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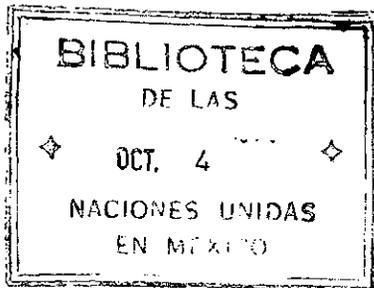
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FISCAL AND TAX POLICY GUIDELINES IN THE LIGHT OF
DEVELOPMENT PROBLEMS IN LATIN AMERICA



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INTRODUCTION

In the literature on fiscal policy and tax policy it frequently happens that the various topics are discussed in a highly abstract manner. Thus, for example, such literature consists primarily of a comprehensive and systematic review of the instruments that can be utilized, without an analysis of the different economic and social situations in which they are supposed to be used. The economic policy aims for which the many fiscal and tax instruments examined are more or less relevant and effective is seldom made clear.

Another kind of bibliography commonly found is that based on the Keynesian and post-Keynesian thinking where it is implicitly or explicitly assumed that fiscal policy is considered within the context of a highly capitalized economy with no significant disequilibria between sectors, by strata of production, or between regions. Accordingly, it may be inferred that the problems arising in this kind of economy are caused by maladjustments between the levels of total supply and demand; thus, the use of fiscal and tax instruments is geared to compensatory action to prevent cyclical fluctuations and ensure full employment in the industrialized economy concerned.

Naturally, both these approaches have a fairly limited application in the socio-economic structures of developing countries, given their main characteristics and the priority objectives deriving from them, since they bear little relation to the real possibilities of implementing a specific fiscal and tax policy, and deal with problems which are of little relevance to developing countries.

Because of these limitations, the present study is based on the hypothesis that the analysis and knowledge of the structure and operation of developing economies - in this case the Latin American economies - should be a determining factor in the formulation of their fiscal and tax systems. However, even in their essential aspects, the structure and operation of the economy are not common to all the Latin American countries. It is therefore considered necessary to identify four typical situations corresponding to Argentina, Colombia, Guatemala and Mexico.

/The typology

The typology is based on previous ECLA studies on the trends and structures of these countries.^{1/} Studies are now being prepared for other countries in the region. In this research, four analytical units were identified as a means of classifying the selected indicators, which in general relate to the ten years 1960-1969: (a) dynamism and stability of growth; (b) structural changes occurring in the process; (c) the social impact of development; and (d) trends and changes in the external sector.^{2/} This classification was also useful in discussing the topics covered by this study in their proper order.

The countries considered show markedly different characteristics, which are examined in the first part of this document.

Argentina has the highest per capita product in the region, although the rate of growth has not been very rapid. Its relatively advanced stage of development goes hand in hand with a diversified and well-balanced economic structure. Nevertheless, there is a clear propensity towards inflation. The economic development process has had a fairly far-reaching social impact and income distribution is less unequal than anywhere else in Latin America. Its exports are mainly agricultural commodities produced by Argentine farmers.

Colombia's per capita product comes somewhere in the middle of the scale for the region and has increased slowly. There have been some brief periods of uncharacteristically high inflation, but it has not been too acute. The structure of production, of which agriculture accounts for a large share, is now being rapidly diversified. Development had little social impact up to the mid-1960s, and unemployment has been a serious problem. In the external sector, coffee absorbs the lion's share of exports.

1/ ECLA, Tendencias y estructuras de la economía de Colombia en el último decenio (E/CN.12/915), 8 September 1971; Tendencias y estructuras de la economía de Guatemala en el último decenio (E/CN.12/916), 8 September 1971; Tendencias y estructuras de la economía argentina en el último decenio (E/CN.12/918), 16 November 1971; Tendencias y estructuras de la economía de México en el último decenio (E/CN.12/921), 4 November 1971. See also "Trends and structures of the Latin American economy in the 1960s" in the Economic Survey of Latin America, 1970 (United Nations publication, Sales No.: E.72.II.G.1), New York, 1971.

2/ Ibid., pp. 29-32.

Guatemala has a per capita income of just under that of Colombia; but of the production sectors, manufacturing and basic services represent a minimal proportion of the gross domestic product. Development has had little social impact, and there are marked disparities in income levels, with a large proportion of the population living under subsistence conditions. Foreign investment in the production of the three main agricultural export items is an important feature of the external sector.

Mexico has one of the highest and most rapidly growing per capita products in the region. Production has been considerably diversified, mainly through the declining share of agriculture and the rapid modernization and growth of manufacturing. Nevertheless, technological progress is concentrated in certain production lines, while in others the traditional systems of production have remained virtually unchanged. As regards the social impact of development, sharp disparities are observable in the distribution of income. There has been some progress in certain respects, such as health and education, but none in others. Lastly, an outstanding feature of the external sector is the wide and steadily growing diversification of exports of goods.

On the basis of the description of these four typical situations - in the degree of detail permitted by the data contained in ECIA documents - the second part of the study defines the main problems faced by the economies under consideration. This definition can be extended to other Latin American and developing countries which conform to any of the typologies considered.

The last part of the study contains some guidelines as to how fiscal and tax policy could help to overcome the difficulties inherent in the different economies. First, the degree of relevance and effectiveness of fiscal and tax policy in solving the problems described previously is specified; secondly, the fiscal and tax instruments which seem most appropriate in dealing with each of the situations described are dealt with separately, the latter in greater detail. In both these analyses, which are interdependent, an attempt is made to determine the relevance and usefulness of fiscal and tax policies and their instruments.

I. OUTSTANDING FEATURES OF THE FOUR LATIN AMERICAN ECONOMIES STUDIED

A. DYNAMISM AND STABILITY 3/

Of the four countries considered, the gross domestic product (GDP) grew fastest in Mexico, which in ten years achieved an increase of around 40 per cent (3.6 per cent a year) in its per capita domestic product - which amounted to 678 dollars at constant 1960 prices in 1969 - despite the fact that it had one of the fastest population growth rates in Latin America. This result was due, on the one hand, to the evolution of domestic demand, and on the other, to the marked expansion of industrial production and basic services. However, growth was rather hampered by the slow development of external demand and agricultural production.

The growth rate of Argentina's economy was more moderate than that of Mexico, but thanks to its low population growth rate, its per capita product increased by around 25 per cent (2.3 per cent a year), amounting to 975 dollars at 1960 prices in 1969, the highest figure for Latin America. There were no significant imbalances in the evolution of total supply and demand and their components; however, the most noteworthy feature of growth in Argentina was its high degree of instability. Thus, during the decade under consideration, there were distinct cyclical movements, each lasting about two years. In three two-year periods (1960-1961, 1964-1965 and 1968-1969) high rates of development were recorded, while in the other two two-year periods there were considerable depressions, particularly in 1962-1963.

Colombia and Guatemala recorded the same overall growth rate for the gross domestic product, but the more rapid increase in the population of Colombia caused the per capita product to grow more slowly (1.5 per cent a year), than in Guatemala (1.9 per cent a year). In any event, the rate of growth in both cases was unsatisfactory. At the end of the decade the per capita product of both countries was less than 400 dollars

3/ See table 1.

Table 1

INDICATORS OF DYNAMISM AND STABILITY, 1960-1969

(Annual percentage growth rates)

	Argentina	Colombia	Guatemala	Mexico
1. Total GDP	3.9	4.9	4.9	7.2
2. Total population	1.6	3.4	3.0	3.5
3. Urban population	2.3	5.5	4.2	5.0
4. Per capita GDP	2.3	1.5	1.9	3.6
4a. Per capita GDP in 1969 (dollars at 1960 prices)	975.0	381.0	359.0	678.0
5. Internal demand	3.9	5.1	4.1	7.2
6. External demand	4.1	4.0	10.3	4.9
7. Agricultural production	2.2	3.4	3.8	3.9
8. Output of industry and basic services	5.3	5.7	6.7	8.5
9. Consumer prices	22.2	11.7	0.7	2.4

Source: ECLA, on the basis of official statistics.

/at constant

at constant 1960 prices. In Guatemala external demand and industrial production and basic services were the most decisive factors in the process of development. In Colombia, on the other hand, there were no clearly dynamic elements, although domestic demand grew somewhat faster than the GDP.

In all the countries considered the process of urbanization, and more especially of metropolitanization, continued, with particular intensity in Colombia and Mexico. Moreover, the incidence of the population aged under 14 in the total population tended to level out in Colombia, Guatemala and Mexico and to decline in Argentina.

With regard to stability of prices, Guatemala had a negligible rate of inflation, while there was a substantial rise in prices in Argentina. Between these two extremes, Mexico had a low rate of inflation, which took on somewhat more notable proportions in the second half of the decade, while the situation in Colombia was characterized by a relatively moderate but persistent annual increase in prices.

B. STRUCTURAL CHANGES

1. Structure of the product, composition of employment and productivity

An examination of the composition of the gross domestic product and of the employed population by productive sectors enables several of the more outstanding structural characteristics of the economies to be identified. (See table 2.)

In Argentina and Mexico, agriculture generates a relatively small and declining proportion of the GDP. However, there is a big difference in the composition of the employed population. In the case of the former, the structure of employment resembles the structure of the product, while in the Mexican economy about half of total employment is in agricultural activities. This contrast is reflected in the indices of sectoral productivity per person employed: in Argentina the index of agricultural productivity is close to the average for the entire economy and increased

/Table 2

Table 2

INDICATORS OF STRUCTURAL CHANGES IN THE ECONOMY - I

	Argentina		Colombia		Guatemala		Mexico	
	1960	1969	1960	1969	1960	1969	1960	1969
A. Share of the sectors of production in the GDP (percentages)								
1. Agriculture	17.4	15.3	34.1	30.3	30.3	27.3	16.6	12.3
2. Industry and basic services <u>a/</u>	46.4	51.3	32.3	34.4	17.7	20.9	32.6	36.9
- Manufacturing	(32.2)	(35.3)	(17.3)	(18.4)	(10.7)	(13.6)	(19.4)	(22.9)
3. Services	36.2	33.4	33.6	35.3	52.0	51.8	50.8	50.8
- Trade	(17.0)	(16.8)	(15.7)	(16.9)	(29.0)	(31.9)	(30.7)	(31.8)
B. Composition of the employed population (percentages)								
1. Agriculture	19.1	15.6	48.2	42.3	68.0	64.7	54.2	47.2
2. Industry and basic services	38.0	36.9	24.5	23.0	15.3	15.5	22.1	23.3
3. Services	38.5	47.5	27.3	34.7	16.7	19.8	23.7	29.5
C. Product per person employed (dollars at 1960 prices)								
	2 185	2 621	1 003	1 182	862	1 036	1 566	2 108
1. Agriculture	(1 991)	(2 553)	(709)	(846)	(384)	(437)	(479)	(569)
2. Industry and basic services	(2 668)	(3 638)	(1 322)	(1 768)	(997)	(1 397)	(2 311)	(3 246)
3. Services	(1 844)	(1 853)	(1 235)	(1 202)	(2 684)	(2 710)	(3 414)	(3 630)
D. Sectoral productivity (average for the economy = 100)								
1. Agriculture	91.1	97.4	70.7	71.6	44.6	42.2	30.6	27.0
2. Industry and basic services	122.1	138.8	131.8	149.6	115.7	134.8	147.6	154.0
3. Services	84.4	70.7	123.1	101.7	311.4	261.6	218.0	172.2
E. Composition of the manufacturing sector (percentages)								
1. Traditional industries	52.2 <u>b/</u>	39.8 <u>c/</u>	69.3 <u>b/</u>	63.2 <u>c/</u>	88.5 <u>b/</u>	76.0 <u>c/</u>	65.0 <u>b/</u>	47.3 <u>d/</u>
2. Intermediate industries	21.8 <u>b/</u>	24.0 <u>c/</u>	24.0 <u>b/</u>	25.0 <u>c/</u>	9.7 <u>b/</u>	11.2 <u>c/</u>	20.0 <u>b/</u>	27.9 <u>d/</u>
3. Metal-transforming industries	26.0 <u>b/</u>	36.2 <u>c/</u>	6.7 <u>b/</u>	11.8 <u>c/</u>	1.8 <u>b/</u>	12.8 <u>c/</u>	15.0 <u>b/</u>	24.8 <u>d/</u>

Source: ECLA, on the basis of official statistics.

a/ Includes mining, manufacturing and construction; electricity, gas, water, sanitary services and transport and communications.

b/ Data for 1955 and for 1950 in the case of Mexico.

c/ Data for 1968.

d/ Data for 1967.

/throughout the

throughout the last decade. In Mexico, on the other hand, it amounted to less than one-third of the national average and has been declining.

In Colombia and Guatemala the share of agriculture in the GDP is also similar but in the former this sector absorbs less than half the total employed, compared with around two-thirds in Guatemala. As a result, the relative productivity of the agricultural sector in Guatemala is very low and falling, while it is closer to the average and rising slightly in Colombia.

Behind the above-mentioned trends lies the fact that, at the end of the last decade, the product per person employed in agriculture amounted to 437 dollars at 1960 prices in Guatemala and 569 dollars in Mexico. These very low results can be explained by the fact that in Guatemala 80 per cent of the agricultural labour force was employed in the "primitive" stratum (in which they work without mechanization and with very little fixed capital) and generated an annual per capita product of around 140 dollars. In Mexico, 60 per cent of the labour force worked in that sector with an annual per capita output of around 170 dollars. One of the most distinctive features of the Guatemalan experience is the high per capita productivity recorded in the "modern" stratum^{4/} of agriculture compared with the primitive stratum; the ratio between them is 28 to 1. This ratio is explained by the fact that agriculture for export is generally practiced on latifundia, while small farmers carry out subsistence farming. In Mexico the ratio was 22 to 1.

The situation in Colombia was more favourable than that in Guatemala and Mexico because, although 65 per cent of the agricultural labour force was employed in the primitive stratum, the annual product per worker was close to 270 dollars. The country's natural advantage for coffee-growing and the technical possibilities of cultivating coffee on small plantations largely explain this fact. Lastly, the relative

4/. The modern stratum is considered to include those activities which are carried out with relatively efficient forms of organization and in which the supply of capital per person employed and the consequent productivity are comparable with similar activities in industrialized economies.

importance of the primitive stratum is limited in Argentina, and more than four-fifths of rural workers are employed in "intermediate" and "modern" strata. (See table 3.)

The relative importance of industry and basic services in the generation of the product is directly related to the level of per capita income in the countries considered; the higher the income level, the greater their importance. However, the incidence of industry and basic services is much higher in Colombia than in Guatemala, although both countries have a similar per capita GDP (see table 2).

Although the incidence of industry and basic services in the generation of the GDP increased in all the countries during the last decade, the same was not true of the composition of the population employed in the sector, which declined in Argentina and Colombia, remained practically stable in Guatemala and increased slightly in Mexico. These differences appear to be closely bound up with the growth rate recorded by the sector; indeed, Mexico and Guatemala were the countries with the most rapid rate of industrial development. Moreover, the increase in the product per person employed in industry and basic services was much greater in Mexico and Guatemala than in Colombia and Argentina.

The absolute figures for the product per person employed in this sector show a relatively high result in Mexico compared with Argentina.^{5/} Owing to the high degree of modernization and capitalization in the manufacturing industry^{6/} in Mexico, the composition of the product by strata is similar to that of Argentina; however, as the primitive stratum in Mexico is of some importance in the field of employment, there is a big

^{5/} In 1969 the per capita GDP in Mexico was around 70 per cent of the Argentinian GDP. However, the ratio with respect to the per capita industrial product was 90 per cent.

^{6/} This subsector is the principal component of the industrial and basic services' sector.

Table 3
SOME INDICATORS OF THE STRUCTURE OF CERTAIN SECTORS OF THE ECONOMIES, BY STRATA
(Percentages; data for the end of the 1960s)

	Argentina			Colombia			Guatemala			Mexico		
	Modern	Inter- mediate	Prim- itive	Modern	Inter- mediate	Prim- itive	Modern	Inter- mediate	Prim- itive	Modern	Inter- mediate	Prim- itive
1. Agriculture												
(a) Composition of the product	65.1	32.3	2.6	45.0	34.4	20.6	43.9	30.6	25.5	50.2	32.0	17.8
(b) Composition of employment	25.0	57.9	18.0	7.7	27.3	65.0	5.0	15.0	80.0	7.7	32.3	60.0
(c) Index of productivity with respect to the average	260.4	56.7	14.5	581.4	126.1	31.7	879.2	203.5	31.8	652.5	99.0	29.7
2. Manufacturing												
(a) Composition of the product	62.1	37.5	0.4	55.9	40.0	4.1	66.3	30.4	3.3	62.1	37.1	0.8
(b) Composition of employment	25.6	70.6	3.8	13.1	61.9	25.0	14.0	57.4	28.6	21.7	63.4	14.9
(c) Index of productivity with respect to the average	242.4	53.2	10.3	427.1	64.7	16.3	473.9	53.0	11.5	285.7	58.6	5.1
3. Trade												
(a) Composition of the product	52.2	47.0	0.8	49.4	49.6	1.0	23.2	76.1	0.7	46.2	53.2	0.6
(b) Composition of employment	15.0	80.0	5.0	15.0	75.0	10.0	10.0	80.0	10.0	20.0	70.0	10.0
(c) Index of productivity with respect to the average	348.1	50.7	16.0	329.5	66.1	10.0	231.4	95.2	7.0	231.2	76.0	5.5

Source: ECLA estimates.

a/ Data for the whole of Central America.

/difference between

difference between the levels of productivity per person employed in the modern and the primitive strata (the ratio is 56 to 1). The product per person employed in the primitive stratum of manufacturing in Mexico at the end of the last decade was less than 170 dollars a year, which is practically the same as the level recorded by the primitive stratum of agriculture (see table 3).

In Colombia and Guatemala the primitive stratum of manufacturing provides a large share of employment, but makes little contribution to the product, particularly in Guatemala. In the latter country the productivity ratio of the modern and primitive strata is 41 to 1, while the annual per capita product is 140 dollars, which is slightly higher than that obtained in the primitive stratum of agriculture.

Generally speaking, and from the angle of analysis used, less internal imbalances were noted in the manufacturing industry in Argentina and Colombia than in Mexico and Guatemala.

Noteworthy features of the services sectors are, on the one hand, their high share in the generation of the GDP in Guatemala and Mexico and, on the other, the high level of the product per person employed, although it is declining in relative terms. While the proportion of the population employed in these sectors has increased significantly, the product per person employed - in absolute terms - continued growing, albeit slowly during the last decade.

Services account for a much smaller share of the product in Argentina and Colombia than in the other two countries; however, they account for a large and fast expanding share of the employed population. Obviously, this was reflected in the low and declining or semi-stagnant product per person employed. These trends reinforce the view - supported in the documents quoted in the Introduction - that in these two countries services have acted primarily and intensively to absorb that section of the labour force that finds work under conditions of hidden unemployment.

An examination of the stratified structure of the trade subsector - which is the most important subsector of services - presented in table 3

/shows the

shows the negligible importance of primitive activities in the generation of the product, despite the fact that they account for 10 per cent of employment in Colombia, Guatemala and Mexico. As regards productivity per worker, it is interesting to note that in Mexico it was 42 times higher in the modern stratum than in the primitive stratum.

One characteristic of the structure of the economies which is closely linked with the aspects mentioned above is the composition of the product in the manufacturing sector, in terms of traditional, intermediate and dynamic industries. In table 2 it is seen that the most "developed" distribution corresponds, as might have been expected, to the Argentinian economy: the share of the traditional industries has waned rapidly, amounting to less than 40 per cent at the end of the last decade; at the same time, the incidence of the intermediate and metal-transforming industries, particularly the latter, has increased rapidly, and their share in the total product is the highest in Latin America. It is also noted that developments in this sphere in Mexico were similar to those in Argentina, although towards the end of the decade the percentage shares of the three groups of industries were different in each country.

In Guatemala, the metal-transforming industries grew rapidly, and by the end of the decade they accounted for about one-eighth of the total product. They grew much more slowly in Colombia, and their share at the end of the decade was lower than in Guatemala. Noteworthy features of the data on Guatemala are the low level of participation of intermediate industries and their relatively slow growth. In this connexion, it is noted that the industrialization process in that country is taking place without the support of a broad base of intermediate industries. As a corollary of this trend, imports of raw materials and intermediate products increased rapidly between the mid-1950s and the end of the 1960s.

/2. Investment

2. Investment and investment financing, and the export
and import coefficients

During the 1960s the coefficients of investment with respect to the GDP were around 20 per cent in Argentina, Colombia and Mexico, which may be considered as relatively acceptable in the Latin American context and in comparison with the levels recorded by the more developed economies in the past. Guatemala, however, recorded an inadequate rate, although it did show a certain tendency towards growth. (See table 4.)

An analysis of the composition of fixed capital investment by type of goods shows that, at the end of the 1960s, investment in respect of machinery and equipment amounted to only 30 per cent in Colombia, while at the other extreme, in Guatemala, the corresponding level was 65 per cent. In Argentina and Mexico the composition of such investment was closer to the average for Latin America.

With regard to the structure of saving, the first characteristic of interest is the relative importance of the external component. In Argentina this component has been insignificant, since investment financing has been taken from internal resources. The share of external saving in total financing in Mexico has been similar to that observed in Latin America as a whole, but it has shown an upward trend.

The level of external saving in the Colombian economy was fairly stable and achieved significant proportions (around one-eighth of the total); in Guatemala the corresponding proportion was one of the highest in the region (around 22 per cent) and showed great stability.

The data available on national saving and its composition make it possible to verify some characteristics already mentioned and to enlarge upon others. Thus, in table 5, for instance, it is observed that Guatemala has a low coefficient of national saving, while Colombia and Mexico, and Argentina in particular, have relatively high and acceptable coefficients.

It was noted that in 1965-1967, 45 per cent of total national saving in Guatemala was accounted for by allocations for fixed capital depreciation allowances. The savings of corporations and family units,

Table 4

INDICATORS OF STRUCTURAL CHANGES IN THE ECONOMY - II

	Argentina a/		Colombia		Guatemala		México b/	
	Around	Around	Around	Around	Around	Around	Around	Around
	1960	1969	1960	1969	1960	1969	1960	1969
A. Evolution of the public sector								
1. Ratio of general government current expenditure plus public investment to GDP	20.3	27.0	10.1	14.1	11.7	12.1	14.4	16.6
2. General government current expenditure/GDP	-	19.2	7.0	8.7	8.6	9.1	8.4	10.2
(a) Operational expenditure	-	(13.9)	(5.8)	(6.2)	(7.5)	(7.5)	(4.9)	(5.4)
(b) Transfer payments	-	(5.3)	(1.2)	(2.5)	(1.1)	(1.6)	(3.5)	(4.8)
3. Public investment/GDP	-	7.8	3.1	5.4	3.1	3.0	6.0	6.4
4. General government current income/GDP	-	24.2	11.9	14.0	10.7	10.6	-	12.5
(a) Tax revenue	-	(21.0)	(10.8)	(13.0)	(9.0)	(9.3)	-	(11.3)
i. Direct taxes	-	(10.5)	(4.4)	(5.4)	(2.1)	(2.1)	-	(4.8)
ii. Indirect taxes	-	(10.5)	(6.4)	(7.6)	(6.9)	(7.2)	-	(6.5)
(b) Non-tax revenue	-	(3.2)	(1.1)	(1.0)	(1.7)	(1.3)	-	(1.2)
5. General government saving/GDP	-	5.0	4.9	5.3	2.1	1.5	-	2.3
6. General government saving/public invest.	-	64.1	158.5	97.3	68.2	50.7	-	36.0
B. Evolution of investment								
1. Coefficient of investment with respect to GDP	22.7	20.9	20.5	18.6	10.3	12.5	20.1	20.7
2. Composition of fixed investment, by type of goods								
(a) Construction	41.9	44.2	55.7	69.6	48.5	34.6	55.8	53.8
(b) Machinery and equipment	58.1	55.8	44.3	30.4	51.5	65.4	44.2	46.2
3. Composition of fixed investment, by type of buyer								
(a) Public sector	-	37.1	14.7	28.6	26.0	22.2	30.0	30.9
(b) Private sector	-	62.9	85.3	71.4	74.0	77.8	70.0	69.1
C. Composition of saving								
1. Internal	91.0	99.9	88.4	87.9	78.5	77.2	93.2	91.8
2. External	9.0	0.1	11.6	12.1	21.5	22.8	6.8	8.2
D. Export and import coefficients/GDP								
1. Export coefficient	10.8	11.7	14.9	14.4	12.7	18.7	10.7	9.3
2. Import coefficient	12.7	10.0	15.3	13.1	13.6	17.5	11.4	9.8

Source: ECLA, on the basis of official statistics.

a/ Approximate estimates.

b/ Partial figures, not including all activity of the general government.

Table 5

COMPOSITION OF NATIONAL SAVING IN ARGENTINA, COLOMBIA, GUATEMALA AND MEXICO

(Percentages of the GDP and percentage distribution)

	Argentina		Colombia		Guatemala		Mexico		
	1961-1963		1967-1968		1965-1967		1966-1967		
1. National saving	20.7	100	17.2	100	9.6	100	18.9	100	
2. Saving of corporations	(3.0)	(14.5)	(2.3)	(13.4)	}	(3.5)	(36.5)	(11.9)	(63.0)
3. Saving of family units	(13.0)	(62.8)	(1.4)	(8.1)					
4. General government saving	(0.7)	(3.4)	(5.3)	(30.8)						(1.8)	(18.7)	(2.3)	(12.2)
5. Allocations for fixed capital depreciation allowances	(4.0)	(19.3)	(8.2)	(47.7)	(4.3)	(44.8)	(4.7)	(24.8)	

- Sources: 1. Argentina, National Development Council, Distribución del ingreso y cuentas nacionales en la Argentina, Buenos Aires, 1965, pages 10 and 11.
2. Colombia, Inter-American Committee on the Alliance for Progress (CIAP), El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de Colombia (CIAP/462), January 1971, table II-9.
3. Guatemala, ECLA, Statistical Bulletin for Latin America, vol. VII, No 1 - 2, June 1970, page 229.
4. Mexico, CIAP, El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de Mexico (CIAP/503), May 1971, tables II-2, II-18 and II-23, and Bank of Mexico, Cuentas Nacionales y acervos de capital, consolidadas por tipo de actividad económica, 1950-1967, June 1969, tables 17 and 18.

/considered jointly,

considered jointly, amounted to only 3.5 per cent of the GDP; moreover, general government saving represented 1.8 per cent of the GDP.

In Colombia, too, corporations and family units showed a low level of saving (3.7 per cent of the GDP) but, unlike the case of Guatemala, allocations for fixed capital depreciation allowances and general government saving were relatively high, and between them amounted to 13.5 per cent of the GDP.

The structures of national saving in Argentina and Mexico were similar: most of it was generated by corporations and family units, especially by the latter in the case of Argentina.^{7/} However, there was a low incidence of general government saving and allocations for capital depreciation allowances.^{8/}

It should be added that Argentina generates by far the highest level of family unit saving as a proportion of the GDP, compared not only with the other three economies examined but also with Latin America as a whole.

The first outstanding feature noted in an examination of export and import coefficients is the relative importance of external trade for the economies of Guatemala and Colombia. In the case of Guatemala, the coefficients recorded, in addition to being high, showed an upward trend; in Colombia, on the other hand, they declined during the last decade, the import coefficient in particular. (See table 4.)

In Mexico there was a similar decline in the export and import coefficients, which put both of them at a level below 10 per cent. These values are the lowest in Latin America after Brazil. In any event, at the end of the decade there continued to be an imbalance between exports and imports which generated a deficit on the trade balance.

^{7/} The corresponding breakdown for the Mexican economy was not available. See table 5.

^{8/} It should be noted that the figures for Argentina relate to the period 1961-1963; there was a sharp upswing in general government saving in the second part of the decade.

The external sector in Argentina showed a singular pattern of development. Although the export coefficient rose sharply during the decade, there was a marked drop in the import coefficient. This made it possible for a trade deficit to be succeeded by a trade surplus.

The decreases in the import coefficient noted in Argentina, Colombia and Mexico are largely explained by the progress recorded in the process of import substitution. However, the policies of restrictions on imports applied in Argentina and Colombia were also a fairly important factor.

C. THE SOCIAL PROJECTION OF DEVELOPMENT

1. Analysis of various indicators of social projection

The situation of the four countries considered in the matter of the social projection of the development process can first be evaluated with the use of the set of indicators presented in table 6. This table highlights, in addition to the corresponding values for each indicator at the end of the last decade, the variations that have taken place in some cases since the mid-1950s.

Generally speaking, it is observed that the levels attained by the different countries in various social aspects are more or less in keeping with the level of economic development they have achieved. Notwithstanding this, certain singular features are observed which should be emphasized.

As is natural, the level of per capita personal consumption is clearly proportional to the domestic product of the countries. Only in Guatemala is it relatively high - being similar to that of Colombia -, which reflects the low rate of saving in Guatemala.

The data on nutrition confirm the above-mentioned situation: at the end of the 1960s Guatemala had nutrition indices equal to or higher than those of Colombia. In Argentina, where, by the middle of the 1950s high rates of per capita availability of calories and protein consumption had been attained, those rates were subsequently reduced. In Mexico the record of improvement in this field has been relatively slow.

In the sphere of health Guatemala is in the worst position; at the end of the 1960s the infant mortality rate continued to be very high. In addition, there was a remarkably low expectation of life at birth, which had shown very little increase over the last two decades. At the other extreme is the case of Argentina, where the health indicators are favourable. Between these two extremes are the similar situations of Colombia and Mexico; the latter recorded substantial progress.

The indicators of education that have been compiled also show that Guatemala's position is clearly below the other countries. Colombia and Mexico, for their part, have similar features, except as regards the level of primary school enrolment for the population aged 5 to 14, where the

Table 6
SOCIAL INDICATORS OF DEVELOPMENT

	Argentina		Colombia		Guatemala		Mexico	
	Around	Around	Around	Around	Around	Around	Around	Around
	1955	1968	1955	1968	1955	1968	1955	1968
1. Personal consumption per capita (dollars at 1960 prices)	562.2	676.5	229.9	292.0	231.7	283.4	324.4	470.7
2. Nutrition								
a) Daily intake of calories per capita	3 070	2 920	1 900	2 200	2 040	2 200	2 370	2 550
b) Proteins per capita (grams per day)	96.9	88.0	42.9 _{b/}	48.9	55.4	56.8	63.3	65.7
3. Health								
a) Expectation of life at birth	60.6 _{a/}	67.0	52.2 _{a/}	60.0	43.6 _{a/}	47.0	48.8 _{a/}	60.0
b) Mortality rate per thousands in the age group 1-4	4.3	3.7	21.4 _{a/}	13.4	62.5 _{a/}	28.5	30.3	12.7
4. Education								
a) Percentage of literates in the population aged 15 and over	86.0 _{a/}	91.4 _{b/}	57.0 _{a/}	72.9 _{b/}	29.0 _{a/}	37.9	57.0 _{a/}	79.6
b) Absolute number of illiterates (in thousands)	-	947.0 _{c/}	-	2 817.0 _{c/}	-	1 686.0 _{c/}	-	5 198.0
c) Percentage of population aged 5-14 enrolled in primary education	66.0 _{a/}	73.1	28.0 _{a/}	45.5	22.0 _{a/}	35.7	39.0 _{a/}	61.0
d) Percentage of retention up to sixth year of primary schooling	-	39.8 _{d/}	-	27.3 _{d/}	-	16.7 _{d/}	-	29.1 _{d/}
5. Housing								
a) Percentage of dwellings with running water	-	51.6 _{b/}	-	38.7 _{e/}	-	29.5 _{e/}	-	32.3 _{b/}
b) Percentage of dwellings with any kind of sanitary service	-	86.7 _{b/}	-	40.6 _{e/}	-	30.6 _{e/}	-	-
c) Percentage of dwellings with electric light	-	68.8 _{b/}	-	34.5 _{e/}	-	22.0 _{e/}	-	-
d) Percentage of dwellings with 3 or more persons per room	-	15.3 _{b/}	-	-	-	43.1 _{e/}	-	52.0 _{b/}
6. Employment								
Rate of unemployment	2.3	2.6 _{e/}	6.4	10.5 _{e/}	-	-	2.0	2.7 _{e/}
7. Social security								
Percentage of economically active population affiliated to social security	48.6 _{a/}	66.3	8.3 _{b/}	10.1	21.5 _{b/}	24.9	11.5 _{b/}	16.7

Sources: ECLA, on the basis of official statistics.

a/ Around 1950.

b/ Around 1960.

c/ Around 1970.

d/ Around the period 1960-1965.

e/ Around 1965.

latter country shows a higher coefficient, although it continued to have a low coefficient of retention. In Argentina, despite the favourable level from which it started, insufficient progress was observed in this connexion and, furthermore, the level of retention up to the sixth year of primary schooling also appears to be inadequate.

The figures available in respect of housing are partial and inconclusive. In any event, the conditions in Guatemala and Colombia seem the least favourable - less than one-third of dwellings have certain basic facilities -, while Colombia would appear to be in a relatively better position. As far as Argentina is concerned, the level of housing is much higher, but there is no doubt that progress in housing does not appear to be sufficiently commensurate with the per capita income of the country.

With regard to employment figures, Colombia recorded the highest rate of unemployment. Unemployment levels went up in Argentina and Mexico, but were kept at acceptable levels.^{2/}

Lastly, table 6 provides data on the scope of the social security system. In Colombia and Mexico a relatively low proportion of the economically active population is affiliated to the social security system, and this proportion has shown no tendency to grow rapidly. Guatemala, on the other hand, is clearly in a better overall and relative position thanks to the activities of the Guatemalan Social Security Institute. In Argentina two-thirds of the economically active population have been covered by the system; this rate and the Chilean rate are by far the highest in Latin America.

The examination of the social projection of development takes on a different perspective if the average indicators that have been given are considered in sub-categories, so as to distinguish the standard situations that arise in urban or rural areas or in different regions as well. In the

^{2/} It is not possible to place as much emphasis as desired on the determination of the occupational characteristics of the countries because, on the one hand, no data are available for Guatemala and, on the other, the data in respect of Argentina and Mexico are very partial. Of the four documents mentioned in the Introduction, only in the one relating to Colombia was it possible to give detailed consideration to the subject.

four countries considered, and throughout Latin America, it is observed that the social situation in the rural areas and in the more backward regions is much more unfavourable than in urban areas and more advanced regions. Unfortunately, there is a scarcity of data that would point up those contrasts; however, some of them will be found listed in the relevant documents.^{10/}

For instance, with regard to the proportion of literates in the population aged 15 and over, Guatemala recorded a rate of 65 per cent for the urban population and 22.6 per cent for the rural population; the comparable proportions were 78.7 per cent and 51.1 per cent for Mexico; 85 per cent and 58.7 per cent for Colombia, and 93.7 per cent and 81.5 per cent for Argentina. Thus, only on the case of Argentina was there a more balanced ratio. Even more marked differences are observed in the coefficients of retention at primary school: in Colombia, 3.7 per cent for rural areas and 47.3 per cent for urban areas; in Guatemala, 3.5 per cent and 49.6 per cent; and in Mexico, 9 per cent and 54 per cent.

Another indication of the urban-rural disequilibrium can be seen in the field of housing. Thus, in Argentina less than 20 per cent of rural dwellings had running water or electric lighting, while in urban areas the proportions were 60 per cent for water and 80 per cent for electricity. In Guatemala the disequilibrium was even more notable: 4 per cent of rural dwellings had electricity and 8 per cent were supplied with running water; the corresponding figures for urban areas were 56 per cent and 70 per cent, respectively.

Again, regional discrepancies can be brought out by two examples: in Argentina in 1960 the rate of illiteracy in the population aged 16 and over reached a minimum of 3.2 per cent in the capital and a maximum of 17.7 per cent in the northeast. In Guatemala, in the mid-1960s, the ratio of deaths to births was 27 per cent in the department of Guatemala, but amounted to 51 per cent and 60 per cent in the departments of Alta Verapaz and Solola, respectively.

^{10/} See ECLA, op. cit., E/CN.12/915, 916, 918 and 921.

2. The distribution of income

The intensity of the social projection of development can be evaluated by a study of the distribution of income. The general pattern for the four countries, classified by five groups of population according to their position in relation to the median, is presented in table 7.

It need hardly be said that this is one of the many ways of looking at income distribution and that, in practice, it is dependent on a number of factors, the most important of which are the functional, urban-rural and regional distributions, and the distribution by economic sectors.^{11/} They are not used in this document because they are not available for all cases and, furthermore, their use would involve a degree of detail incompatible with the aims of this work.

The figures given in the above-mentioned table point up certain important differences in the patterns of distribution in the countries considered, despite the fact that a common feature is the presence of sharp imbalances. In the latter respect, it may be noted, for instance, that in no case does the poorer half of the population receive more than 20.5 per cent of total income and that in the four economies the top 5 per cent earn about 30 per cent of that income.

Mexico has the most unequal distribution of income; this is shown by the fact that, on the one hand, the average income of the top 5 per cent of the population is more than 32 times higher than that of the lowest 20 per cent and, on the other, that the poorer half of the population receives only about 15 per cent of total income.

The inequality recorded in Guatemala denotes a basic characteristic, namely, that 90 per cent of the population has low absolute levels of income well below the average for the country. In contrast to this flat base, a very small proportion of the population of the country receives relatively high income and therefore, accounts for more than half the total income.

^{11/} In this connexion, see ECLA, Income distribution in Latin America in Economic Survey of Latin America, 1969 (United Nations publication, Sales No.: E.71.II.G.2, New York, 1970).

Table 7

ARGENTINA, COLOMBIA, GUATEMALA AND MEXICO

Colombia a/			Guatemala b/					Mexico a/				
(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)
Cumu- lative propor- tion of total income	Average = 100 income of each group	Index for the lowest group	Popu- lation c/	Prop- ort- ion of total income	Cumu- lative propor- tion of total income	Average = 100 income of each group	Index for the lowest group	Popu- lation g/	Prop- ort- ion of total income	Cumu- lative propor- tion of total income	Average = 100 income of each group	Index for the lowest group
5.9	77	100	1 007	6.0	6.0	70	100	9 799	3.6	3.6	70	100
20.1	124	161	1 510	14.2	20.2	110	157	14 699	11.8	15.4	154	200
43.3	200	260	1 510	22.9	43.1	180	257	14 699	26.1	41.5	340	486
69.6	455	591	755	21.9	65.0	340	486	7 349	29.5	71.0	767	1 096
100.0	1 590	2 065	252	35.0	100.0	1 640	2 349	2 449	29.0	100.0	2 270	3 243
	260						235				390	
			5 034					48 995				

United Nations publication, Sales No.: E.71.II.G.1), pages 364 et seq; Guatemala, John H. Adler, Las finan-

Argentina and Colombia have a somewhat lower level of inequality in their income distribution.^{12/} The chief evidence of this, is the case of Argentina, is the fact that 60 per cent of the population - comprising the intermediate groups - receives around 41 per cent of the total income and, in the case of Colombia, the fact that the average income of the top 5 per cent of the population is less than 21 times higher than that of the lowest 20 per cent.

D. THE EXTERNAL SECTOR

In the first place, going back to the analysis of export and import coefficients - which was dealt with in general terms above -, it is worth repeating that Guatemala and Colombia are the two countries with the most open economies, with the difference that in the case of the former the trend has been one of rapid expansion, while in the case of the latter it has been one of decline. The intensity of the expansion that took place in Guatemala can be more clearly assessed if it is borne in mind that its export coefficient in relation to the GDP rose from 12.7 per cent in 1960 to 18.7 per cent in 1969. In contrast, Mexico and Argentina show a relatively low level of external trade; thus, at the end of the last decade, the import coefficient of the two countries was 10 per cent.

With regard to the growth rate of exports of goods and services in the 1960s, table 8 shows that there was a rapid increase in their current value in Guatemala and Mexico. It should be noted that the rate recorded in Guatemala was achieved at a time when the unit value of exports fell, while in Mexico the opposite occurred. For their part, Argentina and Colombia recorded an unsatisfactory rate of growth in respect of the current value and physical volume of exports.

The purchasing power of exports grew more slowly than their current value in the four economies considered, because they had to bear the burden

^{12/} In ECIA, Income distribution in Latin America, op. cit., pages 365 et seq., coefficients of concentration, which tend to give the same indications, were also calculated.

Table 8
INDICATORS OF THE EXTERNAL SECTOR
(Percentages)

	Argentina		Colombia		Guatemala		Mexico	
	1960- 1969		1960- 1969		1960- 1969		1960- 1969	
1. Growth rate of exports of goods and services								
(a) Current value	4.4		4.2		9.7		8.0	
(b) Physical volume	3.7		4.7		10.9		5.6	
2. Growth rate of imports of goods and services								
(a) Current value	3.4		4.5		8.1		7.5	
(b) Physical volume	3.1		3.6		6.9		4.0	
3. Growth rate of the purchasing power of exports	4.2		3.3		8.5		4.6	
4. Variation in the terms of trade (1965-1969 in relation to 1955-1959 = 100)		116		78		63		89
	1955	1968	1955	1968	1955	1968	1955	1968
5. Structure of exports of goods								
(a) Share of the principal product in the total	26.5	24.5	82.9	62.9	71.0	30.4	29.3	13.6
(b) Share of the three principal products in the total	62.0	44.7	95.8	74.0	91.2	48.6	51.3	27.4
(c) Share of manufactures in the total	3.5	12.0	1.3	8.3	2.3	20.5	9.7	17.3
6. Structure of imports of goods								
(a) Consumer goods	8.2	5.8	17.1	5.2	43.1	29.2	15.4	11.3
(b) Raw materials and intermediate goods (including fuels)	67.6	50.1	35.1	41.6	31.8	43.2	45.1	42.4
(c) Capital goods (including construction materials)	23.9	43.7	47.1	53.0	24.9	27.4	39.3	46.2
7. Net balance of external indebtedness								
(a) External debt	1 307.7 <u>a/</u>	1 714.1	313.3 <u>a/</u>	947.1	26.9 <u>a/</u>	89.8	719.9 <u>a/</u>	2 438.5
(b) Foreign investment	800.0 <u>b/</u>	1 892.0 <u>a/</u>	423.0 <u>b/</u>	748.0 <u>a/</u>	115.0 <u>b/</u>	306.0 <u>a/</u>	566.0 <u>b/</u>	3 023.0 <u>a/</u>
(c) Balance of external debt/exports of goods for the year	-	1.25	-	1.70	-	0.39	-	1.95
(d) Balance of foreign investment/exports of goods for the year	-	1.17	-	1.21	-	1.18	-	2.08

Source: ECLA, on the basis of official statistics.

a/ Data for 1960.

b/ Data for 1950.

a/ Data for 1969.

of the increase in the unit price of their imports. This increase was particularly intense in Mexico, which meant that an annual growth rate of 8 per cent in respect of exports of goods and services signified a rate of only 4.6 per cent a year in respect of the purchasing power of such exports.

An examination of the evolution of the terms of trade shows that Argentina is the only one of the four countries that showed a gain, because the unit value of its exports grew more rapidly than that of its imports. In contrast, the opposite trend took place in Mexico, so that between 1955-1959 and 1965-1969 the terms of trade declined by 11 per cent. In the case of Colombia and, more particularly, in the case of Guatemala, the terms of trade fell substantially as a result of a drop in the unit value of exports and an increase in the unit value of imports.

An analysis of the structure of exports of goods at the end of the 1960s shows that the main export product has the greatest incidence in Colombia, with coffee, and the smallest incidence in Mexico, with cotton. Guatemalan coffee and Argentinian meat also accounted for a moderate share of total exports. If the three major export products are considered, it will be seen that the degree of concentration of exports in the countries coincides with the above results.

Between 1955 and 1968 significant progress was made in the process of diversification of exports in the four countries; this fact was reflected simultaneously in a decline in the relative importance of the principal export products and an increase in the relative importance of manufactures. With regard to the latter, the most spectacular growth rates were recorded by Guatemala, mainly owing to the increase in sales of manufactures to other countries in the Central American Common Market, and by Colombia.

In the bigger countries exports of manufactures followed a different trend. In the mid-1950s their share of the total was small in Argentina, while in Mexico it was around 10 per cent. From that time to the end of the 1960s they expanded much more rapidly in Argentina than in Mexico.

An examination of the structure of imports of goods reveals, first of all, that the amount set aside in Guatemala for imports of consumer articles has been fairly high, despite a tendency to decline in the 1950s

/and 1960s

and 1960s. The amount devoted to imports of consumer goods at the end of the 1960s in Mexico also seems to be relatively high. In contrast, Argentina, and Colombia in particular, substantially reduced their imports of this kind of goods.

Secondly, it may be noted that the proportion of raw materials and intermediate products in the total imports of the different countries is similar, varying between 42 per cent for Colombia and 50 per cent for Argentina in 1968. On the other hand, there were marked differences in the proportion of imports of capital goods: a minimum of 27 per cent in Guatemala and a maximum of 53 per cent in Colombia.

The last feature of the external sector considered in table 8 is the external debt situation of each country, including debt proper and foreign investment.

In Mexico, the rapid increase in external indebtedness, and particularly in foreign investment, resulted - at the end of the 1960s - in a situation in which the country was clearly saddled with a very big external debt; to give an idea of its size, it may be pointed out that the amounts of the external debt and foreign investment, considered separately, were equivalent to about twice the value of the country's annual exports and, taken together, to about four times that value.

In the case of Colombia, the increase in the external debt and, to a lesser extent, in foreign investment, also resulted in a relatively high external debt burden, albeit lower than that of Mexico. Thus, the combined total of external debt and foreign investment amounted to about three times the level of exports for one year.

In Argentina, external investment has grown in importance compared with the external debt, since the latter grew slowly during the 1960s. In any event, the proportional weight of the country's total indebtedness is less than that of Mexico and Colombia.

Lastly, in Guatemala it is observed that the external debt was of small relative importance, while the amount of foreign investment was similar to that of Argentina and Colombia.

II. SOME MAJOR PROBLEMS FACING THE COUNTRIES UNDER REVIEW

A. RHYTHMS OF GROWTH

As far as stability of growth is concerned, Argentina is faced with a problem which is unusual in Latin America. Together with the high per capita product and an average rate of increase of the product which is about the rate of increase for the region as a whole, there exists the cyclic variability already mentioned, which is very pronounced. Suffice it to point out that in several years during the 1960s the gross domestic product increased by an annual 8 per cent or over, while in other years it was around zero or actually decreased. It can be seen from this that the outstanding problem for Argentina in this respect is to achieve the "stabilization" of its growth at a rhythm which it has been seen relatively frequently that it is in a position to achieve.

The situation of Mexico is different. While the rate of increase of the product has shown some fluctuations, they have not been pronounced, and generally speaking the annual values remained at a reasonable level somewhere in the region of the high average rate for the 1960s. What does emerge is the disequilibrium in the trend of the structure of supply and demand. Supply was affected by the slow growth rate of agricultural production. In the 1960s, the per capita domestic supply of foodstuffs increased by only 0.4 per cent annually, in contrast to the per capita annual increase of 3.6 per cent in the GDP. This trend was closely linked to the slow growth of external demand, but some domestic factors also seem to have exercised an adverse influence on agricultural production. This impression is reinforced if it is borne in mind that the sector had been steadily losing the dynamism of its development since the beginning of the 1950s.

In Colombia and Guatemala it is very obvious that there is a basic need to accelerate the rate of growth which, as already mentioned, was inadequate in during the 1960s. The reactivation of domestic demand may be considered to be a matter of top priority to be taken into account in formulating the economic policy of Guatemala, since its annual growth rate
/was markedly

was markedly inferior to that of the GDP. In the case of Colombia, the lack of mobility in domestic demand is not so evident, and there is, in fact, a sort of circumstantial inter-dependence between the evolution of external demand and the growth possibilities of the economy. In the second half of the 1960s, for example, and more especially in the last three years, the rhythm of development in Colombia speeded up considerably, owing to a large extent to the rapid annual increase of exports.

B. THREATS TO PRICE STABILITY

Argentina is undoubtedly the country where inflation is most serious and where dealing with it should be a matter of top priority. An average annual rate of increase in consumer prices of 22.2 per cent is substantial, in addition to which the increase for several years during the 1960s was more than 30 per cent. Not only does the economy of Argentina tend to be inflationary, but the rise in prices also tended to increase sharply at specific moments. This meant the intensification or the modification of governmental stabilization policies according to the different circumstances.

Although inflation in Colombia was only about half of that in Argentina, it was equally undesirable, not so much on account of the average rate of increase (11.7 per cent annually), but because of several fairly considerable inflationary "spurts" recorded particularly in the sub-period 1963-1966. Without these, the "normal" rate of growth of prices would not have been more than 8 per cent annually. The question of avoiding sudden jumps in the rate of inflation of the Colombian economy may be considered to be of higher priority than maintaining a continuous, strict price-stabilizing process.

/C. THE

C. THE HETEROGENEITY OF THE STRUCTURE OF PRODUCTION

In Guatemala, and to an even greater extent in Mexico, heterogeneity in the structure of growth is a particularly burning issue. It is manifested both in the sectors of production and in the groups of unities in each sector; both forms are strictly inter-dependent. Generally speaking, it can be seen that technical advance has tended to become concentrated in particular areas of these economies while other areas have remained to a greater or lesser extent on the borderline of progress.

A first manifestation of this heterogeneity can be observed in the tremendous relative backwardness of the agriculture of Guatemala and Mexico; this is self-evident from the review of the figures for the product per person occupied and for relative sectoral productivity made in the first part of this document. In addition, it was shown that both indicators dropped during the 1960s.

A second manifestation of the same phenomenon can be seen in the differences to be found in the productivity of the different sectoral strata. Here, note should be taken of the very pronounced contrasts in the agriculture of Guatemala and Mexico between productivity per person employed in the modern stratum and in the primitive stratum.

This large-scale discrepancy in the productivity of the different strata is also to be found in industry and the basic services and in the services as such, as could be seen from the data given earlier. The workers in the modern strata of industry and trade could be seen to have an "apparent" efficiency between 40 and 50 times greater than those in the primitive strata.

Put another way, the economies of Guatemala and Mexico show a heterogeneity of structure which has a basic horizontal dimension in agriculture and a vertical dimension based on the structure by strata of each sector of production.

/D. RHYTHM

D. RHYTHM AND STRUCTURE OF GROWTH IN SOME SECTORS OF PRODUCTION

The basic question at issue in Argentina and Colombia is the relatively slow growth of the industrial and basic services sector. This is reflected in the comparatively low rate of growth of the sector and also in its inability to absorb a growing proportion of the employed population in these two countries. This inability came into existence despite the fact, mentioned above, that the rate of increase of the product per person employed in industry in Argentina and Colombia was less than in Guatemala and Mexico (3.4 per cent annual average for the former two, in contrast to 3.9 per cent annually for the latter two countries).

It can be concluded from this that for the countries under review, the possibility of providing more employment in industry and basic services for the labour force available has been particularly connected with the rate of expansion of the sector and to a lesser extent with the rate of increase of productivity per person in the sector. This tendency would seem to give an indirect indication that the rate of modernization - and capital formation - of industry is not an insurmountable obstacle to an increased share of industry in employing the labour force.

The tendencies registered in agriculture and especially in industry and the basic services in Argentina and Colombia have had repercussions on the services sector. In both countries, but to a greater extent in Argentina, it can be seen that this sector has become the very inadequate creator of a large number of jobs.

With regard to the structure of industry, the main difference which distinguishes the cases analysed is the relatively low importance of intermediary industries in Guatemala. Although this feature of the economy is not easy to analyse in any depth because the indicators used are to a large extent collective, there remains the concern in the industrialization of Guatemala as to whether sufficient emphasis is or not being given to the development of this type of industry.

It is, however, worth noting that the share in manufacturing activity achieved by the metal manufactures and machinery industry in Colombia has been comparatively inadequate in comparison, for example,
/with Guatemala.

with Guatemala. To all intents and purposes, the delay, inter alia, in installing various metal manufactures and machinery industries is still having repercussions, together with the fact that the country still does not produce the technologically most advanced types of steel.

E. LEVEL AND STRUCTURE OF INVESTMENT AND SAVINGS

With regard to the need to raise the investment coefficient, it is obvious that Guatemala has the greatest problem; at the end of the 1960s it recorded a rate of 12.5 per cent in relation to the gross domestic product. Thus the share of construction seems very small (around 35 per cent of investment and slightly over 4 per cent of the GDP).

A review of the structure of investment in Colombia shows that at the end of the 1960s capital formation, in terms of machinery and equipment, was relatively small (around 30 per cent of total investment and 5.5 per cent of the GDP). This coincides with the small share of the metal manufactures and machinery industries in manufacturing and a relatively poor import of capital goods in terms of absolute figures.^{13/}

Guatemala is the country with the greatest need of raising its domestic savings coefficient which at the end of the 1960s accounted for around 9 per cent of the GDP; external savings, as will be remembered, financed a substantial quota of investment. The analysis of the structure of domestic saving shows that the surpluses generated by the corporations and family units and by the general government were inadequate.

In Colombia, the rate of savings of the family units and of the corporations seems low, but this is compensated to a considerable extent by savings by the general government and resources for allocations of fixed capital depreciation allowances.

Although domestic savings coefficients in Argentina and Mexico were high, it was noted that the general government surplus was comparatively low.^{14/}

^{13/} See document E/CN.12/915, ECLA, op. cit.

^{14/} The increase mentioned above, in the general government surplus in Argentina in the second half of the 1960s should be borne in mind.

/In Argentina,

In Argentina, saving by family units has been traditionally considerable, while that of the corporations has been poor. This feature may well be another factor contributing to the instability of the Argentinian economy. Indeed, the fact that a large part of savings is generated from sources other than the units making the investment gives great importance to the financial mechanisms through which the transaction of resources from saver to investor is made; in practice, this mechanism can be extremely sensitive to changes occurring in policy or prospects. On the other hand, the natural instability of the family units with respect to the amount saved and the direction they give to their surpluses introduces factors which give a certain variability to the operation of the economic system.

F. WEAKNESSES OF THE SOCIAL PROJECTION OF DEVELOPMENT

The analysis of various indicators of the social projection of development which can be found in the previous part of the present document showed that with the exception of Argentina the countries under review are faced with a common problem in this respect. This is that the social manifestation of development has tended to take a weak form, with the aggravating factor that two types of disequilibria have come to the fore. One is that in the different countries there are one or more social areas where the deficiencies are relatively great, while on the other hand in each area the condition of the rural areas and the regions whose economies are less developed is very inferior.

Where the particular features of each country are concerned, it seems evident that Guatemala and Mexico are the countries with the most serious problems to be solved. In Guatemala there are problems of health and education, which become even more serious in the rural area, according to what could be observed from the material presented earlier.

In Mexico, given the per capita income which has been achieved and the rapidity of its increase, the standards and progress brought about in housing, social security and nutrition are inadequate. In addition, in the rural areas there are educational problems of great importance.

/The most

The most unfavourable aspects of the situation in Colombia according to the indicators used, are directly connected with the possibilities for employment and access to social security for the labour force. The distinguishing features of the situation are the very high rate of unemployment in Colombia and the limited scope of the social security regime.

Argentina shows a relatively better position in all respects, but during the 1960s did not achieve sufficient progress in some areas, particularly education - with regard to access to and retention in primary education - and in the allocation of adequate housing. It should be added that, generally speaking, the social indicators of the country show that urban-rural differences, and inter-regional differences are not as marked as in the rest of Latin America.

With regard to the imbalances in income distribution, the most serious problem is that of Mexico, but within a context in which all the Latin American countries show large-scale imbalances. The principal feature of the situation in Mexico is the abysmally low absolute and relative level of average income of the poorest 20 per cent of the population, which in the early 1960s reached an annual level of 70 dollars. It should be said in passing that this is the same as for Guatemala, when the domestic per capita income for Guatemala was equivalent to 60 per cent of the Mexican per capita income.

It can be seen that the difficulties stemming from income distribution in Guatemala tend to originate in the size of the sectors of the population which receive very low annual incomes.

Argentina and Colombia register more equitable income distribution patterns than Mexico and Guatemala; in Argentina, however, existing imbalances are relatively out of proportion if it is borne in mind that a review of its structure of production showed disequilibria which were much less pronounced than in the other three countries. There is therefore no strict correlation between the flows of production and the income flows of the Argentinian economy except with regard to the low productivity per person employed and the low incomes earned by the workers in the services sector.

G. PROBLEMS OF THE EXTERNAL SECTOR

In Argentina and Colombia the rate of growth of exports has been inadequate despite the fact that during the 1960s Argentina profited from the increase registered by the unit value of exports. This had an adverse effect on the development prospects of the two economies both because of the direct effect on production of the lack of dynamism and because the external strangulation it produced made it necessary to reduce the import coefficient.

Mexico increased the physical volume of its exports slowly in comparison with the rhythm of development of the economy. The country was, however, able to recuperate in part from this limitation thanks to the rise in the unit value of goods sold abroad.

With regard to the structure of exports of goods, Colombia faces the most serious situation because coffee continues to have a preponderant share in total exports, with the result that fluctuations in the international coffee market have a large-scale impact on the economy of the country. Despite this, it should be noted that the action of the Colombian Government in programming the annual production and export of coffee has been efficacious, and that since the mid-1960s the progress achieved by Colombia in developing new areas of exports has been considerable.

A review of the situation of the prices in force in the external commerce of the four countries shows that Guatemala suffered the greatest drop in the unit value of its exports. In imports, the greatest rise in prices was felt by Mexico.

The structure of imports of goods existing in Guatemala seems undoubtedly to be that with the most problems. This is because a high proportion of exchange currency available went into the import of consumer goods, and because the quota allocated for importing capital goods was limited.^{15/} The Mexican economy also registered a relatively high level of imports of consumer goods.

15/ This latter fact ties in basically with the low investment coefficient of the country.

The net balance of Mexico's external debt grew very fast and exceeded what was necessary to settle to the trade deficit. The serious problem of the Mexican external debt stems above all from the growing weight produced by the remittance of profits effected by the foreign enterprises installed in Mexico.

An important factor in Guatemala is the disequilibrium existing between the size of the debt due to foreign investment and the low level achieved in the contraction of loans. The trend of Argentina here has also been strange: the debt from credits has grown very little, while that from investment has increased substantially.

/III. FISCAL

III. FISCAL AND TAX POLICY IN THE SOLUTION OF THE PROBLEMS IDENTIFIED

A. POSSIBLE CONTRIBUTIONS TO DYNAMISM AND STABILITY

A review of the evolution of the economy of Argentina shows that during the 1960s the current expenditure of the general government plus public investment as a proportion of the GDP rose from around 20 per cent to 27 per cent, i.e. a relatively large-scale increase. Despite this increase, there is good reason to believe that the fiscal policy operated was not the most favourable to achieve dynamic growth and stability in development and prices.

First of all, it can be seen from table 9 that the areas of public expenditure which increased most rapidly during the 1960s were those whose impact on domestic demand was the least direct and the most aleatory. The main increases were in the transfer expenditures of the general government and in the machinery and equipment share of public investment, a considerable part of which is made up of imports of capital goods. General government consumption and public construction, however, had a more reduced share in the GDP.

Secondly, it was also noted that the levels of expenditure in real values of general government consumption and public construction underwent considerable fluctuations, and therefore contributed to the instability of economic growth in Argentina. Of particular note on account of its acuteness was the shrinking of public construction in 1962 and 1965 and of general government consumption in 1963. Expressed in other terms, the components of overall demand which are handled directly by the State, functioned cyclically instead of as stabilizers, advantage being taken of the opportunity of programming them efficiently.

Thirdly, if the development shown by the current income of the general government expressed at constant prices is analyzed, it can be seen that this income too has undergone considerable fluctuations instead of being relatively stable; this could be expected conceptually, or taking into account what has happened in other Latin American nations. In the case of the national government, this variability in current income

Table 9

ARGENTINA: PATTERN OF BEHAVIOUR OF THE PUBLIC SECTOR

(Percentages on the basis of figures in currency at constant prices)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
	Variations in GDP at factor cost	Variations in central government consumption	Variations in public construction	Variations in current income of the national government a/	Variations in income from taxation of the national government b/	Variations in national government taxes on external trade	Variations in the domestic taxes of the national government
1960	8.0	11.7	36.4	...	...	...	...
1961	7.0	2.0	6.7	...	...	...	...
1962	-1.9	-0.8	-15.7	-29.7	-31.3	-28.3	-29.1
1963	-3.6	-4.1	3.3	3.2	-4.4	-23.7	1.0
1964	8.1	2.6	-1.9	2.8	-0.1	10.9	-2.4
1965	9.6	2.0	-8.0	23.9	28.0	20.6	29.7
1966	0.1	5.4	-0.3	4.6	6.9	-8.7	10.3
1967	2.3	1.5	20.7	31.3	22.8	58.5	16.3
1968	4.6	0.7	23.5	-3.0	-3.9	-20.8	0.2
1969	6.6	0.9	10.1	8.4	13.8	8.4	14.9
1970	4.8	0.5	15.4	...	...	...	...
<u>Share (percentages)</u>							
<u>in GDP</u>							
1960-1964		8.4	3.1	14.4 g/	10.2 g/	2.1 g/	
1965-1969		7.3	2.7	17.5	11.8	2.0	

Source: ECLA, on the basis of official statistics and the World Bank, Current Economic Position and Prospects of Argentina, WH-204b, June 1971, table 5-17.

a/ Including social security.

b/ Excluding social security income and non-tax revenue.

g/ 1961-1964.

was particularly pronounced in the income from taxation factor, and within this area in taxes on external trade. Despite this, the domestic taxes collected by the national government registered important variations. (See table 9.)

The irregular behaviour of the tax system in Argentina is also reflected in the tendencies shown by the tax burden, as can be seen from table 10. This irregularity comes basically from the fact that the system is characteristically made up of a large number of taxes, many of which are of little importance, and which generally show very little change in the face of increases in prices and real incomes. A CIAP report notes that instead of the tax structure being concentrated in a few taxes with a broad and elastic basis in relation to the GDP, the system has continued to be broken up into a large number of taxes on a limited basis, some of which are expensive to collect and specifically applied to funds and other special areas. ^{16/}

The tax system has contributed to the instability of the growth of the economy and of prices since the tax burden coefficient has tended to rise although with sharp annual fluctuations, with all the economic and financial implications which this produces. In practice, every so often, with the drop in the real yield of the taxes in force and the increasing seriousness of the problems of lack of financing for public activity (or when increasing use is made of potentially inflationary sources), the Government has been obliged substantially to modify the tax system in order to increase its yield. These modifications have taken the form of reinforcing existing taxes and introducing new ones.

This, then, has contributed to the instability of the economy for two reasons. Firstly, on account of the quantitative variations in the

^{16/} See, CIAP; El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de la Argentina, CIAP/476, February 1971, p. 143.

Table 10
ARGENTINA: EVOLUTION OF TAX BURDEN
(Percentages of GNP)

	(1) National taxation	(2) Taxation in the provinces	(3) Municipal taxation in Buenos Aires	(4) Total taxation
1960	12.1	2.2	0.6	14.8
1961	13.9	2.4	0.7	17.0
1962	12.8	2.1	0.7	15.6
1963	13.4	2.2	0.8	16.5
1964	12.6	2.4	0.7	15.7
1965	13.2	2.4	0.6	16.2
1966	15.5	2.5	0.7	18.8
1967	18.4	2.8	0.8	21.9
1968	17.2	2.9	0.8	20.8
1969	16.6	2.7	0.8	20.1

Source: World Bank, op.cit. tables 5.22 and 2.4.

/yield from

yield from taxation already mentioned. Secondly, because of transcendental changes which took place simultaneously in the structure of income from taxation, with the unplanned effects on relative prices and costs which this implies.

With reference to those structural changes, table 11, for example, shows the intensity with which the relative importance of the four main categories of taxes isolated here fluctuated throughout the period 1960-1970. It should be added that these variations are of even greater importance if a review is made of the annual series of the income from taxation which is classified in greater detail. ^{17/}

To sum up, it can be concluded from the above data that in future the fiscal and tax policy of Argentina should take as its basic aim the formulation and application of a scheme of action which will contribute to the continuing growth, with less inflation, of the economy of Argentina. This would require the establishment of a tax system which would remain elastic in the face of variations in prices and real income, and which would have to be formulated on the basis of a small number of permanent taxes which would ensure a certain degree of stability in the tax structure with regard to the basic characteristics of the taxes within it. It would also be necessary to have an efficient and careful programming of public expenditure to ensure a stable evolution of expenditure coherent with the requirements of development.

In the case of Guatemala, the fiscal and tax policy has a predominant role to play in the necessary and urgent speeding-up of the rate of growth of the economy.

It has already been pointed out that the slow growth of domestic demand in the economy of Guatemala has been closely associated with the lack of dynamism in its evolution, and that one of the decisive factors in the development of demand has been the tendency shown by the public sector. Between 1959-1960 and 1966-1967, in fact, the share of general government current expenditure plus public investment in the GDP increased only from 11.7 per cent to 12.1 per cent, and became the lowest in Latin

^{17/} See for this, CIAP, op.cit. table A-4.

Table 11
ARGENTINA: STRUCTURE OF NATIONAL TAXATION
(Percentages)

	1960-1961	1962-1963	1964-1965	1966-1967	1968-1970
A. On income	34.2	21.7	26.9	26.4	20.7
B. On estate	6.8	6.9	3.2	6.3	9.4
C. On production, consumption and transactions	53.7	49.6	49.1	48.2	52.3
D. On external trade	5.3	21.8	20.8	19.1	17.6
<u>Total national taxation</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Source: CIAP, El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de Argentina, CIAP/476, February 1971, table 4-5.

/America. This

America. This lack of drive in public demand is even more inexplicable if it is remembered that during the 1960s there was a large-scale increase in export and import coefficients, so that there does not seem to have been any external bottlenecks to limit or render difficult the growth of state activity.

Within the framework of public demand in Guatemala, it should be borne in mind that the mobilization of investment in this sector was slow, so much so that the coefficient of public investment in relation to the GDP between 1960 and 1969 stood at around 2.7 per cent; simultaneously, the coefficient of private investment rose from 7.6 per cent to 9.8 per cent, bringing total investment up from 10.3 per cent to 12.5 per cent. In other terms, the public sector was largely responsible for the rate of investment of the economy remaining at obviously unsatisfactory levels (among the Latin American countries, only Haiti registered an investment coefficient lower than Guatemala).

The inadequacy of income from taxation in Guatemala is one of the main reasons for the lack of dynamism in the public sector. In the period 1955-1958 the tax burden came to 10.3 per cent of the GDP, and then dropped to only 8.6 per cent in 1965-1968. As from 1969, this trend appears to have been reversed as a result of the adoption of tax measures, but the level registered during the 1950s has not been recovered.

It is therefore obvious that the main concern of tax policy in Guatemala will be to achieve a rapid increase in income from taxation, such that the State will have greater resources at its disposal in order to be able to enjoy a much more active role than in the past in speeding up the growth of the country. Of top priority is the need for more and increased public saving to help to raise substantially investment in the public sector.

In this respect the experience of Guatemala - unlike other countries, Argentina, for example - shows that the budgeting approach to taxes is of special importance, that is the collection of taxes by the State is a primary objective; it is also clear that other aims are in a way secondary

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to this central aim. To a large extent the need to expand state activity rapidly constitutes a vital prerequisite for reviewing the possible economic effects of the taxes which it will be necessary to introduce or to modify.

The fiscal policy of Colombia during the 1960s was much more expensive than that of Guatemala and for this reason contributed to stimulate domestic demand. It may be noted that the current expenditure of the Central Government plus public investment rose from 10.1 per cent in 1959-1960 to 14.1 per cent in 1967-1968, and that the public investment coefficient in relation to the GDP rose from 3.1 per cent to 5.4 per cent between the same two periods.

Taxation rose from 10.8 per cent in 1959-1960 to 13.0 per cent in 1967-1968, although in spite of the increase, this continued to be one of the lowest rates in Latin America. Despite this, and due to the moderate increase in the current expenditure of the general government which remained at a relatively low level, Government savings continued to be considerable and tending to increase: 4.9 per cent of the GDP in 1959-1960 and 5.3 per cent in 1967-1968.

It can be seen from the above that tax policy in Colombia is in a relatively good position for achieving fairly easily an increase in the tax burden in the future, and consequently an increase in Government savings.

With regard to combating inflation, the role of tax policy could well not be fundamental. While the conferring of elasticity on the tax system should in any case be an important concern of tax policy with a view to contributing towards increasing the tax yield, the intensity of the stabilizing effect which this would produce is a matter of doubt. It should be borne in mind that over the past ten years the public sector in Colombia has not experienced any great inadequacies in the accumulation of public savings to force it to have recourse to any large extent to financing investment in any way which could be considered inflationary.

In Mexico, domestic demand was an active contributor to dynamic growth, while the public sector also contributed to this. For example,

/the coefficient

the coefficient of public investment with respect to the GDP rose from 7.9 per cent in 1960-1962 to 8.3 per cent in 1967-1969.

Other data available ^{18/} confirm the impression that fiscal policy in Mexico had a creative role in stabilizing the growth of the economy. The data include the sectoral structure of public investment, particularly the effort made in industry: in the period 1966-1969, a high proportion (41 per cent) of State investment went into this. ^{19/}

During the 1960s, tax policy remained relatively inactive, so much so in fact that between 1960 and 1966 the share of the current income of the Federal Government and the Department of the Federal District in the GDP remained virtually at a standstill, at a relatively low level (around 8 per cent), while the share of their current savings in the GDP dropped noticeably. Only from 1967 were various measures adopted to improve tax yield; and it was only around 1969 that the level of current savings of the Government and the Federal Department at the beginning of the 1960s was being recuperated. (See table 12.)

In keeping with this trend and because the growth of savings in the decentralized public sector was sluggish and inadequate throughout the 1960s, public investment had to be increasingly financed by means of assorted domestic and external loans - though it must be said that Mexico's public sector demonstrated a striking ability to tap and use those financial resources. ^{20/}

Some of the points that have already been outlined here will be taken up again subsequently in connexion with the question of the country's external indebtedness.

^{18/} See document E/CN.12/921, ECLA, *op.cit.*

^{19/} See, CIAP, El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de México, CIAP/503, May 1971, table II-19.

^{20/} See ECLA, "Mobilization of domestic resources. Part II: Financial intermediation in Latin America" (E/CN.12/876) February 1971.

Table 12

MEXICO: CURRENT ACCOUNT OF THE FEDERAL GOVERNMENT AND
THE DEPARTMENT OF THE FEDERAL DISTRICT

	1960	1966	1969
<u>(Millions of Mexican pesos)</u>			
1. Current income	12 213	23 235	33 956
2. Current expenditure	8 258	18 856	25 939
3. Current savings	3 955	4 379	8 017
4. GDP	150 500	280 100	375 200
<u>(Percentages)</u>			
5. Current income/GDP	8.1	8.3	9.1
6. Current expenditure/GDP	5.5	6.7	6.9
7. Current savings/GDP	2.6	1.6	2.2

Source: CIAP, El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de México, CIAP/503, May 1971, tables II-11, II-20 and II-21.

/B. FISCAL

B. FISCAL AND TAX POLICY AND STANDARDIZATION OF ECONOMIC STRUCTURES

The structural heterogeneity of growth, so blatant in Mexico and Guatemala but also apparent in varying degree in other Latin American countries, has a crucial bearing on the fiscal and tax policy that the region should adopt.

This being so, public expenditure - mainly Government investment but a part of current disbursements too - must aim at greater homogeneity in three ways: at the sectoral level, at the level of the various strata within each productive sector, and at the regional level. These three levels are mutually complementary and require simultaneous and co-ordinated action since progress in one direction does not necessarily lead to spontaneous and synchronized progress in the other two.

There are a few countries in the region where, for the most part, greater homogeneity can probably be achieved by altering the composition of public expenditure without necessarily increasing its share of the gross domestic product to any great extent. Elsewhere, the share will have to be raised so that the relevant policy can reasonably be expected to materialize. In such cases, tax policy will have a vital role to play in tapping new financial resources so as to permit of a fairly balanced expansion of the fiscal budget.

On the other hand, it seems unlikely that the effect of the characteristic incentives and disincentives of the tax system can be really decisive in the gradual elimination of heterogeneity. Raising productivity per person engaged in the more backward economic activities is not the kind of problem that can be tackled through incentives since, in actual fact, the situation is such that, given the capital at their disposal, the workers simply cannot work harder and, in any case, would not gain much from doing so. Furthermore, there is one obvious and fundamental point: that they are most likely neither paying nor liable to any kind of taxation, so that there can be no question of changing the amount of taxes they contribute. By the same token, it is hard to imagine a tax exemption policy successfully channelling appreciably larger volumes of private investment into the poorer activities since,

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in the first place, the per capita income of workers connected with the more primitive strata is too low for them to be able to generate any surplus for reinvestment in the occupations in which they are engaged and, secondly, private entrepreneurs operating in the more modern strata have neither the practical possibility of investing in such activities nor any financial interest in doing so, particularly where the agricultural and services sectors are concerned.

Paradoxically, however, the structural heterogeneity of growth can to some extent be an advantage for attaining the fiscal objective of taxation, since the greater the absolute and relative productivity per person engaged in the modern stratum of each sector, the more obvious and less difficult it must be to introduce and collect taxes. In other words, a fundamental part of a tax policy must be the identification and tapping of the tax potential of those modern productive units whose productivity per worker is clearly several times higher than that of the rest of the economy.

In fact, the importance of these guidelines for the fiscal and tax policy to be applied in Latin America - and quite possibly in other developing areas too - is so outstanding that it can be compared to that ascribed in the industrialized world to the compensatory and anticyclical approach.

Taking the specific cases of Mexico and Guatemala, it will be noted on the one hand that the marked relative backwardness of their agricultural sector highlights the major role that will fall to fiscal policy in dealing with the problem. The volume of direct and indirect public investment - and technical assistance - poured into agriculture needs to be stepped up, specially in the more primitive strata. Moreover, at a suitably early stage, the assessment of the public investment to be made in other productive sectors would have to allow for its possible favourable repercussions on agriculture.

Towards the end of the 1960s, it was calculated that some 11 per cent of public investment in these two countries was being channelled

/into agriculture

into agriculture. ^{21/} However, given the gravity of the existing situation on the one hand and the experience of other Latin American countries on the other, this would not seem to be enough. In Colombia, for example, the sector absorbed about 15 per cent of public investment, ^{22/} while the product generated per person engaged in agriculture was substantially higher and varied less from stratum to stratum than in Guatemala and Mexico.

Moreover, if something is to be done about the structural heterogeneity that prevails in Guatemala and Mexico - and especially the former - in terms of the differences in productivity per worker from one branch of the manufacturing and trade sector to another, then, just as in the case of agriculture, the State must obviously play a key role in encouraging capital formation and providing technical assistance. Yet at first sight it would seem that, in this instance, indirect public investment - that is to say, investment loans to small industrialists and artisans - can be relatively more effective than direct. The opposite would apply to agriculture where the most effective measure would be for the State to make available a volume of investment to be used jointly by numerous groups of small farmers.

Advisable though it may be to step up public investment in the two cases referred to, especially Guatemala, it would seem difficult and unlikely for the structure of that investment to be modified without increasing its absolute volume. Logically, therefore, it has to be increased, above all in Guatemala, as must the taxation that will be needed to help finance it.

Not enough data are available to give an accurate picture of the part fiscal policy should play in speeding up the industrial growth of

21/ See El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de Guatemala, op.cit., table II-10, and El esfuerzo interno y las necesidades de financiamiento externo para el desarrollo de México, op. cit., table II-19.

22/ See Tendencias y estructuras de la economía de Colombia en el último decenio, op.cit., table 3.

Argentina and Colombia, given that slow expansion is one of the main problems that were identified in the corresponding section.

Of course, on the other hand, both this and the increasingly unproductive absorption of an expanding labour force by the services sector are closely connected with, and consequently dependent upon, the growth rate of the economy as a whole. In other words, such problems can only be tackled within the more general context of the need to step up the two countries' growth rate.

It appears evident, in any case, that a fiscal and tax policy will have to be designed to concentrate on aspects that are conducive to industrial expansion. A very important aspect of public investment, for example, will be the growth and stability of expenditure in the relevant areas. Moreover, the tax machinery can at least try to ensure that no discriminatory practices are allowed to develop against the industrial sector, whether directly or through implicit and/or explicit preferences for the agricultural and services sectors.

The composition of the manufacturing industry in Guatemala and Colombia suggests certain targets for their tax policy.

In the case of Guatemala, assuming a more rapid growth of the intermediate industries to be both necessary and feasible, it would be as well for the tax system - and especially import taxes, general taxation on merchandise and selective taxes on merchandise - to be designed in such a way as to provide genuine incentives for setting up that type of industry in the country. Naturally, what can be done in practice is linked with a country's commitments in respect of subregional integration movements.

However, the expansion of some of Guatemala's intermediate industries is probably going to depend very much upon the future growth rate of public investment, particularly in the construction sector which, as already noted, constitutes a fairly small part of the total. It is relevant that several of the main inputs of construction are produced by intermediate industries.

In Colombia, the more rapid expansion of the metal manufactures and machinery industry is dependent, first of all, upon the domestic

/availability - without

availability - without the unforeseen fluctuations of the past - of the more highly processed types of steel. This means, to start with, the regular import of these inputs and, subsequently, their domestic production. ^{23/}

Secondly, to a certain extent it also seems possible to provide greater incentives for setting up metal manufactures and machinery industries through the tax system. For the most part, this would take the form of a combination of import duties and domestic taxes on merchandise so as to retain a market for national producers without affording excessive and permanent protection in terms of established customs barriers. ^{24/}

Of the various branches of Colombia's metal manufactures and machinery industry, the production of capital goods is likely to expand rapidly over the next few years. Fiscal policy could play an important supporting role in this process if measures are adopted that enable the public sector, acting in a concerted and co-ordinated manner, to encourage and purchase domestic capital goods. Obviously, this does not mean that the country should launch an indiscriminate "Buy Colombian" campaign; rather would it be a question of making use of the managerial capacity of an integrated public sector - particularly where State investment and its composition are concerned - so as to promote the development of the capital goods industry.

^{23/} According to available data, annual imports of steel have fluctuated widely, seemingly because the granting of import licences has been fairly strictly governed by the balance-of-payments and foreign reserves situation. It is therefore hard to see the metal manufactures and machinery industry expanding when the supply of its main input has been so variable.

^{24/} A reservation should also be made here regarding the country's commitments stemming from the process of regional economic integration in which it is engaged.

/As has

As has already been shown, Guatemala's fiscal and tax policy has a vital role to play in raising the country's national investment and savings coefficient.

Taking the foregoing remarks concerning the advisability of raising taxation in Guatemala a step further, two additional comments are in order. First of all, table 12 shows how the direct taxes collected by the central Government during the 1960s were extremely low (2.1 per cent of the gross domestic product) whereas indirect taxes were more or less normal (over 7 per cent of the product). The ratios noted confirm the impression that the Guatemalan economy has a large potential in directly taxable incomes and that this potential resides basically in productive units belonging to the modern strata.

Secondly, it is obviously doubly important to tap this potential source of tax revenue because it corresponds to a significant degree to the total profits generated by foreign enterprises with investments in the country. These profits could therefore be appropriately taxed, especially when being taken out of the country, so as to alleviate the pressure they tend to put on the balance of payments. This, of course, is quite apart from other considerations that may be relevant to the role and prospects of foreign investment in Guatemala.

As to the way Guatemala should use the increased direct and indirect public investment that it can finance out of the additional tax resources, the relevant priorities in terms of sector and stratum have already been indicated. With regard to the problem mentioned earlier that only a small proportion of total investment goes to construction compared with that spent on machinery and equipment, it is worth repeating that public investment would have to place greater emphasis on expenditure in the construction sector. This is true not only for the reasons already stated but also because, given the distribution of income in the country, it is hard to envisage the private sector, with its own resources, being able to increase its expenditure on construction, especially housing, to any significant degree.

/As pointed

As pointed out above, in Colombia's case it might be worthwhile introducing certain fiscal and tax measures for raising the share of total investment channelled into machinery and equipment. Such measures would have to aim at promoting the domestic production of metal manufactures and machinery, especially in view of the country's relative shortage of foreign currency.

Furthermore, as regards Colombia's low level of savings by family units and capital societies - in so far as the overall figures for the whole country are more or less acceptable - its tax policy can surely be largely instrumental in increasing them. One possibility - which would have to be carefully studied before being applied in practice - might be to tax personal income and company profits while at the same time discriminating in favour of retained reinvested profits, on the one hand, and personal savings, on the other. In any case, the basic requirements for a policy such as that outlined would be, first, that it be conducive to a measurable increase in the total national savings coefficient (i.e. that what was being gained from one source was not being lost elsewhere) and, secondly, that additional resources put into savings should be invested in priority projects destined to speed up the economic and social growth rate.

In an economy such as Argentina's it seems imperative that fiscal and tax policy should be an important factor in assuring the stability of the saving coefficient of households. As a supplementary factor in co-ordination with other policies, special importance attaches to the utilization and purpose of these resources. The organization and operation of the system of financial intermediation is one of the key factors determining the degree of success which can be attained in this task.

/C. TAXES

C. TAXES AND PUBLIC EXPENDITURE AS INSTRUMENTS FOR INCREASING
THE SOCIAL IMPACT OF DEVELOPMENT

The study made in this document of the kind of social impact - which development has had in the countries under consideration and of the main problems they have to face has, of course, made it plain that the deficiencies in different social areas are closely bound up with the structural conditions of the various economies and the changes they have undergone. More specifically, the heterogeneous structure of growth gives rise, in large measure, to the difficulties and disequilibria that occur in the social organization of the countries concerned.

For this reason, the scope, effectiveness and duration of the separate policy measures that may be adopted with a view to improving the present situation in one or more of its social aspects is limited and, in practice, it is imperative that direct action in this field be closely co-ordinated with that taken in others, particularly the measures for standardizing the production system.

An example which may be considered in this connexion is the unsatisfactory educational and health facilities found in the rural areas of Guatemala and Mexico. In these cases, where the structure of agriculture is known to be basically heterogeneous, it seems clear that any policy adopted to improve the educational and health conditions in rural areas would have a limited impact and somewhat doubtful results, unless measures were taken concurrently to boost labour productivity in the primitive stratum of the sector.

Taking into account the need for co-ordination referred to above - which does not mean the establishment of rigid sequences determining a vicious circle of action - it may be concluded that fiscal policy has an important role to play. This must consist essentially in an expansion of public expenditure for social purposes - which necessitates an increase in taxation - and a reorganization of the action being taken in several areas. This reorganization is particularly relevant in those situations which occur fairly frequently in Latin America where the expansion of public expenditure in the social sector has accentuated the

/existing disparities

existing disparities because the largest proportion of the resources has been spent on modern production activities, in urban areas or on the development of educational possibilities to which the by-passed population sectors do not really have access.

It is not necessary here to give an account of the areas in which the public expenditure of the countries under consideration could be expanded, since such a specification lies outside the scope of this study. By way of illustration, however, it may be noted that a more accelerated improvement in health conditions in Guatemala calls for a substantial increase in the resources which the State has set aside for this purpose.

As regards identifying the possibilities of reorienting public expenditure in the social sector, there is another illustrative case in point. A recent study ^{25/} suggests that Latin America has placed excessive and mistaken emphasis on the expansion of secondary education, while it has not succeeded in bringing primary education - which is essential for the economic and social integration of the population - to a level where it would ensure a reasonable coverage and retention of all school-age children. To alter this characteristic of the system, what is mainly required is a redistribution of public expenditure on education, which could probably be done without a spectacular increase in the amount already being spent. A policy of this kind might be advisable even in Argentina, since, as noted above, the proportion of the population of 5 to 14 years of age enrolled in primary schools has grown slowly in the last 20 years and the retention coefficient has remained at about 40 per cent.

The gradual solution of Colombia's employment problem calls for a great co-ordinated and continuing effort within the context of overall economic policy, ^{26/} including whatever may feasibly be done in the fiscal

^{25/} See ECLA-ILPES, Enseñanza media, estructura social y desarrollo en América Latina (E/CN.12/924), November 1971.

^{26/} See International Labour Office (ILO), Towards Full Employment, a programme for Colombia, prepared by an inter-agency team organized by the ILO, Geneva, 1970.

and tax areas. Logically enough, an important feature of such fiscal action is the impact which the structure of public expenditure should have on employment. For example, the following is an excerpt from the ILO report: "Turning to the measures designed to make an immediate impact, the first priority is to step up spending on public works, especially in small towns and rural areas which are economically and/or socially beneficial - irrigation, feeder roads, housing, schools, health posts being obvious possibilities. An increase in private construction should also be induced by financial assistance". ^{27/}

Tax policy - in addition to taking care of financing the necessary increase in public expenditure - could include measures to establish price relations between capital goods and labour which would favour a relatively greater use of manpower. Needless to say, this general approach loses much of its validity in predominantly export industrial activities.

Tax policy designed to establish such a price discrimination could, inter alia, have the following characteristics: a) no taxes on wages and salaries so as to avoid raising the cost of labour employed by enterprises; b) import taxes and selective taxes on goods to prevent capital goods being sold at excessively low prices, while establishing more realistic market values for these goods which take into account the social cost to the country of the foreign exchange involved in contrast with that of labour; and c) a profit tax made up to prevent firms from applying systems of accelerated depreciation in their accounting, which implies a reduction in the cost of the investment at the Treasury's expense.

A point which should be considered as complementing the above is how the future desirable expansion of the social security system in Colombia and Mexico - and other Latin American countries - can be financed. Since these countries are beginning to expand such benefits, as has already been done in other countries of the region, it seems the right time to make a thorough study of ways and means of financing the growth of the social security system and the secondary effects it may have.

^{27/} Ibid., p.292.

In this respect, the experience of Latin American countries which have built up a relatively advanced system of social security (for example, Chile) shows that all too often the necessary financing is obtained through taxes which excessively raise the cost of manpower. This introduces the distortion mentioned above in relation to the factors of production, the trend being to save manpower and to use more capital, where technologically feasible. ^{28/}

It may accordingly be inferred that a significant proportion of the resources of the social security system must be obtained from a different type of taxes, particularly those directly levied on profits or certain forms of ownership, so as to avoid this adverse effect.

Unequal income distribution, in its various forms, which is a characteristic of the countries considered and occurs in them in varying degrees of intensity, has its origin in several groups of factors related primarily to the generation of national income - the flow of goods and services - and secondly to income flows.

A first important factor in this respect is the way in which the pattern of income distribution is affected by the conditions of employment and productivity of the labour force considered in relation to both the sectors and the strata in which it is employed. A second important point which accounts for disparities in income levels is the distribution of existing factors of production, specifically the ownership of natural resources and capital. A last fact to be noted is the role played in this connexion by the relative supply of goods, particularly wage goods, and the comparative level of their real prices.

Admittedly, there are other factors affecting the distribution of income, but if it is recognized that these are the most important factors with the most lasting effects it is possible to identify the basic context in which fiscal and tax policy measures can be implemented.

It seems clear, therefore, that fiscal and tax policy, in its traditional form, is partially effective in the attainment of income redistribution, since its capacity to act on the variables identified,

^{28/} Where this is not technologically feasible, the manpower employed is given incentives to work overtime while adequately trained workers remain unemployed,

/which are

which are of basic importance in determining the distributive system, is limited. Moreover, in terms of relative specialization it may be maintained that fiscal policy is more able to take action in connexion with income flows in the economies than with the flow of goods and services.

Of the three groups of factors mentioned, fiscal policy is best able to influence the first. To avoid repetition of questions already considered earlier in this study, it may be recalled what was said about the role which public expenditure could play in reducing the disparities in productivity per worker, particularly in countries like Mexico and Guatemala. For this purpose, fiscal action towards improving the position should be taken simultaneously on the media in which the workers are employed and on the degree of skill they have attained. Public investment channelled towards the least developed sectors and strata and public expenditure on education are probably the most representative examples of what can be done in this field.

Nevertheless, there is no doubt that fiscal policy with a view to the redistribution of the ownership of factors of production and the relative supply of goods could operate in a different context if what has been considered the policy's traditional radius of manoeuvre is redefined and expanded. Thus, for example, if the expansion of the area of social or State ownership is considered as one of the typical and customary fiscal policy measures, its redistributive effectiveness could take on quite a different dimension.

An examination of the effectiveness of tax policy in the redistribution of income clearly shows that it depends on the effectiveness of fiscal policy as a whole. In other words, the tax instrument cannot go beyond what may originally be determined by the definition of fiscal policy.

It is plain, therefore, that one of the redistributive functions of the tax machinery is to obtain resources for financing public expenditure which is also geared to the redistribution of income. Obviously, to achieve the established objective there must be an acceptable degree of compatibility between the revenue obtained from the lower-income groups through taxation and the benefits received by these same groups through the increase in public expenditure.

/In addition

In addition to the role which the tax system could play in financing public expenditure, consideration may also be given to its possible redistributive effect solely from the taxation angle.

On the one hand, it is clear that the tax system, particularly through taxes on income, property and net worth, would have a better chance in theory - although sometimes not politically - of effectively redistributing income the smaller the group of persons earning high incomes and owning a large slice of the country's assets. In other words, a high degree of concentration at the top of the income distribution scale - linked with the production of taxable profits by large companies with the highest productivity levels - could facilitate the action of tax policy, since moreover, as a result of this concentration, it is perfectly legitimate to exempt a majority of the population earning subsistence incomes from the payment of direct taxes. Both Guatemala and, on a lesser scale, Mexico have these characteristics.

On the other hand, in more developed countries such as Argentina a more sophisticated tax policy is required if it is to be used as a redistributive instrument. Argentina has a broader and more diversified tax base, although the top 5 per cent of the population also earns a very high average income in both absolute and relative terms. At all events, the pattern of income tax in Argentina shows that the group of tax payers earning incomes above the subsistence level is proportionally larger than in the other Latin American countries. Therefore, the number of persons liable to this tax must be relatively larger than in the other economies.

Attention is also drawn to the importance of the modification of relative prices which could feasibly be obtained through the tax system in the redistribution of income. This method is more efficacious and broader in scope the more diversified the structure of consumption in the countries concerned. Mexico and Argentina fall into this category.

Selective taxes on goods and services, with a structure of differential taxes contemplating exemption for essential goods, is a redistributive method which can be used extensively. In this way

/advantage can

advantage can be taken, for redistributive purposes, of the low price elasticity of demand which is common for luxury goods and services that are acquired mainly by the high-income groups. However, the effectiveness of differential taxes depends on whether it is possible to control the payment of taxes. This is more feasible when the tax is established at the producer level and in those cases where the number and type of production units is easily controlled. ^{29/}

In special carefully selected cases there is no reason why, together with the establishment of price surcharges in the form of taxes on certain luxury goods, subsidies cannot be granted for wage goods of the same "family" as those on which the taxes are levied. For example, in the motor-vehicle industry taxes could be levied on production which would raise the sales price of private cars, particularly the larger and more powerful models, while the production and sale of utility vehicles could be exempt from tax or even subsidized.

^{29/} In the case of private enterprises; in the case of public enterprises the problem of controlling production levels does not arise.

D. THE ROLE OF FISCAL AND TAX POLICY IN REDUCING VULNERABILITY
TO AND DEPENDENCE ON EXTERNAL FACTORS

The first important point is that foreign trade policy obviously has the most direct and decisive part to play in reducing vulnerability to and dependence on external factors. For this reason, the effectiveness of fiscal policy in achieving this goal is largely dependent upon the action, and scale of action, of the group of foreign trade instruments.

There is a particularly close relationship between fiscal and tax policy and foreign exchange instruments, especially in regard to the level, structure and management of the exchange rate. Moreover, it often happens that some objectives can be pursued either by exchange measures or by fiscal and tax measures. The choice of the best course to adopt will generally depend on considerations ranging from the purely technical to the strictly political.

In the light of these observations, it may be affirmed that fiscal and tax policy could play a significant role in the promotion and diversification of exports, which is so necessary in Argentina and Colombia and indeed in the whole of Latin America.

Various types of action are possible in this respect, some examples of which are described below. First and foremost, logically enough, are the direct or indirect expenditures or efforts made by the State to expand the capacity to produce export goods and services.

A second type of action may feasibly be carried out by means of taxes designed to produce exportable surpluses. Thus the domestic consumption of certain goods (of specific types for which demand is relatively elastic) could be reduced through the establishment of selective taxes which raise their prices on the home market. Essentially, the adoption of such a measure means the establishment of a practice involving monopolistic discrimination, with the advantage, however, that the higher domestic price is not reflected in additional profits - which might be excessive or unwarranted - for the private production enterprise or enterprises. On the other hand, if the total volume of exportable goods is produced by public enterprises, an acceptable alternative would be discrimination directly through the price instead of through taxation.

/In some

In some countries similar to Argentina, a tax on the value of land, periodically assessed according to its production potential and adjusted annually in line with the rise in domestic prices, would probably be a fairly effective instrument for the creation of exportable surpluses. This could well be so, provided that a "realistic" tax burden for farms, independently of the quantity produced in a given year, encouraged farmers to make more intensive use of their land, for which purpose they should also be willing to make additional investments.

Thirdly, tax policy could be effective in promoting and diversifying exports through the establishment of tax subsidies. One way of granting these subsidies would be through the introduction of a general tax on goods and services which would operate in terms of value added and contemplate tax exemption for the goods exported. Another feasible way - particularly where no such tax is in operation - is to utilize draw-back mechanisms. Since the experience of some Latin American countries in this field is well known, no further comments are necessary on this point. Nevertheless, it is of interest to add that a certain degree of flexibility could usefully be envisaged in the concession of draw-back margins to compensate for fluctuations in the world prices of export items. Careful handling of a measure of this kind could in some degree cushion the effects of unexpected gains or losses in the producers' income as the result of ups and downs in world markets and prices.

Lastly, the diversification of exports to include a bigger proportion of more sophisticated products with a higher locally generated value added could be stimulated by the establishment of export taxes which would be so much the heavier the lower the level of domestic processing of the goods sold abroad. This type of discrimination would be more easily applicable to exports of agricultural and mining products than to manufactured goods proper.

Fiscal policy and, particularly, tax policy have a clear role to play in bringing about possible changes in the structure of imports. Earlier in this study, when reviewing the problems arising from the structure of industry in some countries, attention was drawn, first, to the relationship between that issue and the structure of imports and,

/secondly, to

secondly, to the tax measures that could be adopted to encourage domestic production of the intermediate and capital goods that are currently imported. It is not necessary to repeat those comments here, but it would be interesting to analyse what might occur in the case of imports of consumer goods.

Thus, the relatively large imports of consumer goods in Guatemala and, on a smaller scale, in Mexico, which are destined mainly for the high-income groups could feasibly be limited, at least in theory, through a progressive personal income tax applicable almost exclusively to the richer classes. In practice, however, the results that might be obtained through this method are somewhat doubtful. Moreover, the same effect could be achieved by imposing taxes on the prices of these goods. They would include import and selective taxes and, of course, depending on the level of taxation imposed, the price elasticity of demand for the taxed items and the objectives pursued, the result would be different combinations of reductions in the volume of imports of these articles and increases in tax revenue. However, if the most urgent need in some circumstances is to reduce imports of consumer goods, taxation may not be the best method and it may well be necessary to have direct recourse to measures prohibiting imports. The opposite is true when it is wished to take advantage of these imports to obtain resources for the Treasury.

Whatever course of action is pursued, such discrimination against imported consumer goods should not mean excessive protection for a potential national industry producing the same kind of goods - which could operate at low levels of efficiency or obtain high monopolistic profits - or authorization for the locally produced item to be acquired at moderate prices. In other words, the taxes on imported consumer goods should be compatible with those imposed on domestic consumer goods. Thus, the idea would be to establish taxes on production or domestic consumption in order to bring the sales prices of domestic products into line with those of the imported product including tax.

With regard to external borrowing, in the first place, fiscal policy could have an overall impact on this field inasmuch as it would be acting on the great economic variables. Thus, for example, if the

/indebtedness spiral

indebtedness spiral has its origin essentially in the existence of a savings gap, there is no doubt that fiscal policy could reduce the need to obtain external resources if through its action more savings were generated in the country concerned.

Be that as it may, if consideration is given to the rapid growth of external indebtedness in Mexico and Guatemala, it will be noted that a substantial proportion of the increase is attributable to the fact that public saving remained at relatively low levels; it was therefore necessary to have intensive recourse to different forms of borrowing, including foreign sources, in order to finance public investment. Accordingly, fiscal and tax policy is undoubtedly an important factor in alleviating the problem of external indebtedness in Mexico and Guatemala if it conduces to a significant and continuing increase in the surplus that can be invested by the State, which would be achieved primarily through an increase in the tax burden. It should be noted, however, that the trends observable in this field also depend on the future evolution of other variables, particularly public investment and the "real" capacity to import.

In addition to the overall issue, it seems appropriate to indicate the role which tax policy can play in the composition of external indebtedness, in terms of the proportion of loans and the proportion of investment. If it is considered, for example, that there should be a certain balance between the two forms of borrowing and, moreover, that some forms of obtaining credit are preferable to the inflow of certain types of foreign investment, it may appear best to adopt tax measures favouring the contracting of loans and/or discouraging foreign investment.

Of course, a policy of this kind must be introduced with caution. It could, however, have some justification in countries such as Guatemala, bearing in mind the already considerable maladjustment between the external credit and foreign investment balances.

/E. AN

E. AN ATTEMPT AT RECAPITULATION

A synoptic table has been prepared with the purpose of presenting a summarized version of the various questions examined in this study (see table A). It comprises four columns.

The first contains a list of the major economic and social problems affecting the countries under consideration, in line with the identification described in the second part of the study. In addition, the country or countries in which each question emerges most clearly are identified horizontally.

The second column shows the degree of relevance and effectiveness of fiscal policy and/or tax policy in solving the problems set out in column 1. The three degrees - high, medium and limited - were assigned according to the appraisals made in the body of this document.

The third column shows which of the main groups of fiscal and tax policy instruments would be most suitable in solving the individual problems. The following groups were considered: (I) evolution and composition of public income, particularly tax income; (II) evolution and composition of public expenditure, including investment; and (III) rapid growth of the public sector surplus for investment. It was decided to use this third category in order to accentuate the urgent need for an increase over and above the traditional "normal" rates which public saving and investment are expected to attain in certain circumstances.

In the fourth column, the main tax policy instruments which could be utilized are considered separately. The first two are general variables: increase and stability of the tax burden. The rest are the different types of taxes which could be most suitably used in each of the situations described.

Needless to say, it would also have been useful to consider a breakdown by instruments for public expenditure policy, but this task is quite definitely beyond the scope of the present study.

Lastly, it should be noted that the above summary has the limitations that are so often found in this kind of generic presentation.

/Table A

Table A
FISCAL AND TAX POLICY IN SOLVING THE PROBLEMS IDENTIFIED

(1)	(2)	(3)	(4)	
Some major problems affecting the economies examined	Relevance and affectiveness of fiscal and/or tax policy	Main fiscal and tax policy instruments	Tax policy instruments which could be utilized	
1. Instable growth:	H	I and II	2	
2. Slow growth:	H	III and I	1	1: Significant increase in tax burden
3. Inflationary trends:	M	I and III	1	2: Stable tax burden
4. Heterogeneous structure of the economy	H	I and II	2	3: Export tax
5. Slow growth of industry and basic services:	L	I	2	4: Import tax
6. Insufficient diversification of industry	H	II	-	5: General tax on goods and services
7. Low rate and or inadequate structure of investment	H	II and III	1	6: Selective taxes on goods and services
8. Low national savings coefficient or problems regarding its components:	L	II	-	7: Personal income tax
9. Limited social impact of development:	M	III and I	4, 5 and 6	8: Wage and salary tax
10. Unequal income distribution:	M	I and II	4, 5 and 6	9: Tax on profits of enterprises
11. Slow growth of exports:	M	III	1	10: Land tax
12. Insufficient diversification of exports:	M	I	4, 5 and 6	11: Net worth tax
13. Inadequate structure of imports	H	III and I	1	
14. Excessive external borrowing or problems regarding its composition:	H	I	7 and 9	
	H	II and III	1	
	M	II	-	
	M	II and I	4, 6 and 9, but excluding 8	
	M	I and II	6, 7, 9, 10 and 11	
	M	I, II and III	6, 7, 9, 10 and 11	
	M	I	5, 6 and 10	
	M	I	5 and 6	
	M	I	3, 5 and 6	
	H	I	4, 6 and 7	
	H	I	4, 6 and 7	
	M	III and I	1	
	M	III and I	1	
	H; High M; Medium L; Limited	I: Evolution and composition of public income, particularly tax income. II: Evolution and composition of public expenditure, including investment. III: Rapid growth of the public sector surplus for investment		