UNITED NATIONS

ECONOMIC AND SOCIAL COUNCIL

GENERAL
E/CN.12/AC.18/SR.2
15 April 1953

ORIGINAL: ENGLISH

ECONOMIC COMMISSION FOR LATIN AMERICA
Fifth Session
Rio de Janeiro, Brazil

COMMITTEE I (Current Economic Situation and Prospects)

SUMMARY RECORD OF THE SECOND MEETING

Held at Rio de Janeiro on Wednesday, 15 April 1953 at 10.30 a.m.

CONTENTS:

Balance of payments situation and monetary reserves position (Continued)

Terms of trade and trends in imports and exports

PRESENT:

Chairman:	Mr. VENTURA	Argentina
Rapporteur:	Mr. CASAS BRICEÑO	Venezuela
Members:	Mr. MARTINEZ Mr. CAMPS	Argentina
	Mr. ALCAZAR	Bolivia
	Mr. PINHEIRO Mr. SANTOS	Brazil
	Mr. RUIZ	Chile
	Mr. MEJIA	Colombia
	Mr. CARDENAS	Ecuador
	Mr. QUEZADA	El Salvador
	Mr. DE BRESSON Mr. DE TINGUY DU POUET	France
	Mr. NORIEGA MORALES	Guatemala
	Mr. HUDICOURT	Haiti
	Mr. ZAMORA	Mexico
	Mr. KOLBERG	Paraguay
	Mr. BARRETO	Peru
	Mr. GODFREY	United Kingdom of Great Britain and Northern Ireland
	Mr. ASHER	United States of America
	Mr. PASTORI	Uruguay

/Also present:

Also present:

Representatives of specialized agencies:

Mr. SILBERER	International Labour Organisation (ILO)
Mr. FORCART	United Nations Educational, Scientific and Cultural Organization (UNESCO)
Mr. DEL CANTO Mr. ROBICHEK	International Monetary Fund (IMF)
Mr. FERREIRA	World Health Organization (WHO)

Representative of an inter-governmental organization:

Mr. TAYLOR	Inter-American Economic and Social Council (IA-ECOSOC)

Representatives of non-governmental organizations:

Mr. STEBELSKI	International Chamber of Commerce (ICC)
Mr. KINGSTON	Inter-American Statistical Institute

Secretariat:

Mr. PREBISCH	Executive Secretary
Mr. SWENSON	Assistant Director
Mr. PEREZ GUERRERO	Executive Secretary of Technical Assistance Board
Mr. URQUIDI	Secretary of the Committee
Mr. MENDIVE	

/BALANCE OF

BALANCE OF PAYMENTS SITUATION AND MONETARY RESERVES POSITION (CONTINUED)

Mr. DEL CANTO (International Monetary Fund) said that the organization which he represented found of particular interest Chapter II of the Economic Survey of Latin America (E/CN.12/291/Rev.1), especially the references to the inadequacy of Latin America's monetary reserves to meet fluctuations in the balance of payments. Since the Fund was the international organization specializing in those matters, it considered it necessary to clarify the concept of "adequate" reserves.

The term "international financial reserves" had been defined to include those funds available to a country's monetary authorities, such as gold and convertible currencies, which could be used to cover payments to other countries. It had been considered important to differentiate between gross and net reserves, the latter varying according to the financial practices and domestic legislation of each country. The term "adequate magnitude" of reserves had been defined to mean reserves which were sufficient to cover payments disequilibria and to avoid the intensification of restrictions. However, it had not been possible to establish a mathematical formula for determining the adequacy of reserves, though the following factors were the most important determinants: the sensitivity of exports to variations in supply and demand, the rigidity of the domestic price structure, the cyclical change in the terms of trade, commercial policy, restrictions on capital movements and current

/account transactions,

account transactions, the extent to which minimum reserve regulations or inconvertibility restricted the utilization of reserves, and the importance given by monetary authorities to sound money policies compared to the emphasis placed on maintaining certain levels of economic activity. The multiplicity of factors would seem to warrant direct consultation with the authorities of each country concerning the adequacy of their reserves; but the results of a survey conducted by the United Nations were quite disconcerting for it showed that only three countries -- the United States, Canada and Switzerland -- considered their reserves adequate to offset even normal fluctuations in balances of payments, whereas developing countries considered their reserves inadequate.

The International Monetary Fund (IMF) felt that countries must make some effort to guard against sudden dislocations of international trade without recourse to drastic restrictions which could intensify rather than ameliorate any depression. The IMF could hardly assume the responsibility of providing the funds to counteract any disequilibrium, however prolonged, for there was a limit to the indebtedness which a country could contract. In such a case the creditor and highly industrialized countries would have to follow the proper domestic policies to remedy the situation.

The comparison of the value of imports with the level of reserves could provide a means of measuring the adequacy of

/reserves. For

reserves. For Latin America, the relation of reserves to imports had risen from 39 per cent in 1928 to 55 per cent in 1938, falling to only 37 per cent in 1951. The movement had been similar to that for the world as a whole. The figures used in the comparison excluded IMF resources, which were considerable.

These resources constituted a second line of defence, and in 1952, the IMF had begun a new policy of permitting the use of its resources through "stand-by" agreements even where there was doubt as to the precise definition of a "temporary balance of payments crisis." Under those agreements Member Countries could purchase foreign currencies in excess of ordinary drawing rights for periods of six months, or even longer, at one-quarter per cent commission, which was half the rate charged on ordinary drawings on the IMF.

He appreciated the opportunity to make the above remarks and emphasized, finally, the close co-operation existing between ECLA and the IMF.

Mr. PINHEIRO (Brazil) commended the correct analysis of Brazil's balance of payments position in the Economic Survey for Latin America (E/CN.12/291/Rev.1). While that position had improved, there had not been a recovery to the 1944-45 level. The Government had adopted a policy of calculated risk in fostering increased imports of raw materials and capital goods which might be in short supply or might rise in price. The balance of payments had been burdened by several factors, such as the acquisition of wheat and other goods from the dollar

/area; the

area; the increase in fuel consumption; deficits in the transport account; the decline in exports and the fall in prices of Latin-American raw materials.

The Brazilian Government had taken action to remedy the situation; apart from sacrificing part of its monetary reserves, severe import restrictions had been introduced, with resort to short-term loans. Furthermore, a free rate had been established to attract foreign capital and for certain exports to adjust the gap between domestic and international prices. The effect of those measures had become evident early in 1952.

The trade balance with Europe was being restored by means of bilateral agreements. The comment in the Survey on the difficulty of obtaining short-term loans from Europe should be modified, as Europe had admitted Brazil's import surpluses, knowing that they could not be paid for in convertible currency, but with full confidence in Brazil's future. There had, however, been no interruption in "lend-lease" or other debt servicing. Continuity had been maintained in development projects, thanks to long-term loans from credit institutions and from private European financing bodies.

Mr. NORIEGA MORALES (Guatemala) said that although his country did not foresee any balance of payments difficulties in the immediate future, he considered that the general problem of the adequacy of monetary reserves merited further detailed study. It would be especially desirable to formulate criteria compatible both with development and with equilibrium. It was

/doubtful whether

doubtful whether any mathematical measurement of adequate reserves could be formulated, but general criteria for evaluation would be extremely helpful, and could take into consideration not only monetary and fiscal policy but economic policy directed towards the increase of exports and the expansion of multilateral trade.

He noted that the conclusions contained in document E/CN.12/299 were generally optimistic as to the feasibility of effecting multilateral compensation between Latin America and European countries. His Government would favour the preparation of a detailed study, to be carried out by ECLA, IMF and EPU experts, on the possibility of establishing liaison between the European Payments Union and the Latin-American countries.

Mr. QUESADA (El Salvador) stated that his country had enjoyed a favourable balance of payments for many years, principally owing to the low level of import demand. That situation had contributed greatly to domestic inflation because almost the entire accumulation of foreign exchange reserves was monetized. More recently, export receipts had declined while imports had risen, so that the increase in the money supply between 1951 and 1952 had been relatively moderate.

Nevertheless, his country was only now beginning to develop a policy for the rational use of reserves.

Mr. ALCAZAR (Bolivia) considered that a more detailed and definite study on regional multilateral compensation should pay particular attention to currency convertibility. With

/reference to

reference to recent trends in Bolivian trade, he called attention to the difficulties concerning prices and markets for his country's exports and to the freezing of the funds held abroad by certain Bolivian organizations. His Government would especially welcome any agreement with the sterling area.

Mr. PASTORI (Uruguay) requested that in accordance with the suggestion made by his Government at Havana, ECLA should explore the feasibility of a regional multilateral payments union, as well as the establishment of relations between the region and the European Payments Union.

Mr. BARRETO (Peru) agreed with the Uruguayan representative that the scope of the study should be broadened, and suggested that it should take into account relations between "hard" and "soft" currency countries.

Mr. CAMPOS (Argentina) suggested that the European delegates might prepare a statement giving their views on the study in question (E/CN.12/299).

Mr. MEJIA (Colombia) proposed that further discussion on the matter be postponed to allow delegates time to prepare specific statements, and that the Secretariat might make a statement to facilitate the discussion.

<u>It was so agreed.</u>

TERMS OF TRADE AND IMPORT AND EXPORT TRENDS

Mr. MENDIVE (Secretariat) observed that during recent years the quantum of Latin America's exports had not increased, and in 1952 had actually been 7.5 per cent lower than in 1951.

/The decline

The decline was accounted for by lower exports from the agricultural countries and had offset the growth of mineral exports.

Among the supply factors contributing to recent trends he mentioned adverse climatic conditions and the inelasticity of supply of export products due both to their relatively lower profitability compared with production for the domestic market and to natural factors. On the demand side, cyclical variations and the income elasticity of demand in world markets for foodstuffs and raw materials had also tended to restrict exports.

On the other hand, until 1952 the quantum of imports had been maintained at high levels due to the recuperation of the terms of trade and to the utilization of previously accumulated reserves, although not without incurring in balance of payments difficulties. In spite of the high level of imports, however, the pressure of demand had not been relieved. The growing demand for consumer goods imports could not be offset by the domestic production of substitutes, and development needs had required greater imports of raw materials and fuels.

The insufficiency of capital goods imports had been more serious. The share of these imports in the total for Latin America had actually declined between 1947-49 and 1951, although there were some prominent exceptions in the case of several countries.

In 1952 the terms of trade of the area had deteriorated below the very favourable 1950-51 levels, although they had

/still remained

still remained above those for 1948. That trend could have serious consequences on the balance of payments of Latin-American countries.

Mr. NORIEGA MORALES (Guatemala) stressed the serious nature of the stagnation of Latin-American exports and the deterioration in the terms of trade in the face of growing import demand. He expanded on his recommendation, made in a plenary meeting (E/CN .12/SR.47(V)), that Latin-American raw materials should be subject to greater processing before export. Since many of the region's basic exports would lend themselves to further processing, he suggested that the matter should be studied in detail by ECLA.

He saw no reason why the great industrial centres should oppose such a plan, since it was an important way of providing the purchasing power necessary to absorb their exports. He emphasized that the ability to absorb such exports was great in view of the high propensity of the periphery countries to consume and import. Furthermore, the plan would ease tensions by helping to eliminate inequalities between developed and under-developed countries.

The execution of the plan would have to be gradual, to avoid dislocations in the great industrial centres and to develop the facilities necessary for the elaboration of raw materials. The financing of the plan would certainly require international assistance at government level, since experience had shown the sensitivity of private investment to cyclical fluctuations.

/Mr. BARRETO

Mr. BARRETO (Peru) noted the dependence of the region on imports of capital goods, a favourable climate should be created for foreign investmen ts in order to augment domestic sources of capital and expand exports.

Mr. MEJIA (Colombia) expressed interest in the suggestion put forward by the Guatemalan representative. In the case of his own country, 95 per cent of exports were in the hands of domestic undertakings, but technical problems hampered the further processing of export products. The alternative approach was to increase the range of export products. As an experiment, his Government had recently granted preferential exchange rates to exporters of various commodities, to see whether such exports could later compete on the world market. He emphasized that markets had to be found before products were selected for stimulation of exports.

Colombia's terms of trade were satisfactory, although future expansion of coffee production could lead to the deterioration of prices through the accumulation of stocks, as had occurred in 1929-30.

The world situation was already having an adverse effect on some Latin-American markets, and unfortunately Latin-American prosperity seemed to coincide with periods of war elsewhere. Peace in Korea would be followed by a period of readjustment, and it would be valuable if the Latin-American countries could act together to ensure that the weight of readjustment would not, as in the past, fall disproportionately upon producers of primary goods.

The meeting rose at 12.25 p.m.