5*	*818.1*	*937.9*

[a] Calculated at export prices f.o.b.

Latin America must import, because their ecological conditions do not allow them to produce them locally.[10]

(b) *Inter-Latin American trade*

The diversity and magnitude of Latin America's natural resources might suggest that the accelerated expansion of agricultural imports in the various countries was due to some degree of local specialization, subsequently resulting in an intensification of inter-Latin American trade. But the real state of affairs is very different. The additional imports of agricultural commodities came from outside the region, as is shown in table IX. The 96 per cent increment recorded between the pre-war period and recent years resulted from an increase of 146 per cent in extra-regional imports and one of only 46 per cent in those from Latin American sources. Consequently, of the purchases which the various countries are obliged to make in order to supplement their own production, only one-third come from other parts of Latin America. On the other hand, during the pre-war period these imports came in more or less equal proportions from extra- and intra-regional markets.

Only in the case of tropical-zone commodities have imports from outside the region remained stationary. As far as the rest are concerned, dependence on non-Latin American countries is exceptionally great. In the case of cereals, for example, the volume of extra-regional imports expanded by about 200 per cent, whereas those from Latin American sources remained at approximately the same levels. In such circumstances, producers outside the region currently satisfy about 70 per cent of the Latin American grain deficit—the most important item being wheat—whereas before the war they accounted for only 40 per cent (see again figure A).

[10] For example, Argentine, Chilean and Uruguayan imports of coffee, cacao and bananas.

As regards imports of livestock commodities, the situation is still more unusual. Despite the immense possibilities for stock farming afforded by the Latin American countries intra-regional imports have only doubled, while those from outside the region have almost quadrupled and at the present time cover 70 per cent of the various countries' deficits in supplies.

3. Balance of foreign trade

The balance of Latin American foreign trade in agricultural commodities reveals a somewhat paradoxical situation. The quantum of exports has remained at practically the same level as before the war while that of imports is increasing rapidly. Although Latin America is certainly not the only region whose exports are stationary, the contraction of the world supply has often been due to a reduction in Latin American shipments of commodities which the region formerly exported on a fairly large scale. This is true, for example, of the decrease in the world maize trade, which is chiefly attributable to the decline in Argentine export surpluses. As a result, habitual importers were compelled to initiate the production of other forage grains—a task in which they were successful—while the ground was prepared for considerable increases in exports of subsitutes from other countries.

In other cases, decreased Latin American supplies in the face of growing international demand favoured the expansion of output in the other countries of the world and the redistribution of the market among countries which were increasing their supplies.[11] Finally, the shortage of Latin American supplies encouraged countries which normally bought from Latin America to stimulate their domestic production and to provide it with various economic incentives.[12]

Meanwhile, Latin America did not aim at regional self-sufficiency in agricultural commodities and the quantum of extra-regional imports of such products increased by one and a half times between the pre-war period and recent years. At the same time, the situation of the region as a net exporter of agricultural commodities declined by 13 per cent (see table XI and figure B).

[11] As will be seen later (section II, 1), wheat is a good example of this process.

[12] For example, meat in the United Kingdom.

Table XI. Latin America: Balance of foreign trade in agricultural commodities

	1934-38	*1946-51*	*1952-55*
Quantum (Millions of dollars at 1955 prices)			
Extra-regional exports	3 843	4 118	3 721
Extra-regional imports	238	438	586
Net exports			
Quantum	3 605	3 680	3 135
Purchasing power[a]	2 498	3 224	3 191
Per capita (Dollars at 1955 prices)			
Extra-regional exports	33	27	22
Extra-regional imports	2	3	3
Net exports			
Quantum	31	24	19
Purchasing power	22	21	19

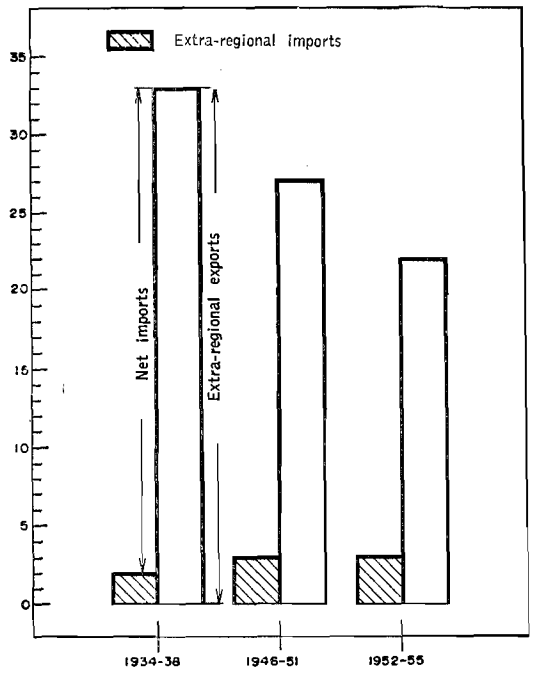
[a] The quantum was deflated by the agricultural terms of trade index (see table VI).

Figure B

LATIN AMERICA: EXTERNAL BALANCE OF TRADE IN AGRICULTURAL COMMODITIES *(PER CAPITA)*

(Dollars at 1955 prices)

Natural scale



In view of the decisive influence of agricultural exports in determining the capacity to import, the above trend would have had disastrous consequences, if the post-war terms of trade in agricultural commodities had not been favourable to Latin America. The fact that the purchasing power of net agricultural exports between the pre-war period and 1952-55 had improved by 28 per cent had a partial compensatory effect: their purchasing power fell by only 14 per cent *per capita* as compared with the pre-war period, whereas their quantum dropped by 40 per cent.

Certain individual countries not only registered a decrease or a stationary trend in exports but also unfavourable terms of trade, so that their capacity to import was still further reduced. The exceptional price situation during the post-war years and the period 1952-55 has already partly disappeared.

II. ANALYSIS BY COMMODITIES

1. Wheat

In the past, wheat was one of the main commodities exported by Latin America. Now, it has lost this important position and the foreign exchange receipts accruing from wheat exports are of secondary importance. Indeed, in recent years, Latin America has become a net exporter of this grain as a result of the reduction in the crops of the largest producer, Argentina, and the rapid rise in home consumption.

An analysis of world production since the war reveals that it was insufficient to meet demand because of the effects of the hostilities and of certain poor crops. In addition, many traditional importers had an accumulated deficit arising from the increase in population and the inadequate development of domestic production. For either or both of these reasons, countries which were self-sufficient and even those with export surpluses had to purchase additional supplies abroad; in others, especially those of Latin America, consumption increased rapidly because it was relatively small (except in Argentina, Chile and Uruguay) and because the income-elasticity of demand at these low levels of consumption is about unity. Depending on consumer preference, any increase in income leads to displacement of manioc, maize and other low-quality foodstuffs by wheat and rice. An increase in consumption also took place in Asia, particularly in India and Japan.

Stimulated by this expanding demand and the price policy followed by the United States, which resulted in remarkably abundant crops in that country, the supply increased rapidly in the post-war years and world surpluses began to accumulate during the early 'fifties.

These facts were reflected in a rapid increase in international trade which has remained at a fairly high level until very recently, without maintaining the rapid expansion of the immediate post-war years.

The production of wheat in Latin America has followed very different trends in the countries which cultivate it for home consumption and those which grow it for export. Among the former, output has expanded rapidly and is now more than double what it was before the war a result of governmental policy designed to reduce the pressure on the balance of payments attributable to wheat imports. In certain countries—especially those which do not possess ideal conditions of soil and climate—the results were disappointing; in others, particularly Brazil, Mexico and Uruguay, they exceeded all expectations. The only country of the region which normally exports a large part of its production is Argentina, although in recent years, Uruguay has also had substantial export surpluses. By contrast with what has happened in the importing countries, Argentine production underwent considerable fluctuations which have been reflected in a decrease in recent five-yearly averages and in the corresponding exports.

In 1952-55, world wheat exports attained an annual average of 25.5 million tons—more than 50 per cent higher than in 1934-38. However, this expansion was accompanied by a decline in Latin American exports. The international wheat market was therefore re-distributed among the remaining principal suppliers—Australia, Canada, and the United States. In 1934-38, Latin America—mainly Argentina—exported 3.4 million tons, supplying about 20 per cent of world demand. The rest of the market was divided principally among Canada, with 4.8 million tons (28 per cent), Australia, with 2.8 million (16 per cent) and the United States with 1.3 million (7 per cent). In 1952-55, when world demand was much higher than in 1934-38—exports rose from 17.3 to 25.5 million tons—Latin America reduced its sales from 3.4 to 2.5 million and its share fell by 10 per cent. On the other hand, those of the United States rose from 1.3 to 8.1 million tons, having reached an annual average of 11.2 million in 1946-51. Canada almost doubled its exports and those of Australia declined slightly by 15 per cent (see table XII and figure C).

At the same time, the total exports of the importing countries of Latin America registered a remarkable increase in spite of the development of production described above. In 1952-55 they were about 3.1 million tons or double those

Table XII. Wheat: World and Latin American production and foreign trade[a]

(Annual averages in thousands of tons)

	1934-38	1946-51	1952-55
A. *World*			
Production			
World[b]	129 400	138 630	159 470
United States	19 476	31 639	29 850
Canada	7 170	11 465	14 322
Others	102 754	95 526	115 298
Latin America	8 069	8 396	9 477
Percentage share of Latin America in world total	6.2	6.1	5.9
Exports			
World	17 300	24 450	25 510
United States	1 259	11 234	8 147
Canada	4 771	6 319	8 288
Others	11 270	6 897	9 075
Latin America	3 445	2 242	2 617
Percentage share of Latin America in world total	19.9	9.2	10.3
B. *Latin America*			
Production	8 069	8 396	9 477
Argentina	6 128	5 360	5 906
Others	1 941	3 036	3 571
Exports	3 445	2 242	2 617
Intra-regional	1 195	834	1 296
Extra-regional	2 250	1 408	1 321
Imports	1 509	2 288	3 083
Intra-regional	1 185	811	1 278
Extra-regional	324	1 477	1 805
Net exports	1 926	—	—
Net imports	—	69	484

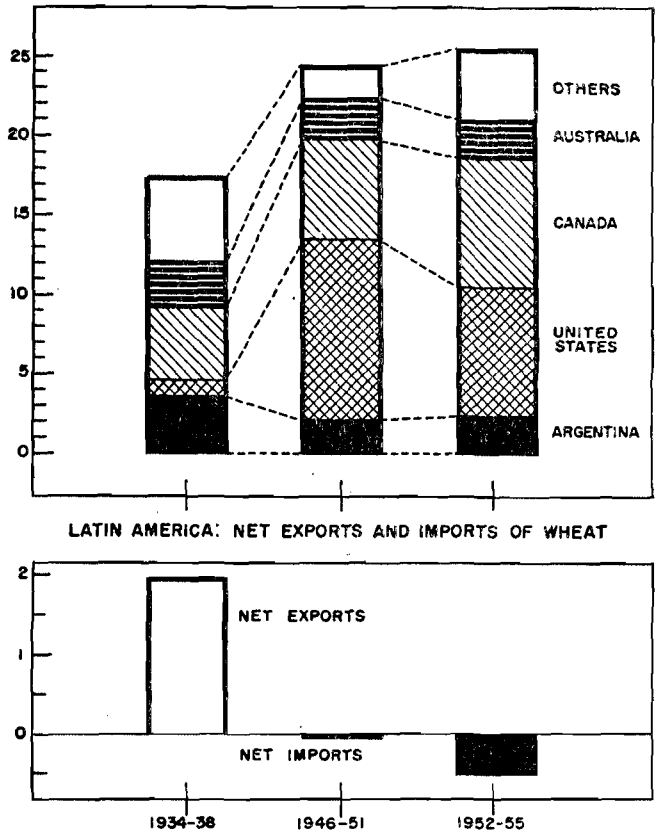
Sources: ECLA and FAO.
[a] Wheat and wheat flour expressed in terms of grain.
[b] Excluding the USSR.

Figure C

WHEAT: WORLD EXPORTS AND PRINCIPAL EXPORTER COUNTRIES

(Millions of tons)

Natural scale



of before the war. However, there was a change in the origin of imports. Before the war, imports from Latin America, and particularly from Argentina, were 1.2 million tons; they represented about 80 per cent of total foreign purchases of the importing countries. During the period 1946-51 they fell to 811 000 tons, which constituted only 35.4 per cent of a growing deficit. In the four following years, intra-regional purchases rose approximately the pre-war levels with the help of the increase in Uruguayan production which left export surpluses, sold mostly to Brazil. However, such purchases covered only about 40 per cent of total regional imports.

Thus, Latin America, after being a net exporter of wheat, has become a net importer. In 1934-38, extra-regional exports exceeded by about 2 million tons imports from the same source. In 1946-51, this situation changed and the net import balance was about 70 000 tons. In the next four years this deficit position became more marked and net imports averaged 484 000 tons a year. Two factors contributed to this change in the Latin American position: the remarkable increase in *per capita* consumption in the importing countries, which was not met by increased output; and the decline in Argentine production the causes of which will not be enlarged upon here.[13]

The United States surplus disposal policy, by granting considerable facilities for the acquisition of this grain, encouraged consumption and helped to increase the quantum of net imports.

The constant growth of consumption in Latin America is very significant for those countries of the area which export wheat: it represents a potential market which will be of great importance should the regional market be established. These possibilities are of especial interest in view of the fact that extra-regional buyers offer limited prospects.

2. Maize

The situation of maize in Latin America is very similar to that of wheat as regards markets of destination. Only one country, Argentina, grows it mainly for export and is in fact the only large exporter. The others grow it for home consumption. Unlike wheat, all the countries possess suitable ecological conditions for its cultivation; it is grown over a larger area than any other product; and it is a staple and important foodstuff in most of them.

Latin America is one of the leading producing zones of the world but its importance has been declining in recent years. In 1934-38 it produced 19.4 million tons or about 18 per cent of the world total. In more recent years, production has fallen by 12 per cent in absolute terms and its share in the world total has fallen to 12 per cent (see table XIII).

[13] See section III, A.

Table XIII. Maize: World and Latin American production and foreign trade

(Annual averages in thousands of tons)

	1934-38	1946-51	1952-55
A. *World*			
Production			
World[a]	110 200	132 720	147 575
Latin America	19 402	16 488	17 042
Argentina	8 224	3 591	3 146
Others	11 178	12 897	13 896
Percentage share of Latin America in world total	17.6	12.4	11.5
Exports			
World	10 200	4 863	5 082
Latin America	6 620	1 636	1 116
Argentina	6 527	1 543	1 071
Others	93	93	45
Percentage share of Latin America in world total	64.9	33.6	22.0
B. *Latin America*			
Exports	6 620	1 636	1 116
Intra-regional	6	27	24
Extra-regional	6 614	1 609	1 092
Imports	11	50	170
Intra-regional	4	20	19
Extra-regional	7	30	151
Net exports	6 607	1 579	893

Sources: ECLA and FAO.
[a] Excluding the USSR.

The development of maize production in Latin America has followed different trends. Excluding Argentina, it has increased in the other countries and in 1952-55 was 24 per cent higher than in 1934-38. On the other hand, Argentina's output began to decline about 1945 and already in 1952-55 it was only 3.1 million tons as compared with 8.2 million before the war and over 10 million in some years prior to 1945. This contraction and the consequent reduction in export surpluses led to a marked decline in the world maize trade since the other producing countries were unable to make up for the decrease in supplies from Argentina. As a result, trade in other feed grains—especially barley and sorghum—expanded, and progress was made in the production of grains of minor importance in the countries of Western Europe, which had formerly been the largest buyers of Argentine maize.

In 1952-55, the average annual volume of world market sales amounted to under 5 million tons, or less than half the figure registered in 1934-38. Latin America—more specifically, Argentina—ceased to be the principal supplier of maize. Its exports dropped from 6.6 million tons in 1934-38 to 1.6 million in 1946-51 and 1.1 million in 1952-55, while its share in world trade fell from 65 per cent to only 22 per cent in the course of the whole period. The position of the other exporter countries improved slightly, especially that of the United States, their sales rising from 3.6 to 3.9 million tons between 1934-38 and 1952-55 (see figure D).

As the Latin American countries generally produce the maize they need themselves, imports, whether from inside or outside the region, are very small, and represent tiny percentages of consumption.[14] The decline in regional maize

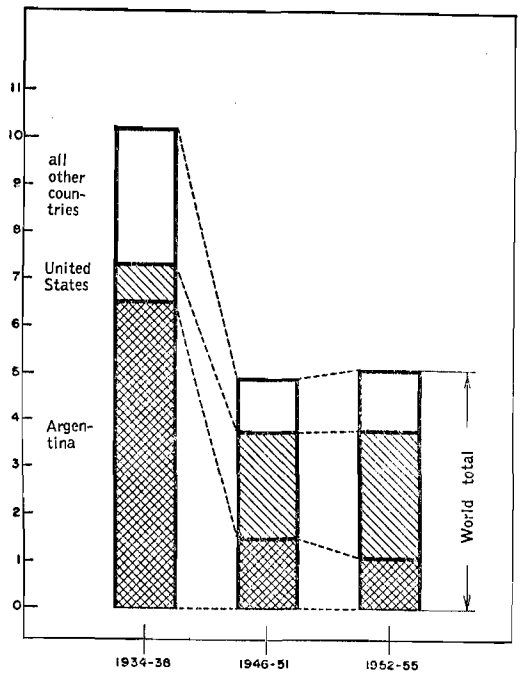
[14] Mexico is the only country whose imports—in years when internal production fails to meet domestic demand—are of any significance.

Figure D

MAIZE: WORLD EXPORTS AND PRINCIPAL EXPORTER COUNTRIES

(Millions of tons)

Natural scale



exports is striking because the whole of Latin America—not merely Argentina—has many possibilities of expanding its production, especially with the help of hybrid varieties and improved strains.

3. Sugar

Sugar holds an increasingly important place among Latin America's agricultural exports, as both production and sales abroad have registered an exceptional expansion in recent years. In fact, Latin America has become one of the world's principal suppliers. This is an example of the rare instances in which all the countries of the region, practically without exception, have taken pains to increase their output, with highly satisfactory results. Importer countries have made an effort to achieve autarky, and once this goal has been reached, everything possible has as a rule been done to sell their production surpluses of foreign markets. Traditional exporters have also taken steps to a similar end, with such success that international agreements to restrict world sugar production have had to be concluded. Some of the Latin American countries, Cuba in particular, are among those that have been most affected by such measures. Lastly, sugar is one of the few commodities which are being exported on a larger scale, despite a substantial increment in domestic consumption. In other words, the expansion of consumption was not achieved at the expense of exports, as was usually the case with other commodities.

It was in the countries producing sugar mainly for domestic consumption that the relative increments were largest, the output reaching 3.9 million tons in 1952-55, or 170 per cent more than in 1934-38. Of the importer countries, Bolivia, Chile and Uruguay made manifest progress; Ve-

nezuela became self-sufficient, thanks to an energetic sugar programme which raised production to levels more than 8 times higher than those registered before the war; Argentina, Colombia and Ecuador also achieved autarky, and from time to time had exportable surpluses; and Brazil, in conformity with a policy of protecting the sugar industry, granted exceptional privileges to planters, especially in the States of São Paulo and Paraná. At the present time, Brazil produces 2.2 million tons of sugar, which means that it has easily trebled its pre-war output, and not only covers its own requirements, but has substantial exportable surpluses as well.

The traditional exporters—Cuba, the Dominican Republic and Peru also increased their production from 3.7 to 6.7 million tons between 1934-38 and 1952-55. Outstanding among such exporters is Cuba, where the figures for these two periods were 2.8 and over 5.4 million tons respectively (see table XIV), without the country's having come anywhere near exhausting the possibilities for expansion of its production.

The outcome of all this effort was that Latin America's production more than doubled between the pre-war period and recent years; this constitutes a much greater increase than was registered in any other region, besides representing a noteworthy improvement in Latin America's share in the world output.

Again, the region's consumption rapidly expanded, as the income-elasticity of demand for sugar—at the low income levels which seem to be the general rule—is apparently very close to unity. The fact that prices were low in comparison with those of other commodities also helped to determine the growth in question, which raised *per capita* consumption from 17 kilogrammes in 1934-38 to about 30 in 1952-55. This implied an expansion of total consumption of approximately 150 per cent, or, in absolute terms, an average annual increase from 2 to over 5 million tons.[15]

As has already been pointed out, the magnitude of this increment in domestic consumption did not prevent Latin America from acquiring steadily greater importance in the world market. In 1952-55 its exports amounted to 6.1 million tons, or about 50 per cent of total world sales. During the pre-war period its exports had stood at barely 3.3 million tons, and had represented only 34 per cent of the total. Other exporter countries, in contrast, succeeded only in maintaining their pre-war absolute volume of sales abroad (see figure E).

Latin America's imports of sugar are very small. Although consumption exceeds 5 million tons, they do not amount to more than 390 000 tons, and almost all come from within the region itself. In these circumstances, the

[15] These figures do not imply a net increase in consumption of saccharine products, since a part of the consumption increment is attributable to the substitution of refined sugar for unrefined types such as *panela, papelón, chancaca,* etc.

Table XIV. Sugar: World and Latin American production and foreign trade

(Annual averages in thousands of tons)

	1934-38	1946-51	1952-55
A. *World*			
Production			
World	25 300	30 012	37 207
Latin America	5 093	9 580	10 554
Cuba	2 838	5 419	5 451
Others	2 255	4 161	5 103
Percentage share of Latin America in world total	20.1	31.9	28.4
Exports			
World[a]	9 800	9 815	12 600
Latin America	3 346	6 015	6 060
Cuba	2 560	5 112	4 780
Others	786	903	1 280
Percentage share of Latin America in world total	34.1	61.3	48.1
B. *Latin America*			
Production	5 093	9 580	10 554
Traditional exporter countries[b]	3 658	6 603	6 657
Countries producing primarily for domestic consumption	1 435	2 977	3 897
Exports	3 346	6 015	6 060
Intra-regional	167	344	377
Extra-regional	3 179	5 671	5 683
Imports	221	350	386
Intra-regional	160	329	381
Extra-regional	61	21	5
Net exports	3 118	5 650	5 678

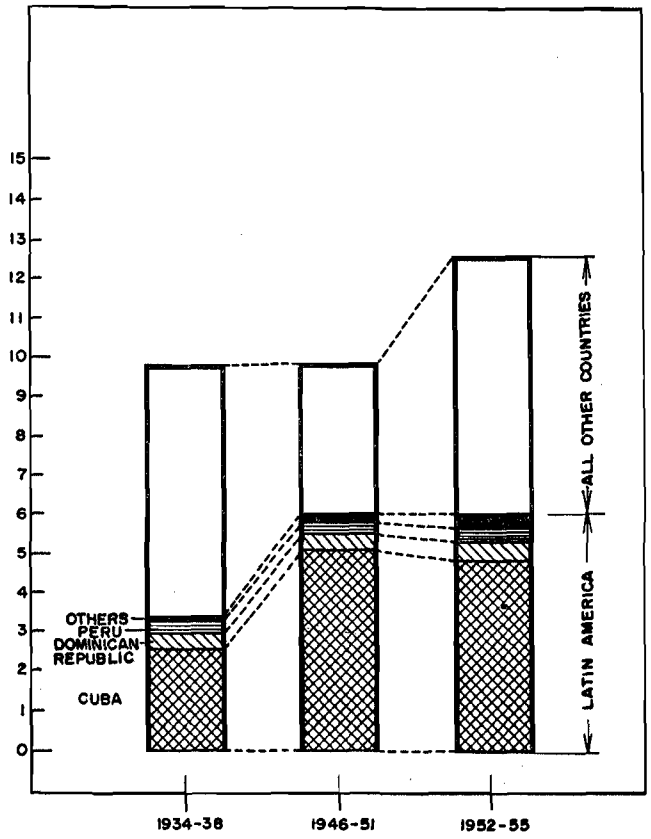
Sources: ECLA and FAO.
[a] Excluding United States trade with its territories.
[b] Cuba, Dominican Republic and Peru.

Figure E

SUGAR: WORLD EXPORTS AND PRINCIPAL EXPORTER COUNTRIES

(Millions of tons)

Natural scale



progress achieved by total exports implies an approximately similar improvement in Latin America's position as a net sugar exporter.

4. Cotton

The importance of Latin America as a producer and exporter of cotton has also been gradually increasing. Production has developed in almost all those countries where conditions are suitable. In those whose output is not sufficient to meet their needs—i.e., Bolivia, Colombia, Ecuador, Paraguay and Venezuela—considerable progress has been made, which has helped to reduce their dependence upon foreign sources. But the greatest impetus has been given to the region's production in the exporter countries in general, and, in particular, in Mexico and the Central American republics. Here, sowings have been considerably extended and, thanks to the diffusion of up-to-date farming techniques, the unit yields obtained have been quite high. Costs being low, the countries in question are able to compete in the world market on advantageous terms.

Between 1934-38 and 1952-55, Latin America's output of cotton increased by 90 per cent, rising from 590 000 to 1 120 000 tons; its share in the world total improved from 10 to 15 per cent. During the same interval, the production of the other countries expanded by only 14 per cent (see table XV and figure F).

The upward trend in world production has not been matched by a similar movement of cotton exports, which, on the contrary, have declined. This contraction of trade has resulted partly from the reduced importance of world trade in textiles, reflected, *inter alia,* in the decrease in United Kingdom and Japanese raw material imports. On the other hand, the cotton textile industry has expanded to a substantial extent in a large number of under-developed countries in Africa, Asia and Latin America which are often themselves producers of cotton fibre. What is more, in many countries where the output of fibre for export would not be justifiable, since they would not be able to compete advantageously with others where production was cheap and efficient, cotton is grown to meet the needs of the domestic textile industry, the necessary tariff protection being provided. Nor have the European countries that import for their own consumption increased their purchases to any great extent, since the elasticity of demand for cotton textiles is slight at relatively high income levels. Furthermore, the impact of competition from synthetic fibres has become progressively more powerful.

Even so, in 1952-55 Latin America's exports amounted to 577 000 tons, or 75 per cent more than in 1934-38. Conversely, during the same interval, the other exporter countries witnessed a reduction of rather more than 30 per cent in the volume of their sales. As a result, Latin America's contribution to total world exports, which in the pre-war period had been only 10 per cent, was a little over 23 per cent in 1952-55, and about 30 per cent in subsequent years.

Latin America achieved this expansion at the expense of other traditional exporters, especially the United States, which was the most important of these. The latter's policy of fixing guarantee prices at levels which encouraged production but at the same time prevented its exportable surpluses from competing on the world market brought about a contraction of its exports, which were to some

Table XV. Cotton: World and Latin American production and foreign trade

(Annual averages in thousands of tons)

	1934-38	1946-51	1952-55
A. *World*			
Production			
World[a]	6 000	5 670	7 300
United States	2 756	2 774	3 254
Others	3 244	2 896	4 046
Latin America	591	738	1 121
Percentage share of Latin America in world total	9.9	13.0	15.4
Exports			
World	3 070	2 360	2 465
United States	1 294	977	768
Others	1 776	1 383	1 697
Latin America	329	430	577
Percentage share of Latin America in world total	10.7	18.2	23.4
B. *Latin America*			
Exports	329	430	577
Intra-regional	3	30	35
Extra-regional	326	400	542
Imports	10	54	52
Intra-regional	2	32	31
Extra-regional	8	22	21
Net exports	318	378	521

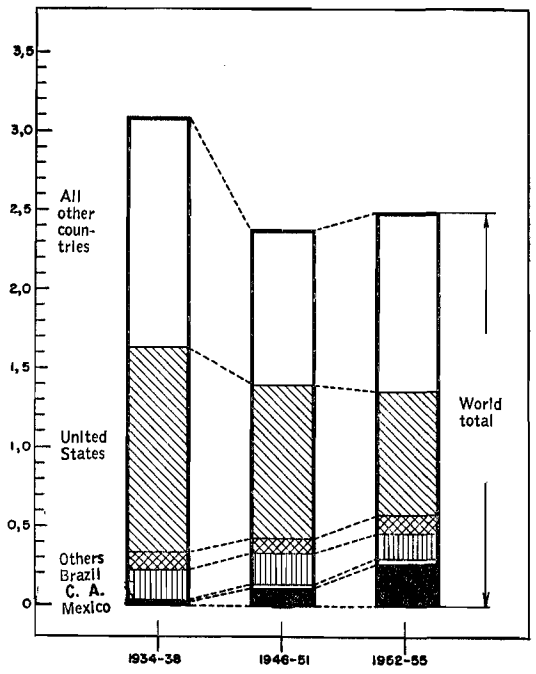
Sources: ECLA and FAO.
[a] Excluding the USSR.

Figure F

COTTON: WORLD EXPORTS AND PRINCIPAL EXPORTER COUNTRIES

(Millions of tons)

Natural scale



extent superseded by those of Latin America. Among the principal Latin American exporters, the only one that failed to show a decided upward trend was Brazil. There was apparently no reason why Brazil's participation in the world cotton trade should have declined. The market loss which has just been described was largely attributable to the United States,[16] although Brazil's own price policy, which discouraged production, was also responsible. Production was virtually at a standstill from 1935-39 to 1950-54, when it amounted to 384 000 and 406 000 tons of fibre respectively. At the same time, consumption went up by more than 100 000 tons and, instead of absorbing only half the national output, it diverted more than three-fifths. The greatest increase in exports was attributable to the remainder, above all Mexico, the Central American countries and Peru.

As in the case of sugar, the rapid growth of cotton production meant that exports and domestic consumption could be simultaneously expanded. Almost all countries gradually promoted the development of their textile industry in order to satisfy the increase in demand for clothing and substitute domestic production for imports, so that cotton consumption in Latin America almost trebled in relation to the pre-war period.

The smallness of the share of imports in consumption bears further witness to the production effort. In 1952-55 the average annual volume purchased abroad was 55 000 tons, as against a consumption figure of 460 000 tons. Chile, Colombia and Uruguay are almost the only countries importing large quantities (solely of long fibre in Colombia's case). Intra-regional imports are on a very small scale, amounting to a mere 22 000 tons, and are constituted by purchases of high-grade cottons which nearly all countries are obliged to buy. Consequently, the expansion of cotton exports described also implies progress on Latin America's part as a net exporter.

5. Coffee

Coffee is the most important commodity in Latin America's foreign trade; it has always earned the largest amounts of income from abroad for the region and in recent years it has done so on an increasingly striking scale. In 1952-55 it represented about 45 per cent of the value of agricultural exports as compared with 23 per cent in 1934-38. Moreover, Latin America is the world's main coffee-producing region. In many countries, coffee sales form the basis or a very large part of foreign trade and their capacity to import depends to a large extent on fluctuations in output and price. There are good prospects of both short-term and long-term expansion because the big plantations formed at the beginning of this decade under the stimulus of rising coffee prices have begun or are beginning production; because productivity may be increased by the introduction of new farming techniques; and, in the long run, because nearly all the countries concerned have the resources to enlarge plantations still further.

For some years now, however, the Latin American situation has been weakening. The development of production at a steady rate and the growing exports in other parts of the world—especially in Africa—are slowly undermining the contribution of Latin America to world production and supply. Before the war, Latin America produced 2 083 000 tons, i.e., 86 per cent of world production (see table XVI and figure G). In the following years this production decreased and, on the average, was slightly more than 1.7 million tons in 1946-51, only 79 per cent of the world total. In 1952-55, production increased to an annual average of 2 million tons, although the share in the world total still remained at 79 per cent.

In order to interpret these fluctuations correctly, the conditions of the world market during the last 30 years must be taken into account. They may be summed up by stating that, between 1925 and 1929, Brazil, encouraged by high international coffee prices, increased considerably its area planted. Thus, in the 'thirties and thereafter, large stocks accumulated and, until 1948 inclusive, exerted pressure on the supply. They were maintained at high levels in spite of large-scale destruction by the Government. Consequently, the decline in price between the years 1929 and 1948 was greater and more prolonged than that for any other commodity of importance to world trade. As a result, many of the Brazalian plantations were abandoned,[17] with a consequent drop in production. The Brazilian harvest, which in 1934-38 was 1 461 000 tons, as an annual aver-

[16] Especially after 1949, the United States sold large quantities of cotton against Marshall Plan funds or on credit, mainly to Germany and Japan, which were Brazil's chief pre-war markets.

[17] Between 1933 and 1948 the number of coffee trees in production fell by about one third (by roughly 1 000 million trees). Also, 4.8 million tons of coffee were destroyed.

Table XVI. Coffee: World and Latin American production and foreign trade

(Annual averages in thousands of tons)

	1934-38	1946-51	1952-55
A. *World*			
Production			
World	2 420	2 207	2 565
Latin America	2 083	1 740	2 037
Brazil	1 461	1 020	1 161
Colombia	262	345	402
Others	360	375	474
Percentage share of Latin America in world total	86.1	78.8	79.4
Exports			
World	1 650	1 875	1 980
Latin America	1 390	1 570	1 546
Brazil	875	984	840
Colombia	230	313	349
Others	285	273	357
Africa	130	259	356
Others	130	46	78
Percentage share of Latin America in world total	84.2	83.7	78.1
B. *Latin America*			
Exports	1 390	1 570	1 546
Intra-regional	26	51	40
Extra-regional	1 364	1 519	1 506
Imports	28	51	38
Intra-regional	27	49	38
Extra-regional	1	2	—
	1 363	1 517	1 506

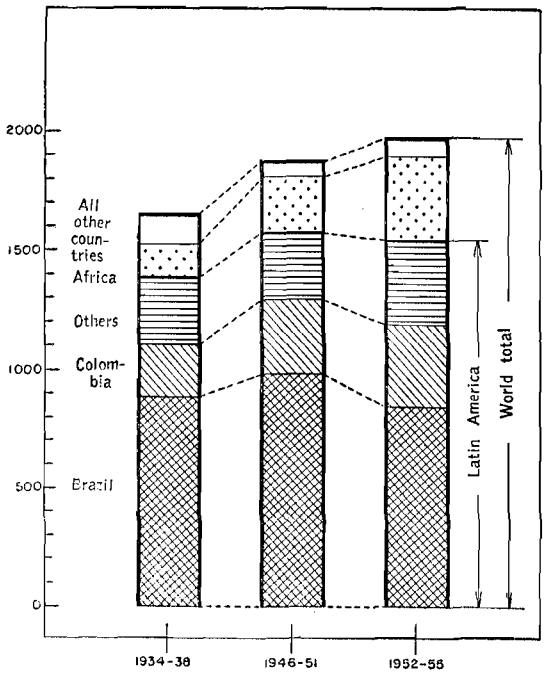
Sources: ECLA and FAO.

Figure G

COFFEE: WORLD EXPORTS AND PRINCIPAL EXPORTER COUNTRIES

(Thousands of tons)

Natural scale



age, fell to only 1 020 000 in 1946-51. On the other hand, the output of the other Latin American countries taken as a whole increased from 622 000 to about 720 000 tons between the same years, but this increase was insufficient to offset the decline in Brazilian production.

When the large Brazilian stocks were exhausted in 1949, world production capacity could barely satisfy the current demand. Prices then rose and output was stimulated. Brazil and the other producing countries of the world began to increase their production so rapidly that in recent years the threat of surpluses has loomed again. Moreover, had it not been for the frosts of 1953 and 1955, which damaged the new plantations in the state of Paraná in Brazil and reduced the harvest in the following years, Brazilian production would have far exceeded the pre-war levels and world supply would have been greater than the present demand. Altogether, in 1955, Latin America exceeded for the first time, by about 9 per cent, the high pre-war levels.

Meanwhile, output in the other parts of the world, especially in Africa, has been continually increasing; the world market difficulties described above failed to slow it down. It rose to 340 000 tons in 1934-38, to about 470 000 in 1946-51 and to about 530 000 in 1952-55; in the first and third of these periods the share of world production was 15 and 20 per cent respectively.

World demand for coffee has been increasing slowly but steadily: annual average exports during 1952-55 (1 980 000 tons) were 20 per cent higher than in 1934-38. Yet the share of Latin American exports has not developed so favourably, partly because of the geographical redistribution of production: they increased by only 10 per cent between 1934-38 and 1952-55 while their share of world exports fell from 84 to 78 per cent. On the other hand, between the same periods, African exports almost trebled; their amount rose from 130 000 to 356 000 tons and their share of the total from 8 to 18 per cent. If Africa's extra-regional exports are counted, i.e. those shipped mainly to the traditional markets of Latin America, the increase is even greater: from 70 00 to 306 000 tons.

African coffee has gained ground not only in the European market but also in that of the United States. Before the war, Latin America was the source of 38 per cent of European imports; in more recent years, when most importing countries have liberalized purchases of this commodity to a larger extent, this percentage has fallen to under 30. The new conditions underlying the European common market will tend to consolidate the position of African coffees in Europe and will make it much more difficult for Latin American to recover the lost ground. In the United States too, African competition has sharpened partly because of the increasing importance of the manufacture of soluble coffees where the African product has the advantage of being cheaper while its inferior quality does not matter so much.

6. Cacao

Latin America's share of world cacao production was approximately one-third and has increased in recent years. It is even true to say that up to 1955 Latin America was responsible for any expansion in world production. In 1952-55, annual harvests in the region averaged 252 000 tons, which represented an increment of 15 per cent over the 1934-38 level (see table XVII and figure H). During the same period, world production alone rose from

Table XVII. Cacao: World and Latin American production and foreign trade

(Annual averages in thousands of tons)

	1934-38	*1946-51*	*1952-55*
A. *World*			
Production			
World	740	725	790
Latin America	*218*	*228*	*252*
Brazil	125	124	143
Others	93	104	109
Percentage share of Latin America in world total	29.4	31.4	31.9
Exports			
World	690	673	712
Latin America	186	181	181
Percentage share of Latin America in world total	26.9	26.9	25.4
B. *Latin America*			
Exports	*186*	*181*	*181*
Intra-regional	9	14	17
Extra-regional	177	167	164
Imports	*11*	*16*	*18*
Intra-regional	8	14	17
Extra-regional	3	2	1
	174	165	163

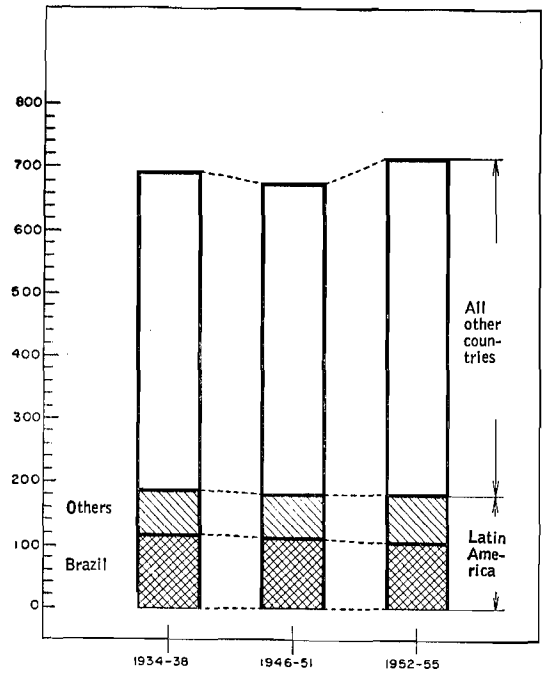
Sources: ECLA and FAO.

Figure H

CACAO: WORLD EXPORTS AND PRINCIPAL EXPORTER COUNTRIES

(Thousands of tons)

Natural scale



740 000 to 790 000 tons. In this way, Latin America's contribution to the total expended from 29 to 32 per cent.

Brazil was the leading cacao producer in Latin America, contributing a little over half the regional total. It also registered one of the most accelerated rates of growth in this branch of production, increasing its output from slightly over 90 000 tons in 1930-34 to more than 160 000 in 1955. Diseases were and still are the most serious obstacle to an expansion in world production, both in such countries as Colombia, Ecuador and Venezuela, and in the Republic of Ghana, the foremost cacao producer in the rest of the world.

World cacao trade has grown equally slowly and in 1952-55 reached a total of 712 000 tons, a bare 3 per cent increment over its 1934-38 level. It would be worth while at this juncture to make a brief analysis of world demand in order to understand the true significance of these figures. In high-income countries, which are also those with the highest consumption, demand was comparatively inelastic. But as a large proportion of consumption is indirect, since it consists of finished goods, the rise in relative prices of raw materials induced industrialists to cut down cacao content or to use substitutes. Hence, although cacao in its final form has a rather inelastic demand, as a raw material it shows a margin of substitution.

Moreover, consumption tends to reach saturation point in high-income countries, and once this has been attained, demand becomes virtually inelastic as a result of the rise in income levels. For example, imports from the United States between 1934-38 and 1952-55, in spite of the substantial increase in disposable income for consumption in the same period, expanded just enough to keep pace with population growth. In Europe, *per capita* consumption has still failed to recover its pre-war level, although the different countries vary considerably in this respect. As a result of the foregoing circumstance, current *per capita* consumption is lower than before the Second World War. This decline is attributable to the inadequacy of the supply, which has been causing a marked and steady rise in prices, especially since 1949.

In spite of the greater increase in Latin American production, the export quantum remained almost stationary. Its share of world trade weakened slightly because the rate of consumption in Latin America rose from approximately 30 000 to more than 70 000 tons between 1934-38 and 1952-55.

Most Latin American cacao exports are marketed outside the continent. Inter-Latin American trade has, nevertheless, shown a continuous upward trend (from 8 000 tons in 1934-38 to 17 000 in 1952-55) since the non-producer countries, Argentina, Chile and Uruguay, and a few others, such as Colombia, whose production remained stationary, were also concerned in the above-mentioned consumption increment which was satisfied by the Latin American producers themselves. Extra-regional imports have never been of much importance and have almost disappeared in the last few years. In these condition, the region's net exports fell slightly (from 174 000 to 164 000 tons) between 1934-38 and 1952-55.

7. Meat

Meat production is an important component of the Latin American economy but it is not developing satisfactorily. Its failure to keep pace with population growth has given rise to serious disequilibria which have mainly resulted in the curtailment of exports. Between 1934-38 and 1952-55, Latin American meat production increased only 21 per cent as against 28 per cent in the rest of the world.

This lag in production is related to the fact that all types of meat do not follow the same trend. Pork output has risen most rapidly; beef production has been characterized by a fairly intensive, though somewhat irregular, expansion; that of mutton has been steadier but, this meat being a by-product of wool, the increase has been fairly slow.

The lack of progress is not due to the same causes in the various countries, although there have been common obstacles to more rapid development in all of them: the extensive character of animal husbandry, the failure to introduce new farming techniques, the low level of investment, and bad marketing and transport conditions. As a result, meat farming is inefficient and productivity low. The average production of meat *per capita* in Latin America ranges from 9 kilogrammes in Nicaragua and 13 in Honduras and Venezuela, to between 37 and 44 in Argentina, Chile and Uruguay; for the United States and Australia, the figures are 69 and 47 respectively.

Argentina, Brazil, Colombia, Mexico and Uruguay are the 5 most important meat producers in Latin America. Together, they represent about 70 per cent of total output. Here, too, the greatest aggregate expansion has taken place. As Argentina and Uruguay were the main exporters and as their home consumption has risen more rapidly than production, their exports have had to be reduced. Thus, Latin America has continued to lose the important position it formerly occupied in the world meat trade.

Except in Argentina, Paraguay and Uruguay, consump-

tion in Latin America is generally low and, in certain countries, is on the decline. Although certain importing countries have been buying more from abroad and others, which formerly had exportable surpluses, have become importers, the supply bears no relationship to the growth of the population and even less to income. This fact, which might be interpreted as implying that the consumption of meat in Latin America had a negative coefficient as regards the income-elasticity of demand, must be explained by lack of supplies due to insufficient output, which in turn helps to raise the price.

Argentina, the region's main exporter, does not follow this trend. Here, the policy of encouraging demand by fixing artificially low prices has tended to increase the already high levels of *per capita* consumption, especially of beef, and to reduce supplies for export to a dangerous level.

All these developments in consumption and production have had a serious effect on Latin America's position in the world meat trade. In the past its share of this trade was phenomenal: in 1934-38, it supplied about 50 per cent of the world demand for fresh, chilled and frozen meat (see table XVIII and figure I). However, Latin American exports have fallen considerably, 40.6 per cent between 1934-38 and 1952-55 (from 593 000 to 241 000 tons). Meanwhile, the other exporting countries have increased theirs by 43 per cent (from 672 000 to 965 000 tons) and made up for the ground lost by the region. The Latin American share of the world meat trade went down from 47 to 20 per cent.

Although the decline is mainly due to the situation in Argentina, the other habitual or sporadic exporters—Brazil, Colombia, Mexico, Uruguay and Venezuela—have also decreased their sales abroad to the point where the market has almost disappeared. The sharpest drop was registered in Argentina (from 463 000 tons in 1934-38 to 188 000 in 1952-55) as a result of two contrary trends. On the one hand, production has increased at a very slow rate (15 per cent between 1934-38 and 1952-55), and, on the other,

Table XVIII. Fresh, chilled and frozen meat: World and Latin American foreign trade

(Annual averages in thousands of tons)

	1934-38	*1946-51*	*1952-55*
A. *World*			
Exports			
World	*1 265*	*1 222*	*1 206*
Latin America . . .	593	439	241
Others	672	783	965
Percentage share of Latin America in world total	46.9	35.9	20.0
B. *Latin America*			
Exports	*593*	*439*	*241*
Argentina	463	360	188
Uruguay	66	54	41
Others	64	25	12
Intra-regional	7	13	15
Extra-regional	586	426	226
Imports	*2*	*11*	*15*
Intra-regional	2	9	14
Extra-regional	—	2	1
Net exports	586	424	225

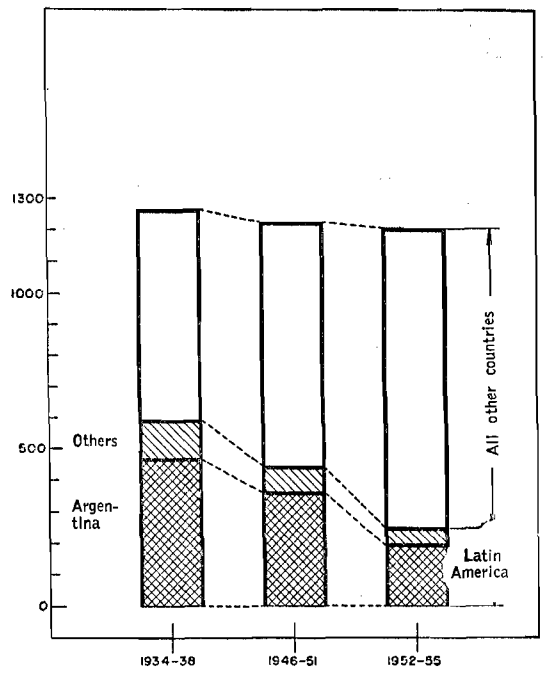
Sources: ECLA and FAO.

Figure I

FRESH, CHILLED AND FROZEN MEAT: WORLD EXPORTS AND PRINCIPAL EXPORTER COUNTRIES

(Thousands of tons)

Natural scale



consumption has accelerated (by 47 per cent) with the result that export surpluses have been considerably reduced.[18]

In Uruguay, the production crisis and the decline in export surpluses (from 66 000 to 41 000 between 1934-38 and 1952-55) are due to the competition for the limited land resources between livestock and crop production, on the one hand, and sheep and beef production on the other. The expansion in the cultivation of wheat and the big increase in sheep population (from 18 to 24.5 million between 1937 and 1955), together with the rise in domestic consumption, has led to such a decline in the cattle population that, in recent years, Uruguay has scarcely entered the beef export market.

In Brazil, Colombia and Venezuela, export surpluses were reduced and finally exhausted under pressure of demand on an inelastic supply. For many years, the prevalence of foot-and-mouth disease in the country excluded Mexico from world markets, particularly that of the United States.

At the same time, the purchases abroad of the importing countries considerably increased between 1934-38 and and 1952-55. Brazil, Chile, Cuba, Peru and Venezuela are the main importers. They have been supplied almost completely from intra-regional trade, mainly in the form of cattle on the hoof. But in recent years, purchases of chilled, frozen, tinned and other types of meat have been increasing.

[18] Since 1955, when the damage caused by the droughts of 1948 and 1951 had been made good, export availabilities greatly increased. Apparently, too, farmers began to kill off a proportion of their stocks so that export balances became swollen.

Finally, Latin America no longer plays its former important role as the world's meat supplier. Indeed, its net exports of fresh, chilled or frozen meat, which in the prewar years were around 600 000 tons, scarcely reached 225 000 in 1952-55.

III. ANALYSIS BY COUNTRIES

A. ARGENTINA

Introduction

One of the most significant features of the Argentine economy in recent years has been the steady decline in the quantum of agricultural exports, which form the basis of its foreign trade.

This decline is the direct result of the lack of progress in the crop and livestock sectors, which until 1940-44 was reflected in the drop in *per capita* output and subsequently in an absolute decrease in the levels of production. In addition, the trend towards accelerated production for the domestic market and the contraction, in absolute terms, of export production (cereals, oil-seeds and meat), which was already noticeable in previous years, became much more marked.

The decrease in agricultural production was accompanied by a rise in domestic consumption brought about by the increase in population and income. In order to meet this demand, production had to increase at a greater rate than the population. Failing this, there were only two alternatives: either to reduce exportable surpluses or to resort to imports. The first policy has been followed in Argentina for many years. As a result, between the five-year period 1925-29, when exports were the highest in the last 35 years, and 1950-54, agricultural exports dropped by 42 per cent in aggregate and by 75 per cent *per capita*. Argentina thus lost its position on the world market as one of the largest suppliers of cereals, oil-seeds and meat.

In view of the vital role played by agricultural exports in determining the capacity to import, Argentina might have pursued a dynamic agrarian policy which would have created sound conditions for the development and expansion of the sector and enabled the country to compete more favourably on foreign markets with the help of its exceptional natural resources.

In fact, this did not happen. Argentina, unlike other Latin American countries, could not take advantage of the extremely favourable market conditions for agricultural and livestock commodities which prevailed at the end of the Second World War when the world economy was recovering.

During the period under review (the last 35 years) imports of agricultural commodities remained practically unchanged; in other words, *per capita* imports have been much smaller in the most recent years, a trend which is explained by the rapid growth of production for the home market. Thus, the characteristic feature of the foreign trade balance in agricultural commodities has been the constant decrease in the quantum of net exports.

The consequent reduction in Argentina's capacity to import has prevented it from buying abroad all those capital goods which are essential for expediting economic development and for replenishing and extending infrastructural investment in such important sectors as transport, energy, etc. It has also seriously impeded imports of raw materials and fuels necessary for industrial development.

The figures quoted later show clearly that the solution of present economic problems depends on the recovery of the agricultural sector, which besides substantially increasing exports and bringing them nearer to their former level, will also facilitate a better balance between agricultural and industrial development.

1. Agricultural production

To obtain a clearer picture of the situation resulting from the decline in agricultural exports some attention must be given to the growth and trends in agricultural production over at least a 35-year period. For the purposes of such an analysis, two stages in Argentina's agricultural development may be distinguished. The first, which might be called a stage of agrarian expansion, culminates in the five-year period 1940-44, when the highest yearly aggregate and *per capita* production averages were recorded. Between the two extreme quinquennia of the period (1920-24 and 1940-44) agricultural production grew at a rate of 54 per cent, i.e. at the same rate as the population, with the result that levels of *per capita* production were more or less stable. The greater and more persistent increase was noted in the crop sector (65 per cent); livestock production increased by only 48 per cent (see table XIX and figure J).

After 1940-44 came a period of stagnation during which the five-year production averages were slightly lower during the peak quinquennium (1940-44). This stagnation

Table XIX. Argentina: Quantum of agricultural production, 1920-57

(At 1950 prices)

Annual average	*Crops*	*Livestock*	*Total*
	Total (Millions of pesos)		
1920-24	4 751	4 392	9 143
1925-29	5 943	4 351	10 294
1930-34	6 366	4 692	11 058
1935-39	6 930	5 204	12 134
1940-44	7 830	6 480	14 310
1945-49	6 830	6 890	13 720
1950-54	7 109	6 508	13 617
1955	8 262	6 365	14 627
1956	8 026	6 845	14 871
1957	8 303	6 001	14 304
Percentage change			
1950-54/1920-24	50	48	49
1950-54/1940-44	— 3	0.4	— 5
	Per capita (Pesos)		
1920-24	505	466	971
1925-29	542	397	938
1930-34	514	379	893
1935-39	514	386	899
1940-44	535	443	977
1945-49	427	430	857
1950-54	395	362	756
1955	432	333	765
1956	412	351	763
1957	418	302	719
Percentage change			
1950-54/1920-24	— 22	— 22	— 22
1950-54/1940-44	— 26	— 18	— 23

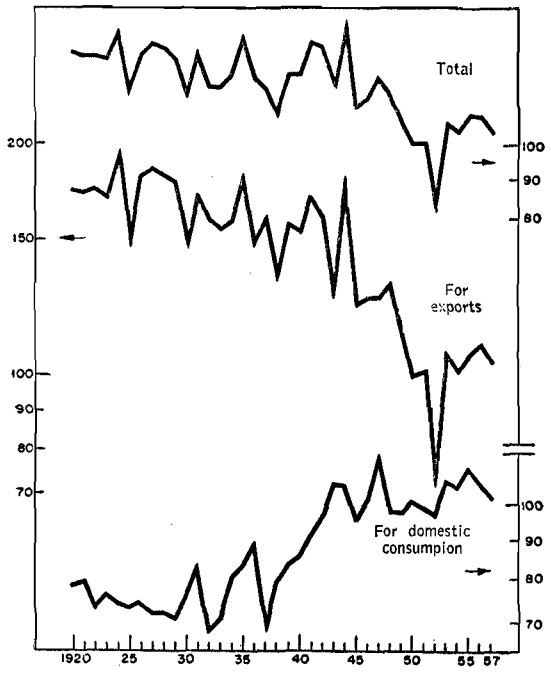
Source: Official statistics.

Figure J

ARGENTINA: PER CAPITA AGRICULTURAL PRODUCTION, TOTAL AND BY MARKET OF DESTINATION, DOMESTIC OR FOREIGN

(Indexes 1950 = 100)

Semi-logarithmic scale



in aggregate production brought *per capita* production in 1950-54 to the lowest levels of all the years during the period under review. Indeed, in this quinquennium, agricultural aggregate and *per capita* production was 7 and 24 per cent respectively lower than in 1940-44.

During this period of stagnation, the total production of crops fell in absolute terms. On the other hand, the livestock sector continued the expansion of previous years, although at a slower rate.

This lack of progress in agricultural production had a very marked effect on Argentina's economic development. In order to explain this effect more clearly, some attention must be given to certain features attendant on the development of Argentine agriculture.

The evolution of the volume of agricultural production has been accompanied by changes in market destination. Between the limits of the quinquennia examined (1920-24 and 1950-54), when total agricultural production rose by 43 per cent, production for export increased by 5 per cent, while that for domestic consumption increased by 155 per cent. This change in market destination reduced the share of export production in total agricultural output from 74 per cent in 1920-24 to only 54 per cent in 1950-54 (see table XX and again figure J).

A separate study of the crop and livestock sectors shows that exportable agricultural output increased steadily until 1940-44; a rapid decline then set in which was not arrested until 1955. The large increase in recent years in new export commodities—apples, pears and tung—partially conceals a decline which is even greater than that observed in the production of such traditional Argentine exports as

Table XX. Argentina: Quantum of agricultural production for export and for domestic consumption, 1920-57

	For export			*For domestic consumption*		
	Crops[a]	*Livestock*[b]	*Sub-total*	*Crops*[c]	*Livestock*[d]	*Sub-total*
	Total (Millions of pesos at 1950 prices)					
1920-24	3 440	3 058	6 498	1 311	1 334	2 645
1925-29	4 412	3 062	7 474	1 531	1 289	2 820
1930-34	4 502	3 139	7 641	1 864	1 553	3 417
1935-39	4 670	3 489	8 159	2 260	1 715	3 975
1940-44	4 755	4 257	9 012	3 075	2 223	5 298
1945-49	3 295	4 480	7 775	3 535	2 410	5 945
1950-54	2 988	3 811	6 799	4 121	2 697	6 818
1955	3 438	4 517	7 955	4 824	1 848	6 672
1956	3 338	4 985	8 323	4 688	1 860	6 548
1957	3 837	4 058	7 895	4 466	1 943	6 409
Percentage change						
1950-54/1920-24	— 13	25	5	214	102	158
1950-54/1940-44	— 37	— 10	— 25	34	21	29
	Per capita (Pesos at 1950 prices)					
1920-24	365	325	690	139	142	281
1925-29	402	279	681	140	118	257
1930-34	364	253	617	151	125	276
1935-39	346	259	605	167	127	295
1940-44	325	291	615	210	152	362
1945-49	206	280	486	221	151	371
1950-54	166	212	378	229	150	379
1955	180	236	416	252	97	349
1956	171	256	427	240	95	336
1957	193	204	397	225	98	322
Percentage change						
1950-54/1920-24	— 55	— 35	— 45	65	6	35
1950-54/1940-44	— 49	— 27	— 39	9	— 1	5

Source: Official statistics.
[a] Including cereals (except rice), linseed, sunflower seed peanuts, millet, tung.
[b] Including meat (except goat flesh) and wool.
[c] Including all the other crops not mentioned under.[a]
[d] Including milk, goat flesh and farm produce such as poultry, eggs, honey, etc.

cereals and linseed. By contrast, agricultural production for home consumption more than tripled between 1920-24 and 1950-54.

In the livestock sector too, export production (meat and wool) increased more slowly than that for the home market (milk and farm produce).

Agricultural development in Argentina did not allow exports to evolve along the same lines as domestic consumption. On the contrary, they diverged as a result of the growing demands of the home market on lagging production (see table XXI).

In other words, while in 1920-24 and up to 1935-39, 40 to 50 per cent of agricultural production was exported leaving the residue of 50 to 60 per cent for domestic production, in recent years—1950 and onwards—only 20 per cent was exported and 80 per cent kept for domestic consumption.

Table XXI. Argentina: Quantum of agricultural production and exports, 1920-56

(Millions of pesos at 1950 prices)

Annual average	*Total production*	*Production for export*[a]	*Production for domestic consumption*	*Percentage exported*
1920-24	9 143	—4 148	4 996	45
1925-29	10 294	5 179	5 115	50
1930-34	11 058	5 043	6 015	46
1935-39	12 134	4 984	7 150	41
1940-44	14 310	3 441	10 869	24
1945-49	13 720	3 652	10 068	27
1950-54	13 617	—2 658	10 959	20
1955	14 627	2 865	11 762	20
1956	14 871	3 054	11 817	20

Source: Official statistics.

[a] Figures in this column were determined by first expressing exports in terms of primary commodities. They were then weighted with the 1950 farm prices which were used to determine the quantum of production. For this reason, these figures do not correspond exactly to those in table XXII which relate to the quantum of exports. In the latter case, 1950 export prices were used and the quantities exported expressed in terms of primary commodities, by-products or finished products.

The crop and livestock sectors do not differ greatly either from each other or with respect to the total; until the outbreak of the Second World War, both sectors exported between 40 and 50 per cent of their production. The difference which is perhaps beginning to arise between them originated firstly and most strongly in the crop sector.

2. Agricultural exports

(a) *Evolution and composition*

The trends observed in agricultural output were naturally reflected in the volume and breakdown of exports. After having achieved their peak levels in 1925-29, they began to fall almost without interruption: in 1950-54 their quantum had dropped by 42 per cent and their *per capita* volume to only one-third (see table XXII).

As agricultural exports constitute—depending on the year—between 90 and 99 per cent of the quantum of commodities sold abroad, the marked contraction which they underwent has undoubtedly been at the root of most of the present difficulties facing the Argentine economy.

As may be seen in table XXII, in many years, the fall in the quantum of exports was accompanied by a deterioration in the terms of trade, which reduced even further the capacity to import.

The magnitude of the problem arising from the agricultural slump in Argentina will be better understood if it is pointed out that, in order to have maintained the quantum of *per capita* agricultural exports in 1950-54 at the same high level as in 1925-29, the aggregate of such exports would have had to have been 180 per cent greater than in fact they were; in other words, agricultural production should have increased by 76 per cent instead of the actual figure of 29 per cent.

Commodities of vegetable and animal origin formed the basis of agricultural exports. The share of forest products was small (3 to 5 per cent) within the aggregate and has not undergone significant changes over the years.

The crop sector was largely responsible for the decline

Table XXII. Argentina: Quantum and purchasing power of exports, 1920-55

Annual average	*Exports*			*Purchasing power of exports*	*Terms of trade (1950 = 100)*
	Agricultural	*Non-agricultural*	*Total*		
	Total (Millions of pesos at 1950 prices)				
1920-24	6 092	114	6 206	5 834	94.0
1925-29	7 519	126	7 645	8 906	116.5
1930-34	7 077	76	7 153	6 230	87.1
1935-39	7 001	154	7 155	7 777	108.7
1940-44	5 156	641	5 797	5 159	89.0
1945-49	5 299	393	5 692	7 115	125.0
1950-54	4 360	105	4 465	4 130	92.5
1955	4 354	202	4 556	3 668	80.5
	Per capita (Pesos at 1950 prices)				
1920-24	647	12	659	620	
1925-29	685	11	696	812	
1930-34	571	6	578	503	
1935-39	519	11	530	576	
1940-44	352	44	396	352	
1945-49	331	25	356	447	
1950-54	242	6	248	230	
1955	228	11	239	192	

Source: Official statistics.

in agricultural exports. Indeed, between 1925-29 and 1950-54 the volume of such exports was reduced to half.[19]

On the other hand, up to and including the period 1945-49, livestock exports showed a slight increase, interrupted only from 1950 onwards. Yet this increase was lower than the rise in population and consequently *per capita* exports of livestock products were increasingly lower.

The changes in the volume of exports in the crop and livestock sectors were not due to exactly the same causes. In the former case, the contraction was basically the result of the drop in export production the reasons for which it is not expedient to analyse here. In the livestock sector, the contraction is also attributable partly to the slow growth of export production but an additional cause was the rapid expansion of domestic demand consequent upon the accelerated rise in the population and the increase in *per capita* consumption. Beef is a good example of this process. Between 1925-29 and 1950-54, total beef production[20] rose from 1 700 000 to 1 878 000 tons, an increase of 10 per cent; domestic consumption increased from 917 000 to 1 574 000 tons (72 per cent) and absorbed not only all the production increment but also a large part of the production which was formerly reserved for export, with the result that the latter fell from 783 000 to 304 000 tons.[21]

(b) *Staple exports*[22] *and international market situation*

A rapid analysis of the most important commodities shipped abroad reveals that maize exports—the largest in the past—were also those which declined the most rapidly (see table XXIII).

In the two quinquennia between 1930 and 1939, Argentina exported an annual average of between 6.4 and 6.1 million tons of maize and there were years, for example 1930 and 1937, in which exports exceeded 9 million tons. With such exports, Argentina absorbed 64 per cent of international demand. Its closest competitor, the United States, exported only 800 000 tons during the same period.

In the following years, this exceptional situation enjoyed by Argentina changed. Firstly, as a result of the Second World War, exports fell to an average of 700 000 tons. In one year, 1943, in spite of high levels of production and enormous stocks, only 190 000 tons could be exported. Since the war, the fall in production did not allow Argentina even to approach the high level of former years. Thus, in 1950-54, the annual average of exports was only very slightly more than 1 million tons. On the other hand, United States exports more than tripled their pre-war figure (see table XXIV).

Wheat exports also decreased, although not to the same

[19] This decrease has certain special features. Between the years 1925-29 and 1935-39 inclusive, exports remained more or less at the same level but during the Second World War, when trade with the traditional markets for cereals and oil-seeds was cut off, they fell by more than half. The end of hostilities made possible a slight recovery which did not, however, change the situation radically. This decline was accompanied by certain changes in the composition of foreign sales: the disastrous effects of the fall in traditional exports, such as cereals and oil-seeds, were partially mitigated by the development of new exports such as fruit. For example, when traditional exports achieved their highest levels (1925-29), with an annual average equivalent to 4 300 million pesos at 1950 prices, those of other commodities amounted to 140 million pesos. The increase in the following years brought the latter in 1950-54 to slightly over 600 million pesos while the quantum of traditional exports had fallen to 1 560 million pesos.

[20] Readjusted in the light of changes in stocks.

[21] Includes exports of live cattle expressed in terms of carcass meat.

[22] Exports are expressed in terms of primary commodities; by-products and finished products sold abroad are also expressed in terms of primary commodities.

Table XXIII. Argentina: Principal agricultural exports,[a] 1920-56

Commodity	*1920-1924*	*1925-1929*	*1930-1934*	*1935-1939*	*1940-1944*	*1945-1949*	*1950-1954*	*1955*	*1956*
Grains									
Wheat	3 977	4 573	3 919	3 678	2 690	2 254	2 208	3 717	2 570
Maize	3 523	5 522	6 401	6 106	702	1 828	1 029	362	1 073
Barley	78	201	323	278	162	487	315	538	597
Oats	459	456	550	340	96	157	292	96	297
Rye	42	115	117	133	43	180	333	328	158
Oil-seeds									
Peanuts	2	[b]	[b]	3	36	24	3	1	1
Sunflower seed	3	1	3	5	154	218	163	—	20
Linseed	1 153	1 618	1 569	1 504	608	244	580	465	182
Tung	—	—	—	—	—	15	60	74	99
Fruits									
Apples	—	[b]	[b]	5	7	19	53	66	62
Pears	—	[b]	1	14	10	17	22	18	29
Grapes[b]	[b]	3	6	10	10	8	10	9	10
Fibres									
Cotton	4	17	26	28	13	9	37	2	—
Livestock									
Meat[c]	736	881	654	738	776	757	385	519	732
Wool[d]	138	130	140	152	143	196	124	115	124
Milk[e]	777	644	534	255	532	418	312	360	481
Poultry[f]	—	802	1 008	1 192	1 551	2 860	1 332	901	1 195

Source: Official statistics.

[a] Including exports of primary commodities together with by-products and finished products expressed in terms of primary commodities.

[b] Less than 500 tons.

[c] Including exports of beef, mutton and pork and foreign sales of cattle on the hoof, expressed in terms of carcass meat.

[d] Greasy base.

[e] Including exports of butter, cheese, powdered and condensed milk, expressed in terms of fresh milk.

[f] Frozen poultry, thousands of units.

Table XXIV. Argentina and other countries: Share in world exports of selected agricultural commodities in given years

Annual average	Thousands of tons	Percentage	Thousands of tons	Percentage	Thousands of tons	Percentage	Thousands of tons	Percentage	Thousands of tons	Percentage	Thousands of tons	Percentage
					Maize							
	Argentina		*United States*		*Yugoslavia*						*World total*	
1934-38	6 526.8	64.0	797.7	7.8	469.1	4.6					10 200	100.0
1945-49	1 828.0	43.0	1 661.9	39.0	204.1	4.8					4 265	100.0
1950-54	1 029.0	21.0	2 560.0	52.4	203.3	4.2					4 890	100.0
1955	362.3	7.5	2 752.6	57.3	2.1	0.1					4 800	100.0
1956	1 065.1	17.2	2 976.4	48.0	47.1	0.8					6 200	100.0
					Wheat[a]							
	Argentina		*United States*		*Canada*		*Australia*				*World total*	
1934-38	3 340.5	19.3	1 259.4	7.3	4 770.8	27.6	2 787.1	16.1			17 300	100.0
1945-49	2 079.6	8.7	11 203.5	47.1	7 014.0	29.5	1 975.1	8.3			23 790	100.0
1950-54	2 186.3	8.6	8 982.7	35.3	8 089.0	31.8	2 707.1	10.6			25 450	100.0
1955	3 714.0	14.7	7 390.0	29.3	6 223.0	24.7	2 546.0	10.1			25 200	100.0
1956	2 568.0	8.1	12 669.0	39.8	9 283.0	29.2	3 571.0	11.2			31 800	100.0
					Linseed[b]							
	Argentina		*United States*		*Canada*		*Uruguay*				*World total*	
1934-38	1 541.5	67.6	1.2	0.1	1.3	0.1	73.2	3.2			2 282.0	100.0
1945-49	243.5	30.5	42.8	5.4	91.3	11.4	106.0	13.3			799.0	100.0
1950-54	580.2	43.5	253.9	19.0	114.9	8.6	98.4	7.4			1 335.0	100.0
					Wool[c]							
	Argentina		*Australia*		*New Zealand*		*Union of South Africa*		*Uruguay*		*World total*	
1934-38	77.4	11.7	206.1	31.2	86.6	13.1	45.4	6.9	28.2	4.3	660.0	100.0
1945-49	110.9	14.0	267.9	33.7	119.0	15.0	55.8	7.0	42.3	5.3	794.0	100.0
1950-54	71.3	10.0	289.9	40.7	129.5	18.2	51.0	7.2	41.4	5.8	712.0	100.0
					Meat[d]							
	Argentina		*Australia*		*New Zealand*		*Denmark*		*Uruguay*		*World total*	
1934-38	468.6	39.7	208.0	17.6	256.5	21.7	16.0	1.4	62.3	5.3	1 180	100.0
1945-49	396.4	35.0	143.6	12.7	321.7	28.3	32.5	2.9	40.5	3.6	1 134	100.0
1950-54	176.0	18.9	141.9	15.3	324.6	34.9	63.8	6.9	59.6	6.4	939	100.0

[a] Including exports of wheat flour expressed in terms of wheat.
[b] Also including linseed oil expressed in terms of linseed.
[c] Clean basis.
[d] Beef, mutton, lamb and pork (fresh, chilled or frozen). These figures differ from those of table XXIII which relate to total exports including cattle on the hoof, tinned meat, etc., expressed in terms of carcass meat.

extent as maize. Their highest level was achieved in 1925-29; during the pre-war years, when they were less, they amounted to 3.3 million tons, i.e. 20 per cent of world exports. The rest of the market was supplied by Canada with 4.8 million tons (28 per cent), Australia with 2.8 million (16 per cent) and The United States with 1.3 million (7 per cent). In 1950-54, when world demand was much higher than before the war,[23] Argentina reduced its exports from 3.3 to 2.2 million tons and its share of world supply to under 9 per cent. On the other hand the United States increased its exports from 1.3 to 8.9 million tons and shipped more than 11 million tons in 1945-49; Canada almost doubled its exports; Australia on the whole maintained its former levels.

Exports of oats, barley and rye are much less important. Those of oats achieved their peak level in 1930-34, with 550 000 tons as an annual average, but in 1950-54 they fell to about 300 000 tons. Exports of barley were steadier and fluctuated around the level of 300 000 tons between the same years. Rye is the only grain which was exported on an increasing scale, except during the Second World War, (from 117 000 tons in 1930-34 to slightly over 330 000 in 1950-54).

Linseed is the traditional oleaginous commodity exported by Argentina. Like wheat exports, linseed shipments achieved their highest level in 1925-29, with an annual average of 1.6 million tons, and maintained only slightly lower levels between 1930 and 1939. In these pre-war years, Argentina supplied about 70 per cent of world demand. The Second World War contracted the market and this trend became more marked during the post-war years when Argentine exports fell to a sixth of their pre-war level. In 1950-54 they recovered somewhat but rose only to a third of the 1935-39 figure. Yet between the same years increases were registered in Uruguay (from 73 000 to 98 000 tons), Canada (from 1 300 to 115 000) and the United States (from 1 200 to 254 000).[24]

Exports of edible oil-seeds—sunflower and peanuts—are more recent and only became really important during the 'forties. Their significance declined in the following decade (see again table XXIII). Tung began to play an important role in exports during the period 1945-49 and so far its importance has been growing. The same may be said of certain fruits—especially pears, apples and grapes—although trade in these commodities started to become substantial a few years earlier (1935-39).

A marked decline may also be observed in the livestock sector, especially in meat and milk.

The meat situation is fairly serious. Before the war, Argentina was the main exporter, supplying 40 per cent of world demand. But, between that time and 1950-54, it reduced its total meat exports[25] (beef, mutton and pork) from 469 000 to 176 000 tons. The world supply was significantly curtailed. International exports dropped from 1 180 000 to 930 000 tons while Argentina's share of world supply went down from 40 to only 19 per cent. Between the same years, Australia and Uruguay also reduced their exports but to a much smaller extent (32 and 5 per cent respectively). New Zealand's rose from 256 000 to 325 000 tons (27 per cent).

Between 1925-29 and 1950-54, Argentine exports of dairy produce[26] fell by a little over 50 per cent.

In the pre-war quinquennium, Argentina exported the equivalent of 12 per cent of all the clean wool traded on the world market. This situation changed in 1950-54. Argentina reduced its exports slightly and its share to 10 per cent. By contrast, the other important producers increased their exports—Australia by 41 per cent, New Zealand by 50, the Union of South Africa by 12 and Uruguay by 47.

The fall in agricultural exports becomes more significant if their *per capita* quantum in recent years is compared with that of the past. In 1925-29 exports of maize, wheat and linseed amounted on the average to 503, 417 and 148 kilogrammes per person per year respectively, in 1950-54 they were 57, 123 and 32. In the case of maize the reduction was 90 per cent; for wheat and linseed it was about 80 per cent (see again table XXIII). In 1925-29, meat, wool and milk exports came to 80, 12 and 59 kilogrammes per person per year respectively; in 1950-54 they were only 21, 7 and 17 (reductions of 75, 40 and 70 per cent).

3. Evolution and composition of agricultural imports

Unlike that of exports, the quantum of agricultural imports has remained almost constant during the last 35 years and *per capita* imports are today more or less the same as in 1920-24. The fact that agricultural development has been aimed at the home market explains this trend (see table XXV).

The quantum of all the goods imported by Argentina has fluctuated considerably in the past. The percentage share of goods of agricultural origin in total imports has ranged between 10 and 15 per cent. In exceptional years—like the quinquennium of the Second World War, when imports declined substantially—agricultural commodities represented 22 per cent of the goods entering the country.

Argentina's agricultural imports may be divided into commodities for direct consumption,[27] stimulants,[28] and alcoholic beverages; intermediate agricultural commodities—foodstuffs and otherwise—which require some processing before they can be consumed or used;[29] and finally timber and cork.

Table XXVI shows the replacement of agricultural imports in the last 15 to 20 years which has resulted from the development of certain lines of production. Products in which self-sufficiency has been or is about to be achieved —or in which surpluses have accrued for export—include rice, sugar, tea, tobacco, edible oil-seeds and maté. Only imports of tropical-zone commodities like coffee, cacao and bananas, which are not grown in the country, are still on the increase.

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[23] World exports had risen from 17.3 to 25.5 million tons.

[24] Canada and the United States were the best markets for Argentine linseed but were lost because of the policy followed in the immediate post-war years. This consisted in raising prices unduly and shipping oil instead of seed. Canada and the United States then increased their own production to the point where they had export surpluses. At the same time, they stepped up their output of substitutes for paint manufacture.

[25] Fresh, chilled and frozen.

[26] Includes exports of butter, cheese, powdered and condensed milk, all expressed in terms of fresh milk.

[27] Fruit in general (oranges, tangerines, bananas, pineapples; almonds, hazel-nuts, walnuts, dried fruit).

[28] Coffee, tea, maté.

[29] Cacao, tobacco, wool, cotton, seeds.

Table XXV. Argentina: Quantum of agricultural imports, 1920-55

Annual average	Agricultural imports: Foodstuffs	Agricultural imports: Intermediate agricultural products	Agricultural imports: Timber and cork	Agricultural imports: Total	Total imports	Percentage of agricultural imports in general total
	Total (Millions of pesos at 1950 prices)					
1920-24	289	189	229	707	5 395	13.1
1925-29	341	220	302	863	8 314	10.4
1930-34	295	238	193	725	4 985	14.5
1935-39	267	347	201	816	5 884	13.9
1940-44	176	339	144	659	2 956	22.3
1945-49	188	376	217	781	5 605	13.9
1950-54	155	342	221	719	4 614	15.6
1955	169	387	291	846	5 186	16.3
	Per capita (Pesos at 1950 prices)					
1920-24	31	20	24	75	573	
1925-29	31	20	28	79	758	
1930-34	24	19	16	59	403	
1935-39	20	26	15	61	436	
1940-44	12	23	10	45	202	
1945-49	12	24	13	49	350	
1950-54	9	19	12	40	256	
1955	9	20	15	44	271	

Source: Official statistics.

Table XXVI. Argentina: Agricultural imports, 1920-55

	1920-24	1925-29	1930-34	1935-39	1940-45	1945-49	1950-54	1955
Grains								
Rice	41.7	63.0	56.7	45.3	4.6	0.1	—	—
Saccharine plants								
Sugar	291.5	141.9	17.5	7.7	135.9	103.9	81.9	—
Stimulants and condiments								
Maté	67.7	75.5	55.0	38.7	30.2	26.5	13.0	27.2
Tea	1.6	1.7	1.8	2.0	1.7	2.1	1.0	0.2
Coffee	20.6	23.4	21.5	24.1	29.1	33.8	28.9	28.2
Tobacco	8.5	9.8	9.5	7.7	8.5	8.3	1.4	0.1
Cacao pods	2.9	4.2	4.5	5.1	6.6	7.6	6.8	6.0
Oil-seeds								
Edible oil	88.0	179.5	164.4	63.7	7.7	0.6	—	—
Fruits								
Oranges	2.5	3.1	26.9	50.4	63.9	50.0	27.7	26.9
Bananas	32.2	50.2	91.8	171.6	88.7	104.3	148.0	162.1
Fibres								
Sacking	61.1	98.4	67.5	79.9	50.6	43.4	70.4	57.0

Source: Official foreign trade statistics.

4. External balance

The foreign trade balance in agricultural commodities, both in the aggregate and *per capita*, is still favourable to Argentina, but is constantly deteriorating. What is more, it shows the same characteristics and trends as exports. During 1925-29, the highest levels in net global and *per capita* exports were achieved; they declined slightly during the Second World War and sharply in the following years. In 1950-54, the quantum of net exports was 45 per cent and in *per capita* terms 67 per cent less than in 1925-29. As has already been seen, this situation was further exacerbated by the deterioration in terms of trade (see table XXVII and figure K).

The real purchasing power for imports of capital goods, fuels and raw materials fell to less than half of the figure registered in the 'twenties. As a result of the population changes which have come about in the period under review, the *per capita* purchasing power is now a third of what it was 25 years ago.

B. BRAZIL

Introduction

Agricultural production in Brazil during the last quarter century followed the same trend as in other Latin American countries, that is, it increased rather more slowly than the population. Thus, in the last few years, the *per capita* volume of agricultural commodities was smaller than at the beginning of the period in question. Considerable changes also took place in the production structure. More emphasis was laid on the output of commodities mainly intended for the domestic market—the volume of which more than doubled—than on production for export, which decreased in both absolute and relative terms, in the latter case to

Table XXVII. Argentina: Total and net agricultural exports and imports, 1920-55

Annual average	*Exports*	*Imports*	*Net exports*
Quantum (Millions of pesos at 1950 prices)			
1920-24	6 092	707	5 385
1925-29	7 519	863	6 656
1930-34	7 077	725	6 352
1935-39	7 001	816	6 185
1940-44	5 156	659	4 497
1945-49	5 299	781	4 518
1950-54	4 360	719	3 641
1955	4 354	846	3 507
Per capita (Pesos at 1950 prices)			
1920-24	647	75	572
1925-29	685	79	607
1930-34	571	59	513
1935-39	519	61	458
1940-44	352	45	307
1945-49	331	49	282
1950-54	242	40	202
1955	228	44	184

Source: Official statistics.

quite an appreciable degree. This decrease was accompanied by a rise in the domestic consumption of export commodities, which led to a contraction of 11 per cent in the total quantum of agricultural exports and of 37 per cent in the *per capita* quantum between the pre-war period and 1950-54.

In general, this deterioration in the export quantum of such crops as cotton, bananas, and perhaps, cacao, can only be explained as a result of the slow rate of population growth, since, although world demand has been rising steadily, Brazil has been gradually losing its erstwhile supremacy as a supplier of these commodities. The situation of coffee, is however, very different; the fall in production and the decline in Brazil's hitherto important share of the world market were due to the accumulation of large stocks of coffee in Brazil itself, which caused prices to drop and discouraged domestic production.

These circumstances might have had a disastrous effect on Brazil's economic development in view of the high proportion of agricultural commodities in its export trade (varying between 80 and 99 per cent yearly), but, almost concurrently with the decline in the export quantum, there was an unprecedented improvement in the terms of trade and, consequently, of the capacity to import.

Imports of agricultural commodities showed a reverse trend. Their quantum increased at much the same rate as the population and represented a heavy burden for Brazil, since they absorbed from 13 to 18 per cent of the total value of imports during the last 20 years. Under these circumstances, the foreign trade balance for the agricultural sector expressed in terms of the quantum was characterized by an almost continuous drop in net sales (amounting to 41 per cent between 1935-39 and 1950-54). This deterioration was, however, more than offset by the above-mentioned improvement in the terms of trade, which raised the *per capita* purchasing power of net exports by 11 per cent over the same period.

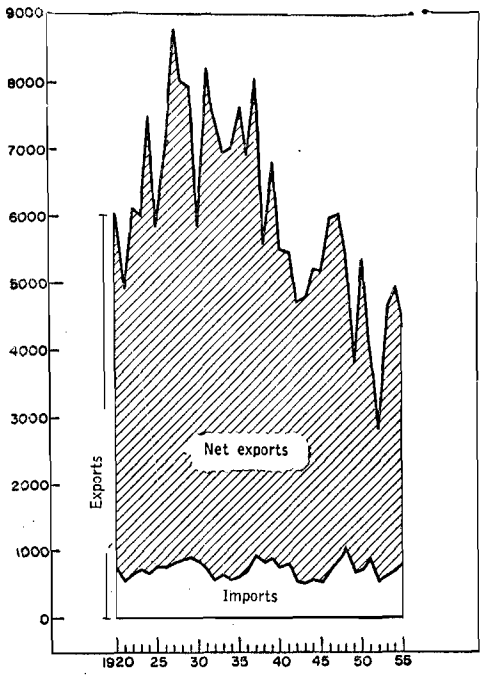
To sum up, Brazil is yet another Latin American country

Figure K

ARGENTINA: BALANCE OF FOREIGN TRADE IN AGRICULTURAL COMMODITIES

(Thousands of pesos at 1950 prices)

Natural scale



whose slow rate of agricultural development is producing, on the one hand, smaller exportable surpluses and, on the other, a rapid expansion of imports. Nevertheless, circumstantial reasons have so far prevented these factors from seriously affecting the economy. One reason was the renewed demand for and satisfactory prices commanded by primary commodities during the five years that followed the end of the Second World War, combined with the existence of foreign exchange reserves accumulated during the war; another was the rise in coffee prices which occurred just when these favourable circumstances began to disappear.

1. Agricultural production

During the last 25 years, Brazil's mounting agricultural output was interrupted only by the Second World War. Nevertheless, its rate of growth was slightly inferior to that of the population, which explains why *per capita* production in 1950-54 was lower (by 12 per cent) than in the 'thirties (see table XXVIII).

In common with other traditional exporters of agricultural commodities in the region, Brazil has grown certain crops primarily for export. Among these are coffee, cotton, cacao, castor oil, tung and sisal. Their output followed a trend different from that of the other products destined mainly for the home market, such as sugar, bananas, rice, wheat, beans and various other commodities, which rose very rapidly (see figure L).

This change in the evolution of Brazil's agricultural output has reduced production for export. Before the war, about 40 per cent of farm output was exported; in 1950-54 less than 30 per cent.

Table XXVIII. Brazil: Quantum and destination of agricultural production, 1930-56

At 1950 constant prices

Annual average	Total production	Production for export [a]	Production for domestic consumption [b]	Percentage exported
	Total (Millions of cruzeiros)			
1930-34	45 400	15 517	29 883	34
1935-39	50 770	19 380	31 390	38
1940-44	48 214	14 431	33 783	30
1945-49	53 176	20 565	32 611	39
1950-54	62 671	17 396	45 275	28
1955	72 673	17 703	54 970	24
1956	68 299	19 716	48 583	29
	Per capita (Cruzeiros)			
1930-34	1 298	444	854	
1935-39	1 312	501	811	
1940-44	1 119	335	784	
1945-49	1 097	424	673	
1950-54	1 150	319	831	
1955	1 243	303	940	
1956	1 141	329	812	

Source: Official statistics.
[a] Calculated by expressing processed products in terms of primary commodities. These exports have been weighted by the same prices used to determine the quantum of production.
[b] Including commodities for export stored in Brazil.

Figure I

BRAZIL: PER CAPITA AGRICULTURAL PRODUCTION, TOTAL AND BY MARKET OF DESTINATION, DOMESTIC OR FOREIGN

(Indexes 1950 = 100)

Semi-logarithmic scale

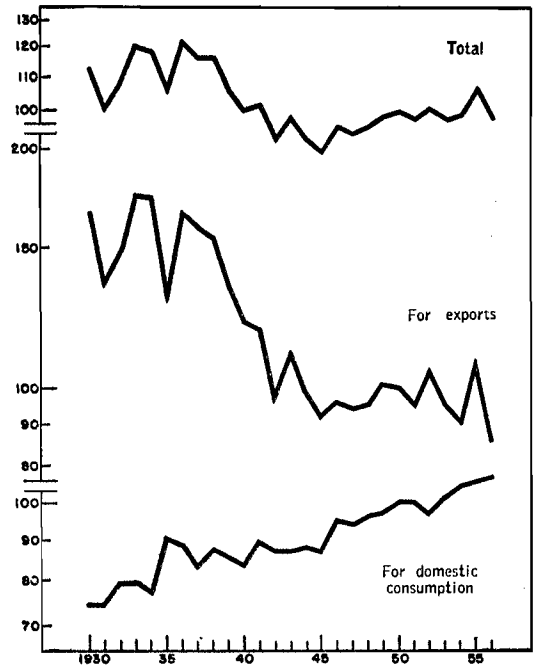


Table XXIX. Brazil: Purchasing power of agricultural exports, 1935-56

Annual average	Exports		Purchasing power of agricultural exports	Terms of trade (1950=100)
	Agricultural	Non-agricultural		
	Total (Millions of dollars at 1950 prices)			
1935-39	1 376	17	719	52.3
1940-44	1 035	104	595	57.5
1945-49	1 430	81	927	64.8
1950-54	1 228	16	1 285	104.7
1955	1 278	25	1 284	100.5
1956	1 352	29	1 393	103.0
	Per capita (Dollars at 1950 prices)			
1935-39	35.5	0.5	18.6	
1940-44	24.0	2.4	13.8	
1945-49	29.5	1.7	19.1	
1950-54	22.5	0.3	23.6	
1955	21.9	0.4	22.0	
1956	22.6	0.5	23.3	

Source: Official statistics.

Thus, agricultural development has become to some extent divorced from the changing conditions of demand and prices on world markets for more than 70 per cent of farm output now has an assured market at home (see again table XXVIII).

2. Agricultural exports

(a) *Evolution*

In the last 25 years there has been hardly any change in the composition of exports, and agriculture continues to earn most of Brazil's foreign exchange (see table XXIX).

Two events—the depression of the 'thirties and the Second World War have modified in one way or another the normal flow of foreign trade during the period under review. In conjunction with small increases in certain export items, they led to an almost continuous decline in the quantum of agricultural exports, which is even more noticeable as regards *per capita* figures. During the five years prior to the war (1935-39), the *per capita* export quantum was at its peak, and by 1950-54 had dropped 37 per cent.

Yet this decline in the quantum was not accompanied by a similar deterioration in the capacity to import. On the contrary, the relative prices of agricultural exports were quite high enough to offset it, partly because of the post-war recovery of export trade, and partly because of the rise in coffee prices. Thus, in spite of the reduction of 11 per cent in the export quantum, the over-all and *per capita* purchasing power of exports went up by almost 80 per cent and 27 per cent respectively, owing to the improvement in the terms of trade.

(b) *Staple exports*

Brazil's agricultural exports consist for the most part of crops. Livestock exports are small and have decreased even more latterly, while those of timber and such extracts as rubber, wax, etc. are almost negligible, although timber exports are expanding.

Coffee continues to be the major export item, and, in different years, has constituted from 60 to 80 per cent of

Table XXX. Brazil: Agricultural exports, 1930-56

Annual average	*Coffee*	*Cotton*	*Cacao*	*Bananas*	*Tobacco*	*Sugar*	*Others*	*Total*
				A. *Value (Millions of dollars)*				
1930-34	164.8	10.6	8.7	1.8	4.4	1.3	42.0	233.8
1935-39	138.3	57.2	13.6	1.7	5.0	1.5	66.2	283.4
1940-44	124.8	36.3	14.0	1.3	3.7	2.3	101.2	283.7
1945-49	419.2	133.3	42.6	4.0	17.8	12.1	204.5	833.4
1950-54	1 011.0	134.6	80.1	11.1	19.9	9.2	161.4	1 427.3
1955	843.9	131.4	90.9	10.3	18.5	46.9	206.6	1 348.4
1956	1 029.8	85.9	67.2	12.4	20.4	1.6	182.7	1 400.0
				(Percentage)				
1930-34	70.5	4.5	3.7	0.8	1.9	0.6	18.0	100.0
1935-39	48.8	20.2	4.8	0.6	1.8	0.5	23.3	100.0
1940-44	44.0	12.8	4.9	0.5	1.3	0.8	35.7	100.0
1945-49	50.3	16.0	5.1	0.5	2.1	1.4	24.6	100.0
1950-54	70.8	9.4	5.6	0.8	1.4	0.6	11.4	100.0
1955	62.6	9.7	6.7	0.8	1.4	3.5	15.3	100.0
1956	73.6	6.1	4.8	0.9	1.5	0.1	13.0	100.0
				B. *Volume*				
				Total (Thousands of tons)				
1930-34	896.2	38.0	88.5	161.2	30.9	37.1		
1935-39	903.0	233.5	119.7	225.7	32.6	46.7		
1940-44	648.5	165.0	105.7	101.2	20.2	44.0		
1945-49	976.4	240.2	103.4	125.9	35.7	102.1		
1950-54	881.9	149.9	103.2	194.7	29.8	101.0		
1955	821.7	175.7	121.9	210.3	23.2	573.3		
1956	1 008.3	142.9	125.8	188.1	31.3	18.7		
Percentage difference between 1950-54 and 1935-39	— 2	— 36	— 14	— 14	— 9	118		

Source: Official statistics.

the total quantum (at 1950 prices), and from 45 to 70 per cent of the total value (see table XXX).

Coffee exports reached an annual average of 903 000 tons in the five years prior to the Second World War. Although the coffee trade recovered from its wartime slump, exports in 1950-54 were 2 per cent below their pre-war figure. During recent years, exports of cotton were 36 per cent less, those of cacao and bananas 14 per cent less and those of tobacco 9 per cent less.

In view of population changes between the two quinquennia mentioned, these reductions also meant a drop in *per capita* exports as follows: coffee, by 31 per cent; cotton, by 54 per cent; cacao and bananas, by 39 per cent; and tobacco, by 35 per cent.

These reductions in traditional exports were not sufficiently offset by other exports, whether agricultural or non-agricultural. Only a few commodities which occupied a fairly important position in the export structure registered increments. One of these was sugar, the production of which, mainly intended to satisfy domestic demand, increased at a rate which exceeded that of consumption, resulting in ever-larger exportable surpluses in recent years. Thus the annual average for sugar exports between 1935-39 and 1950-54 rose from 47 000 to 101 000 tons.

Sisal is one of the few new export items that has shown a substantial improvement in the last few years. It was first grown on a commercial basis in the latter half of the 'forties, when exports amounted to slightly over 12 000 tons. In the next five years, 42 000 tons were exported and, in 1956, 105 000 tons.

(c) *The world market situation*

Some attempt should be made at this point to decide whether the contraction in Brazil's staple exports was due to a decline in world demand or to the inelasticity of domestic supplies in the face of a continuous increase in requirements. The data in table XXXI give some information in this connexion.

Demand for most of the selected items has risen and exports could have increased accordingly if Brazil had made an effort to maintain its position on the world market.

Since the trends of supply and demand for the various commodities show divergent features, it would be as well to make a rather more detailed study of each item. Between 1934-38 and 1950-54, world coffee exports increased 16 per cent, from 1.65 million to 1.914 million tons. During the same period, Brazilian exports rose from only 874 700 to 881 900 tons, and its share of world trade therefore dropped from 53 to 46 per cent.[30] Meanwhile, African exports increased two and a half times (from 130 000 to 316 000 tons), which raised their share of the market from 8 to 16.5 per cent.[31]

The evolution of cacao was fairly similar. Brazil's share

[30] It should be noted that, in 1954, Brazil's coffee exports fell to the unusually low level of 655 100 tons. Yet, even apart from that year, Brazil's contribution to world trade consistently declined and averaged 938 600 tons which was only sufficient to meet 48 per cent of total demand.

[31] The problem of world coffee demand and supply is dealt with in Section II, 5.

Table XXXI. Brazil and other countries: Share in world exports of selected agricultural commodities

Annual average	Thousands of tons	Percentage	Thousands of tons	Percentage	Thousands of tons	Percentage	Thousands of tons	Percentage	Thousands of tons	Percentage
					Coffee					
	Brazil		*Africa*						*World total*	
1934-38	874.7	53.0	130.0	7.9					1 650	100.0
1945-49	976.4	53.0	236.6	12.8					1 844	100.0
1950-54	881.9	46.0	316.0	16.5					1 914	100.0
					Cotton (fibre)					
	Brazil		*United States*		*Mexico*				*World total*	
1934-38	194.1	6.3	1 293.9	42.1	22.7	0.7			3 070	100.0
1945-49	240.3	11.7	786.0	38.2	67.2	3.3			2 055	100.0
1950-54	149.9	5.7	1 002.4	38.3	212.6	8.1			2 618	100.0
					Cacao					
	Brazil		*French Cameroons*		*Ghana*		*Nigeria*		*World total*	
1934-38	113.6	16.5	24.8	3.6	266.1	38.6	90.8	13.2	680	100.0
1945-49	103.4	16.4	40.4	6.4	228.9	36.3	100.7	15.9	630	100.0
1950-54	103.2	14.3	50.5	7.0	235.7	32.6	109.6	15.2	722	100.0
					Tobacco					
	Brazil		*United States*		*Turkey*		*Cuba*		*World total*	
1934-38	31.3	5.8	198.4	36.7	29.0	5.4	12.4	2.3	540	100.0
1945-49	35.2	6.8	234.3	45.4	47.6	9.2	14.4	2.8	516	100.0
1950-54	29.6	5.0	214.5	36.4	60.4	10.2	15.8	2.7	590	100.0
					Bananas					
	Brazil		*Costa Rica*		*Ecuador*		*Canary Islands*		*World total*	
1934-38	214.0	8.6	95.5	3.9	38.8	1.6	130.0	5.2	2 480	100.0
1945-49	125.6	6.8	144.4	7.8	70.9	3.8	124.6	6.7	1 846	100.0
1950-54	194.8	7.6	372.9	14.5	331.3	12.9	166.1	6.5	2 570	100.0

Source: FAO, *Yearbooks of Food and Agricultural Statistics.*

of the world cacao trade has been fairly substantial, fluctuating between 14 and 17 per cent during the last 20 years. International demand has risen slightly, but, in spite of this, the yearly average of cacao exports declined from 113 600 to 103 200 tons in absolute terms between 1934-38 and 1950-54, which detracted from Brazil's importance as a supplier of this crop. In the interval, the Republic of Ghana (Gold Coast), which is the principal exporter of cacao, was beset by difficult technical and health problems which curtailed its share of world trade. In contrast, the other large-scale exporters—Nigeria and the French Cameroons—raised their exports by 100 and 20 per cent respectively.

Although Brazil's share of world tobacco and banana exports has been fairly small and the world market for these crops is slowly expanding, its sales abroad have contracted in absolute terms.

International cotton demand contracted between 1934-38 and 1950-54. But Brazil's exports fell even more in proportion and their share of the world supply was similarly reduced. The situation in other Latin American countries was not the same. Thanks to expanding production, they registered greater exportable surpluses and were able to secure increasingly larger quotas of world trade (see again table XXXI).

Cotton in perhaps the only major export item which has a high degree of elasticity and little influence on the world market. Moreover, Brazil has all the necessary resources for developing cotton production. Increased exportable surpluses could be sold without any risk of depressing prices, as in the case of coffee.

The foregoing data indicate that world demand for Brazil's principal exports is consistently buoyant. If Brazil had made an effort to retain its original share of the market, it could perhaps have increased its exports. Hence, its deteriorating export trade was to a large extent a symptom of the unsatisfactory development of its production.

3. Evolution and composition of agricultural imports

Brazil's agricultural imports increased in volume by 45 per cent between 1935-39 and 1950-54, i.e., at more or less the same rate as the population (41 per cent). These figures confirm that the rapid growth of production for the domestic market described earlier was sufficient to cover much of increment in demand arising from a larger population and higher income levels.

The increase in agricultural imports was not similarly reflected in the quantum of aggregate imports or in the capacity to import, since the latter showed a proportionately greater increment which led to a contraction in the share of agricultural imports (see table XXXII).

Nevertheless, agricultural imports were an important item in the foreign exchange budget, and in 1950-54 cost Brazil a yearly average of almost 205 million dollars, i.e., 13 per cent of the total value of imports. In the five years preced-

Table XXXII. Brazil: Total and agricultural imports, 1935-56

Annual average	Imports		Percentage of agricultural commodities in total imports	Agricultural imports			
	Total	Agricultural		Cereals	Fruit and wine	Livestock	Other
	Quantum (Millions of dollars at 1950 prices)						
1935-39	663.9	140.9	21.2	93.4	12.0	2.3	33.2
1940-44	566.5	133.4	23.5	96.7	10.2	10.5	17.2
1945-49	960.7	151.6	15.8	96.8	24.0	8.1	22.7
1950-54	1 430.8	204.1	14.3	139.5	31.5	8.7	24.4
1955	1 274.4	230.7	18.1	179.2	26.3	5.8	19.4
1956	1 242.6	196.3	15.8	146.5	20.9	15.6	13.3
	Value (Millions of dollars)						
1935-39	271.8	48.2	17.7	33.7	4.2	1.0	8.6
1940-44	298.3	55.0	18.4	38.6	5.5	3.6	7.3
1945-49	920.5	163.4	17.8	111.6	24.8	5.5	21.6
1950-54	1 611.5	204.6	12.7	139.0	31.5	9.5	24.6
1955	1 303.8	223.3	17.1	175.5	27.4	3.8	16.6
1956	1 232.3	168.3	13.7	129.5	19.8	8.1	11.0

Source: Official statistics.

ing 1950, such expenditure reached 163 million dollars, that is, almost 18 per cent of the total value of imports.

Brazil's large territory and varied ecological conditions have been favourable to the diversification of its agriculture, and most of the agricultural commodities required by the domestic market—whether foodstuffs or non-foodstuffs—have been produced within the country. The only commodities for which Brazil does not offer ideal conditions, and which therefore have to be imported, are certain fruits and grains that need a temperate climate.

Another characteristic of agricultural imports is that they consist almost entirely of foodstuffs. Non-foodstuffs are few and are mainly composed of small quantities of wool, jute and flax.

Taken as a whole, Brazil's agricultural imports show little diversity. Almost 90 per cent consist of grains, fruit, wines and some fish products. The major item is wheat and wheat flour, which, up to 1949, weighed most heavily on Brazil's capacity to import, since its value far surpassed that of any other commodity. It was not until after 1949 that imports of fuels became more important than wheat and increased rapidly in response to the development of transport. During the last 30 years, an average of approximately 12 per cent of Brazil's total import value was absorbed by purchases of wheat and wheat flour,[32] and, according to the year in question, between 60 to 75 per cent of the value of its agricultural imports.

This cereal has latterly become one of the staple items in the Brazilian diet.[33] The increase in demand for wheat and wheat flour[34] has had to be met primarily by imports, which increased steadily. In order to alleviate the pressure on the capacity to import, Brazil has adopted a number of successful measures[35] to stimulate domestic production. In spite of these, however, imports rose from 1 007 000 to 1 400 000 tons between the two quinquennia mentioned, and reached 1 855 000 tons in 1955.

Other agricultural imports are less important. If, with the exception of wheat, they are classified as replaceable or not replaceable by domestic production, the quantum of the first group shows a deterioration induced by the intensive development of production mainly for the internal market. Many of the items in this group are required to supplement domestic production when harvests are bad, and, in general, constitute a very small percentage of consumption. Examples are cattle, wool, butter, cheese, milk, hemp, jute, tea, onions, garlic and yams (see table XXXIII).

The volume of non-replaceable imports[36] more than doubled between the five years preceding the war and 1950-54, representing in the latter period approximately one-quarter

[32] This proportion declined in 1950-54 to 8 per cent, not because imports were curtailed, but because there was a striking increase in their total value.

[33] Average *per capita* consumption increased from 32 kilogrammes in 1925-29 to 42 in 1951-55. In terms of volume it was only superseded by maize, manioc and rice.

[34] The expansion in demand derived from the increase in population, the rise in income, the extension of the transport and distribution networks and the price policy which, by keeping consumer prices down, facilitated a shift away from alternate foods, etc.

[35] As a result of such measures, production reached an annual average of 136 000 tons in 1935-39, of 658 000 in 1950-54 and of 1 101 000 tons in 1955.

[36] The concept "not replaceable by domestic production" should not be taken in an absolute sense. Brazil grows many of the commodities classified under this heading on a small scale and might be able to expand their production. The point to be emphasized is that the ecological medium is generally not propitious to their production under efficient conditions.

Table XXXIII. Brazil: Agricultural imports, 1935-56
(Millions of dollars at 1950 prices)

Annual average	Wheat	Others		Total[a]
		Replaceable by domestic production	Not replaceable	
1935-39	90.6	27.4	22.9	140.9
1940-44	92.2	22.5	18.7	133.4
1945-49	88.8	25.0	37.8	151.6
1950-54	129.8	19.5	54.8	204.1
1955	167.6	9.9	53.3	230.7
1956	134.5	21.0	40.8	196.3

Source: Official foreign trade statistics.
[a] Including a sample of major agricultural imports.

of the total quantum of agricultural imports. The staple items in this group are grain or malted barley, oats in grain or flour—i.e., cereals, from temperate zones—fruit from deciduous trees in temperate zones (apples, pears, apricots, etc.), olives and olive oil.

4. External balance

The foreign trade balance for agricultural commodities shows that the quantum of net agricultural exports has declined. Between 1935-39 and 1950-54—except for the immediate post-war years—the quantum of exports declined in absolute terms. At the same time, the quantum of agricultural imports expanded steadily, which further reduced the favourable balance for net exports. Owing to this deterioration, net *per capita* exports were 42 per cent less in 1950-54 than before the war (see figure M).

This evolution could have done a great deal of harm to Brazil's economy, in view of the important contribution of agricultural exports to the capacity to import. It was, however, counter balanced by the favourable terms of trade which more than offset the decline in the volume of net exports.

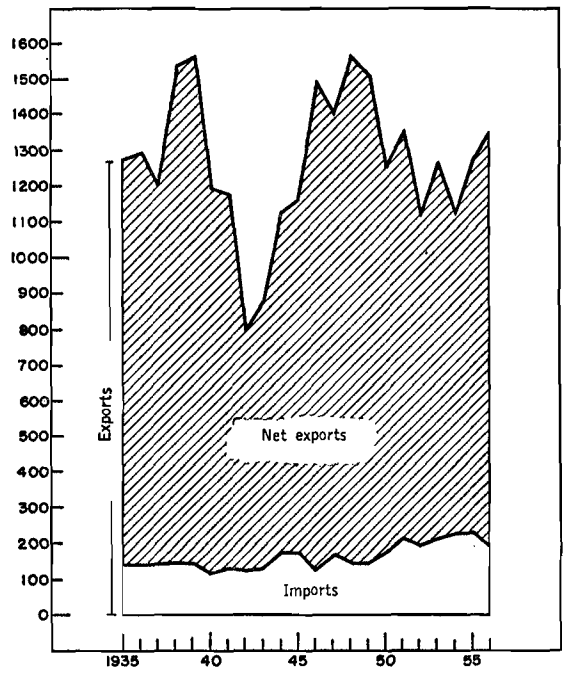
When the various stimulating factors disappeared in 1949, and Brazil was already in difficulties with its balance of payment, coffee prices rose after more than 20 years of depression. In spite of the decline in the export quantum, the enlargement of the capacity to import facilitated the accelerated development of Brazil's economy during the decade following the Second World War. Net *per capita* exports of agricultural commodities which, in terms of the quantum, dropped 42 per cent between the pre-war period and 1950-54, showed, in terms of purchasing power, an improvement of 20 per cent (see table XXXIV).

Figure M

BRAZIL: BALANCE OF FOREIGN TRADE IN AGRICULTURAL COMMODITIES

(Millions of dollars at 1950 prices)

Natural scale



C. COLOMBIA

Introduction

Colombia offers another interesting facet of the problem under study. The agricultural sector is one of outstanding importance in its economy. Not only does it constitute the chief source of employment, generate a substantial proportion of income and satisfy a major share of the country's consumption of foodstuffs and raw materials of vegetable origin, but, in addition, its exports are the basic element in Colombia's foreign trade.

On the other hand, these exports are confined almost entirely to a single commodity—coffee—a fact which makes the economy extremely vulnerable, as its capacity to import is sharply affected by any change in world market demand and prices for this product.

During the last 30 years, the growth of agricultural production has been fairly steady, and slightly more rapid than that of the population so that *per capita* availabilities have improved a little. Certain distinguishing features of this expansion are deserving of mention. In reality, it was mainly concentrated in production for export, and particularly in coffee. While it is true that this circumstance enabled Colombia to increase its exports considerably and

Table XXXIV. Brazil: Quantum of total and net agricultural exports and imports, 1935-56

Annual average	*Total (Millions of dollars at 1950 prices)*				*Per capita (Dollars at 1950 prices)*			
	Exports	*Imports*	*Net exports*	*Purchasing power of net exports*	*exports*	*Imports*	*Net exports*	*Purchasing power of net exports*
	Quantum				*Quantum*			
1935-39	1 375.5	140.9	1 234.6	646.7	35.5	3.6	31.9	16.7
1940-44	1 035.3	133.4	901.9	518.6	24.0	3.1	20.9	12.0
1945-49	1 430.1	151.6	1 278.5	828.5	29.5	3.1	26.4	17.1
1950-54	1 227.5	204.1	1 023.4	1 071.5	22.5	3.7	18.8	19.7
1955	1 278.0	230.7	1 047.3	1 052.5	21.9	3.9	17.9	18.0
1956	1 352.0	196.3	1 155.7	1 190.4	22.6	3.3	19.3	19.9

Source: Official statistics.

improve its position in the world coffee market, the country's characteristic tendency to rely upon a single export commodity was intensified. Except for small shipments of sugar and rice during the last few years, Colombia has witnessed virtually no modification of its traditional dependence on its exports of coffee, and, to a much lesser degree, on those of bananas and tobacco, among agricultural commodities.

Up to 1949 the expansion of coffee exports made only a partial contribution to the improvement of the country's capacity to import, as in view of the deterioration in the terms of trade caused by the fall in coffee prices, the larger volume exported did little more than offset—in some years, only partially—these depressive effects. As from that year, when the price of coffee rose, the high level of exports led to an exceptional increase in the capacity to import, thus facilitating purchases of capital goods to further Colombia's economic development. However, these favourable conditions began to disappear in 1955 as a result of new prospects—soon to be confirmed—of over-production on the world market.

Although production for domestic consumption developed at a rate very similar to that of demographic growth, its expansion was to a large extent inadequate. Proof of this is afforded by the exceptional increment in imports of agricultural commodities, which has had no very serious consequences in recent years, thanks to the approximately similar growth of the capacity to import.

It must be pointed out that these imports consist for the most part of commodities that Colombian agriculture is capable of producing. In view of export trade characteristics and the violent fluctuations to which the capacity to import is subject, the substitution of domestic production for imports of consumer goods—especially foodstuffs and raw materials for industry, demand for which can hardly be restricted—is vital to the country's economic development. Neither this objective nor that of diversifying exports has been attained so far by Colombia's agricultural sector, yet both are of great importance. Failure to pursue them would seriously jeopardize capital formation and the future growth of the economy.

1. Agricultural production

Colombia's agricultural production registers a long-term growth trend (1925-57) slightly more rapid than that of the population, with the result that in the last few years *per capita* supplies of agricultural commodities have reached higher levels than those recorded in the past (see table XXXV).

This development may be considered satisfactory, especially if it is borne in mind that the tendency of production in Latin America as a whole and in many of the individual countries of the region is to lag behind the rate of growth of the population, with the consequent almost uninterrupted deterioration of *per capita* production. Nevertheless, consumption of foodstuffs is still very low, and these, as well as many of the agricultural raw materials needed by domestic industry have been purchased abroad on a large and steadily increasing scale.

Production trends have not been the same in all sectors. Output reserves primarily for export—that of coffee, bananas and tobacco—has registered the more intensive growth. Between 1925-29 and 1950-54, this sector expanded by 116 per cent—more, that is, than the agricultural sector as a whole, which increased its production by 84 per cent.

A less satisfactory trend was followed by production of agricultural and livestock commodities for domestic consumption; the increment achieved totalled only 75 per cent. Thus, *per capita* availabilities for export increased by 27 per cent, while for domestic consumption they remained virtually unchanged between the first and last of the five-year periods under review.

Large as is the percentage of the quantum and value of Colombian exports represented by agricultural commodities, exports of these latter constitute a relatively small proportion—20 to 24 per cent, according to the year concerned—of the volume of agricultural production, the remainder being used for home consumption (see table XXXVI).

In the later years of the period the slightly more rapid expansion of export crops brought about certain changes in the structure of production. The percentage exported was

Table XXXV. Colombia: Quantum of agricultural production for export and domestic consumption, 1925-57

Year	Total	For export[a]	For domestic consumption
Total annual average (Millions of pesos at 1950 prices)			
1925-29	1 329	314	1 015
1930-34	1 519	375	1 144
1935-39	1 741	453	1 288
1940-44	1 910	545	1 365
1945-49	2 262	633	1 629
1950-54	2 449	676	1 772
1955	2 687	775	1 912
1956	2 545	675	1 870
1957	2 562	714	1 848
Per capita (Pesos at 1950 prices)			
1925-20	190	45	145
1930-34	196	48	148
1935-39	203	53	150
1940-44	201	57	143
1945-49	214	60	154
1950-54	207	57	150
1955	212	61	151
1956	197	52	145
1957	194	54	140

Source: Official statistics.
[a] Including coffee, bananas and tobacco.

Table XXXVI. Colombia: Quantum of agricultural production exported and used for domestic consumption, 1925-29 to 1956

Period	Total Production	Production for export[a]	Production for domestic consumption	Exports as a percentage of total production
1925-29	1 329	269	1 060	20.2
1930-34	1 519	328	1 191	21.6
1935-39	1 741	412	1 329	23.7
1940-44	1 910	439	1 471	23.0
1945-49	2 262	552	1 710	24.4
1950-54	2 449	557	1 892	22.7
1955	2 687	609	2 078	22.7
1956	2 545	535	2 010	21.0

Source: Official statistics.
Major exports have been weighted by 1950 domestic market prices used to calculate agricultural production.

easily doubled between 1925-29 and 1950-54, whereas that earmarked for domestic consumption increased by only 78 per cent. Thus, while in 1925-29 only 20 per cent of the agricultural commodities produced were shipped to foreign markets, this proportion rose to 23 per cent in 1950-54. Colombia's situation is somewhat different from that prevailing in most of the other Latin American countries, where the limitations deriving from the slow development of an agricultural sector called upon to satisfy a constantly expanding domestic consumption has led to successive reductions of their exportable surpluses, often not only in relative but also in absolute terms.

This evolution of the agricultural sector had significant repercussions on Colombia's foreign trade in agricultural commodities. They are analysed in the following paragraphs.

2. Agricultural exports

(a) *Evolution*

The external sector, and agricultural exports in particular, have played and are continuing to play an almost decisive role in Colombia's economic development. From the pre-war period to 1950-54, inclusive, they accounted for proportions varying with the years between 85 and 90 per cent of the quantum of goods exported; the remainder consisted chiefly of commodities produced by the mining sector —gold to begin with, and petroleum later—and, on a much smaller scale, manufactures since industry, which was full process of growth, produced only consumer goods for sale on the domestic market (see table XXXVII).

The quantum of agricultural exports increased during each of the five-year periods between 1925-29 and 1950-54. Up to 1945-49, its rate of growth outstripped that of the population, and the level of *per capita* exports rose steadily. In 1950-54 the quantum was again higher than that registered for the preceding quinquennium, but the increment failed to match the increase in the population. In consequence of these trends, the export quantum more than doubled between 1925-29 and 1950-54, and in *per capita* terms improved by approximately 20 per cent.

During much of the period under review, however, the evolution of prices for exportable commodities was not as favourable as that of the quantum. The country thus forfeited many of the benefits deriving from increased exports. From 1925-29 to 1940-44 the terms of trade deteriorated steadily. Between these two periods, although there was a 63 per cent improvement in the quantum of agricultural exports, their purchasing power rose by only 4 per cent. This situation was modified in the following quinquennium —that of the post-war expansion—as the larger volume exported combined with better terms of trade to bring about a considerable increase in the capacity to import (see again table XXXVII). Thus it was that, alongside an increment of only 25 per cent in the quantum exported between 1940-44 and 1950-54, the purchasing power of exports rose by 160 per cent. It was this striking expansion of the capacity to import that in the post-war years provided Colombia with the necessary foreign exchange to purchase capital goods and raw materials for the expansion of domestic production, without entailing any very severe restriction of demand for imports of consumer goods.

(b) *Staple exports*

The country's export trade is still very little diversified; it depends almost entirely upon one staple commodity—coffee—and a single export market—the United States—a situation which has become still more noticeable in recent years. While this lack of diversification, which has scarcely been modified at all in the course of the past three decades, has been accompanied by the advantages attaching to trade with the dollar area, it has also rendered the Colombian economy extremely susceptible to demand and price fluctuations in respect of a single primary commodity.

Table XXXVII. Colombia: Quantum and purchasing power of exports, 1925-56

Year	Exports			Purchasing power of agricultural exports	Terms of trade (1950 = 100)
	Agricultural	Other	Total		
	Total annual averages (Millions of dollars at 1950 prices)				
1925-29	188.9	31.8	220.7	145.8	77.2
1930-34	231.9	36.9	268.8	144.5	62.3
1935-39	289.6	39.3	328.9	171.4	59.2
1940-44	308.1	37.5	345.6	152.2	49.4
1945-49	384.0	42.2	426.2	236.5	61.6
1950-54	384.2	79.3	463.5	395.7	103.0
1955	422.6	67.9	490.5	494.9	117.1
1956	371.5	79.3	450.8	379.7	102.2
	Per capita (Dollars at 1950 prices)				
1925-29	27	5	32	24	
1930-34	30	5	35	22	
1935-39	34	4	38	23	
1940-44	32	4	36	18	
1945-49	36	4	40	25	
1950-54	32	7	39	40	
1955	33	5	38	45	
1956	29	6	35	36	

Source: Official statistics.

Table XXXVIII. Colombia: Volume and value of staple agricultural exports, 1925-56

(Annual averages)

Commodity	*1925-29*	*1930-34*	*1935-39*	*1940-44*	*1945-49*	*1950-54*	*1955*	*1956*
				Volume (Thousands of tons)				
Crops								
Coffee	147.1	189.1	237.2	262.1	325.8	320.4	352.0	304.1
Bananas	220.2	147.5	169.5	44.8	69.7	160.7	209.6	215.9
Tobacco	1.2	1.1	3.0	0.4	2.8	4.2	4.5	5.3
Rice	—	—	—	0.2	1.6	5.5	—	[a]
Sugar	—	—	—	2.5	1.8	14.9	27.5	53.7
Livestock								
Cattle	1.6	0.2	0.3	6.2	7.2	3.4	—	—
Hides	6.8	6.9	7.1	4.2	3.4	1.1	[a]	—
				Value (Millions of dollars)				
Crops	*83.0*	*54.4*	*55.6*	*74.8*	*190.7*	*433.3*	*508.7*	*448.5*
Coffee	76.1	49.0	50.6	73.5	184.2	417.6	487.4	413.1
Bananas	6.6	5.3	4.7	1.1	4.5	10.4	16.8	28.1
Tobacco	0.3	0.1	0.3	[b]	1.5	2.2	2.1	3.0
Rice	—	—	—	[b]	0.3	1.0	—	—
Sugar	—	—	—	0.2	0.2	2.1	2.4	4.3
Livestock	*3.3*	*1.8*	*2.1*	*2.0*	*3.9*	*1.7*	[b]	—
Cattle	1.6	0.2	[b]	0.8	1.4	0.8	—	—
Hides	3.2	1.8	2.1	1.2	2.5	0.9	[b]	—
Total agricultural exports	*86.3*	*56.2*	*57.7*	*76.8*	*194.6*	*435.0*	*508.7*	*448.5*

Source: Official statistics.
[a] Under 100 tons.
[b] Under 100,000 dollars.

From 1925 to the present time Colombia has witnessed a steady expansion of its coffee exports, which was slightly checked only in the period 1950-54. Even so, the annual average during this latter quinquennium was 320 400 tons as compared with 147 100 tons in 1925-29 (see table XXXVIII). Colombia is the world's second most important exporter of coffee after Brazil. This privileged position has been strengthened during the last quarter of a century. In the pre-war period, the 230 000 tons exported by Colombia represented approximately 14 per cent of the world coffee trade; in 1950-54, when its exports amounted to as much as 320 000 tons—that is, 40 per cent more than before the war—its share improved, approaching 17 per cent.

Various special circumstances account for this steady development of coffee exports. Thus, for example, during the Second World War, when Colombia was deprived of the European markets, it was able to continue expanding its sales to the United States, thanks to its advantageous geographical position, as well as to the large quota assigned to it under the 1940 Inter-American Coffee Agreement. During the post-war years, not only did the upward trend of world demand result in the continued growth of exports, but, in addition, the exhaustion of Brazil's accumulated stocks forced up world coffee prices until they reached unprecedented levels. Thus, thanks to the combined effect of the price increase and the persistent expansion of the export quantum, from 1945 to 1955 the value of Colombia's exports was more than quadrupled.

The relative importance of coffee as a direct source of export income is actually greater than statistics indicate, as exporters of petroleum, which ranks second among Colombia's export commodities, are allowed to refrain from repatriating their foreign exchange earnings, without prior authorization from the exchange control authorities.

Bananas, traditionally Colombia's third export commodity, have seldom accounted for more than 8 per cent of the total value of exports. Their quantum fluctuated considerably in the course of the years under review; in 1925-29 it reached an annual average of 220 000 tons, which, however, was drastically reduced during the war through the loss of the European markets, and fell to only 45 000 tons. In more recent years it has shown patent signs of recovery, and sales abroad are approaching the 1925-29 levels mentioned above.

Tobacco exports rapidly recovered from the depression of the war years, and pre-war figures were exceeded. From 1940-44 onwards Colombia began to export certain rice and sugar surpluses. They were, however, of negligible significance. Exports of rice amounted to only 5 500 tons, and those of sugar to 15 000 tons, in the five-year period 1950-54.

The volume of livestock commodities exported was very small. During the past, Colombia had exported cattle in some years, but the growth of domestic consumption, in conjunction with the slow development of production, virtually deprived the country of exportable surpluses. As regards exports of hides, the situation was much the same.

3. Agricultural imports

The expansion of agricultural production for domestic consumption at a rate very similar to that of the vegetative growth of the population did not keep pace with the steady upward movement of domestic demand. Consequently, the quantum of such imports was bound to increase rapidly, the increment registered between 1937-39 and 1950-54[37]

[37] Difficulties in obtaining statistical data on imports preclude a longer-term analysis.

Table XXXIX. Colombia: Break-down of agricultural imports by foodstuffs and non-foodstuffs, 1937-56

(Millions of dollars at 1950 prices)

Annual average	Agricultural imports (Annual averages)			Total imports	Percentage of agricultural imports in total
	Foodstuffs	Non-foodstuffs	Total		
1937-39	19.3	4.5	23.8	236.8	10.1
1940-44	13.1	13.8	26.9	149.2	18.0
1945-49	22.2	15.6	37.8	296.6	12.7
1950-54	35.9	15.4	51.3	448.5	11.4
1955	61.7	6.1	67.8	658.7	10.3
1956	54.8	14.6	69.4	563.7	12.3

Source: Official statistics.

being as much as 116 per cent in the aggregate and 60 per cent *per capita* (see table XXXIX).

As the increment in agricultural imports was accompanied by a fairly similar expansion of total imports, in most years the share of the former in the latter fluctuated between limits ranging from 10 to 13 per cent.[38]

Imports of agricultural raw materials other than foodstuffs, to supply the needs of a steadily developing industry, registered the largest increment in absolute terms (242 per cent); those of foodstuffs, although their volume was greater, tended to grow more slowly, expanding only by 86 per cent.

Wheat, cacao, rice, sugar, copra and barley constituted the country's main imports of foodstuffs. Steadily increasing quantities of wheat, cacao and barley were purchased abroad; imports of rice and sugar, on the other hand, ceased altogether in recent years. In both cases, the country has even had exportable surpluses in recent years.

In addition to these commodities, Colombia imported varying quantities of tinned or powdered milk, cream, butter, animal fats and vegetable oils, potatoes, beans, hops, copra, fruit, etc., in order to satisfy the demand not met by domestic production.

Outstanding among imports of agricultural raw materials other than foodstuffs, for industrial purposes, were cotton, wool, rubber and timber. The establishment of the textile and rubber industries, and the fact that their subsequent development was not linked to a more or less parallel expansion of the sources producing raw materials, led to almost unrelieved dependence on supplies from abroad. Imports of raw materials were almost three-and-a-half times as great in 1950-54 as in 1937-39, and their share in the quantum of agricultural imports rose from 19 to 30 per cent. The success of the cotton development campaign launched in 1950 afterwards helped to reduce the volume of cotton imports.

As regards rubber and wool, production remained almost stationary, so that industry had to depend on ever larger supplies from abroad. Thus, while rubber imports averaged only 14.5 tons annually in 1940-44, they reached 6 100 tons in 1955 and 6 500 in 1956.

Except for some part of its requirements of wheat, barley, oats, certain temperate-climate fruits and some spices, the country is capable of producing all the agricultural commodities that it imports at present. A break-down of agricultural imports by those susceptible and those not susceptible of replacement[39] by domestic production leads to the conclusion that approximately 70 per cent could be produced within the country. This means that in 1950-54, out of approximately 51 million dollars spent yearly on such imports, about 35 million could have been covered by Colombia's own agricultural sector (see table XL). A longer-term view of the problem shows that between the years 1945 and 1956 inclusive, Colombia imported agricultural commodities to a value of 530 million dollars, of which 360 million dollars' worth could have easily been produced in the country. These data reveal that the growth of agricultural production is still inadequate to meet domestic demand. Some of the capacity to import must therefore be diverted to pay for shipments of consumer goods.

[38] The situation altered during the Second World War, when there was an over-all contraction of imports which mainly affected those of a non-agricultural nature. Given their relative inelasticity of demand agricultural imports, consisting of foodstuffs and raw materials, continued to increase, although at a slower rate than before. They represented at that time 18 per cent of the quantum of goods entering the country and 13 per cent of their value.

[39] In the case of Colombia, as in that of other countries this expression must not be taken literally. Colombia obtains crops —sometimes fairly large—of certain commodities classified as not susceptible of replacement. The point is that ecological conditions are unsuitable for their efficient production or, if they are suitable, resources are limited.

Table XI. Colombia: Agricultural imports replaceable and not replaceable by domestic production, 1937-56

(Annual averages)

Annual average	Replaceable	Not replaceable[a]	Total
	Quantum (Millions of dollars at 1950 prices)		
1937-39	19.2	4.6	23.8
1940-44	22.6	4.3	26.9
1945-49	28.0	9.7	37.7
1950-54	34.0	17.3	51.3
1955	41.8	26.0	67.8
1956	45.2	24.3	69.5
	Value (Millions of dollars at current prices)		
1937-39	5.5	2.2	7.7
1940-44	8.3	2.7	11.0
1945-49	21.4	9.6	31.0
1950-54	34.7	16.5	51.2
1955	37.8	20.0	57.8
1956	41.5	19.6	61.1

Source: Official statistics.

[a] Including wheat and wheat flour, barley in grain and malted, oats in grain, dried fruits, selected spices, selected strains of livestock for breeding and *quebracho* bark.

Table XLI. Colombia: Total and net agricultural exports and imports, 1937-56

Annual average	Exports	Imports	Net exports	Purchasing power of net exports	Exports	Imports	Net exports	Purchasing power of net exports
				Quantum				
	Total (Millions of dollars at 1950 prices)				*Per capita (Dollars at 1950 prices)*			
1937-39	295.0	23.8	271.2	160.3	34	3	31	18
1940-44	308.1	26.9	281.2	138.9	32	3	29	14
1945-49	384.0	37.7	346.2	213.3	36	3	33	20
1950-54	384.2	51.3	332.9	342.8	32	4	28	29
1955	422.6	67.8	354.8	415.5	33	5	28	33
1956	371.5	69.5	302.0	308.7	29	6	23	24
				Value				
	Total (Millions of dollars at current prices)				*Per capita (Dollars at current prices)*			
1937-39	59.3	7.7	51.6		7	1	6	
1940-44	76.7	11.0	65.7		8	1	7	
1945-49	194.6	31.0	163.6		18	3	15	
1950-54	434.9	51.2	383.7		37	5	32	
1955	508.7	57.8	451.0		40	4	36	
1956	448.5	61.1	387.4		35	5	30	

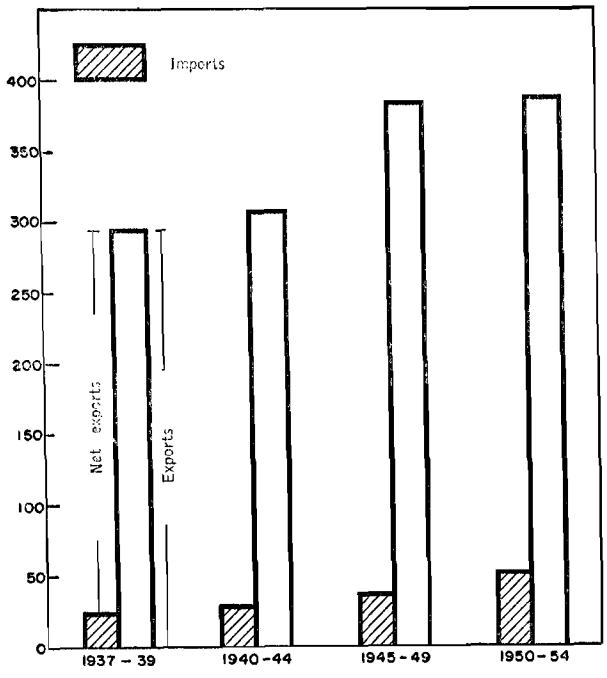
Source: Official statistics.

Figure N

COLOMBIA: BALANCE OF FOREIGN TRADE IN AGRICULTURAL COMMODITIES

(Millions of dollars at 1950 prices)

Natural scale



4. External balance

From the data reviewed it can be seen that, over the medium term (1937-39 to 1950-54), the quantum of agricultural exports expanded much less than imports of agricultural commodities. While the former increased by 30 per cent the latter did so by 115 per cent. This fact is much more clearly manifest over the short term; between 1945-49 and 1950-54 the quantum of exports remained more or less stationary, while that of imports rose by 36 per cent. These trends, which have been intensified since 1954, are reflected in a progressive reduction of net exports (see table XLI and figure N).

To supplement the trade balance, however, the price variable must be taken into account. The circumstances that prevailed in the period analysed, through their influence on the world situation in respect of coffee supply and demand and price levels, led to striking changes in the purchasing power of exports. The effect of these changes was depressive up to 1945-49 and highly positive from then onwards. Consequently, the purchasing power of *per capita* net exports between the limits of the period (1937-39 and 1950-54) improved by 60 per cent, although their quantum declined by 10 per cent. The favourable situation deriving from the rise in the price of coffee has altered in more recent years, and the economy is already feeling the effects of the consequent decrease in the capacity to import. This makes it a matter of still greater urgency to expand agricultural production with the two-fold aim of enlarging and to some extent diversifying exportable surpluses and substituting domestic production for imports of agricultural commodities as far as possible.

D. CHILE

Introduction

Chile is a another good example in its own particular way, of a Latin American country whose slow agricultural development is seriously hampering its economic expansion. During the last 15 years, the growth of agricultural and livestock production has not kept pace with that of the population. As production is destined first and foremost for the home market, and only the surpluses remaining after domestic demand has been satisfied are exported, the outcome has been a decline in agricultural exports and a more or less simultaneous expansion of imports. Thus, since 1940 the country has ceased to be a net exporter and has become a net importer of agricultural commodities, which have come to absorb as much as 33 per cent of its capacity to import. The increase in agricultural imports is

Table XLII. Chile: Quantum of agricultural production, 1935-56

(Annual averages at 1950 prices)

Period	Total (millions of pesos)			Per capita (pesos)		
	Crops	Live-stock	Agricul-tural[a]	Crops	Live-stock	Agricul-tural[a]
1935-39	10 672	—	—	2 204	—	—
1940-44	10 898	9 870[b]	21 143[b]	2 077	1 848[b]	3 958[b]
1945-49	11 489	10 803	22 292	1 998	1 879	3 877
1950-54	11 802	11 325	23 127	1 868	1 793	3 661
1955	13 274	11 822	25 097	1 963	1 749	3 712
1956	13 952	11 939	25 891	2 064	1 720	3 784

Source: Official production statistics.
[a] Including miscellaneous vegetables and eggs.
[b] Figure for the three-year period 1942-44.

principally determined by commodities which the country could produce itself, and which include wheat, meat, oils and fats, and sugar. Between 1945 and 1956 the country imported agricultural commodities to a value of 921 million dollars, of which 592 million corresponded to these items for which domestic production could be substituted. Even if sugar were eliminated from the list, on the grounds that the growing and processing of sugar-beet are only in the initial stages of development, the quantum of replaceable imports would in any case amount to 352 million dollars. So exceptional an increment in replaceable imports of consumer goods is seriously limiting imports of the capital goods, raw materials and other durable goods required to accelerate economic growth, besides aggravating the vulnerability of the economy. Any change in demand and prices for Chilean exports which restricts the capacity to import will make it difficult to obtain supplies of those consumer goods—foodstuffs and raw materials—in respect of which reductions cannot easily be effected without creating grave nutritional problems or bringing some activities to a standstill.

But the sacrifice imposed on the country by the curtailment of exports and the expansion of agricultural imports did not imply an improvement in the population's foodstuffs supplies. On the contrary, in recent years, the Chilean diet has deteriorated not only in quantity but in quality, since consumption of carbohydrates (sugar, wheat and other cereals) has increased and that of protective foods rich in protein, such as meat, has decreased.

Because of the growth of the population and the higher *per capita* income determined by the development of other sectors of the Chilean economy, the inelasticity of the total supply of foodstuffs has prevented it from meeting the increasing pressure of demand. This constitutes one of the factors in Chile's inflationary process.[40]

1. Agricultural production

The rate of growth of Chile's agricultural production has been slower than that of the population. Thus, as against an 18-per-cent increase in the population between 1942-44 and 1950-54, agricultural production expanded by only 8 per cent; this meant a deterioration of 8 per cent in the level of *per capita* production (see table XLII and figure O).

For want of reliable statistical data on the livestock sector, agricultural production before 1942 cannot be assessed.

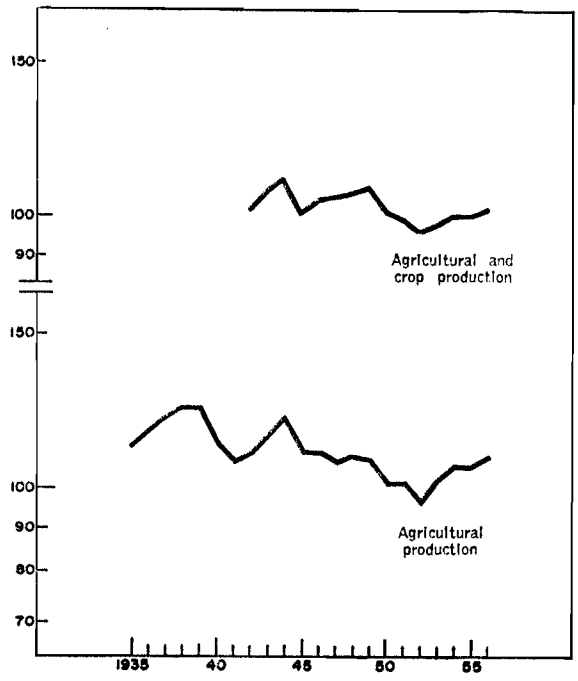
[40] See Part Two, chapter VI of the present *Survey* for a discussion of this problem.

Figure O

CHILE: PER CAPITA AGRICULTURAL AND CROP PRODUCTION

(Indexes 1950 = 100)

Semi-logarithmic scale



These limitations, however, do not apply to the crop sector, which shows an even more serious downward trend at present than in 1930-39, when *per capita* production of agricultural commodities stood at a level 15 per cent higher than that registered in 1950-54.

Owing to the inadequate growth of agricultural production, the proportion exported became progressively smaller. In 1940-49 it was between 7 and 8 per cent, falling to only 3 and 4 per cent in the last two years of the period under consideration (see table XLIII).

The decline in the relative importance of exportable production in the crop sector was still more pronounced. In 1935-39, 14 per cent of such production was earmarked for sale abroad, but nearly 20 years later this volume was 65 per cent smaller, and constituted only 5 per cent of the total output.

Table XLIII. Chile: Quantum of agricultural production and exports

(Annual averages in millions of pesos at 1950 prices)

Year	Production	Exports[a]	Exports as a percentage of production
	Crop and livestock production[b]		
1942-44	21 143	1 456	6.9
1945-49	22 292	1 686	7.6
1950-54	23 127	1 198	5.2
1955	25 097	765	3.0
1956	25 891	1 060	4.1
	Crop production		
1935-39	10 672	1 488	13.9
1940-44	10 898	936	8.6
1945-49	11 489	1 190	10.4
1950-54	11 802	861	7.3
1955	13 724	664	4.8
1956	13 952	712	5.1

Source: Statistics supplied by the Statistical Department *(Dirección General de Estadística)* and by the Department of Agrarian Economy *(Departamento de Economía Agraria)* of the Ministry of Agriculture.
[a] Estimated at production prices used to calculate the quantum.
[b] Excluding forest products and exports.

2. Composition and evolution of agricultural exports

Chile's lines of agricultural production intended primarily or to a major extent for foreign markets are extremely few; usually, the agricultural export trade consists in sales of surpluses once domestic demand has been satisfied. Thus the slow growth of the agricultural sector in recent years was bound to have repercussions on exports from this source, which declined in 1950-54 to such an extent that their quantum was 37 per cent below the average recorded in 1935-39 (see table XLIV).

Non-agricultural exports, on the other hand, despite the reduction registered in the last five-year period, rose 17 per cent above their 1935-39 level. Consequently, agricultural commodities constituted a steadily decreasing percentage of the quantum of goods exported by Chile. In fact, while their share was almost 25 per cent in 1935-39, in recent years it has dropped to only 8 or 9 per cent.

Table XLIV. Chile: Agricultural and non-agricultural exports, 1935-56

Period	Non-agricultural	Agricultural[a]	Agricultural exports as a percentage of total exports
	Quantum (Millions of dollars at 1950 prices)		
1935-39	221.9	54.8	19.8
1940-44	285.7	37.2	11.5
1945-49	286.3	41.3	12.6
1950-54	260.1	34.7	11.8
1955	287.8	27.4	8.7
1956	295.9	30.3	9.3
	Value (Millions of dollars at current prices)		
1935-39	135.5	23.4	14.7
1940-44	169.9	22.2	11.6
1945-49	265.4	41.8	13.6
1950-54	385.6	44.3	10.3
1955	475.8	36.3	7.1
1956	545.6	33.0	5.7

Source: Data supplied by the Statistical Department.
[a] Including a sample covering principal crop, livestock and forest exports.

Table XLV. Chile: Composition of agricultural exports, 1935-56[a]

(Annual averages in millions of dollars at 1959 prices)

Period	Crops	Livestock	Forest products	Total
1935-39	31.3	20.7	2.8	54.8
1940-44	19.2	16.1	1.9	37.2
1945-49	25.0	12.7	3.6	41.2
1950-54	18.4	10.0	6.4	34.8
1955	15.2	3.7	8.5	27.4
1956	15.1	10.1	5.1	30.3

Source: Data supplied by the Statistical Department.
[a] The most important commodities in each group.

The decline in agricultural exports becomes still more evident when the country's demographic growth is taken into account. In 1950-54, their quantum in *per capita* terms was 52 per cent lower than in 1935-39. In contrast, between these two five-year periods, *per capita* figures for non-agricultural exports decreased by only 10 per cent.

The reduction of the quantum of agricultural exports was accompanied by a change in their composition. Whereas foreign sales of forest products substantially expanded, those of crop and livestock commodities registered a significant contraction. The volume of the former increased by 130 per cent between 1935-39 and 1950-54, which meant that their share in the aggregate rose from 5 to 18 per cent. Between the same two five-year periods, crop exports decreased by 40 per cent, and those of livestock commodities by a little over 50 per cent (see table XLV).

Cereals have constituted and still remain one of the country's most important agricultural export lines. Nevertheless, during the last 20 years, exportable surpluses of most kinds of grain have steadily dwindled, or have disappeared altogether, as in the case of wheat and rice. In 1950-54 the quantum of cereal exports, estimated at 1950 internal prices, amounted to only one-third of that registered in 1930-39 (see table XLVI).

Exports of oats and barley reached their highest levels in the pre-war years, and subsequently declined until by 1956 the former had practically ceased altogether.

Up to 1949, Chile was for several years a net exporter of wheat. There were times when its exports exceeded the imports concurrently effected by margins of over 46 000 tons. Since then, the country became a large net importer of wheat.

Rice was also exported by Chile for some years, after 1941, thanks to the rapid expansion of rice-growing which enable domestic demand to be satisfied and fairly considerable exportable surpluses to be obtained. The latter reached a maximum of 42 000 tons in 1945. Both production and exports subsequently declined.

Pulses—beans, chick-peas, peas and lentils—constitute traditional Chilean exports, of which external market sales increased rapidly from 1930 onwards, attaining their peak in 1935-39. During the war, a downward movement set in, which, after some degree of recovery in 1945-49, continued more intensively.

Onions, garlic, wine and fruit are also deserving of mention. Onions and prunes are among the few agricultural commodities of which sales abroad have notably increased in recent years.

Unlike agricultural exports proper, exports of timber

Table XLVI. Chile: Crop exports, 1935-56

(Annual averages in thousands of tons)

	1935-39	1940-44	1945-49	1950-54	1955	1956
Cereals: Quantum index[a]	293	130	221	119	61	51
Oats	47.2	12.5	8.9	12.6	3.0	0.9
Barley[b]	57.1	26.6	58.5	36.3	24.4	22.3
Rice	[c]	12.6	17.9	3.7	[c]	—
Wheat	13.3	4.1	5.5	—	—	—
Dried pulses: Quantum index[a]	126	91	106	82	76	84
Beans	31.7	28.0	35.0	29.2	26.2	29.2
Chick-peas	2.4	1.9	2.0	1.4	1.1	0.9
Peas	10.4	9.6	7.1	2.2	1.0	1.0
Lentils	33.4	12.1	14.1	10.4	11.2	12.3
Vegetables:						
Onions	5.0	2.0	6.5	17.2	16.4	17.3
Garlic	5.2	3.8	4.5	4.6	2.8	3.5
Wine and fruit:						
Wine[d]	9.3	1.9	8.0	6.2	7.7	7.2
Prunes	0.6	0.7	1.8	2.9	3.8	2.0
Apples	10.5	2.8	4.6	8.7	6.1	6.6

Source: Statistical Department.
[a] At 1950 domestic market prices.
[b] Including malted barley, expressed in terms of grain.
[c] Under 100 tons.
[d] Millions of litres.

rose steadily over the last ten years of the period under review.[41] Livestock exports consisted mainly of wool, hides, mutton, wax and honey. The volume of wool exported underwent a steady decline, falling from 10 000 tons in 1930-39 to 6 700 in 1950-54. Hide exports also decreased, since—as in the case of wool and other commodities—the fact that the increase in domestic demand was not accompanied by a proportional expansion of production restricted exportable surpluses.

[41] In 1950-54 the country's dollar income under this head amounted to 9.5 million, that is, 21 per cent of the total value of crop and livestock exports, whereas in 1935-39 their share had been only 4 per cent.

3. Agricultural imports

(a) *Evolution*

The trend followed by agricultural imports was in decided contrast to that of exports. While the quantum of the latter steadily decreased, that of the corresponding imports expanded uninterruptedly and more than proportionately to non-agricultural imports (see table XLVII). In 1950-54 the quantum of agricultural imports was 110 per cent higher than in 1935-39. It reached its peak in 1954 and 1955, when it was almost twice the annual average recorded in 1935-39.

Table XLVII. Chile: Agricultural and non-agricultural imports, 1935-56

(Annual averages)

Period	Agricultural[a]		Non-agricultural		Agricultural imports as a percentage of total imports
	Total (Millions of dollars)	Per capita (Dollars)	Total (Millions of dollars)	Per capita (Dollars)	
			Quantum (At 1950 prices)		
1935-39	34.9	7	150.0	31	19
1940-44	52.7	10	144.9	28	27
1945-49	65.1	11	179.7	31	27
1950-54	73.0	12	210.9	33	26
1954	99.9	15	197.0	30	34
1955	99.5	15	220.1	33	31
1956	66.4	10	218.7	31	23
			Value (At current prices)		
1935-39	10.0	2	71.8	15	12
1940-44	23.9	5	99.4	19	19
1945-49	58.6	10	180.0	31	25
1950-54	90.5	14	235.0	37	28
1954	115.2	17	228.7	35	34
1955	103.6	15	273.6	40	28
1956	71.6	10	281.8	41	20

Source: Data supplied by the Statistical Department.
[a] Including a sample covering most agricultural imports.

This evolution implied that agricultural commodities represented an increasing proportion of the goods entering the country. In fact, in 1930-39 such commodities amounted to 19 per cent of the quantum of total imports, but from 1940 onwards their share rose above 26 per cent,[42] and in more recent years reached 30 per cent.

The increase in agricultural imports easily outstripped the growth of the population. In 1954 and 1955 *per capita* imports were 85 per cent higher than in the five years immediately preceding the war.

These facts are of decisive importance for the country, since they have increasingly limited its capacity to import the capital goods, fuels and non-agricultural raw materials needed for industry. Their effect is manifest when the value of these agricultural imports is analysed; from an annual average of 10 million dollars in 1935-39 it rose to over 90 million in 1950-54.[43] (see again table XLVII).

(b) *Composition*

Chile's agricultural imports consist mainly of foodstuffs. However, during the last 25 years non-foodstuffs have been constituting an increasingly larger percentage of the whole, owing to the expansion of the textile industry, whose imported raw material requirements—of cotton in particular—resulted in a 280 per cent increment in the quantum of non-foodstuffs imports in 1950-54, in relation to 1935-39. Even so, foodstuffs still represented 70 per cent of the quantum and value of agricultural imports in 1950-54 (see table XLVIII).

In Chile environmental conditions prevent the cultivation of certain crops which it is essential to import. It may therefore usefully be determined how far the expansion of agricultural imports has been attributable to those that can and how far to those that cannot be replaced by domestic production. Among foodstuffs, Chile's staple imports that are susceptible of replacement are dairy produce, meat, wheat, oils and fats, and sugar, while non-foodstuffs are represented by wool. The main foodstuffs that the country must continue to import are coffee, cacao, maté, tea and bananas; and the principal non-foodstuff, cotton.

What is implied by the classification of agricultural imports according to whether they can or cannot be replaced by domestic production is that for the first of these two categories the country not only offers suitable ecological conditions but also possesses sufficient natural resources to produce the commodities concerned in quantities large enough to make the corresponding imports unnecessary. In such an analysis, it is particularly important not to make the mistake of advocating too high a degree of autarky, which would militate against the efficiency of production and the optimum use of resources.[44] The break-down indicated shows that it was precisely those foodstuff imports for which domestic production could be substituted that increased in greatest measure during the last 20 years of the period considered (see again table XLVIII).

In fact, between 1935-39 and 1950-54, the quantum of imports of foodstuffs susceptible of replacement rose by 90 per cent, and that of foodstuffs for which domestic production could not be substituted by only 41 per cent, or, in *per capita* terms, by 46 and 9 per cent respectively. From

[42] In 1942-45 the annual proportion was 33 per cent.

[43] The value of such imports amounted to 110 million dollars in 1952 and 115 million in 1954.

[44] The classification of the agricultural commodities at present imported as described is based on the opinions expressed by local and foreign experts in the findings of various research projects, and especially on the Agricultural and Transport Development Programme (*Plan de Desarrollo Agrícola y de Transporte*) drawn up by the Ministry of Agriculture and the Development Corporation in 1954 and now in process of partial implementation. It was estimated in this Programme that Chile could increase its agricultural production by 43 per cent between 1954 and 1961, and that this would mean that the country became self-sufficient in respect of wheat, edible oils, fats and dairy produce, while imports of meat would be cut down to very small quantities and those of sugar would also be reduced to some extent. When replaceable imports are analysed, allowance will be made for including or excluding sugar. When sugar is excluded, a more objective idea is given of those imports which are replaceable by traditional Chilean agricultural commodities.

Table XLVIII. Chile: Break-down of agricultural imports by foodstuffs and non-foodstuffs, 1935-56

(Annual averages)

Period	Foodstuffs				Non-foodstuffs			Total agricultural imports[e]
	Replaceable by domestic production[a]		Not replaceable by domestic Production[b] (excluding sugar)	Total	Replaceable by domestic production[c]	Not replaceable by domestic production[d]	Total	
	including sugar	excluding sugar						
	Quantum (Millions of dollars at 1950 prices)							
1935-39	21.4	7.3	8.1	29.5	0.9	4.6	5.5	34.9
1940-44	30.9	14.9	10.8	41.7	1.0	10.1	11.1	52.7
1945-49	37.9	21.3	11.9	49.8	22.7	12.7	15.4	65.1
1950-54	40.9	21.0	11.5	52.4	2.5	18.0	20.5	73.0
1955	68.9	37.5	12.0	80.9	2.3	16.3	18.6	99.5
1956	31.7	23.1	12.5	44.2	1.0	21.3	22.3	66.4
	Value (Millions of dollars at current prices)							
1935-39	5.8	2.5	2.8	8.6	0.2	1.2	1.4	10.0
1940-44	15.1	7.0	5.0	20.1	0.4	3.4	3.8	23.9
1945-49	39.2	18.1	8.1	47.3	1.3	10.0	11.3	58.6
1950-54	53.2	32.6	13.2	66.4	4.1	20.0	24.1	90.5
1955	64.1	39.3	17.0	81.1	5.4	17.1	22.6	103.6
1956	32.1	25.1	15.5	47.6	2.1	22.0	24.1	71.6

Source: Official data provided by the Statistical Department.

[a] Dairy produce, meat, wheat, oils and fats and sugar.

[b] Coffee, cacao, maté, tea, bananas and linseed.

[c] Wool.

[d] Castor-oil, *tagua*, cotton, tobacco and vegetable fibres.

[e] Discrepancies between the total and the sum of the parts are due to rounding of figures.

Table XLIX. Chile: Value of total imports and of agricultural imports replaceable by domestic production, 1935-56

(Annual averages in millions of dollars)

Period	Total imports	Agricultural imports replaceable by domestic production		Replaceable agricultural imports as a percentage of total imports	
		Including sugar (A)	Excluding sugar (B)	(A)	(B)
1935-39	81.8	6.0	2.7	7.3	3.3
1940-44	123.3	15.3	7.2	12.4	5.8
1945-49	238.6	40.4	19.3	16.9	8.1
1950-54	325.5	57.3	36.7	17.6	11.3
1954	343.9	71.0	47.4	20.6	13.8
1955	377.2	69.5	44.7	18.4	11.9
1956	353.4	34.1	27.1	9.6	7.7

Source: Data supplied by the Statistical Department.

the average for the years 1954 and 1955, when the peak volume of imports was registered, it can be seen that *per capita* imports susceptible of replacement stood 117 per cent higher than in the five years preceding the war.

If sugar were excluded from the list of replaceable imports, the proportionate increase would be even greater, as their volume would then be almost trebled between 1935-39 and 1950-54.

With regard to non-foodstuffs, the situation was very different, as the largest increment in imports was shown by commodities which the Chilean environment cannot produce, the most important of these being cotton. The quantum of imports of non-foodstuffs for which domestic production could not be substituted quadrupled between 1935-39 and 1950-54, while their value in dollars rose from 1.2 million to 20 million. In this case, however, there was no question of a net expansion of imports, since at the same time fewer finished textile goods were purchased abroad, thanks to the output of local industry. Although replaceable imports of non-foodstuffs are of little significance in foreign trade, they also displayed a tendency to increase rapidly between the periods indicated; their quantum rose by 180 per cent, and in 1950-54 their value amounted to 4.1 million dollars.

The foregoing analysis shows that agricultural imports for which domestic production could be substituted have increasingly absorbed the country's capacity to import. Indeed, while in 1935-39 they represented only 7.3 per cent of the value of goods entering the country, in such years as 1945, 1946 and 1947 they came to account for as much as 20 per cent, and the corresponding annual average for the period 1945-54 fluctuated between 17 and 18 per cent (see table XLIX), or, in the last quinquennium, between 10 and 14 per cent with the exclusion of sugar.

If the most important agricultural commodities are considered, during the 12-year interval between 1945 and 1956 the country effected such imports to a value of rather over 920 million dollars, of which the equivalent of 592 million, or 64 per cent, could have been produced by the Chilean agricultural sector. If sugar were excluded, the latter imports would work out at 352 million dollars. Between the same years, imports of capital goods rose to 898 million dollars, or, in other words, exceeded by barely 51 per cent imports of foodstuffs and raw materials for which substitution would be possible.

These statistics reveal the negative effects of the disequilibrium in the growth of the different sectors of the Chilean economy. For some years the inadequate development, of agriculture and its effect on the capacity to import have been militating against the expansion of the economy as a whole. In Chile, as in most of the Latin American countries, agriculture is the sector with the largest amount of neglected or semi-utilized resources—land, manpower, equipment and to some extent technique as well—which in the case of most crops could with only a little additional capital be more fully incorporated into the enocomy. If Chilean agriculture had responded to the increase in demand for farm products, the consequent saving in foreign exchange would have permitted not only the financing of its own development, but also the expansion of the resources available to the other sectors. These views are corroborated by the Agricultural and Transport Development Programme mentioned above, which establishes as a target a 43 per cent increase in over-all agricultural production between 1954 and 1961 and contemplates a foreign exchange investment of 370 million dollars, which is a sum much smaller than that represented by replaceable imports of agricultural commodities in the last 11 years.

The expansion of Chile's capacity to import—which from 1947 onwards was intensified in consequence of world price conditions that were temporarily exceptionally favourable to the country's copper exports—was not turned to the best account for importing capital and other durable goods, because of the heavier imports of foodstuffs which could be domestically produced (see table L). The deficits fairly frequently shown by the balance of payments, especially during the post-war period, could have been avoided in some years but for the steady growth of such replaceable imports of agricultural commodities.

Finally, the altered structure of the import trade is making the Chilean economy increasingly vulnerable to any change in demand and prices for its exports. Indeed, every contraction of the capacity to import is bound to create difficulties in relation to purchases of foodstuffs and raw materials from abroad, a reduction of which would almost inevitably involve supply problems and bring industries to a standstill.

(c) *Staple imports*

As has already been stated, the principal imports of foodstuffs comprised sugar, wheat, meat, oils and fats and dairy produce; and it is these too which are exerting the

Table L. Chile: Capital goods imports and imports of agricultural commodities replaceable by domestic production; balance-of-payments situation, 1942-56

Year	Capacity to import	Imports		Balance-of-payments situation	Percentage of the capacity to import represented by imports of:	
		Capital goods	Replaceable imports of agricultural commodities[a]		Capital goods	Replaceable imports of agricultural commodities[a]
	(Millions of dollars)					
1942	148.7	15.8	6.6	14.2	11	4
1943	190.8	16.6	11.3	37.6	9	6
1944	200.1	20.0	11.4	25.8	10	6
1945	210.4	20.7	17.7	12.7	10	8
1946	218.0	32.7	16.8	—43.0	15	8
1947	273.8	54.9	23.4	—60.0	20	9
1948	334.6	58.4	23.6	50.0	17	7
1949	321.3	85.9	15.0	—10.0	27	5
1950	271.7	64.3	13.1	5.0	24	5
1951	384.2	79.9	29.9	2.0	21	8
1952	485.4	91.2	53.8	23.0	19	11
1953	420.8	94.6	39.4	— 4.0	22	9
1954	377.7	87.3	47.4	—17.0	23	13
1955	467.7	102.2	44.7	30.0	22	10
1956	465.0	126.6	27.1	— 7.0	27	6

Source: ECLA, and balance of payments of Chile.
[a] Excluding sugar exports.

Table LI. Chile: Staple agricultural imports, 1935-56

(Thousands of dollars)

	1935-39	1940-44	1945-49	1950-54	1954	1955	1956
I. *Foodstuffs*	8 570	20 121	47 342	66 398	80 696	81 074	47 522
Sugar	3 293	8 075	21 121	20 591	23 647	24 832	6 957
Wheat	409	1 091	1 103	13 845	19 292	16 770	7 022
Meat	1 572	5 369	13 486	12 119	9 454	7 535	7 958
Fats and oils	479	176	2 799	5 568	11 171	7 291	9 669
Dairy produce	28	370	755	1 053	1 677	7 655	446
Stimulants[a]	2 248	3 967	6 263	11 057	12 592	14 015	13 430
Cacao	142	287	594	674	580	1 368	671
Bananas	399	761	1 221	1 491	2 283	1 608	1 369
II. *Non-foodstuffs*	1 064	3 089	10 461	23 122	33 572	21 245	23 094
Cotton	805	2 674	8 716	18 502	27 417	15 432	20 569
Wool	190	264	1 171	4 104	5 756	5 427	2 075
Tobacco	69	151	574	516	399	586	450

Source: Statistical Department.
[a] Coffee, tea and maté.

heaviest pressure on the balance of payments and for which the country would be largely capable of substituting domestic production (see table LI). In 1950-54 the average annual foreign exchange expenditure represented by these imports amounted in the aggregate to approximately 54 million dollars.

Sugar imports increased at a rapid rate, rising from an annual average of 127 000 tons in the pre-war years to about 185 000 in 1950-54. Only in 1954 did Chile begin to undertake the processing of beet sugar; its output, which in that year was 4 500 tons, had risen to 24 500 by the 1957 season, and two new plants, at present being installed, will expand processing capacity to 60 000 tons. It is important that more sugar-beet should be grown not only inasmuch as the country will be freed from the necessity to import sugar, but, to an equal and even greater extent, because this activity is introducing new farm techniques which will considerably improve the productivity of Chile's agricultural sector. In fact, the application of crop rotation and or fertilizers, with the consequent improvement in the fertility of the soil, and the availabilities of new and more abundant fodder resources per hectare are resulting in striking increases in the yield of those crops which succeed sugar-beet in the use of the soil, as well as in a greater carrying capacity per unit of area and a larger output of meat and milk per animal.[45] To these circumstances must be added the economic advantages of

[45] A survey carried out by the National Sugar Industry, S. A. (*Industria Azucarera Nacional*, S. A.—IANSA), among 29 farmers in the provinces of Bío-Bío and Ñuble whose farms covered a total area of approximately 20 000 hectares, established the fact that after they had started cultivating sugar beet, wheat yields per hectare on soil where sugar-beet had previously been grown improved by 43 per cent in Bío-Bío and 28 per cent in Ñuble. In the case of beans, yields expanded by 53 per cent in Bío-Bío. In this same province, carrying capacity improved from 0.68 cows per hectare before the introduction of sugar-beet to 1.01 cows per hectare, that is, by 33 per cent. The larger number of animals per hectare and the utilization of by-products raised the annual output of milk per hectare from 1 318 to 3 383 litres.

the crop, which by improving the farmer's income, facilitates the modernization of farming as a whole.[46]

Chile's sugar consumption increases at an annual rate of approximately 3 000 tons. The expansion programmes of the Chilean sugar industry envisage the establishment of a chain of ten new plants in the next 40-50 years, whereby it will be possible to cover from 60 to 70 per cent of future consumption.

The fact that wheat production expanded so little in the later years of the period under review led to an increasing dependence upon imports. Indeed, between 1951 and 1955, Chile imported 766 000 tons of wheat, to a value of 82 million dollars, which was equivalent to 13.5 per cent of total wheat supplies during that period. What is more, in 1954-55 an annual average of 211 000 tons (17.5 per cent of total consumption) was imported. This situation was in contrast with the position in 1935-39, since at that time the average annual consumption of 850 800 tons was satisfied entirely with domestic wheat.[47]

Meat imports consisted basically of beef. Maximum levels were reached between 1943 and 1948, and in some of these years more than 200 000 head of cattle were brought into the country. In 1950-54 their number dropped to 70 000, a decrease which partly accounted for the curtailment of consumption. Imports of fats and oils, especially the latter, were attributable to the rapid growth of consumption, with which domestic agriculture failed to keep pace.

Among the principal imports of foodstuffs and stimulants for which domestic production could not be substituted are such tropical products as tea, coffee, maté, bananas and cacao; the quantum of these gradually increased at a rate slightly exceeding that of demographic growth.

The most substantial imports of non-foodstuffs comprise cotton, wool and tobacco. Chile's ecological conditions are not suitable for cotton-planting, at any rate at the present stage of technical development. The textile industry is therefore entirely dependent upon foreign sources for its supplies of fibre. The country both exports and imports wool, the balance of this trade being in its favour in terms both of value and of quantum. Imports include the higher-quality grades required by the textile industry and not produced in Chile, although the necessary resources are available. Tobacco imports are confined to superior grades used for blends by the cigarette industry.

4. External balance

In Chile's foreign trade balance in respect of agricultural commodities between 1930 and 1955, two distinct phases can be clearly differentiated. Up to 1939 Chile was a net exporter of agricultural commodities except in the years 1930 and 1931, since the quantum of such exports (at 1950 prices) easily exceeded that of agricultural imports. As from 1940, however, owing to the progressive increase in the volume of imports and the contraction—also progressive—of exports, the foreign trade balance deteriorated, and the country became a net importer of agricultural commodities (see table LII and figure P).

In 1935-39 the country's foreign trade in agricultural commodities left it with an average annual balance in its favour of 13.4 million dollars, which was radically altered in 1950-54, when net imports amounted to a value of 46 million dollars annually, reaching a maximum of over 77 million in 1954.

If forest products were excluded from agricultural exports—on the grounds that they are obtained by extraction and not through direct cultivation of the land by man—the

[46] On the 29 farms referred to in the foregoing note the number of tractors available increased from 39 to 79; that of carts, from 31 to 93; and that of mechanical ploughs from 14 to 71.

[47] In the years in question the country was a net exporter, as it sold 66 500 tons and imported only 63 700 tons.

Table LII. Chile: Total and net agricultural exports and imports, 1930-56

(Annual averages)

Period	Total		Net		Excluding forest products		Excluding replaceable imports[a]	
	Exports	Imports	Exports	Imports	Net exports	Net imports	Net exports	Net imports
	Quantum (Millions of dollars at 1950 prices)							
1930-34	44.1	27.1	17.0	—	15.1	—	24.9	—
1935-39	54.8	34.9	19.9	—	17.1	—	28.1	—
1940-44	37.2	52.7	—	45.5	—	17.4	0.4	—
1945-49	41.3	65.1	—	23.8	—	27.4	0.2	—
1950-54	34.7	73.0	—	38.3	—	44.7	—	14.8
1954	29.0	99.9	—	70.9	—	79.5	—	36.2
1955	27.4	99.5	—	72.1	—	80.6	—	32.3
1956	30.3	66.4	—	36.1	—	41.2	—	12.1
	Value (Millions of dollars at current prices)							
1930-34	14.3	9.1	5.2	—	4.8	—	8.3	—
1935-39	23.4	10.0	13.4	—	12.5	—	16.1	—
1940-44	22.2	23.9	—	1.7	—	2.7	5.5	—
1945-49	41.8	58.6	—	16.8	—	19.9	2.5	—
1950-54	44.3	90.5	—	46.2	—	55.7	—	9.5
1954	38.1	115.2	—	77.1	—	94.4	—	29.7
1955	36.3	103.6	—	67.3	—	84.6	—	22.6
1956	33.0	71.6	—	38.6	—	47.6	—	11.5

Source: Data supplied by the Statistical Department.
[a] Sugar imports are not considered to be replaceable.

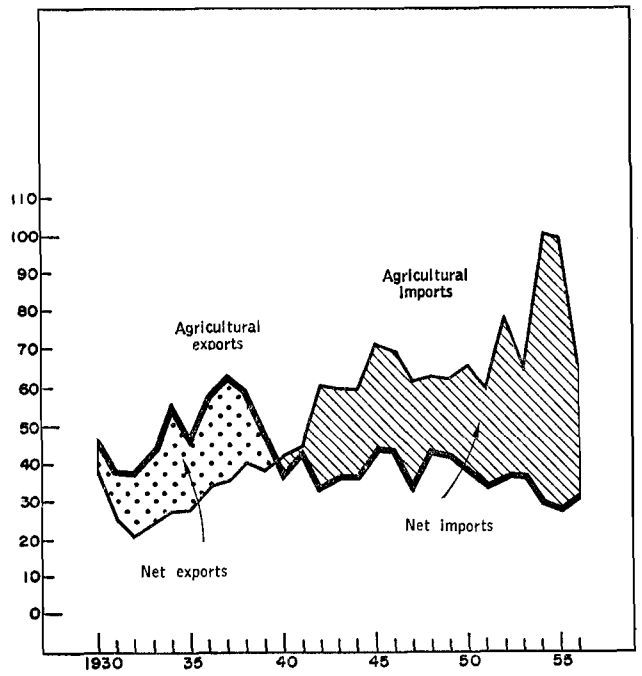
foreign trade deficit with regard to agricultural commodities would be even greater, since exports of timber were among the few lines that expanded considerably in the later years of the period. In this event, the annual value of net imports in 1950-54 would rise from 46 to 56 million dollars, and in 1954 to approximately 95 million.

Figure P

CHILE: FOREIGN TRADE BALANCE IN AGRICULTURAL COMMODITIES

(Millions of dollars at 1950 prices)

Natural scale



From a different point of view, if the development of Chilean agriculture had levelled up supply and demand, and those imports of agricultural commodities for which domestic production could be substituted had thus been eliminated, the country's foreign trade balance would still have been favourable in respect of agricultural commodities, as in 1930-39. If sugar imports are not considered as replaceable, Chile would have become a net importer of agricultural products only from 1950 onwards but at a level much lower than the actual one. Hence, agriculture would not have been, as at present, the principal drain on foreign exchange availabilities.

5. Internal demand and supply in respect of agricultural commodities

(a) *Supplies and sources*

Despite the contraction of agricultural exports and the increase in imports, *per capita* availabilities of crop and livestock commodities did not improve in the last 15 years of the period. Thus, for example, despite the fact that agricultural commodities to a total value of 491 million dollars were imported in 1951-55, they were 3 per cent lower than the *per capita* levels that had been registered for agricultural commodities in 1942-45[48] (see table LIII).

A major share—from 90 to 95 per cent—of availabilities of crop and livestock commodities is made up of foodstuffs. Non-foodstuffs, such as tobacco, wool, linseed, hemp fibre, cotton, etc., constituted only a small percentage of the volume of agricultural availabilities. And it was precisely those of foodstuffs that were adversely affected, in *per capita* terms, by the changes in the structure of supplies to which attention has been drawn. In the five-

[48] In this case too the annual average for the four-year period 1942-45 has to be used as a basis for comparison, because only as from 1942 are data on agricultural production available.

Table LIII. Chile: Availabilities of agricultural commodities for domestic consumption (foodstuffs and non-foodstuffs), 1942-55

(Annual averages at 1950 prices)

Period	Production for domestic consumption[a]		Agricultural imports[b]		Availabilities of agricultural commodities		Total
	Food-stuffs	Non-food-stuffs	Food-stuffs	Non-food-stuffs	Food-stuffs	Non-food-stuffs	
			Total (Millions of pesos)				
1942-45[c] . .	18 923	572	4 480	815	23 403	1 387	24 790
1946-50. . .	20 412	683	4 149	1 035	24 561	1 718	26 790
1951-55. . .	21 933	746	4 564	1 283	26 497	2 029	28 527
			Per capita (Pesos)				
1942-45. . .	3 510	107	830	151	4 340	258	4 598
1946-50. . .	3 486	116	711	176	4 197	292	4 489
1951-55. . .	3 396	115	706	198	4 102	313	4 415

Source: Data supplied by the Statistical Department and the Ministry of Agriculture.

[a] Domestic production, excluding exports and production for seed.

[b] Including staple agricultural imports weighted by the same 1950 domestic market prices that were used for the estimates of agricultural production. The evolution of agricultural imports shown in this table differs from that given in table XLVII, because the method of calculation is based on different valuations. In the case of table XLVII, import prices in terms of dollars are used, and in the present table domestic market prices in local currency. In the final analysis, the prices in question constitute weighting factors for the calculation of the index, and the results are bound to be different if the relative magnitude of these weighting factors is substantially modified. This is in fact the case, as the following example will suffice to show. For three of the most important commodities (wheat, sugar and cotton), the implicit relationship between the dollar and the local currency is 70 pesos to the dollar, whereas for meat the corresponding relationship is from 100 to 177 pesos to the dollar. As the volume of imports of the first three commodities is increasing, while that of the last-named is contracting, the allocation of a heavier weighting to meat would necessarily mean a smaller aggregate increment.

[c] Including the average for four years only, because more satisfactory data on livestock production, are only available from 1942 onwards.

year periods 1946-50 and 1951-55 the foodstuffs at the disposal of the Chilean population were 3 and 5 per cent below the 1942-45 level, respectively.

This deterioration in foodstuffs availabilities was linked, as will be seen later, to a decline in the quality of the nation's diet, since this was deprived, in particular, of highly protective elements rich in proteins, such as meat. In other words, despite the sacrifice entailed for the country in devoting between 25 and 28 per cent of the capacity to import to purchases of agricultural commodities in 1946-55, it proved impossible to improve upon or even to match the consumption levels of some years earlier. To this curtailment of *per capita* availabilities of foodstuffs were added supply shortages due to delays in the arrival of goods from abroad, and the resulting frequent periods of scarcity forced up prices.

In contrast to *per capita* supplies of agricultural foodstuffs, those of non-foodstuffs of agricultural origin considerably improved, as more were available from both domestic and foreign sources.

(b) *Changes in the compostion of apparent consumption of foodstuffs*

Per capita consumption of animal proteins declined between 1946-50 and 1951-55; apart from that of milk, which rose, but only by 3 per cent, and that of eggs and poultry, which remained stationary, that of meat in general contracted in proportions ranging from 14 to 20 per cent. Total consumption of meat, including poultry, decreased from 51.3 to 41.5 kilogrammes *per capita* yearly. This falling-off in consumption of animal proteins was only partly counterbalanced by the slight increment in that of vegetable proteins, attributable to increased consumption of dried pulses (see table LIV).

The reduction in availabilities of protective foodstuffs

Table LIV. Chile: *Per capita* availabilities of staple agricultural commodities and sources of supply, 1946-55

	Annual per capita availabilities[a] *(Kilogrammes)*		*Percentage difference*	*Source of available foodstuffs (Kilogrammes)*			
				1946-50		*1951-55*	
	1946-50	*1951-55*		*Domestic production*	*Imports*	*Domestic production*	*Imports*
I. *Carbohydrates*							
Cereals:							
Wheat	145.7	158.2	+ 9	139.7	6.0	132.9	25.3
Oats	8.6	9.5	+ 10	8.6	—	9.5	—
Barley	5.2	6.7	+ 28	5.2	—	6.7	—
Rice[b]	12.0	11.6	— 3	12.0	—	11.4	0.2
Maize	10.9	12.8	+ 17	10.9	—	12.8	—
Farinaceous foods:							
Potatoes	77.3	69.4	— 10	77.3	—	68.8	0.6
Vegetables:							
Onions	9.6	10.5	+ 9	9.6	—	10.5	—
Garlic	0.2	0.3	+ 94	0.2	—	0.3	—
Miscellaneous	72.3	72.3	—	72.3	—	72.3	—
Sugar products:							
Sugar	27.7	31.7	+ 14	—	27.7	0.4	31.3
Stimulants:							
Maté	1.5	1.5	—	—	1.5	—	1.5
Coffee	1.7	0.8	— 53	—	1.7	—	0.8
Tea (grammes)	218.0	690.0	+216	—	218.0	—	690.0
Wine (litres)	50.6	49.1	— 3	50.6	—	49.1	—
II. *Proteins*							
Pulses:							
Beans	4.4	6.0	+ 36	4.4	—	6.0	—
Peas	1.1	1.5	+ 35	1.1	—	1.5	—
Miscellaneous[c]	0.5	0.5	—	0.5	—	0.5	—
Meat:							
Beef	32.8	26.0	— 20	24.5	8.3	22.6	3.4
Mutton	7.7	6.0	— 22	6.3	1.4	5.7	0.3
Goat flesh	1.6	1.3	— 19	1.6	—	1.3	—
Pork	7.3	6.3	— 14	7.1	0.2	6.3	—[e]
Poultry[f]	1.9	1.9	—	1.9	—	1.9	—
Eggs (units)	86.0	86.0	—	86.0	—	86.0	—
Milk[g] (litres)	111.3	114.2	+ 3	105.6	5.6	105.4	8.8
III. *Oils and fats*							
Edible oils (litres)	2.9	5.2	+ 80	1.6	1.3	3.3	1.9
Lard and other fats	3.8	3.4	— 11	3.8	—	3.0	0.4
Cacao (grammes)	176.0	150.0	— 15	—	176.0	—	150.0

Source: Ministry of Agriculture, Department of Agrarian Economy.

[a] Supplies were estimated by deducting from production the amounts used for seed or exported, and adding imports where necessary.

[b] Unhulled rice.

[c] Chick-peas and lentils.

[d] Carcass meat.

[e] Under 100 grammes.

[f] Including chickens, turkeys, ducks and geese.

[g] Including imports of milk in various forms and butter, expressed in terms of liquid milk. UNICEF donations are also taken into account.

led to an expansion of the already excessive consumption of foods rich in calories. Thus, for example, annual *per capita* availabilities of wheat increased from 146 to 158 kilogrammes,[49] and those of sugar from 28 to 32 kilogrammes. Among stimulants, consumption of wine, coffee and maté decreased, while that of tea rose to an exceptional extent. Had more fruit and vegetables been consumed, this would have helped to improve and diversify diet; but the relevant figures remained stationary, according to Ministry of Agriculture estimates. Changes also took place in the consumption of oils and fats; while an annual *per capita* increase from 2.9 to 5.2 litres was registered for edible oils, a corresponding decrease from 3.8 to 3.4 kilogrammes was recorded for pork lard and other fats.

These quantitative and qualitative diet modifications were the direct outcome of the inelasticity of domestic supply. *Per capita* meat consumption dropped because supplies from domestic sources were reduced and imports were restricted. Between 1946-50 and 1951-55, availabilities of the various kinds of domestically-produced meat fell from 41.4 to 37.8 kilogrammes *per capita* annually. Imports contracted in a still greater degree, as, in *per capita* terms, they dropped from 9.9 to 3.7 kilogrammes yearly, consumption of beef and mutton being mainly affected.

The slight improvement in milk consumption was due to an increment in imported supplies, since *per capita* production remained stationary between the two five-year periods.

The effect of the increase in consumption of vegetable proteins (pulses) and certain cereals (oats, barley, rice, etc.) was to curtail exportable surpluses. In the case of some items of which the country does not produce enough to meet its needs, such as wheat, the increment in demand was satisfied by means of a disproportionate expansion of imports, since the annual *per capita* volume of the latter rose from 6 kilogrammes in 1946-50 to 25.3 in the following quinquennium, while yearly *per capita* availabilities from domestic sources declined from 140 to 133 kilogrammes.

E. MEXICO

Introduction

The case of Mexico is a good example of the contribution which the agricultural sector can make to the development of a country and of the problems which may arise during this process. During the 25-year period from 1932 to 1956, agricultural output increased at a greater rate than the population. This increase was much more rapid among export commodities, particularly from 1946 onwards.

The annual average volume of net agricultural exports in 1952-56 was 4.3 times as great as the average for the three-year period 1934-36 in spite of the fact that agricultural imports also increased considerably. Between 1947-51 and 1952-56, net exports increased their relative contribution to the total capacity to import from 23.3 to 30.7 per cent and were largely responsible for the increase in imports of capital goods required for general economic development.

Exports of cotton and coffee followed a dynamic trend; for various reasons, foreign sales of other agricultural commodities declined.

[49] In the calculation of availabilities of the various agricultural commodities, seed requirements were excluded.

Furthermore, the vulnerability of agriculture to fluctuations in the world economy has increased because the proportion of output exported is now greater and exports have become increasingly specialized, to the point where two commodities—cotton and coffee—represent more than 90 per cent of the total.

Agricultural output for domestic consumption also went up considerably: the annual average volume in 1952-56 was more than twice the average for 1932-36. Yet this increase was only slightly more than half of that registered in agricultural poduction for export. In addition, livestock production was unfavourably affected by the severe droughts during the five-year period 1942-46 and by the foot-and-mouth epidemic between 1947 and 1950. As a result, the volume of livestock production declined in those years and in 1952-56 was barely 26.7 per cent higher than in 1932-36.

The slower growth of agricultural output for domestic consumption, combined with the decline in livestock production, undoubtedly contributed to the rapid rise in total agricultural imports.

The mere mention of a rising trend in foreign purchases of agricultural commodities conceals several important facts. the most important is the vigorous effort made to replace certain foodstuffs and agricultural raw materials. Indeed, from 1947-51 onwards, Mexico succeeded in eliminating imports of sugar, cacao and wheat or reducing them to negligible proportions.

However, the success of the effort to replace imports was not general. After 1951 and with the sole exception of 1955, the reductions which have just been mentioned were more than offset by increased imports of maize, beans and animal and poultry products.

In short, the expansion of the agricultural sector during the last 25 years did much to stimulate national economic development by contributing substantially to the increase in the capacity to import. But, as this stimulus applied only to export commodities and agricultural raw materials, the possibilities of developing the output of foodstuffs for domestic consumption were restricted. Hence, not only did the share of imports in domestic supplies of foodstuffs increase but also the relative quality of the people's diet declined.

In the future, whenever there seems to be little prospect of expanding exports further, the replacement of imports and improvement of the national diet are reasonable alternatives which should be taken into account in planning the development of the agricultural sector.

1. Agricultural production

(a) *Total output*

Between 1932-36 and 1952-56 total agricultural output in Mexico increased 140 per cent (see table LV). Crop production expanded even more; during the quinquennium 1952-56 the crop volume was 168 per cent as great as the average for 1932-36. On the other hand, livestock production increased at a much lesser rate (27 per cent) because of difficulties caused by foot-and-mouth disease during the 'forties.

Two stages should be distinguished during the period under review: the first, from 1932 to 1945, is characterized by relatively low rate of increase in agricultural production (an accumulated annual rate of 1.8 per cent); the second,

Table LV. Mexico: Volume of agricultural production, 1932-56

(Annual averages in millions of pesos at 1950 prices)[a]

Period	Crops and livestock	Crops			Livestock
		Total	Export	Domestic consumption	
1932-36	3 308.7	2 523.5	862.0	1 661.5	785.8
1937-41	3 789.3	2 791.9	997.9	1 794.0	997.4
1942-46	4 315.3	3 527.5	1 319.9	2 207.6	787.8
1947-51	5 600.3	4 828.7	2 060.0	2 768.7	771.6
1952-56	7 759.6	6 764.4	3 344.4	3 420.0	995.2

Source: Official statistics.
[a] At average domestic prices.

Table LVI. Mexico: Volume of agricultural production by categories of commodities, 1932-56

(Annual averages in millions of pesos at 1950 prices)[a]

Commodity	1932-36	1937-41	1942-46	1947-51	1952-56
Total	2 523.5	2 791.9	3 527.5	4 828.7	6 764.4
(a) *Raw materials* .	672.7	834.6	1 215.9	1 990.4	3 315.8
(b) *Foodstuffs* . . .	1 562.6	1 644.1	1 962.5	2 455.7	2 945.8
Cereals.	1 275.6	1 313.0	1 515.6	1 852.4	2 193.5
Fruits and vegetables.	164.0	213.9	281.0	389.6	442.1
Pulses.	123.0	118.2	165.9	213.7	310.2
(c) *Forage crops* . .	70.9	74.6	91.0	102.3	115.7
(d) *Others*	217.3	237.6	258.1	280.3	387.1

Source: Official statistics.
[a] At average domestic prices.

which covers the rest of the period from 1946 onwards, shows a much more rapid increase (an annual average accumulated rate of 6.0 per cent). Thus, agricultural output, which increased by 30.5 per cent during the first 15 years, required only five years during the second stage to record the same increase.

The above trends significantly reflect the evolution of agricultural production for export, whose rate of growth increased markedly after 1945 (see table LVI). Crop production for domestic consumption did not accelerate so rapidly; from 1938 onwards its growth was much more steady. Livestock production, which had increased by 27.1 per cent between 1932-36 and 1937-41, declined considerably during the following ten years and did not succeed in recovering its former level until the last quinquennium.

The diversity of the behaviour pattern of the various components of agricultural output has resulted in certain structural changes. One of the most important is the growing significance of agricultural output for export, whose contribution to total agricultural output rose from 34 per cent in 1932-36 to 49, per cent in 1952-56 (see again table LV). This process occurred during the whole period but it became more marked from 1947-51 onwards.

Another important structural change, which should be borne in mind during subsequent analyses, in the substantial rise in the share of raw materials in total agricultural production—from 25 per cent in 1932-36 to 49 per cent in 1952-56 (see again table LVI). The increase in the relative importance of raw materials was accompanied by a decline in that of foodstuffs, particularly cereals (maize, wheat, and rice); their share of the total went down from 50 to 32 per cent between the same quinquennia.

(b) Per capita *output*

During the whole period, agricultural output grew at a faster rate than the population: while the latter increased by 59.7 per cent between 1932-36 and 1952-56, the former more than doubled. *Per capita* production, in other words, registered an increase of almost 45 per cent (see table LVII). During the same quinquennia, the increase in export production *per capita* was much greater; it rose 130 per cent. Production for domestic consumption only increased by 24 per cent and livestock production in 1952-56 was still 23 per cent lower than in 1932-36.

The output of almost ever crop increased at a greater rate than the population. Only alfalfa, coffee, maize and henequen grew at a slower rate, while the banana crop declined steadily during the last three quinquennia. It is interesting to note that, in general, the staple food commodities —wheat, rice, beans and potatoes—were those which showed the smallest increment over the rate of population growth during the whole period, whereas raw materials for industrial production were those which registered the largest increases.

2. Agricultural exports

(a) *Evolution*

The rapid growth in the agricultural sector and its special nature and trends were reflected in the pattern of foreign sales of agricultural commodities. These sales, which in 1934-36 amounted on the average to 716 million pesos (at 1950 prices), more than quadrupled in 1952-56 (see table LVIII).

Table LVII. Mexico: Volume of *per capita* agricultural output, 1932-56

(Annual averages in pesos at 1950 prices)[a]

Period	Agricultural	Crops			Livestock
		Total	Export	Domestic consumption	
1932-36	186	142	48	94	44
1937-41	195	144	52	92	51
1942-46	194	159	59	100	35
1947-51	222	191	82	109	31
1952-56	267	233	116	117	34

Source: Official statistics.
[a] At average domestic market prices.

Table LVIII. Mexico: Break-down of agricultural exports, 1932-56

(Annual averages in millions of pesos at 1950 prices)[a]

Period	Total	Crops	Livestock	Forest products
1932-36	715.9	652.8	631.0	—
1937-41	812.7	574.6	138.7	99.4[b]
1942-46	1 021.1	747.7	148.9	124.5
1947-51	1 650.7	1 573.5	—	77.2
1952-56	3 109.9	3 016.9	42.5	50.5

Source: Official statistics.
[a] At average export prices revalued by the *Banco de México*.
[b] 1940-41.

If, as in previous cases, this total is broken down, it will be seen that the crop items explain the marked increase in agricultural exports. Animal and forest products, whose absolute level had risen between 1932 and 1946, subsequently declined to much lower levels, with the result that crop exports represented 95.3 and 97.0 per cent of the total in the last two quinquennia. The decline in the export volume of animal and forest products was due to the contraction in livestock production, mainly as the result of the foot-and-mouth epidemic, and to the rapid growth of internal demand for forest products brought about *inter alia* by the expansion of the building industry.

Among crop items, cotton exports increased the most, attaining a volume which, in 1952-56, was 17 times greater than in 1934-36 (see table LIX). Coffee exports increased more than five times during the same period. These two commodities were the most important items; from 1945 onwards, the export volume of other commodities showed a steady and almost constant decline.

The notable expansion in coffee and cotton exports was due to the favourable demand which has prevailed on international markets during the last ten years and to the intense efforts made at home to increase production of these crops. As regards the conditions of production, the expansion of the cotton crop was due to the development of irrigated land and to the implementation of a vigorous credit programme to finance and promote this new activity. In the case of coffee, the credit provided by the *Banco Nacional de Comercio Exterior,* together with the official technical improvement services which were set up in 1948, enabled considerable advantage to be derived from the favourable market conditions which prevailed until 1956. Thus, Mexico became the main cotton exporter on the world market after the United States and the main coffee exporter after Brazil and Colombia.

The export items of less importance, in terms of volume, include tomatoes and pineapples. Shipments abroad of these commodities greatly increased, particularly after 1940, as a result of the favourable demand from the United States market during the Second World War. When this stimulus disappeared, exports became stabilized during the following years but declined appreciably from 1949 and 1950 onwards. The declining trend in the *per capita* consumption of tomatoes and pineapples in the United States, which reflects a change in that country's consumer habits, has undoubtedly been one of the obstacles which these Mexican commodities have encountered in the United States market.

The other commodities—bananas, henequen and chick-peas—showed and almost continuous decline in their share of the total crops exported during the whole period under review. In 1952-56, the annual average of foreign sales of bananas and henequen was barely a fifth of that registered

Table LIX. Mexico: Export volume of main agricultural commodities, 1934-56

(Annual averages in millions of pesos at 1950 prices)[a]

Commodity	1934-36	1937-41	1942-46	1947-51	1952-56
Total	571.7	574.6	747.7	1 573.5	3 016.9
Chick-peas	41.4	53.4	49.7	37.9	22.3
Coffee	114.9	174.1	270.2	354.2	605.4
Tomatoes	21.6	24.9	87.5	101.7	79.0
Henequen	175.8	143.8	140.4	111.6	38.0
Cotton	121.5	84.2	134.5	886.7	2 211.1
Peanuts	—	—	3.6	11.8	34.0
Linseed	—	—	5.1	20.8	6.1
Fresh bananas	96.2	93.1	54.5	45.0	18.2
Pineapples	0.3	1.1	2.2	3.8	2.8

Source: Official statistics.
[a] At average export prices revalued by the *Banco de México*.

in 1934-36; exports of chick-peas fell to almost a half between the same years.

Unfavourable factors affecting both production and foreign demand have been responsible for the contraction in banana and henequen exports. Banana production went down from 507 000 tons in 1939 to about 300 000 tons in 1941 and the following years; in 1950 it dropped sharply as the result of the diseases which attacked the plantations; it recovered again after 1951, attaining an annual level slightly higher than 200 000 tons. During the whole period from 1939 onwards, banana exports declined almost continually up to the present time. This trend reflects the fact that buyers on the foreign market, with its typically monopolistic pattern, ceased their operations in Mexico from the mid-thirties onwards as a result of labour disputes and the expropriation of banana-growing land formerly owned by foreign companies.

The production of henequen also shows a downward trend between 1943 and 1953, with a slight recovery in recent years; nevertheless, the volume harvested in 1956 (approximately 110 000 tons) was still 16 per cent less than in 1943. This trend is partly attributable to the difficulties encountered in the organization necessary to ensure economic levels of output but the main reason is the fall in world market demand in the face of increasing competition from other hard fibres. Consequently, in 1956, exports of henequen had fallen by almost 80 per cent as compared with the volume registered in 1943.

(b) *Structural changes*

The rapid rate of increase in agricultural exports considerably benefited that of other exports whose level in 1952-56 was 69.1 per cent higher than in 1937-41. Thus, the pattern of Mexican exports has been changing in favour of agricultural commodities, particularly during the last ten years. Agricultural exports, which represented 34.4 of the total in 1937-41, increased their share to 54.3 per cent in 1952-56 (see table LX).

At the same time, there was an increase in the contribution made by the agricultural sector to the total capacity to import. Agricultural exports which, during the five-year period 1946-50, represented 27 per cent of this capacity, increased their share to 36 per cent in the following quinquennium (1951-55). On the other hand, the annual average of the total capacity to import increased from 653 to 939 million dollars (at 1950 prices) between both quinquennia and that of agricultural exports rose from 183 to 341 million dollars. Hence, the expansion of agricultural output for export was responsible for 55 per cent of the increase registered in the capacity to import.

The rising trend in exports has meant that the agricultural sector is more susceptible to fluctuations in external demand. In 1934-36, foreign sales represented 12 per cent of total agricultural production, while in 1952-56 this proportion reached 29 per cent (see table LXI).

Furthermore, the increasing extent to which the agricultural sector has become dependent of foreign trade may be seen in the effect of the growth in the production of export crops upon exports proper. The analyses made show that, during the period under review (1934-56), an increase in crop production for export gave rise to increment proportionately two-thirds greater in the respective exports.[50]

Table LX. Mexico: Total and agricultural exports, 1937-56

(Annual averages in millions of pesos at 1950 prices)[a]

Period	*Total*	*Agricultural*	*Percentage*
1937-41	2 360.9	812.7	34.4
1942-46	3 108.1	1 021.1	32.9
1947-51	4 154.7	1 650.7	39.7
1952-56	5 727.5	3 109.9	54.3

Source: Official statistics.
[a] At average export prices, revalued by the *Banco de México*.

Table LXI. Mexico: Volume of agricultural production and exports, 1934-56

(Annual averages in millions of pesos at 1950 prices)[a]

Period	*Production*	*Exports*	*Percentage*
1934-36	3 421.4	413.6	12.1
1937-41	3 789.3	407.6	10.8
1942-46	4 315.3	537.0	12.4
1947-51	5 600.3	1 055.7	18.9
1952-56	7 759.6	2 208.9	28.5

Source: Official statistics.
[a] At average domestic market prices.

3. Agricultural imports

(a) *Evolution*

Between 1934 and 1956, agricultural imports fluctuated widely over the short term, which showed that they were essentially marginal in relation to the volume of domestic production. Broadly speaking, Mexico is virtually self-sufficient as regards the agricultural commodities it needs. Consequently, any upswing in production from one year to another is almost always reflected in a much more marked downward movement in the volume of imports.

Nevertheless, available data show that the long-term trend of total agricultural imports is towards expansion. In fact, their average annual quantum, rose by 368 per cent between 1934-36 and 1952-56, except during the five-year period 1947-51, when it declined by 29.0 per cent, mainly owing to the substitution of domestic production for imports of sugar (see table LXII).

[50] An analysis of the linear correlation on the logarithmic scale between crop production for export as an independent variable and crop exports as a dependent variable gave a regression coefficient of 1.65 and a correlation coefficient of 0.95. This regression coefficient indicates that, on the average, an increase in crop production for export of 1 per cent produced an increase in agricultural exports of 1.65 per cent.

Table LXII. Mexico: Total and *per capita* agricultural imports, 1934-56[a]

(Annual averages)

Period	*Total (Millions of pesos at 1950 prices)*	*Per capita (Pesos at 1950 prices)*
1934-36	105.8	5.8
1937-41	239.1	12.4
1942-46	461.5	20.8
1947-51	329.7	13.1
1952-56	495.4	17.1

Source: Official statistics.
[a] At average 1950 import prices.

Table LXIII. Mexico: Total and agricultural imports, 1937-56

(Annual averages)

Period	Total (Millions of pesos at 1950 prices)[a]			Per capita (Pesos at 1950 prices)[a]		
	Total	Agricultural	Percentage	Total	Agricultural	Percentage
1937-41	2 314.8	239.1	10.3	120.9	12.2	10.1
1942-46	3 561.5	461.5	12.9	158.6	20.6	13.0
1947-51	5 232.2	329.7	6.3	207.7	13.0	6.3
1952-56	6 738.7	495.4	7.3	233.3	17.4	7.5

Source: Official statistics.
[a] At average import prices.

The rate of growth of agricultural imports almost invariably outstripped that of the population; and, although the *per capita* import quantum was a little smaller after 1946, during the period 1952-56 it was still almost three times as large as in 1934-36.

(b) *Structural changes*

Up to 1946 imports of agricultural commodities expanded more rapidly than total imports, and their share in the latter increased from 10 per cent in 1937-41 to 13 per cent in 1942-46 (see table LXIII). The corresponding annual average for 1947-51 was much lower (6.3 per cent). Finally, between 1952 and 1956 the proportion in question rose a little, reaching 7.3 per cent, although this figure was still far below the level originally recorded.

This downward trend in recent years was in essence a reflection of more rapid growth on the part of non-agricultural imports, not of any considerable over-all contraction in purchases of agricultural commodities from abroad. As has already been pointed out, the quantum of these latter (at 1950 prices) was 368 per cent higher in 1952-56 than in 1934-36.

Food requirements were one of the factors determining the expansion of agricultural imports. Purchases of foodstuffs abroad were almost 10 times as great in 1952-56 as in 1934-36, while imports of agricultural raw materials decreased during the same interval by 66 per cent (see table LXIV). Thus, the share of foodstuffs in agricultural imports, which up to 1941 had fluctuated between 40 and 50 per cent, increased from 1942-46 onwards to no less than 95 per cent.

As regards agricultural raw materials, the declining trend in purchases abroad of such commodities reflects the substitution achieved in the case of copra and coquito for oil, imports of which were strikingly reduced as from 1942 and ceased altogether after 1951. In contrast, imports of raw tobacco and cotton-seed for sowing—the other commodities regarded as raw materials—expanded markedly between 1934-36 and 1952-56 (see again table LXIV).

The increase in the share of foodstuffs in Mexico's agricultural imports was basically attributable to the steadily growing need to supplement certain domestic grain supplies with foreign production. In 1952-56 imports of maize, wheat, beans and rice attained an annual average of 342.8 million pesos (at 1950 prices), or the equivalent of 69.2 per cent of agricultural imports. The difference between this annual average and that of 1.1 million pesos registered in the three-year period 1934-36 is worth noting.

The significance of the foregoing data becomes still clearer if it is borne in mind that, as from 1946, domestic output completely took the place of imports of sugar and cacao, whose share in total agricultural imports had been 27.0 per cent in the preceding quinquennium. That is, despite the intensive substitution process effected in the case of the specific imports, very large quantities of foodstuffs were still purchased abroad, owing to the yet more rapid growth of external purchases of grain.

Between 1947-51 and 1952-56, average annual imports of grain increased from 240.3 to 342.8 million pesos (at 1950 prices). But the shortage problem assumed a different aspect during the last five years of the period considered. Average annual wheat imports fell from 200 to 105 million pesos between 1947-51 and 1952-56, and since 1956 do-

Table LXIV. Mexico: Composition of agricultural imports, 1934-56

(Annual averages in millions of pesos at 1950 prices)[a]

Item	1934-36	1937-41	1942-46	1947-51	1952-56
Total	*105.8*	*239.1*	*461.5*	*329.7*	*495.4*
Foodstuffs	*43.8*	*122.5*	*453.3*	*312.6*	*474.3*
Grains	1.1	60.9	248.2	240.3	342.8
Livestock and poultry products	22.7	25.1	69.7	50.7	81.6
Sugar	8.0	22.6	109.6	—	19.1
Others	12.0	13.9	25.8	21.6	30.8
Raw materials . . .	*62.0*	*116.6*	*8.2*	*17.1*	*21.1*
Copra and coquito for oil . . .	59.7	113.3	5.4	5.2	—
Tobacco	0.4	0.8	0.2	6.1	11.0
Cotton-seed . .	1.9	2.5	2.6	5.8	10.1

Source: Official statistics.
[a] At average import prices.

mestic production has been sufficient to meet Mexico's requirements.

Nevertheless, the increasingly acute shortage of maize and beans led to a continuance of the expansion in the volume of grain imports. Whereas, in the case of these two commodities, the annual average import quantum was 38.2 million pesos in 1947-51, it rose to 235.8 million in the subsequent five-year period.

Experience in the more recent past suggests that the problem, far from being solved, has actually become more serious. Thus, the output of maize in 1957 was 7.1 per cent below that recorded in 1955, while production of beans dropped by 44.0 per cent in 1957 in relation to the preceding year. Consequently, imports of maize have pursued their upward trend at a still more rapid rate, and it is estimated that those of beans will reach much higher levels in 1958.

Livestock and poultry products constitute the other category of imports which increased faster than the population. Their average annual quantum (at 1950 prices) rose from 23 million pesos in 1934-36 to 82 in 1952-56.

The relatively rapid expansion of these imports corresponded to the decline in livestock production. This in turn was due to the severe drought in 1942-46 and to the epidemic of foot-and-mouth disease which so gravely affected livestock production between 1947 and 1950.

Clearly, then, an intensive effort has been made to substitute domestic production for imports of agricultural commodities, and purchases abroad of raw materials and of such foodstuffs as sugar, cacao and wheat have been successfully eliminated or reduced to negligeable levels. Except for raw materials, most of the substitutions were achieved from 1936 onwards, which shows that the process took place just at the time when production for export was also expanding to a notable extent. However, the substitution effort did not permit a reduction in imports of other commodities, which, on the contrary, increased at so rapid a rate that the net result was a much larger total and *per capita* volume by the end of the period.

As regards the future, the foregoing analyses also suggest that import substitution, as a dynamic element in the development of agriculture, is still one of the most significant possibilities. In reality, imports of practically all the commodities studied may be regarded as susceptible of replacement by domestic production, since Mexico possesses the necessary natural resources, and there seem to be no insuperable economic and technical obstacles to the development of these lines of production.

4. External balance

A study of the external balance shows that the evolution of the agricultural sector during the last 23 years resulted in a very considerable credit balance. Throughout that period, Mexico continued to be a net exporter of agricultural commodities. During the first 13 years, its position was less favourable, since imports increased more rapidly between 1934 and 1946, and average annual net exports were thereby reduced from 610.1 to 559.6 million pesos (at 1950 prices), i.e., 8.3 per cent (see table LXV). But exports subsequently expanded at such a high rate that they more than compensated for their previous contraction, and reached a yearly average of 1 321.0 and 2 614.5 million pesos in 1947-51 and 1952-56 respectively. As a result, the exportable surplus was 4.3 times larger during the last quinquennium than at the outset of the period (see figure Q).

Table LXV. Mexico: Total and net agricultural exports, and imports, 1934-56

(Annual averages in millions of pesos at 1950 prices)[a]

Period	*Total exports*	*Total imports*	*Net exports*
1934-36	715.9	105.8	610.1
1937-41	812.7	239.1	573.6
1942-46	1 021.1	461.5	559.6
1947-51	1 650.7	329.7	1 321.0
1952-56	3 109.9	495.4	2 614.5

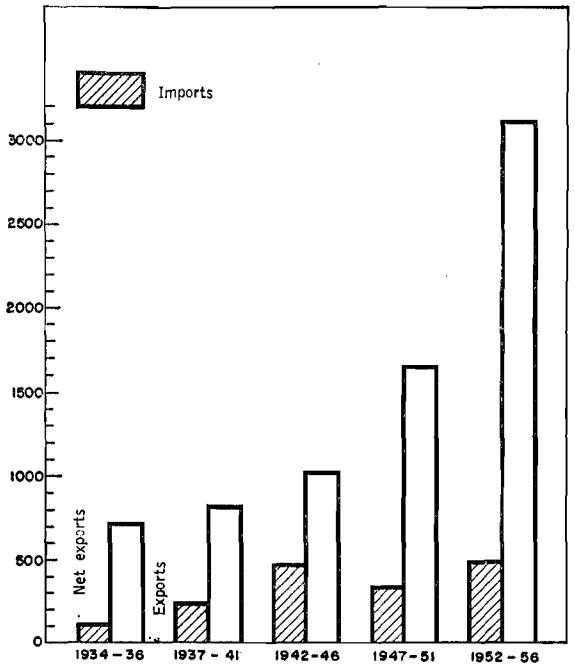
Source: Official statistics.
[a] At average export and import prices. The former have been revalued by the *Banco de México*.

Figure Q

MEXICO: BALANCE OF FOREIGN TRADE IN AGRICULTURAL COMMODITIES

(Millions of pesos at 1950 prices)

Natural scale



The proportion of agricultural imports in the capacity to import, although fluctuating, undeniably expanded between 1946 and 1955, according to available data. If the average proportion is taken over a period of several years, in order to eliminate short-term variations, it may be seen to have increased from 5.2 per cent in 1946-50 to 9.4 per cent in 1951-55 (see table LXVI).

The net contribution of the agricultural sector to the total capacity to import showed a decided upward trend, registering a yearly average of 23 per cent in 1946-50 and as much as 31 per cent in 1951-55. In addition, it was clear that export trade in agricultural commodities, considered from the standpoint of over-all economic development, had a credit balance, since both net agricultural exports and capital goods imports expanded in the same proportion, attaining yearly averages of 53.8 and 84.1 per cent in 1946-50 and 1951-55 respectively.

Table LXVI. Mexico: Capacity to import, agricultural exports (net) and imports, capital goods imports and balance-of-payments situation, 1946-55

(Millions of dollars at 1950 prices)

Year	Capacity to import	Net agricultural exports	Imports		Balance of payments situation	Percentage of capacity to import	
			Capital goods	Agricultural		Net agricultural exports	Agricultural imports
1946	581	95.2	335	55.7	−182	16.4	9.6
1947	542	146.5	351	27.4	−213	27.0	5.1
1948	617	108.3	275	23.1	− 53	17.6	3.7
1949	646	185.6	241	23.0	+ 64	28.7	3.6
1950	880	216.6	262	35.6	+187	24.6	4.0
1951	893	213.4	363	52.7	− 13	23.9	5.9
1952	860	248.9	349	57.9	− 11	28.9	6.7
1953	881	239.9	324	99.2	− 25	27.2	11.3
1954	930	308.1	317	37.6	− 10	33.1	4.0
1955	1 132	445.7	373	4.8	+204	39.4	0.4

Source: Official statistics.

Table LXVII. Mexico: Domestic availabilities of agricultural foodstuffs and non-foodstuffs, 1934-56

(Annual averages in millions of pesos at 1950 prices)[a]

Period	Total availabilities		Foodstuffs availabilities		Non-foodstuffs availabilities	
	Total	Percentages of imports	Total	Percentage of imports	Total	Percentage of imports
1934-36	3 013.9	2.4	2 516.1	1.5	497.8	8.7
1937-41	3 462.6	4.5	2 761.3	3.4	701.3	8.5
1942-46	3 987.3	7.3	3 070.9	9.3	916.4	0.5
1947-51	4 706.3	5.3	3 703.8	6.6	1 002.5	0.6
1952-56	5 687.5	4.0	4 462.1	5.0	1 225.4	0.3

Source: Official statistics.
[a] At average domestic market prices.

5. Domestic availabilities of agricultural commodities

As was stated in earlier sections the growth of total domestic availabilities of agricultural commodities lagged behind that of exports. The former's average quantum expanded 89 per cent during the whole period (see table LXVII).

The rate of growth for domestic availabilities of non-foodstuffs was much more accelerated than that of foodstuffs (146.2 per cent between 1934-36 and 1952-56). This increment took place almost entirely in the first 13 years when production of raw materials—particularly cotton—exceeded that of any other item. In contrast, the increase in availabilities of foodstuffs was hardly commensurate, attaining, in 1952-56, an average yearly volume which was 77.3 per cent greater than in 1934-36. The major part of the increment occurred in the last ten years when agricultural output and the volume of imports simultaneously expanded by 134.5 and 368.2 per cent respectively.

The share of imports in total agricultural availabilities rose from 2.4 to 7.3 per cent between 1934-36 and 1942-46. In the following five-year periods, it contracted to 5.3 and 4.0 per cent, but still remained above its figure for the beginning of the period. This improvement in the relative importance of imports really originated in the increasing inability of Mexican food production to satisfy domestic needs; the proportion of imports in non-foodstuff availabilities dropped steadily from 8.7 to 0.3 per cent between 1934-36 and 1952-56.

The respective changes in availabilities and population size resulted in an increment of 18.0 per cent in total *per capita* availabilities (see table LXVIII). This was fundamentally a reflection of the growth of non-foodstuff availabilities, which amounted to 54 per cent. *Per capita* availabilities of foodstuffs, on the other hand, showed scarcely no increase during the first few years and even tended to decrease in 1942-46; thereafter, however, they recovered so successfully that their annual average in 1952-56 was 11 per cent larger than in 1934-36.

This implies that during much of the period under review, *per capita* availabilities of foodstuffs were only able to remain just below their initial levels, thanks to a rise

Table LXVIII. Mexico: *Per capita* domestic availabilities of agricultural foodstuffs and non-foodstuffs, 1934-56

(Annual averages in pesos at 1950 prices)[a]

Period	Total	Foodstuffs	Non-foodstuffs
1934-36	167	139	28
1937-41	180	144	36
1942-46	179	138	41
1947-51	187	147	40
1952-56	197	154	43

Source: Official statistics.
[a] At average domestic market prices.

in imports. If the import volume had maintained the same average level as in 1934-36, internal *per capita* availabilities would not have increased until 1951 and would have even decreased 8.6 per cent in 1942-46. It was not until the final quinquennium that domestic production became largely responsible for the expansion in such availabilities, although the proportion of imports was still very considerable during those years.

6. Changes in apparent per capita consumption of agricultural commodities

Although lack of data precludes a compete picture of the structure of *per capita* consumption of agricultural commodities, an analysis of information available has revealed the existence of several important tendencies which have been reflected in a lowering of nutritional standards. In the first place, consumption of high-calorie foodstuffs rose notably between 1934-36 and 1952-56 (see table LXIX) and, the same time, tended to become more diversified. Meanwhile, consumption of protective foodstuffs declined somewhat. *Per capita* consumption of maize increased by barely 10 per cent in this period (137.1 to 151.1 kilogrammes); that of other crops showed such percentage increments as 75 for wheat, 59 for potatoes, 51 for rice and 27 for sugar.

In the second place, meat consumption decreased (from 15.4 to 12.3 kilogrammes per person per year) between 1934-36 and 1952-56. Except in the case of mutton consumption, which was stable during the major part of the period and rose considerably in the last five years, that of the other meats decreased in varying proportions. The average diet was thus robbed of many of its protective elements, consumption of which decreased concurrently with the rise in that of high-calorie foods. Moreover, more proteins of vegetable origin were absorbed, owing to increased consumption of dry pulses such as beans and chick-peas.

Table LXIX. Mexico: *Per capita* apparent consumption of staple agricultural commodities, 1934-56

(Annual averages in kilogrammes)

Item	*1934-36*	*1937-41*	*1942-46*	*1947-51*	*1952-56*
Carbohydrates					
Grains					
Maize	137.1	138.1	145.5	151.7	151.1
Rice	4.1	4.8	5.2	6.6	6.2
Wheat	18.3	21.1	27.7	30.7	32.0
Farinaceous foods					
Potatoes	2.9	3.0	4.4	4.3	4.6
Vegetables					
Tomatoes	1.9	3.1	4.9	8.3	9.8
Sugars					
Sugar	...	...	19.7	21.1	25.0
Stimulants					
Coffee	2.2	1.8	1.0	0.7	0.5
Protein foods					
Pulses					
Beans	5.5	5.4	6.4	8.0	12.5
Chick-peas	1.4	1.2	2.9	2.6	2.5
Meat					
Beef	11.1	11.0	7.1	7.6	7.7
Pork	3.7	4.0	3.1	3.2	3.1
Mutton	0.2	0.2	0.2	0.2	0.3
Goat flesh	0.4	0.4	0.2	0.2	0.2
Oil and fats					
Vegetable oils and fats	...	...	1.7	2.1	2.4
Cacao	0.1	0.1	0.3	0.3	0.3

Source: Official statistics.