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ECONOMIC COMMISSION FOR LATIN AMERICA
Fifth Session
Rio de Janeiro

COMMITTEE 1 (Current Economic Situation and Prospects)

SUMMARY RECORD OF THE FIRST MEETING

Held at Rio de Janeiro, on Tuesday,
14 April 1953 at 3.30 p.m.

CONTENTS:

Organisation of work

Balances of payments situation and monetary
reserves position.

PRESENT:

<u>Chairman:</u>	Mr. VENTURA	Argentina
<u>Rapporteur:</u>	Mr. CASAS BRICEÑO	Venezuela
<u>Members:</u>	Mr. BALBOA Mr. CAMPS	Argentina

/Mr. ALCAZAR

<u>Members:</u>	Mr. ALCAZAR	Bolivia
	Mr. PINHEIRO	Brazil
	Mr. RUIZ	Chile
	Mr. MEJIA	Colombia
	Mr. CARDENAS	Ecuador
	Mr. QUEZADA	El Salvador
	Mr. COTTIER	France
	Mr. NORIEGA MORALES	Guatemala
	Mr. HUDICOURT	Haiti
	Mr. ZIHOVA	Mexico
	Mr. KOLBERG	Paraguay
	Mr. BARRETO	Peru
	Sir G. THOMPSON	United Kingdom
	Mr. ASHER	United States
	Mr. PASTORI	Uruguay

Also Present:

Mr. PEREZ GUERRERO	TAB Executive Secretary
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Representatives of Specialized Agencies:

Mr. LARSEN	International Bank for Reconstruction and Development (IBRD)
Mr. DEL CANTO	International Monetary Fund (IMF)
Mr. ROBI CHEK	

Representatives of non-governmental organizations:

<u>Category A:</u>	Mr. STEBELSKI	International Chamber of Commerce
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<u>Secretariat:</u>	Mr. PREBISCH	Executive Secretary
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/Mr. SWENSON

<u>Secretariat:</u>	Mr. SWENSON	Assistant Director
	Mr. URQUIDI	Secretary
	Mr. MENDIVE	

ORGANIZATION OF WORK

The CHAIRMAN said that, in order to cover all aspects of the agenda item referred to the Committee, the Secretariat had suggested discussion under the following three sub-headings: balances of payments situation and monetary reserves position terms of trade and trends in imports and exports and general industry, mining and energy conditions.

Mr. BALBOA (Argentina) proposed that an additional sub-heading should be added, entitled general considerations, which would allow discussion of any matters not directly related to the first three.

It was so agreed.

Mr. PINHEIRO (Brazil) remarked that his delegation's interest in the Economic Survey of Latin America for 1951-52 (E/CN.12/291/Rev.1), prepared by the Secretariat, went beyond the mere conclusions reached: he was particularly concerned to have a clearer idea of the significance and scope of the concepts expressed therein and the terminology used in describing them, since both diverged from generally accepted ideas. The methods used also required some explanation in order that the degree of accuracy of the conclusions reached might be appraised. He accordingly suggested the establishment of a working group to discuss those technical matters fully with the Secretariat.

/Mr. BALBOA

Mr. BALBOA (Argentina) supported the suggestion. It was imperative from the viewpoint of economic research, particularly on the calculation of national income, that there should be an exchange of ideas and information on those matters.

Mr. ZAMORA (Mexico) felt some misgivings in case the Committee should be exceeding its terms of reference by setting up such a working group. Would it not be more appropriate to set up an informal discussion group for the purpose?

The EXECUTIVE SECRETARY and the COMMITTEE SECRETARY both welcomed the opportunity to discuss with any delegates who might be interested a number of terminological and conceptual difficulties involved in the preparation of the report.

After some discussion, the CHAIRMAN, summing up, said the suggestion was to set up an informal working group with the Secretariat to discuss the terminology and methods used by ECLA in the preparation of the Economic Survey and that the results of the discussion should be made available to the Committee in the form of an information document.

It was so agreed.

BALANCES OF PAYMENTS SITUATION AND MONETARY RESERVES POSITION

The SECRETARY, introducing the documentation submitted by the Secretariat on the item, stressed that the subject matter of the Committee was the current situation and prospects, and noting that the Economic Survey covering the period 1951-52 (E/CN.12/291/Rev.1) was necessarily not fully up to date, expressed the hope that the discussion would point up the trends implicit in the most recent events

/The most

The most striking feature in the present balance of payments and monetary reserves situation was the continued high level of production and national income outside Latin America, chiefly in the United States and Europe, while in the past two years a considerable deterioration had occurred in the balances of payment of Latin America as a whole. The worsening was largely due to external factors, since prices of raw materials had fallen to similar or even lower levels than had prevailed before the start of hostilities in Korea. Foreign exchange reserves had been expended rapidly in 1951 and by 1952 most Latin-American countries had been obliged to re-introduce restrictions on imports, frequently to the detriment of development programmes on to consumption levels.

In 1952, gold and dollar reserves had remained around some 3,350 million dollars, rising slightly in the second half of the year; this was roughly the same level as before the Korean war whereas the current volume of imports was greater, the terms of trade were less favourable and export volume had dropped. The question therefore arose whether the level of currency reserves, by entailing a further restriction of imports, would not prove one of the obstacles to continued economic development in Latin America.

The countries of Latin America fell roughly into two groups, those whose trade was principally with the dollar area, the Caribbean region plus Mexico, Ecuador, and Bolivia, and the remainder, carrying on trade mainly with Europe under bilateral agreements. Practically no convertibility difficulties existed

/for the

for the former group and their dollar reserves as a whole had risen slightly in 1952, whereas there had been a marked drop in the reserves of the latter group, leading to acute difficulties in meeting current payments in dollars. Unless some remedy were found for the situation, it would probably be impossible to maintain the recent average rate of increase in national income in Latin America (4.8 per cent annually). In fact the rate for 1952 had fallen short of previous years and, furthermore, the gross investment rate for Latin America as a whole showed signs of dropping, leading to the inevitable conclusion that the position of balances of payments must be alleviated if adequate production and investment rates were to be maintained.

In 1952, the balances of the first group of countries on current account had shown a slight improvement vis-à-vis the United States, largely owing to reduced imports, but the overall deficit for Latin America still remained, due to the heavy payments for servicing foreign capital investments in Latin America. The current account deficit had been only partly offset by further direct investment or loans, and gold and dollar reserves had had to be transferred to the United States in 1952, apart from rising short term debts.

The position in respect of Europe had become more acute in 1952, existing trade surpluses having dropped considerably; in fact including other current account items, there had been a deficit. The major factor had been the decrease of Latin American exports to Europe, proportionately greater than from
/other regions

other regions of the world, a trend which apparently indicated underlying problems with roots stretching further back. The Secretariat, in conjunction with the Economic Commission for Europe, had made a thorough study of the problem, and issued a comprehensive report on the matter.

The shortage of freely convertible currencies called for measures that would allow a greater interchange of trade between the two areas, and the extension of some facilities of the European Payments Union to Latin-American countries might prove a partial solution, as suggested in the report by a Secretariat consultant that had been placed before the Committee.

In conclusion, he said that his chief object had been to focus attention on the close inter-relationship between current Latin-American payments problems, the existing structure of balances of payments and the rate of Latin-American economic development.

Mr. CAMPS (Argentina) wished to clarify the situation with regard to Argentina's balance of payments position. Certain newspaper reports and reviews had shown Argentina as having payments obligations amounting to US\$3,067,000 at the end of 1952. Argentina had not, however, been compelled to postpone any payments to Europe or the United States in 1952, since they had been promptly settled when they fell due.

He made it clear that the statements formulated were due to an inaccurate interpretation of the concept "outstanding collections" against Argentina, which appeared in the publications of United States' banks when publishing such figures.

He made this statement to ensure that there should be due clarification of the statements in the Economic Survey, which might cause Argentina to appear as one of the Latin-American countries which had delayed payments. Finally, referring also to the Economic Survey, he would submit to the Secretariat the report of the Argentine Central Bank for 1951, so that the balance of payments figure could be rectified.

/Mr. MEJIA PALACIO

Mr. MEJIA PALACIO (Colombia) commenting on Colombia's balance of payments position, said it had not suffered from the worsening of the exchange situation common to many other Latin-American countries in the past few years, because of its satisfactory trade relations with the United States.

As a result of the forced savings entailed by the war, its exchange reserves of \$22 million at the end of 1941 had increased to \$176 million at the end of 1945. With the coming of peace, prices in the United States had risen sharply while those of Latin-American products had tended to drop, and despite substantial exports, Colombia's foreign exchange had dropped to \$83 million at the end of 1948. After the outbreak of the Korean war, the balance had again risen to some \$176 million. The principal factor in the increase had been the more favourable price of coffee, which had enabled Colombia to import three times as much as in 1938 while still maintaining its reserves at a satisfactory level. It had been assisted by internal monetary measures taken to combat inflation. Furthermore, the country's foreign credit, had been re-established by the settlement of debts pending since 1938; legislation had been adopted which provided ample guarantees for the repatriation of foreign capital; and the peso had been devalued in relation to the dollar.

The tariff system had been revised so as to afford protection to national industries, and import restrictions, except for those on luxury goods, had been removed. Those

/measures had

measures had given satisfactory results and the country had been enabled to obtain the necessary imports.

The country's monetary circulation had risen excessively as a consequence of wartime inflation, but without the adoption of any drastic measures the banks had undertaken to maintain their capital at a reasonable level, and the Central Bank had been empowered to take steps to control the country's credit and monetary policy when any inflationary symptoms made such action necessary. Thus a stable monetary position and a normal relationship between prices and wages had been maintained.

Commenting on the fiscal aspect, he said that the budget during the past three years had shown a surplus. The Government had been prudent in the amounts invested in economic development and had maintained large deposits in the Central Bank, which had enabled it to compensate for the seasonal fluctuations in the amount of currency in circulation to which the Colombian economy was subject.

With regard to trade, exports had increased in value and the current terms of trade were satisfactory. Trade with Europe had not been quite so advantageous, although exports of coffee had increased, because Colombia had been forced to import chiefly luxury goods, but he hoped that with an expansion of industrial output in Europe the position would improve.

He was not sure whether his country would be interested in becoming affiliated to the European Payments Union, since its chief aim was to sell coffee for convertible exchange. Similar arguments would militate against its joining any
/proposed Latin

proposend Latin-American Payments Union.

Mr. CARDENAS (Ecuador) said that during the war Ecuador had been compelled to direct its productive effort chiefly to the production of strategic materials and to restrict its imports. The terms of trade had not been unfavourable and the country had accumulated substantial monetary reserves, which it had not used as an anti-inflationary factor since it had been unable to obtain imports. After the war Ecuador, in common with other Latin-American countries, had experienced a considerable worsening in its terms of trade.

In 1946, it had lifted import restrictions, which had proved a great drain on its monetary reserves and had finally necessitated a reform in monetary policy. That reform had enabled the country to control inflation and maintain relative monetary stability until 1949, when the situation had again deteriorated. The country had sought means of diversifying its export production, and had successfully developed the production of bananas, cacao and coffee. As a consequence, its domestic financial reserves had increased; it was currently experiencing no payments difficulties, and in 1953 it would probably have a marked balance of payments surplus.

Since 1949, Ecuador had concluded five bilateral payments agreements, three with European and two with Latin-American countries. The aim had been to enable it to place some of its production in those markets. The agreements had so far worked

/fairly satisfactorily

fairly satisfactorily; Ecuador's balance of trade with the European countries was favourable and it was even able to extend credit to them; but certain changes might be required. He referred to Dr. Triffin's report on possibilities of effecting multilateral compensation settlements between Latin America and European countries (E/CN.12/299), and stated that Ecuador had already been able through direct negotiations, to transfer European currency balances, in small amounts, from one country to another. As regards the domestic situation, there had been considerable economic growth during the past three years without inflationary pressures. In 1950, as a result of the Korean war there had been a certain amount of inflation, which had been arrested in 1951 by measures taken by the Central Bank. In 1952, there had been a considerable increase in the currency in circulation but that had been compensated by the increase in the country's production: in five years, the production of sugar and cement had doubled, and that of other products had been developed.

The exchange and tariff systems made it possible to devote particular attention to the import of capital goods.

One of the objects of the Government's policy was to achieve greater coordination between public spending and revenues, so as to be able to plan investment in accordance with an ordered plan of economic development. The Government had also sought for the best means of settling the external debt, so as to place the country in a position where international financial organizations would be willing to

/provide money

provide money for its economic development.

He drew attention to the lack of information on Ecuador's balance of payments position in the Economic Survey of Latin America 1951-1952, pointing out that with the assistance of the International Monetary Fund studies which covered the subject since 1947 had been prepared.

Mr. BARRITO (Peru) said it was not true that there had been a decrease in the trade of all Latin-American countries with Europe. Peru, for example, had, in 1952, increased its exports to many European countries. It had succeeded during that year in finding markets for all its exports, and it hoped to be able to continue to do so. His country followed a system of free importation, subject only to customs duties.

Mr. COTTIER (France) commended the Study of trade between Latin America and Europe prepared by the ECLA/ECE/FAO Secretariats, which judiciously emphasized the importance of trade relations between Latin America and Europe.

In 1952, Latin America had ceased to have a favourable balance of payments with Europe. That might, however, be partly due to exceptional circumstances, such as the drop in the exports of some countries and fluctuations in exchange rates, since during the period from the end of the war to 1951 Europe had always been a debtor to Latin America.

Moreover, the total figures did not give a complete picture of the highly complex situation which involved equally great difficulties for both areas. In 1952, the European countries had had a debit balance with these Latin American countries

/which traded

which traded chiefly with the United States and a credit balance with the countries whose principal trade was with Europe. Consequently, in the aggregate Europe had still been compelled to go on paying dollars to Latin America. He pointed out that the situation varied considerably in different European countries, but that France, for example, had always been a debtor to Latin America.

He laid particular stress on two general ideas. In the first place, the chief problem for many European countries, including France, was to increase their exports to Latin America. The possibility of doing so was largely dependent on their ability to provide the capital goods necessary for the economic development of Latin America. France fully realised that, and was doing its best to adapt its production along the required lines. A second factor was the bilateral nature of trade and payments since the war. Such agreements had helped to develop the trade which had been disrupted by the war, they had certain disadvantages since they tended, in the final analysis, to restrict trade. By means of the European Payments Union, European countries had re-established a multilateral trading system, while awaiting the restoration of complete currency convertibility. The possibility of extending the system to Latin America had been considered, but it constituted a highly complex problem which would require serious study. He was therefore glad to see the study presented by the ECLA Secretariat on the subject (E/CN.12/299), and hoped that it would continue

/to work

to work on the problem.

Mr. CASAS BRICEÑO (Venezuela) drew attention to the report issued by the United Nations in 1951 on public finance in Venezuela, in which the advanced character of the recently reformed system was recognized. That was evidence of the high level of technical co-ordination and legal responsibility which marked the execution of his country's fiscal policies and of its continued vigorous expansion.

During the fiscal year 1951-52, petroleum production had risen, bringing increased State revenue and more foreign exchange. At the same time, the country's needs in foreign exchange had remained stabilized more or less at the 1949-50 levels. Accordingly, the period had ended with an active trade balance.

The Government's fiscal policy which had served to counteract the deflationary influences existing in 1950-51 had also provided a stimulus for economic expansion in 1952, in the course of which government and private investment and bank deposits had proportionately increased.

Furthermore, the risks attendant on the fall in world price levels had been avoided, largely because of the increase in per capita income and purchasing power. The working capital of most undertakings had registered significant advances and further plans for expansion had been initiated.

Of the factors influencing Venezuela's economic structure, the Government's protectionist policy was outstanding. Its

/initial effects

initial effects, characterized by a marked expansion of investment in the protected industries, had already made themselves felt during the fiscal year 1951-52.

The fact, too, that a state of virtually full employment existed in Venezuela had led to increased demands for consumer goods. Its dynamic and ever-expanding economy called for a flexible policy, so as to provide for the development of production potentialities. . . government programme of planned investment had been recognized as one of the best instruments of fiscal policy, particularly in counteracting possible inflationary or deflationary trends.

It was satisfactory to note the recognition accorded to Venezuela's public works policy; the percentage of capital expenditure had risen steadily in the past years reaching 48 per cent in 1950.

The 1952-53 budget provided for an expenditure of 2,300 million bolivars, the highest ever recorded, with the object of implementing the contemplated programme. The special reserve fund set up by the Government in 1949, for the purpose of avoiding the depletion of Treasury funds, had contributed largely towards speeding up the execution of the programme.

Mr. RUIZ (Chile) said that Chile's balance of payments position was based on the export of two major products: copper and nitrates, in the production of which foreign capital absorbed a large part of the proceeds.

During the war, copper prices had been controlled at a low level while the prices of imports had risen, and a

/considerable strain

considerable strain had thus been placed on the economy. When the Korean war broke out copper had again been price controlled, but an agreement had been reached with the United States in 1951 raising the price of copper and allowing Chile to sell a certain amount at free price. The agreement, however, had not proved satisfactory and had lapsed after one year. Chile had then proceeded to sell its copper at the free market price, and, by adopting certain restrictions on imports, had been enabled to re-establish to some extent its deficit balance.

One preponderant factor affecting its deficit position was the servicing of foreign capital invested in Chile, which had placed a strong pressure on its import capacity. It had also experienced difficulties due to the inconvertibility of foreign exchange, particularly with the European countries, and was therefore keenly interested in the studies on the possibility of multilateral payments with Europe.

Mr. DEL CANTO (International Monetary Fund) thanked representatives for their commendatory references to the work of the Fund, and said that any success achieved was due to the efforts made by the countries themselves to carry out the Fund's recommendations.

He congratulated the ECLA Secretariat on its studies in the field of monetary and exchange policy, particularly its study of trade between Latin America and Europe and the chapter on payments in the Economic Survey.

He requested permission to speak at length the following day on the important question of whether the monetary reserves

/of Latin-

of Latin-American countries were adequate to meet any possible contingencies and said he was also very interested in hearing the views of representatives on the possibility of extending the system of the European Payments Union to Latin-American countries.

Mr. ASHER (United States of America) commented briefly on United States import and export prospects and its international trade and balance of payments position in 1952.

The most notable development in 1952 had been the decline in exports of goods and services, excluding those provided under military aid programmes. The decrease had been due largely to smaller shipments of a few major items, such as cotton, grain and coal. It was also to some extent due to import restrictions and exchange controls abroad, but the chief factor had been the changed market situation which had made the world less dependent on United States supplies.

United States imports in 1952 had risen gradually and total imports for 1952 exceeded those for 1951 by some \$700 million. The rise, however, was due largely to increased tourist and military expenditures abroad, since the value of United States commodity imports had been slightly below that of 1951.

The lower level of United States exports combined with Government ~~aid~~ and private investment had enabled the rest of the world to increase its holdings of gold and dollar assets by nearly \$1,600,000,000 during the last nine months of 1952, in sharp contrast to the preceding nine month period. In 1953, the United States balance of payments position was expected to

/show much

show much the same pattern as in the last half of 1952, with other countries again increasing their gold and liquid dollar assets.

The CHAIRMAN proposed, in view of the interest expressed in the problem of exchange reserves and the proposals for participation in EPU facilities, that a working group should be set up to study it.

Mr. PASTORI (Uruguay) expressed his country's interest in the subject of possible participation of Latin-American countries in the EPU mechanism, but requested that the matter be postponed until the next meeting for further discussion before a working group were set up.

Mr. PINHEIRO (Brazil) supported the proposal.

It was so agreed.

The meeting rose at 6.40 p.m.