



Office Memorandum

R

TO : Mr. G. F. Luthringer

FROM : F. Vera *F. Vera*

SUBJECT : Argentine Gold Reserves

DATE: December 2, 1953

Quoting the Central Bank of Argentina as the source, a U.P. news dispatch in yesterday's Washington Post reported that Argentina's gold reserves increased more than three-fold this year, from \$65.7 million in January to \$219 million as of November 15.

The item is, however, inaccurate both as to the absolute amount of gold reserves held by the Argentine Central Bank and as to the increase in such reserves during the present year. The inaccuracy in regard to the amount of those reserve holdings is apparently due to the fact that the Argentine peso figures released by the Central Bank were converted into U.S. dollars at the free market rate of about 14 pesos per U.S. dollar, whereas the pertinent rate should be the basic official market rate of 5 pesos per dollar. In regard to the increase of gold reserves, the inaccuracy is due to the fact that total net reserves (gold plus foreign exchange holdings) did increase almost three-fold, but holdings of gold increased by only 77 per cent.

2
would have been more if converted at 5.

The actual position of the Argentine Central Bank gold and foreign exchange holdings is as follows:

1. Gold holdings amounted to .9 ^b billion pesos (\$180 million) as of December 31, 1952 and increased steadily during the first seven months of 1953 up to 1.6 billion pesos (\$320 million). From July to November 15, there was no change in the gold holdings of the Argentine Central Bank. The increase in the Argentine Central Bank gold holdings was exclusively due to favorable balance of payments developments during the current year, since the Central Bank abstains from making transactions in the free gold market (at any rate, the Argentine gold market is too narrow to permit an accumulation of such proportions). In March 1953 Roumania settled its indebtedness to the Argentine by transferring gold equivalent to \$25 million to the Argentine Central Bank under a 1947 bilateral payments agreement which provided for transfer of gold as payment of the final balance. In addition the Argentine Central Bank bought gold from the U.S. Treasury during the early part of the year. ^{1/} This last information was supplied by the Financial Counsellor of the Argentine Embassy in Washington.

2. Foreign exchange holdings increased from the equivalent of 1.7 billion pesos (\$340 million) as of the end of 1952 to the equivalent of 2.3 billion pesos (\$460 million) as of November 15, 1953. The Argentine Central Bank's liabilities in foreign exchange, on the other hand, decreased from 1.5 billion pesos (\$300 million) to .9 billion pesos (\$180 million) as of the same dates. Consequently, the net reserve position of the Argentine Central Bank strengthened considerably (1.1 billion pesos - \$220 million) at the end of 1952, in comparison with 3 billion pesos (\$600 million) as of November 15, 1953. Further details are given in the attached table.

1/ The Federal Reserve Bulletin for November 1953 shows that the United States sold \$74.9 million worth of gold to Argentina in the period January to June 1953.

3. Measuring the balance of payments results by the changes in Argentina's official reserve position, the payments surplus attained up to November 15 may be roughly estimated at \$380 million. The main factors of such considerable balance of payments improvement are the recovery of exports and the restriction of imports which had been tightened from the last quarter of 1952 until the third quarter of 1953. The volume of exports in January-September 1953 was 4.7 million tons, more than double the tonnage in the corresponding period of 1952 (2.3 million tons), with values at the monthly rate of 612 million pesos in 1953 and of 330 million pesos in 1952. In contrast, the monthly rate of imports in January-September 1953 was 439 million pesos, whereas in 1952 the monthly rate was 785 million pesos.

The dollar segment of Argentina's balance of payments had a striking improvement, also on account of favorable trade balances. The export surplus vis-a-vis the U.S. may be traced to the large shipments of wool and quebracho extract to this country. Argentina also earned dollars for its wool exports to other countries under an exchange measure of July 1952 which granted a preferential rate of 6.25 pesos per U.S. dollar for exports of wool paid in U.S. currency (and pounds sterling), while maintaining the basic rate of 5 pesos for wool payable in other currencies.

At present Argentina has considerable exportable surpluses of grains which are facing marketing difficulties.⁴ Nonetheless, the year 1953 will close with a large balance of payments surplus.

4 at what prices do they sell the grains? World market prices?

Argentine Central Bank's Reserve Position
(In billions of pesos: rate of 5 pesos per U.S. dollar)

	<u>Gold</u>	<u>Foreign Exchange</u>	<u>Gross Reserves</u>	<u>Liabilities</u>	<u>Net Reserves</u>	<u>Changes</u>
<u>End of:</u>						
Dec. 1950	.7	2.7	3.4	.7	2.7	-
Dec. 1951	.8	2.2	3.0	1.1	1.9	- .8
Dec. 1952	.9	1.7	2.6	1.5	1.1	- .7
<u>Nov. 1953</u>	<u>1.6</u>	<u>2.3</u>	<u>3.9</u>	<u>.9</u>	<u>3.0</u>	<u>+1.9</u>
<u>1953</u>						
Jan.	1.1	1.7	2.8	1.5	1.3	+ .2
Feb.	1.2	1.8	3.0	1.5	1.5	+ .2
Mar.	1.4	1.8	3.4	1.4	2.0	+ .5
Apr.	1.4	2.0	3.4	1.4	2.0	
May	1.4	2.2	3.6	1.4	2.2	+ .2
June	1.5	2.2	3.7	1.2	2.5	+ .3
July	1.6	2.1	3.7	1.2	2.5	
Aug.	1.6	2.2	3.8	1.1	2.7	+ .2
Sep.	1.6	2.2	3.8	1.0	2.8	+ .1
Oct.	1.6	2.2	3.8	.9	2.9	+ .1
Nov. 15	1.6	2.3	3.9	.9	3.0	+ .1

Source: Argentine Central Bank's Balance Sheets, 1950 to 1953.

The FIRST NATIONAL BANK of BOSTON

BUENOS AIRES BRANCH

THE SITUATION in ARGENTINA

Buenos Aires, January 25, 1954.

THE Ministry of foreign trade announced to the press last week that during the first 11 months of 1953 Argentina signed 13 new trade agreements and renewed others bringing the total in force up to 23. These provide for an interchange of goods valued at m\$n* 11,809 million and include reciprocal credits amounting to m\$n 2,719.2 million.

Foreign Trade.

Trading with "agreement" countries during the three years 1950/52 averaged m\$n 8,587.6 million and accounted for 64 % of Argentina's total trade for the period. The 13 new trade agreements which Argentina signed in 1953 provide for an interchange of m\$n 5,356.7 million or 40 % of the total average trade for the previous three years. The following are 18 of the principal trade agreement countries which were in force on November 30th, showing the amount of interchange involved:

Millions of pesos		Millions of pesos	
Great Britain ..	2,842	Chile	384 x
Brazil	1,434	Finland	365 x
Germany	1,366	Austria	307
Japan	800	Denmark	173
Russia	750	Hungary	150
France	717	Paraguay	150
Italy	685	Czechoslovakia ..	109 x
Sweden	559 x	Peru	110
Holland	507 x	Yugoslavia	101

(x) Represent average interchange during 1950/52.

* m\$n, sign for "moneda nacional" or paper currency. At par one paper peso equalled \$0.4245 U. S. gold at former gold parity of the dollar; present exchange value of the peso at the official buying rate is \$0.20. There are various selling rates ranging from \$0.20 to \$0.072 in U. S. currency.

** All weights unless otherwise specified are given in metric tons of 2,204.62 lbs. avoirdupois.

Excluded from the foregoing apparently is a barter deal made early this month with Poland providing for the exchange of 300,000 tons** of rye for 270,000 tons of Polish coal, 200,000 tons of cement and an unstipulated large quantity of sheet glass. Sales made by the I.A.P.I. (Argentine Trade Promotion Institute) during 11 months of 1953 totalled 7,736,347 tons, and included the following:

	Tons		Tons
Wheat	2,791,000	Oats	280,000
Corn	1,193,000	Meat	152,000
Vegetable Oils and Products	869,002x	Tannin	135,000
Rye	844,000	Hides	98,000
Barley	716,000	Cotton	57,000
Bran	441,000	Dairy Produc.	43,000

x Includes 130,000 tons of linseed oil.

Prospects for a bumper corn crop this year are excellent as January rains have been frequent thereby assuring the proper development. Although the year and began with unseasonably cool weather the past couple of weeks have been more normal and it is possible that the corn harvesting will commence somewhat earlier than usual. Unsold corn stocks are insignificant but some sales of new corn have already been made to Europe for future delivery. Estimates of this year's harvest vary ranging up to 7,000,000 tons which figure could

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only be reached with exceptional yields and a full harvest of the area planted. The wheat harvest which has been completed is reported as being exceptional as to quality and especially to yield with 1,400/1,600 kilos per hectare being recorded in Buenos Aires Province. A private source believes that the harvest may be the best in the past five years and the consensus of opinion places production at an estimated 6,500,000 tons. Deducting about 3,800,000 tons for internal consumption and 1,000,000 for reserves, would leave 1,700,000 tons available for shipment to which should be added the estimated carryover from the 1952/53 harvest of about 1,500,000 tons, so that it is estimated that Argentina's exportable surplus would be some 3,200,000 tons. It is believed that the linseed crop this year will be about 450,000 tons and should yield about 150,000 tons of oil. Local annual consumption is probably about 20,000 tons and stocks are estimated to be about 200,000 tons. Russia is said to have contracted for about 70,000 tons of this oil during the year, but there still remains a considerable quantity to place in the world market. Results of the harvesting of the fine grains, barley, oats and rye are said to be satisfactory, good quality and weight being reported. The barley crop is expected to be about the same as last year's with the exportable surplus somewhat less than the 533,000 tons shipped in 1953. It is believed that the oat crop will not reach last year's figure but that stocks at the outset of the season will be nevertheless slightly greater than last year's 1,300,000 tons. Private estimates indicate that the rye crop will be little over half the 1952/53 crop which was exceptional but that there should be a very considerable exportable surplus available as last year's exports left a sizeable carryover. Poland recently purchased 300,000 tons of rye which

will help to reduce stocks. The following table taken from private estimates given in authoritative local trade journals shows the approximate present statistical position of these grains compared with last season:

	In thousands of tons		
	Oats	Barley	Rye
Harvest 1952/53	1,269	1,175	1,335
Exportable surplus 1952/53	604	627	837
Harvest 1953/54	1,100	900	750
Exportable surplus 1953/54	650	300	750

New Czechoslovakian tractors have begun to arrive and are being put into condition for immediate delivery to the cooperative societies. These tractors are the first of 2,700 purchased by I.A.P.I. Grain orders accepted by I.A.P.I. have continued high in January and may amount to over one million tons before the end of the month. Exports have been mostly to the continent and England with the exception of one shipment of oats to the United States:

GRAIN EXPORTS					
(In thousands of tons)					
Exports 1954	Wheat	Corn	Linseed	Other grains	
January 1st to 19th ...	182	111	—	132 (f)	
Exports 1953					
January 1st to 19th ...	23	35	—	1	
Total Exports 1949 ...	1,803	1,076	—	552 (a)	
" " 1950 ...	2,757	796	131	650 (b)	
" " 1951 ...	2,425	297	185	465 (c)	
" " 1952 ...	59	638	25	268 (d)	
" " 1953 ...	2,253	964	10	819 (e)	
Monthly average					
1949	150	90	—	46	
" 1950	230	66	11	54	
" 1951	202	25	15	39	
" 1952	5	53	2	22	
" 1953	188	80	1	68	
(a) Oats	179	Barley	194	Rye	179
(b) " "	390	" "	92	" "	168
(c) " "	105	" "	148	" "	212
(d) " "	44	" "	118	" "	106
(e) " "	210	" "	533	" "	76
(f) " "	46	" "	46	" "	40

COMPARISON OF MONTHLY EXPORTS

	Dec. 1953	Nov. 1953	Dec. 1952		Dec. 1953	Nov. 1953	Dec. 1952
Wheat*	287,686	249,644	—	Beef (quarters)	224,979	72,710	31,718
Corn*	144,186	104,884	63,679	Mutton (carcasses)	30,654	257	12,320
Oats*	48,008	25,157	—	Lamb (carcasses)	337,358	126,201	—
Barley*	77,815	88,609	6,700	Canned Meat*	3,046	2,520	10,414
Linseed*	—	—	—	Wool*	a	1,488	25,935
Totals*	557,695	468,294	70,379	Cotton*	5,034	4,030	4,039
Wheat Flour*	—	—	—	Salt Hides (number) ...	452,973	188,817	518,824
Butter*	3,120	1,554	414	Dry Hides (number) ...	41,312	28,169	131,242
Casein*	1,339	2,850	1,461	Calfskins (number) ...	91,445	39,086	250,381
Linseed Oil*	2,783	4,656	972	Sheepskins*	481	847	917
Quebracho Extract.* ...	12,935	13,086	24,892	Tallow*	168	—	—

a Not available.

* Tons.

Source: "The Review of the River Plate".

Timely rains this month have improved the pastures in the south-west which were beginning to show the effects of a dry spell and grass lands generally are in good shape now. The condition of cattle offered is generally unfinished. There is a noticeable shortage of light weight

**Cattle
Sheep
and Hogs.**

steers which, however, are being purchased for the most part in the interior by feeders. Direct offerings of steers to the packers started dropping off the middle of January, it being recalled that deliveries were quite heavy during the latter part of December, and it is expected now that offers will continue scarce throughout

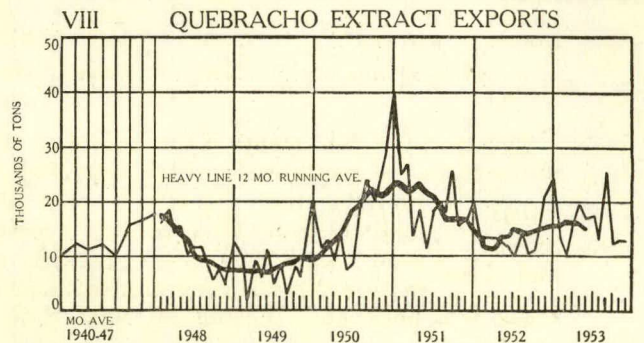
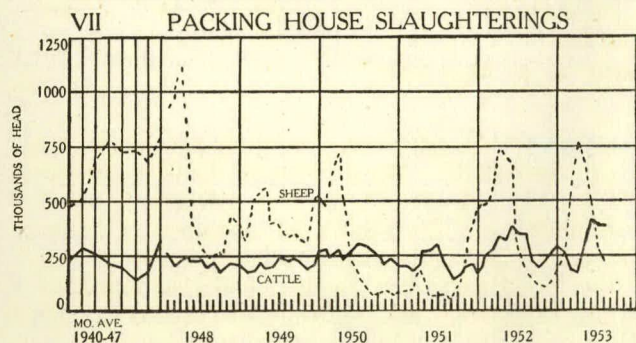
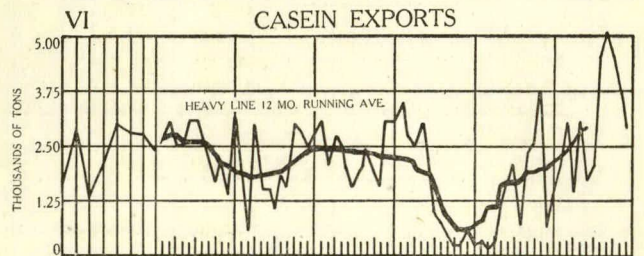
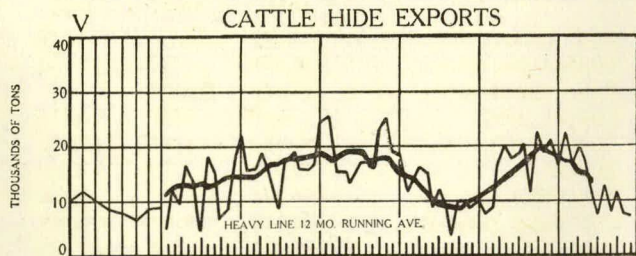
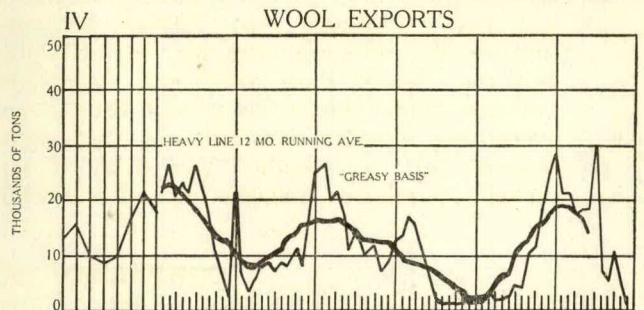
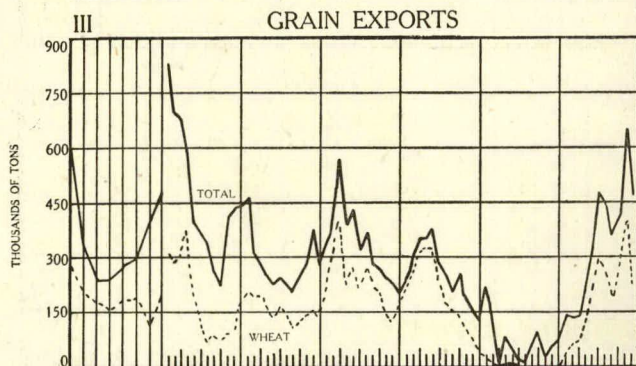
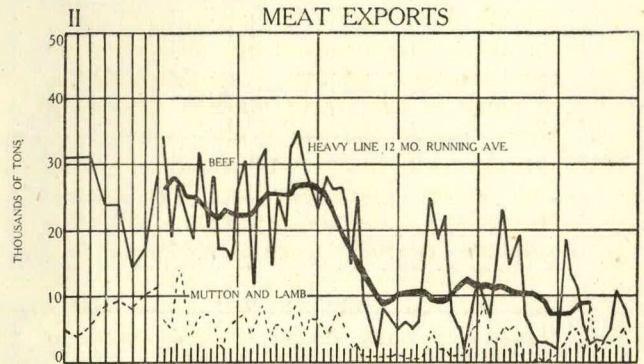
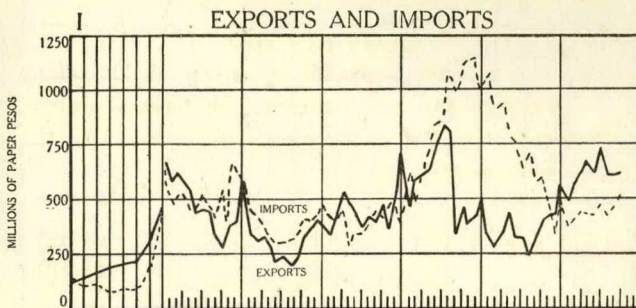
THE SITUATION in ARGENTINA

Supplement, January 1954

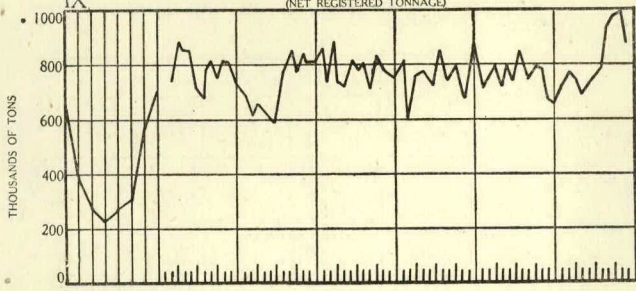
OFFICIAL foreign trade figures for the last quarter of 1953 have not yet been released, but aggregate exports for the first nine months were among the highest in the country's history. A drop in tonnage shipped for some of the leading products is apparent, however, (Charts II, III, IV, V and VI) in the last quarter of the year. Prices for grain, wool, cattle and hides have continued to be steady to firm. The rising trend in bank loans (Chart XIV) which seemed to have flattened out during the middle of the year has since taken a sharper upward turn

and deposits and clearings are also somewhat higher than previously. The Central Bank figures reveal that money in circulation and in banks (Chart XVI) have reached a new peak with net gold and exchange at the highest levels in two years. The Buenos Aires Stock Exchange (Chart XVII) has been unusually active during the past five months, this having been due primarily to the heavy movement in shares.

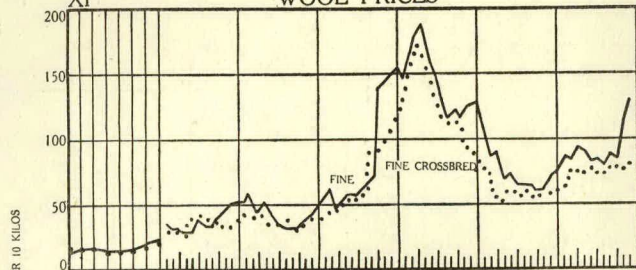
THE FIRST NATIONAL BANK OF BOSTON Buenos Aires Branch



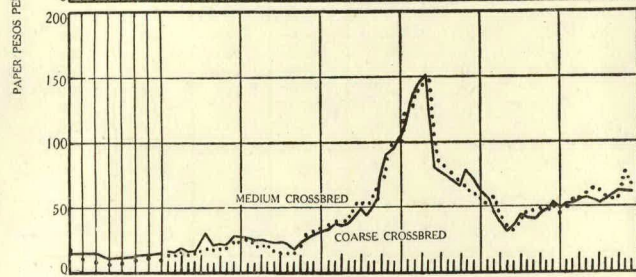
IX SHIPPING ARRIVALS BUENOS AIRES
(NET REGISTERED TONNAGE)



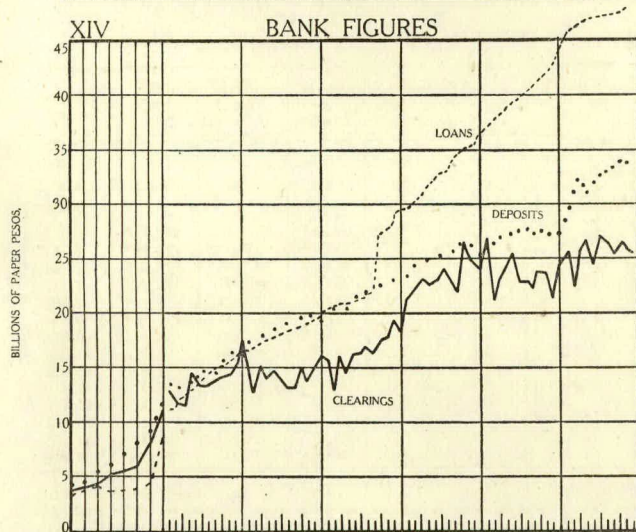
XI WOOL PRICES



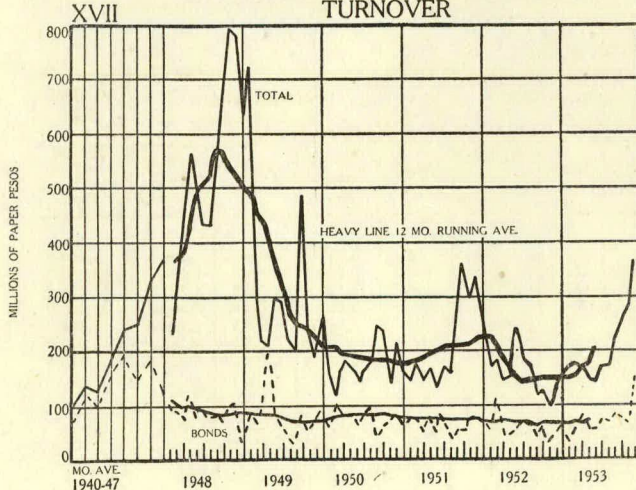
XII CATTLE PRICES
(AVERAGES)



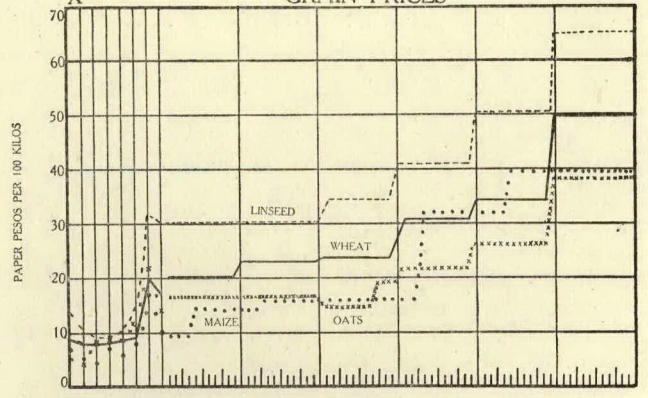
XIV BANK FIGURES



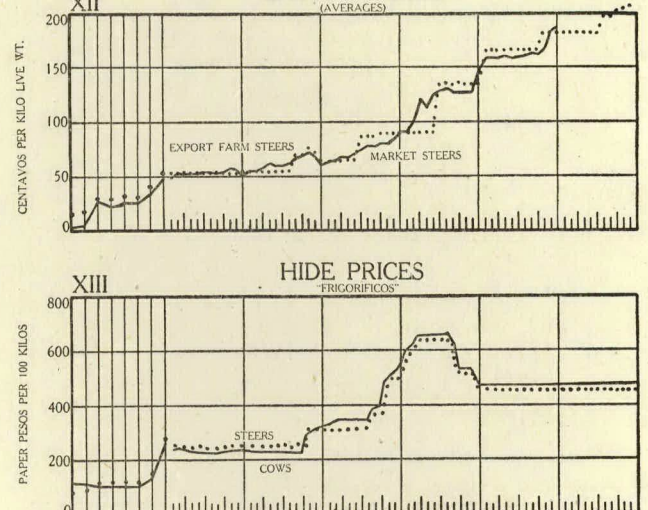
XVII BUENOS AIRES STOCK EXCHANGE TURNOVER



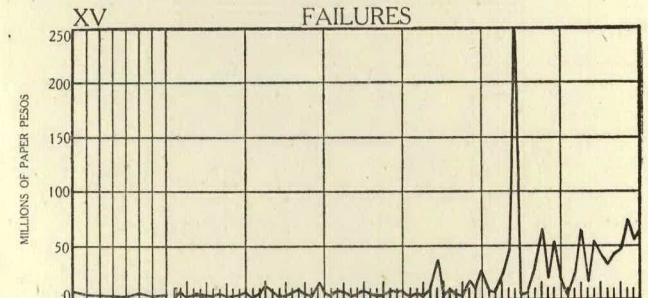
X GRAIN PRICES



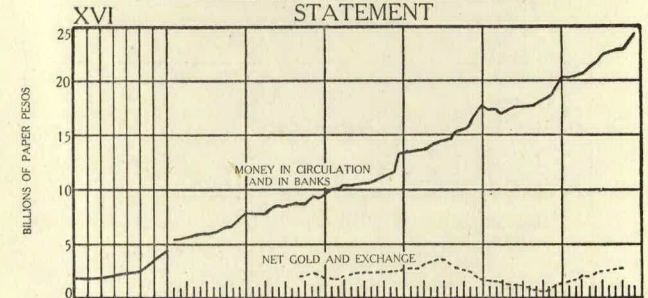
XIII HIDE PRICES
"FRICORIFICOS"



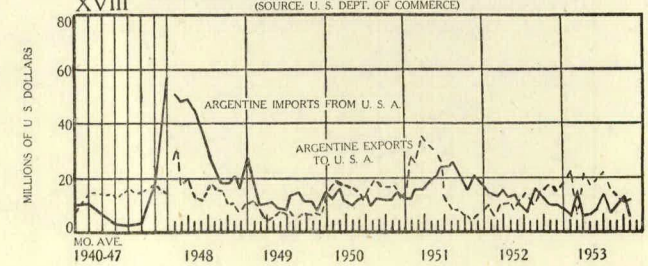
XV FAILURES



XVI ITEMS FROM CENTRAL BANK STATEMENT



XVIII UNITED STATES - ARGENTINE TRADE
(SOURCE: U. S. DEPT. OF COMMERCE)



BANKING AND BUSINESS MOVEMENTS

FOREIGN TRADE

EXPORTS						IMPORTS							
	Beef, Mutton and Products	Grains and Products	Forest Products	Miscellaneous	TOTAL	Textiles and products	Iron and products	Food and related products	Fuel and lubricants	Lumber and products	Machines and Vehicles	Miscellaneous	TOTAL
	(000 omitted)												
First 8 Months 1952 Tons	273	898	100	665	1,936	27	494	143	5,475	553	109	986	7,787
First 8 Months 1953 Tons	262	2,620	131	922	3,935	63	123	140	4,440	230	116	265	5,377
	(000,000 omitted)												
First 8 Months 1952 m\$	722	495	164	1,200	2,581	653	968	278	883	646	1,028	2,009	6,465
First 8 Months 1953 m\$	1,099	1,109	297	2,388	4,893	328	231	320	637	162	984	770	3,432

MARKET PRICES (1935-39) MONTHLY AVE. = 100)

MONTH	Wheat	Maize	Linseed	Farm Export Steers	Wethers	Lambs	Hogs	Greasy Wool		Salt Hides x	Dry Hides x	Quebracho Extract x	Casein	Linseed Oil x	Cotton x
								Fine Cross.	Coarse Cross.						
1952															
July	361 b	635 b	348 b	578	841	727	707	439	379	299	325	757	491	536	485
August	361 b	635 b	348 b	578	738	545	779	464	407	299	348	764	648	536	485
September	361 b	635 b	348 b	578	659	555	792	423	378	309	427	786	717	714	436
October	361 b	635 b	348 b	632	623	568	774	436	417	320	457	917	717	357	427
November	361 b	635 b	348 b	632	654	607	745	422	433	333	406	1,037	632	714	427
December	531 b	635 b	348 b	632	628	661	747	431	414	317	488	1,170	460	357	408
1953															
January	531 b	635 b	348 b	632	726	741	819	462	434	356	523	1,059	483	357	436
February	531 b	635 b	348 b	632	738	795	826	551	445	343	488	1,084	483	357	320
March	531 b	635 b	348 b	632	667	821	792	555	462	348	366	1,055	460	196	359
April	531 b	635 b	348 b	632	846	848	781	534	476	328	348	1,016	483	214	311
May	531 b	635 b	348 b	632	841	652	734	557	457	341	244	1,070	483	196	291
June	531 b	635 b	348 b	702	726	827	745	545	443	332	406	1,023	490	196	291
July	531 b	635 b	348 b	702	790	875	755	543	475	365	274	1,070	806	196	388
August	531 b	635 b	348 b	702	833	848	787	580	511	373	305	1,084	932	196	301
September	531 b	635 b	348 b	719	833	809	819	582	524	a	a	a	955	a	a
October	531 b	635 b	348 b	737	726	804	842	577	514	a	a	a	806	a	a
November	531 b	635 b	348 b	772	705	741	842	606	516	a	a	a	690	a	a
December	531 b	635 b	348 b	772	748	848	842	a	a	a	a	a	648	a	a

a) Not available. b) Based on official minimum prices paid to producers. x) Average export price.

FINANCE

YEAR AND MONTH	BS. AIRES BANKS & BRANCHES (Not including Central Bank)			Clearings	CENTRAL BANK OF THE ARGENTINE REPUBLIC						Stock Exchange Turnover	Ave Net. Price Govt. Bonds g	DOLLAR EXCHANGE Mo. Ave. Selling Rates h		Liabilities Failures		
	Loans	Deposits	Capital and Reserves		Gold in Vaults	Exchange and Gold Abroad	Resid- counts	National Bonds C	Currency in Circulation	Deposits d			Mo. Ave.	Mo. Ave.		Free	Official
	m\$ millions	m\$ millions	m\$ millions		m\$ millions	m\$ millions	m\$ millions	m\$ millions	m\$ millions	m\$ millions			(000)	par			
Dec. 31st 1945	3,943	8,554	639	6,068*	1,223	3,451	—	699	3,120	2,337	244,352*	95.36*	403.48*	422.89*	5,013		
" " 1946	6,091	10,661	774	8,286*	1,711	4,096	3,719	907	4,065	960	330,537*	95.37*	408.63*	422.89*	3,134		
" " 1947	10,921 e	12,387 e	868	10,926*	660	3,025	8,639	939	5,346	1,990	373,933*	93.91*	407.53*	422.89*	5,544		
" " 1948	16,453 e	15,819 e	1,024 e	13,930*	434 a	2,361	13,896	1,428	7,694 f	385	295,544*	92.01*	444.92*	422.89*	1,717		
" " 1949	20,116 e	19,041 e	1,129 e	14,134*	656 a	1,883 b	17,774	1,419	10,128 f	615	318,317*	91.92*	587.03*	—	6,094		
" " 1950	29,151 e	22,164 e	1,786 e	16,209*	656 a	2,691 b	20,573	1,677	13,258 f	404	178,512*	91.89*	1,072.24*	637.32*	3,117		
" " 1951	36,624 e	25,228 e	2,076 e	18,772*	814 a	2,179 b	26,474	1,726	17,704 f	773	206,613*	91.96*	1,422.00*	750.00 i	10,611		
" " 1952	44,212 e	27,282 e	2,538 e	24,129*	1,117 a	1,675 b	31,200	1,772	21,270 f	775	157,183	92.02	1,400.00	750.00 i	43,962		
December 1952	44,212 e	27,282 e	2,538 e	26,376	1,117 a	1,675 b	31,200	1,772	21,270 f	775	157,183	92.02	1,400.00	750.00 i	43,962		
August 1953	49,322 e	33,345 e	2,922 e	25,418	1,623 a	2,177 b	34,259	2,851	22,756 f	465	222,511	92.70	1,400.00	750.00 i	42,079		
September 1953	50,041 e	33,947 e	2,927 e	26,472	1,623 a	2,204 b	34,623	2,849	22,885 f	429	260,835	92.12	1,400.00	750.00 i	47,719		
October 1953	50,487 e	33,806 e	2,928 e	25,881	1,623 a	2,218 b	35,190	2,818	23,716 f	395	280,784	92.31	1,400.00	750.00 i	75,781		
November 1953	51,133 e	35,502 e	2,936 e	25,363	1,623 a	2,265 b	35,289	3,113	24,334 f	450	362,864	92.70	1,400.00	750.00 i	54,656		
December 1953	—	—	—	28,172	—	—	—	—	—	—	301,842	92.58	1,400.00	750.00 i	62,909		

* Monthly averages. a) Includes gold held abroad. b) Excludes gold held abroad. c) Understood to be used mostly for open market operations to control monetary circulation. d) Not including deposits with other banks for account of Central Bank. e) Previously figures given included only banks holding shares of the Central Bank. Present figures comprise all Argentine banks. As from September, 1950 loans include National Mortgage Bank operations. f) Includes money in Banks. g) 5 % interest through October 1941, 4 % from November 1941 to July 1946 and 3 % thereafter. h) m\$ per 100 dollars: Exchange Control established October, 1931: Free Market in November, 1933. i) Basic Exchange rate for imports.

MISCELLANEOUS

YEAR AND MONTH	INDUSTRIAL INDICES 1943 = 100			RAILROAD GROSS EARNINGS	RETAIL SALES INDEX 1939 = 100	PRINCIPAL SOURCES OF NATIONAL REVENUE (Millions of pesos)							NATIONAL BUDGET (Millions of pesos)			NATIONAL DEBT (Millions of pesos)
	Employment	Wages & Salaries Paid	Volume of Production			Mo. Ave. m\$ (000)	Customs Receipts	Income Tax	Excise Taxes	Sales Tax	Stamp Tax	Excess Profits & Capita. Gains Taxes	Property Tax	Total Expenditure	Cash Receipts	
1945	115.1	137.8	112.2	67,627	166.8	139	381	469	91	112	83	51	2,759.3	1,491.2	898.8	9,159.0
1946	123.7	180.4	125.3	70,532	209.0	286	475	563	111	143	104	53	3,241.4	1,891.8	1,004.1	10,830.3
1947	130.3	269.1	143.5	75,370	261.3	580	933	684	165	176	339	54	4,134.8	3,469.1	1,267.2	11,538.6
1948	131.7	371.2	146.2	85,629	381.9	537	1,066	817	204	212	541	140	6,983.9	4,235.0	2,955.2	12,940.0
1949	130.4	500.1	141.8	128,926	512.4	330	1,215	880	940	217	667	318	7,782.5	5,159.1	2,728.0	15,104.5
1950	128.2	595.5	146.1	151,150	613.0	336	1,896	1,063	1,566	301	705	396	8,735.6	5,202.0	3,633.3	18,096.0
1951	128.9	758.5	150.8	184,568	811.1	746	2,912	2,120	2,253	390	883	386	13,351.2	7,812.9	5,647.3	21,454.0
1952	124.5	900.2	141.3	292,275	770.1	606	3,804	2,444	2,484	442	1,098	417	—	—	—	—
Feb. 1953	118.3	759.6	110.2	332,133	627.4	24	140	124	355	24	40	7	—	—	—	—
Mar. 1953	119.0	844.2	142.6	320,914	599.5	30	211	127	117	32	64	8	—	—	—	—
Apr. 1953	117.8	838.8	137.3	338,392	668.0	37	203	922	176	34	107	8	—	—	—	—
May 1953	118.8	870.6	135.2	309,270	781.1	33	172	450	267	46	86	41	—	—	—	—
June 1953	118.9	886.1	145.6	297,451	714.5	40	225	267	216	34	95	152	—	—	—	—
July 1953	118.0	902.8	148.7	298,012	866.7	41	250	199	205	43	57	16	—	—	—	—
Aug. 1953	116.8	862.9	145.2	—	754.2	35	163	570	291	36	53	14	—	—	—	—
Sept. 1953	117.0	891.6	—	—	581.2	43	191	391	67	39	54	11	—	—	—	—

February. In some parts adverse weather conditions have not helped to improve cattle, which are putting on weight only slowly, and official maximum prices have remained unchanged. There has been a shortage of cattle for local consumption and around the second week in January only 15,924 head were auctioned at the Eva Perón market. However, the weeks ending January 26th and 23rd showed a marked improvement in supplies, with 27,877 and 31,642 head entering respectively, but the average weekly entries for the period from December 28th to January 23rd were still very low, with an average of only 23,800 head auctioned. The "frigoríficos" have continued to replenish a good part of their requirements by direct purchases in the interior, and it should be mentioned that some small shipments of chilled beef have been made to Great Britain this month. Prices paid for SHEEP in the Avellaneda market were fairly steady during the current month. There was a seasonal decline in offerings after heavy year-end purchases, with only 37,763 and 34,625 head being received and auctioned during the weeks ending January 2nd and 9th respectively. During the subsequent two weeks arrivals returned to a more or less normal level of 66,121 and 64,548 head. Entries of lambs have been more or less evenly divided between woolly and shorn animals, but their condition leaves much to be desired, with only a very small percentage of fat ones offered. No improvement in the quality is expected until about the end of February. Russia is said to be a potential buyer of mutton, but no agreement with respect to prices has been reached as yet. Receipts of HOGS were low this month, with sales averaging 5,230 head weekly. Prices have remained firm.

There has been little change in the local wool market this month, the situation generally being unusually quiet, although there was a slight pick up in shipments in the past week or so. The principal foreign demand has emanated from the United States, the United Kingdom, Japan and Spain. The local industry has evinced little interest in acquiring additional supplies. Prices for coarse crossbreds showed a slight upward trend in the first week or so of this month but have since dropped fractionally, although remaining above the levels of a month ago. Other wools generally are selling at somewhat lower levels than those previously reported.

There has been little activity of importance reported in the hide market since our previous writing, with very small interest being shown by foreign buyers. However, the "frigoríficos" (packing houses) have not been killing heavily so there has probably not been much accumulation by I.A.P.I. Hides valued at m\$n 1,500,000 left local ports this month for Germany, the first such shipment under the trade pact between Argentina and that country.

In the free market the dollar buying rate remained steady this month at m\$n 1,394.50*** per US\$ 100 and in the official market the dollar and pound sterling rates continued unchanged as follows:

	Dollars	Pound Sterling
For Exports		
Basic	m\$n 500.00	m\$n 14.00
Preferential	„ 750.00	„ 21.00
For Imports		
Basic	m\$n 750.00	m\$n 21.00
Preferential	„ 500.00	„ 14.00

The Buenos Aires Stock Exchange turnover dropped from a peak of m\$n 362,864,000 in November to m\$n 301,842,000 in December which, nevertheless, was the second highest month of 1953. Trading this month has been less than in December, and with but one week to go the total so far is a little more than half the December volume. This is attributed in part to the vacation season which is reaching its peak. Average quotations of the so-called speculative type shares have declined about 5 % from the levels which prevailed at the time of our last writing, this being due entirely to a drop of about 15 % in one share alone. Others have done slightly better than hold their own. The investment type shares on the other hand, rose slightly with the average at present about 10 % above last month, and are at the highest levels since May 1952. Trading in bonds this month has shown little change from December, with the exception of an increased turnover in National Mortgage issues. Quotations, on the whole, have varied only fractionally from the levels given in our previous bulletin.

THE FIRST NATIONAL BANK OF BOSTON
Buenos Aires Branch

*** Exchange is quoted at so many paper pesos per 100 foreign units except sterling which is given in so many pesos to the pound.

Feb. 11, 1951

NOTE

Colonel Juan Manuel Garay (Chief of staff to Marshall Estigaribia in the ~~war~~ ^{war} between Paraguay and Bolivia) mentioned that he would be with Minister Morales and that he would be interested in ~~raising~~ raising the question of the Fund with him.

INTERNATIONAL MONETARY FUND

April 9, 1954

Mr. Rooth:

You may be interested in glancing at the attached memorandum from Mr. Vera expressing some reservations on the views of the National City Bank people about the fiscal situation in Argentina.

Vera has presently under preparation a memorandum on the current economic situation in Argentina and this will eventually appear as an information paper for the Executive Board.

George F. Luthringer



Office Memorandum

To my file on Arg.

TO : Mr. George F. Luthringer

DATE: April 8, 1954

FROM : F. Vera

SUBJECT : Transcripts regarding "Argentina's internal finances".

The information conveyed to Mr. Rooth on the above subject seems to me to be only partially correct:

1. It is true that in 1953 IAPI lost heavily in the marketing abroad of Argentine agricultural products. Its loss has been estimated at 2 billion pesos by a reliable private source ("Review of the River Plate", January 8, 1954 issue). Beginning in 1952, state trading in Argentina through IAPI has become a domestic price support program since the peso prices paid by IAPI to the farmers are much higher than the export prices which IAPI is able to charge to the foreign buyer.

IAPI publishes regularly an annual report that gives a detailed account of its operations and finances. The last one covering 1952 was published in mid-1953. A news item on IAPI trade transactions in 1953 will appear in the forthcoming issue of IFNS.

2. The figure of 1.2 billion pesos given as the net operating loss of the state railways appears to be excessive. Government Decree No. 23,515 of December 3, 1953 authorized the National Treasury to advance 200 million pesos to the Ministry of Transport "to cover the operating deficits incurred in 1952 and 1953 by the various units of the Empresa Nacional de Transporte". The units referred to are the railways (eight railway systems) and the river and sea-going merchant fleets. ✓

3. A figure of 4.5 to 5 billion pesos as the net deficit of the various state-owned enterprises in Argentina during 1953 also appears to be too high, particularly bearing in mind that many of them yielded sizable profits (such as the state banks). } and deducted in the 4 1/2 - 5

The Ministry of Finance submits an annual financial report to Congress which gives data on the execution of the Government budget, including the budgets of the state-owned enterprises. There are copies of the 1952 report in the Joint Library.

4. The total indebtedness of the Government and official entities to the official banking system increased by only 1.8 billion pesos in 1953. Therefore, the 4.5 billion pesos increase in the credit extended by the Banco Nacion could not be attributed in a "goodly portion" to official operating deficits.

The 1953 annual report of the Argentine Central Bank was published in Buenos Aires about two weeks ago; when available here, it will enable us to determine more precisely the magnitude of the Argentine budgetary deficit and the net indebtedness of the state-owned enterprises to the banking system.

February 13, 1954

ARGENTINA

CONFIDENTIAL

I spent one and a half days in Buenos Aires on my way from Chile to Uruguay. From a number of people whom I saw both in and out of Argentina, I gathered^{ed} impressions which I thought might be of some interest to members of the Board. Argentina is not at present a member of the Fund, but it is an important country and there appears to have been a renewed interest there in the World Bank and in the Fund. Recently one of the government officials asked for and received a memorandum on the Fund's activities, as well as my statement to the Randall Commission.

I gathered that the economic situation in Argentina was still unsatisfactory in spite of the good harvest. During 1953 there was a wage freeze. There were to be new collective discussions with the trade unions in February and March. The results cannot be foreseen. One of the bottle necks is the shortage of electric power. The purchase of a machine requiring more electric current than the purchaser is at present entitled to requires the approval of the producer of electricity. This is very difficult to get. It was said that productivity in industry was much lower than before the war. A figure of only 40 per cent of pre-war output was quoted. The cost of production is therefore very high compared with industrial countries.

In an attempt to make Argentina self-sufficient, the authorities have in fact made her even more dependent on the outside world, as the industry which has been built up is very dependent on imported raw materials. With the periodic recurrence of exchange shortage these industries have been hard pressed. There were signs of increasing unemployment, and the government was therefore following a continued inflationary program, including public works, to combat unemployment. The cost of the social services, including pensions, is I believe bigger than the country can

afford. Both the government and others build too much and too conspicuously. Often construction has to be interrupted for lack of money.

There is a serious fiscal problem. The ordinary budget for last year showed a deficit of two billion pesos. The overall government deficit is not known, but it must be considerable. I was also informed that in addition to the ordinary budget deficit there were at least the following deficits in other accounts which are outside the budget:

(a) A loss of 2.5 billion pesos by IAPI, the government's foreign trade agency which handles exports and imports. The loss will probably be much greater this year than in 1953.

(b) A loss of one billion pesos by the railways. The deficit is actually larger as for many years maintenance has been neglected. Both the rolling stock and the road beds are in bad condition, and large amounts will probably have to be spent for the rehabilitation of the railways.

(c) The Merchant Marine, which is also government-owned, of more than one million tons, is also losing a lot of money.

Money will also be needed for road construction and maintenance, and for importing necessary agricultural machinery. There is a shortage of labor on the farms.

There continues to be an inflation problem. Expenditures for the Army, Navy and Air Force are considered to be bigger than the country can afford. These expenditures have naturally created a certain amount of uneasiness among some of Argentina's neighbours.

The foreign exchange rates are still 5 and 7.5 pesos per dollar. At the rate of 5 pesos, the government sustains losses on wheat and other

export goods bought by it. At a rate of 15 pesos, such losses could be avoided. However, an increase in the rate to 15 or 20 pesos, which might be a more realistic rate for the time being, would raise the cost of living substantially and lead to further wage demands. Some people believe a rate of 12 to 14 pesos to be the proper one for the time being. The exchange system continues to be complicated and to put pressure on the economy. About 70 per cent of exports flow at the 5 pesos rate, other exports flow at the 7.50 rate and there is also a fixed free market rate of 14. The curb rate is about 21 pesos per dollar. At times the system has hurt the farmer since he sells his products to the government who in turn exports abroad. While in the past the government profited from the spread in these operations, it now deliberately takes a loss in order to stimulate production. This adds to the inflationary pressure. The demand for imported merchandise is very great and the price spreads are also great. A Buick now brings 260,000 pesos; a Chevrolet 220,000. At the rate of ~~20,000~~ 20 pesos per dollar these prices are equivalent to \$13,000 and \$11,000. Some licenses are given for imports with "Divisas propias". Even if up to 30 or 40 pesos per dollar has to be paid, those that obtain these licenses were said to make substantial profits on certain goods. Friends of the administration have obtained licenses for the importation of automobiles at the 7.5 rate. They have been able to sell them at prices many times higher than the import price.

At present there are two important factors in the situation which may affect the medium-term outlook. The authorities are anxious to exploit Argentina's petroleum resources with the help of foreign countries. Argentina now imports \$180 million of petroleum products a year. An agreement was expected with some U.S. oil companies to provide technical

and economic help to build up the oil industry.

Another factor is President Peron's illness. Many people with whom I spoke referred to his poor health. While he still appears in public his condition is rumoured to be fairly serious and there is a possibility that he will visit the Mayo Clinic or a hospital in Boston. This illness may explain why the elections for the Vice Presidency (there is at present no Vice President) and for the Congress were advanced to April, 1954.

There can be no doubt that the authorities are no longer as anti-United States as before. While Peron had said that he would cut off his arm before accepting foreign assistance, it now appears that he does not feel so strongly. His statement applied to foreign loans and presumably would not preclude foreign direct investment in Argentina. Nevertheless, Argentina appears to be presently interested in getting loans, both from the Export-Import Bank and the World Bank.

Confidential

ARGENTINA

The ordinary budget for last year showed a deficit of 2 billion pesos. Over and above this there were at least the following deficits in other accounts outside the budget:

(a) A 2.5 billion peso loss on IAPI. The loss on the IAPI will this year be much greater than 1953.

(b) A 1 billion loss on the railways. The deficit of the railways is in reality much bigger as the railways, for many years, have neglected their maintenance problems. Both the rolling stock and the road-beds are in very bad condition. Huge amounts will have to be spent for the railways.

(c) The merchant marine, also Government owned, of more than one million tons is losing a lot of money.

The roads and agricultural machinery will also need a lot of money. There is a shortage of labor on the farms. That is why they are now interested in getting loans from the United States, both from the EXIM Bank and the World Bank.

The foreign exchange rates are still 5 and 7.5 pesos per dollar. At the rate of 7.5 the Government sustains losses on the wheat and other export goods bought by it. At a rate of 15 such losses could be avoided. However an increase to a rate of 15 or 20, which might be a much more realistic rate for the time being, will raise the cost of living substantially and lead to wage demands. Some people believed a rate of 12-14 to be the proper rate for the time being.

Friends of the administration have got licenses for the importation of automobiles at the 7.5 rate. They have been able to sell them at prices many times higher than the imported price.

During 1953 there was a wage-freeze. There will be new collective discussions with the trade unions in February and March. The results cannot be foreseen.

One of the bottlenecks is the shortage of electric power. An industry cannot buy a machine needing more electric current than it is at present entitled to without approval by the electricity producer. And this is very difficult to get.

It was said that the productivity in industry was much lower than before the war. A figure of only 40 per cent of prewar was given. The cost of production was therefore very high compared with the industrial countries.

The country badly needed better organization both in the Government and its various activities and in industry. The situation in Argentina was still unsatisfactory. In an attempt to make Argentina self-sufficient, the authorities had actually made her even more dependent on the world since the industry which has been built up is very dependent on imported raw materials. With the relative shortage of exchange which occurred periodically these industries had been hard pressed. There were signs of increasing unemployment and the government was therefore following a continued inflationary program, including public works, to combat unemployment. The authorities were now becoming more aware of the situation and are therefore more willing to improve their relations with the United States.

At present there were two important factors in the situation which could affect the medium term outlook. The authorities were now anxious to exploit Argentina's petroleum resources with the help of the foreign companies. Argentina now imports some \$180 million of petroleum products a year. In a recent speech, Peron had said that these imports were \$360 million, but this appears to have been for propaganda purposes. They would probably soon reach an agreement with American oil companies about technical and economic help to build up the oil industry.

The second factor was Peron's illness. This may explain why the elections for the Vice-Presidency (there is at present no Vice-President) and for the Congress were advanced to April. In the event of Peron's death, the Vice-President would

would assume the Presidency. At the moment Peron was a factor of stability in the situation and his death might mean too abrupt a transition. They hoped to see a gradual and continued transition.

There can be no doubt that the authorities are no longer as anti-American as before and that Peron, given fairly good health, will continue for several years to be friendly to the United States. It appears that they were put out by the fact that Milton Eisenhower spent more time in Brazil. While Peron had said that he would cut off his arm before accepting foreign assistance, it now appears that he does not feel as strongly. His statement applied to foreign loans and presumably this would not preclude foreign direct investment in Argentina.

The exchange system continues to be complicated and to put pressure on the economy. About 70 per cent of exports flow at the 5 pesos per dollar rate, other exports flow at the 7.50 rate and there is also a fixed free market rate of 14. The curb rate is about 21 pesos per dollar. At times the system has hurt the farmer since he sells his products to the government who in turn exports abroad. While in the past the government made a spread in these operations, the government now deliberately takes a loss in order to stimulate production. This adds to the inflationary situation. The over-all government deficit is not known, but it must be considerable. About 70 per cent of the government debt is held by the State banks which follow more lenient policies. The demand for imported merchandise is very great and the spreads in price are very great. A Buick now brings 260,000 pesos; a Chevrolet 220,000 pesos. At a rate of 20 pesos per dollar this is the equivalent of \$13,000 and \$11,000. Some licenses are given with "Divisas propias". Even if they have to pay up to 30 or 40 pesos per dollar, those that obtain these can make substantial profits.

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In the readjustment that will eventually have to take place in business, it was thought that many firms would have to go through the wringer but that the country as a whole would come through and continue to develop.

Most people in the Argentine speak of Peron's health. Some believe that he has had occasional black-outs. It is a fact that he had a bad motor-cycle accident once and that he fell flat on his face when he paid a visit to a Spanish Man-o'-War. He still appears in public. His chin is shaking and he suffers from eczema. It is believed that he has had consultations both with a famous Swedish neurologist and with another one from Boston. There were rumours about his visiting either the Mayo Clinic or a hospital in Boston. It appears that he has already undergone treatment for some nervous disorder.

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The expenditures for the Army, Navy and Air Force are much bigger than needed and than what they can afford. Some people believe the reason is that more has to be given to the Forces in order to keep them happy. The neighbours are very afraid that Argentina may attack them. They cannot understand why Argentina has strong military posts along e.g. the Chilean border or why Misiones is a military area.

~~5~~

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INTERNATIONAL MONETARY FUND

M. Rees

Thanks

L.A.

Confidential Return to R
Febr. 13, 1954

ARGENTINA

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INTERNATIONAL MONETARY FUND

I would suggest considering leaving out this whole section since Argentina is not a member and the information presumably was not received from official sources.

If this is not done, there are some marked parts that I think should by all means be deleted or at least greatly toned down.

I suggest deleting entire section Part

Phillip Thorson

March 10
February 13, 1954

ARGENTINA

CONFIDENTIAL

I spent one and a half days in Buenos Aires on my way from Chile to Uruguay. From a number of people whom I saw both in and out of Argentina, I gathered ^{ed the following} impressions, which I thought might be of some interest to ~~members of the Board.~~ Argentina ~~is not at present a member of the Fund, but it is an important country and~~ there appears to have been a renewed interest ~~there~~ in the World Bank and ~~in the Fund.~~ Recently one of the government officials asked for and received a memorandum on the Fund's activities, as well as my statement to the Randall Commission.

~~I gathered that~~ The economic situation in Argentina was still unsatisfactory in spite of the good harvest. During 1953 there was a wage freeze. There were to be new collective discussions with the trade unions in February and March. The results ^{could not} ~~cannot~~ be foreseen. ^{while I was there.} One of the bottle necks is the shortage of electric power. The purchase of a machine requiring more electric current than the purchaser is at present entitled to ~~requires~~ the approval of the producer of electricity. This is very difficult to get. It was said that productivity in industry was much lower than before the war. ~~A figure of only 40 per cent of pre-war output was quoted.~~ The cost of production is therefore ^{quite} ~~very~~ high compared with ^{most} industrial countries.

In an attempt to make Argentina self-sufficient, the authorities have in fact made her even more dependent on the outside world, as ^{many of} the industry ^{have} ~~has~~ been built up ^{as} ~~is~~ very dependent on imported raw materials. With the periodic recurrence of exchange shortage these industries have been hard pressed. ~~There~~ were signs of increasing unemployment, and the government was therefore following a continued inflationary program, including public works, to combat ^{it} ~~(unemployment)~~. The cost of the social services, including pensions, is I believe bigger than the country can

afford. ~~Both the government and others build too much and too conspicuously. Often construction has to be interrupted for lack of money.~~

^{Apparently} There is a serious fiscal problem. The ordinary budget for last year showed a deficit of two billion pesos. ^(Out of a budget of almost 11 billion pesos.) The overall government

(at 14)
or \$78

deficit is not known, ~~but it must be considerable.~~ I was ~~also~~ informed that ~~in addition to the ordinary budget deficit~~ there were at least the following deficits in other accounts which are outside the budget:

(a) A loss of 2.5 billion pesos by IAPI, the government's foreign trade agency which handles exports and imports. The loss will probably be ~~much~~ greater this year than in 1953.

(b) A loss of one billion pesos by the railways. The deficit is actually larger as for many years maintenance has been neglected. Both the rolling stock and the road beds are ^{said to be} in bad condition, and large amounts will probably have to be spent for the rehabilitation of the railways.

(c) The Merchant Marine, which is also government-owned, of more than one million tons, is also losing a lot of money.

Money will also be needed for road construction and maintenance, and for importing necessary agricultural machinery. There is a shortage of labor on the farms.

~~There continues to be an inflation~~ ^{problem} problem. Expenditures for the Army, Navy and Air Force are considered to be bigger than the country can afford. These expenditures have ~~naturally~~ created a certain amount of uneasiness among some of Argentina's neighbours.)

^{the inflation continues.} The foreign exchange rates are still 5 and 7.5 pesos per dollar. At

the rate of 5 pesos, the government sustains losses on wheat and other

? ~~And other measures in certain border territories~~

Leave out details

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export goods bought by it. At a rate of 15 pesos, such losses could be avoided. However, an increase in the rate to about 15 pesos, (which might be a more realistic rate for the time being), would raise the cost of living substantially and lead to further wage demands. There is a fixed free market rate of 14 and a curb rate of about 21 pesos per dollar. The farmer sells his products to the government who in turn exports abroad. While in the past the government profited from the spread in these operations, it now pays more to the farmer than it gets at the present rate of exchange when exporting the products, and thus deliberately takes a loss in order to stimulate agricultural production. This adds to the inflationary pressure. The demand for imported merchandise is very great and the price spreads are also great.

is an
At present there (are two) important factors in the situation which may affect the medium-term outlook. The authorities are anxious to exploit Argentina's petroleum resources with the help of foreign countries. Argentina now imports \$180 million of petroleum products a year. An agreement was expected with some U.S. oil companies to provide technical and economic help to build up the oil industry.

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Another factor is President Peron's health. While he still appears in public, his condition is rumoured to be fairly serious. This may explain why the elections for the Vice Presidency (there is at present no Vice President) and for the Congress were advanced to April, 1954.

There can be no doubt that the authorities are no longer as anti-United States as before. Argentina appears to be presently interested in getting loans, both from the Export-Import Bank and the World Bank.

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(Enclosure with letter from Mr. H.H. Whitman, National City Bank of New York,
April 5, 1954)

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"What Mr. Rooth was interested in was to obtain an idea of the state of Argentina's internal finances over and beyond the published figures which omit mention or description of the deficits incurred by the various State entities.

This information appears to be unobtainable. Our Embassy from time to time has endeavored to get an idea of the actual deficits but has not had any success. Knowing that an official request would most certainly be turned down I arranged an intimate luncheon yesterday in my office with a gentleman until recently highly connected in the Government. This friend was unable to quote exact figures but said that I.A.P.I. losses in 1953 came close to three billion pesos and that the railways' net operating loss last year was approximately m\$ 1,200 million. Altogether he judged that the net deficits of the various State owned entities would run somewhere between $4\frac{1}{2}$ /5 billion pesos during 1953.

In comparing the loans of the official banks at the beginning and at the end of last year I find that these increased by m\$ 7,200 million, of which slightly over two billion was represented by building loans granted by the Hipotecario; m\$ 682 by the Industrial, which has vastly curtailed its activities; and m\$ 4,472 million by the Banco Nacion. Although the Nacion has been very liberal with agricultural loans, I should think that after the excellent 1952/3 harvest their agricultural loans should have been scaled down. Therefore, it may be suspected that a goodly portion of the Nacion's increased loans was a result of official operating deficits."

ARBENZ PARALLEL SEEN IN ARGENTINA

Similarity Noted in Operation
of Communism in Guatemala
and Nationalism of Peron

'IDEOLOGY TRINITY' CITED

Views on Social Justice and
Political and Economic
Sovereignty Compared

By MILTON BRACKER

Special to THE NEW YORK TIMES

SAN SALVADOR, March 3—Guatemala and Argentina provide a significant case history for the United States in terms of hemisphere policy. They show how international communism and militant nationalism operate in very much the same way.

There are remarkable similarities between the regimes of Col. Jacobo Arbenz Guzman and Brig. Gen. Juan D. Peron. There is only one vital difference. In Argentina President Peron himself is the dominant single force. In Guatemala President Arbenz is a much more shadowy figure, and whether he controls the Communists or they control him is the key question.

Here are some of the parallels:

The concepts of political sovereignty, economic independence and social justice that have been a sort of ideological trinity of President Peron's justicialismo are the recurrent themes of Government and Communism spokesmen in Guatemala.

Argentina wants the British out of the Falkland Islands. Guatemala wants them out of British Honduras.

All over Buenos Aires are signs reading 'Peron Cumple — Peron keeps his word.' On the Guatemala-Antigua road is a great sign reading, 'El Presidente Arbenz Cumple'—specifying land reform.

Braden Is Foe of Both

Spruille Braden, former United States Assistant Secretary of State and Ambassador to Argentina, is officially anathematized in both countries. President Peron has used the word 'Braden' as the arch symbol of 'intervention.' This reflected the former envoy's role in the campaign preceding General Peron's first election in February 1946. Guatemala turned against Mr. Braden because of his speech on March 12, 1953, in which he asserted that in view of the international nature of communism 'its suppression even by force in an American country by one or more of the other republics would not constitute intervention in the internal affairs of the former.'

Both regimes have ousted their supreme courts.

In both countries Congressmen may be freely elected but the minority is shouted down on the floor by the rabid pro-Government majority. In general, the opposition has failed to develop a really challenging leadership.

Argentina expropriated the British railways among other foreign property as a symbol of imperialism. Guatemala is engaged in an all-out campaign of harassment against the United Fruit Company, which has been chosen as the primary symbol of such imperialisms.

Both Presidents Peron and Arbenz have been influenced by their wives in their political thinking. Unlike the late Señora Eva Peron, Señora Maria Vilanova de Arbenz stays out of public life. But she is the ideological champion of the landless against the landowners and has been a primary backer of the extreme application of the agrarian law.

Labor Orientation

Both Guatemala's and Argentina's General Labor Confederations are oriented strongly against the hemispheric labor body to which both the A. F. L. and the C. I. O. belong. This is O. R. I. T., a regional division of the International Confederation of Free Trade Unions. However, the Guatemalan and Argentine confederations are oriented against each other. The Guatemalan group is aligned with the Latin Communist-line American Labor Confederation while the Argentine belongs to A. T. L. A. S., President Peron's own organization.

Here are some of the secondary differences between the regimes.

Press and radio remain free in Guatemala. President Peron could not stand the independent newspaper, La Prensa. The Argentine radio is strictly the mouthpiece of the Government. In Guatemala independent newspapers and radio stations still function, albeit with caution.

Where President Peron has nationalized property, the settlement usually worked out equitably. This applied to railways, telephone and shipping interests and to large estates. In Guatemala, the United Fruit Company refused to accept bonds offered in payment on the ground they were grossly inadequate.

Ratio of Reds Compared

In terms of individual Communists it should not be forgotten that in 1948, when the Argentine population was about 16,000,000, the Communists cast 80,000 votes in the Congressional election—a ratio of one to 200. Guatemala, with a population of

about 3,000,000 has 3,000 avowed Reds—a ratio of one to 1,000. However, the party label means less in Guatemala where thousands of members of the National Democratic Front are certainly partial to the Communist line.

Conditions for a Communist regime exist physically and psychologically in Argentina. It all depends whether President Peron ever chooses to throw his lot with the Soviet Union. He could do so virtually overnight. The regimented peronista rank and file would have to change little to emerge as militant Communists.

The structure of a Communist regime is rapidly developing in Guatemala. The program, managed by experienced Reds, seems already to have transcended the President. Whether at any time he could reverse the trend and turn the regime into a purely nationalist one without close Soviet ideological ties remains an unanswerable question.

But it should certainly be plain that communism and nationalism tend to operate the same way in Latin America.

AUSTRIA (contd)

formation of savings was insignificant, it had some effect on the bond market. Savers who are subject to the wage tax, and buyers of fixed-interest-bearing securities, may claim the tax benefits under the above-mentioned law until 31st December 1956.

SPAIN

Industrial Production L'ECHO DE LA BOURSE, 19/1. The Minister of Commerce has released a number of figures for industrial production last year, including the rates of increase over the production figures for 1954.

		<u>Industrial production in 1955</u>	
		<u>Total</u>	<u>Rate of increase over 1954 figures</u>
Coal	(millions of tons)	10.6	unchanged
Electricity	(millions of kwh)	12.2	+ 16.2%
Cement	(millions of tons)	3.7	+ 12.7%
Iron bars	(" " ")	0.975	+ 10.2%
Crude steel	(" " ")	1.195	+ 8.4%
Rolled steel	(" " ")	0.785	+ 9%
Iron ore	(" " ")	4.7	+ 20.7%
Cotton	(tons)	105,200	unchanged
Wool	(")	29,300	"

Money and Credit EL ECONOMISTA, 21/1. Total monetary resources, including current accounts held with the banking system, rose by Pts 10,199.1 million during the whole of 1954 and by Pts 8,862.9 million during the first nine months of 1955; it is expected that a further considerable increase will be shown by the figures for the last quarter of the year. An approximate idea of the total amount of investments made in the economy is given by the figures for credits granted to the economy by the banking system and issues of securities, which, taken together, amounted to Pts 25,361.7 million during the period from January to the middle of December 1955, having risen by 38.6% as compared with 1954, when they reached a total of Pts 18,294 million, showing an increase of 19.2% over the 1953 figure. Issues of shares by joint-stock companies increased from Pts 4,254 million in 1954 to Pts 5,725 million in 1955, while bond issues totalled Pts 5,461.4 million in 1955, having declined by 3.6% as compared with 1954.

National Income EL ECONOMISTA, 14/1, reproduces the estimates for the national income in 1955, which are given in a study made by the central bank on the country's economic situation. The real national income in terms of constant 1929 prices is evaluated at Pts 39,029.7 million and the nominal national income at current prices at Pts 321,034.9 million. The per-capita real national income works out at Pts 1,342.8 and the nominal national income per head of the population at Pts 11,034.3. The average yearly increase in the per-capita real national income during the period from 1946 to 1955 is put at 5.3%. This rate of increase is very considerably above the rate computed for the inter-war period (not including the years of the civil war) and is also much higher than the average rates in the U.S. and the most important industrial countries of western Europe. The very low level of the per-capita national income at the beginning of the period reviewed is suggested as the chief reason for this remarkable increase; the per-capita real national income in 1929 was, for example, not exceeded until 1951.

To ARGENTINA file

The Prebisch Plan N.Z.Z., 22/1, Buenos Aires. Following his survey of economic conditions in Argentina issued at the end of October last year, Prof. Prebisch has now published a second economic report, which contains his proposals for the rehabilitation of the country's economy. The report consists of two parts. The first part deals with the steps to be taken to fight inflation, while the second part contains Prof. Prebisch's proposals for the future shaping of Argentine economic policy.

As already reported, Prof. Prebisch diagnoses the Argentine inflation as one of costs and prices. His principal anti-inflationary measure is an increase in productivity. He is in favour of certain general wage increases, provided that these increases are borne by the entrepreneurs through a reduction of their profits or are matched by increases in production, thus avoiding any repercussions on the price level. As regards public finances, in addition to the general increase in tax revenue of P. 1.5 milliard already voted under the ordinary 1956 budget, Prof. Prebisch recommends a non-recurrent increase in the taxes on income and excess profits totalling P. 1.1 milliard. This would mean that tax revenue under the last two headings would increase by about 25% as compared with the 1954 figure of P. 4.3 milliard. Extraordinary budget expenditure in 1956 as suggested by Prof. Prebisch would include the following items (in milliards of pesos):

Public works	4.5
Wage and salary increases for public servants	1.0
Transport deficit	3.4
Financing requirements of the State Mortgage Bank	5.0
Investments for the construction of small houses and in the petroleum, electricity and heavy industry sectors	3.8
Increase in credit to the general public	5.0
Total	22.7

For the financing of these outlays the following resources will be available in the current calendar year (in milliards of pesos):

Raising of loans	7.1
Receipts from the duties levied on fuel prices	1.7
Receipts from the non-recurrent tax increase	1.1
Surplus on the ordinary budget	0.5
Various other receipts	1.3
Total	11.7

There remains a deficit of P. 11 milliard. Assuming that some P. 2 milliard can be absorbed by the banking system without producing inflationary repercussions, there remains an uncovered balance of P. 9 milliard, which in 1956 is expected to show itself in the form of a "net expansion of the note circulation". In order to prevent this considerable expansion from touching off serious inflationary effects, Prof. Prebisch thinks that a corresponding increase in productivity - of some 10% - is required and also possible. Such an increase would correspond to an increase in the national income of some P. 15 milliard. Prof. Prebisch warns against incurring any other extraordinary expenditure which would increase the deficit balance. Only in this way, he says, will it be possible to restore a domestic capital market on which State securities and mortgage bonds can be placed.

The second part of the report provides for a far-reaching change in economic policy with regard to the agricultural, industrial, trade, power, taxation and banking sectors. State interventionism is to be gradually reduced and a freely-functioning market economy restored. The plan contains proposals for the procurement of large-scale foreign financial aid in the form of foreign loans, the prolongation of payment periods for Argentine purchases of capital goods, and foreign credits to the Argentine private sector or the participation of foreign capital in Argentine enterprises. Argentina's relations with foreign investors are to be put on a new footing, while at the same time the

ARGENTINA (contd)

bilateral trade agreements with European countries are, if possible, to be placed on a multilateral basis. For these purposes the plan suggests that an Argentine economic and financial commission be sent to Europe in the near future. This commission would conduct negotiations with the aim of postponing payment by Argentina of part of its trade debts and concluding new credit agreements for the purchase by Argentina of capital goods urgently required by the country. At the same time a financial mission is to visit the U.S. to negotiate on a loan, the proceeds of which would be used for the financing of a large part of the most urgent requirements of investment goods over the next three years. The last-mentioned mission is also to try to obtain additional dollar credits for the private sector of the Argentine economy. As reported previously, Argentina's import requirements of capital goods for the next three years are estimated at some \$1.2 milliard.

Prof. Prebisch's report makes it quite clear that the measures taken immediately after the devaluation for the revival of agriculture and cattle breeding constituted only a first series of emergency steps - steps which must now be supplemented by a large-scale programme designed to revitalise this important sector of the Argentine economy. Prof. Prebisch recommends the establishment of a technological institute to devise and execute methods promoting the modernisation and mechanisation of the farm sector. As regards industry, he stresses the need for the consolidation of the industries already in existence and their gradual expansion by the setting-up of new branches. In particular, he emphasises the need to develop the metal and mechanical industries, the paper and cellulose industries and the chemical industry. Argentina is also to develop its own heavy industry. In order to achieve the goals of industrialisation, the present substantial power deficit of the Argentine economy must be overcome. For electrical energy alone the annual deficit is put at 610,000 kwh. The petroleum deficit is given as 8.7 million tons. The domestic petroleum production is to be raised from 5.1 million tons annually to 10 million tons by 1959.

With regard to the banking sector, it has already been reported that the central bank is to be given greater independence. It will no longer be possible for the President of the Central Bank to be dismissed during his term of office. At the same time, the private banks too are to regain their previous independence, and amongst other changes they are henceforth to be able to conduct the principal credit operations on their own authority.

INDIA

Investments FIN.TIMES, 19/1, New Delhi. It is estimated that increasing industrial development in India over the next five years will make it necessary to spend about £1,100 million on imports of capital equipment. These imports will be required for the implementation of the second five-year plan in both the public and private sectors. It is expected that 76% of the total will be spent on imports for the public sector and 24% on imports for the private sector. Govt imports will be required particularly for agricultural development, for irrigation and power, and for industry, transport and public services. At the same time, the rise in production will call for larger imports of raw materials and there will also be an increase in the demand for consumer goods as a result of the anticipated rise in the national income. The plan is meant to start in April this year but it will be some time before the details are published.

INDONESIA

The 1956 Budget DE MAASBODE, 9/1. The Indonesian budget estimates for 1956 contemplate a deficit of Rupiahs 1 milliard, or 60% less than in 1955. It is hoped that tax receipts will be Rupiahs 1 milliard higher than last year. Customs duties and the special levies on imports are estimated at Rupiahs 950 million and Rupiahs 4,100 million respectively.

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WEDNESDAY, APRIL 13, 1955.

Pro-Peron Policy of U. S. Angers His Big Opposition in Argentina

Americans Say Course Is Sound, but Foes of Regime Call It Short-Sighted—They Point to Britain's Neutral Position

This is the last of four articles on the political and economic status of Argentina.

By **HERBERT L. MATTHEWS**

Special to The New York Times

SANTIAGO, Chile, April 9—There is probably no phase of United States policy toward Latin America that has aroused so much controversy as the openly and strongly pro-Peronist attitude of the State Department and the United States Embassy in Buenos Aires.

After nearly two months in Argentina, an American comes away overwhelmed with polite reproaches, for Argentina in spite of some surface and electoral indications, is overwhelmingly anti-Peronist.

Any study of Peronism has to weigh the pros and cons of this policy. It is a cold calculation, presumably taken without illusions, on the theory that it is better to woo President Juan D. Peron and get his cooperation in Latin America than to antagonize him and have him resume his fierce anti-Yankeeism.

On the Argentine side the calculation was equally practical. It is ironical to hear each

Peron is one of the most egomaniac dictators in the world.

The serious economic situation must have had a great deal to do with it, for Argentina badly needs loans and investments. The failure of the President's aggressive efforts to win over Chile, Peru, Bolivia and Brazil into an anti-Yankee bloc may well have contributed to his change of policy.

In short, General Peron evidently reached the conclusion that his anti-Yankeeism did not pay. Since he can turn Argentine policy on and off like a tap of water, he made the switch. No one on either side believes the change is anything but tactical, and if it does not pay, he will switch back. The Americans are trying to make it pay.

The anti-Peronist attitude and arguments are vital to this picture. One should also add the attitude of the liberal and democratic elements throughout Latin America, who are bitterly critical of the United States' wailing of a completely undemocratic regime.

leading Argentine citizens put forward in conversations with this writer as the policy the United States should have followed. The conclusion is inescapable that the United States has temporarily lost the respect of the men in whose hands the future of Argentina probably lies.

that the policy was started by Ambassador Albert F. Nuffer, who arrived in Buenos Aires May 29, 1952. Eva Perón who had a special venom for the United States, died July 26, 1952 and it was only subsequently that her husband was in a position to change his policy.

Dominant Latin Nation

Vice President Alberto Teissie said recently that the real turning point came with the visit of Dr. Milton S. Eisenhower, the President's brother to Buenos Aires in the summer of 1953 and General Perón has also said as much.

The reasons given by United States sources are the obvious ones. Argentina is one of the two or three most important countries of Latin America. Her geographical position dominates the southern Atlantic and the Antarctic. Her influence on other South American countries two years ago was great (it is much less so now). Her support in the United Nations was desirable. It was also desirable to try to woo General Perón away from his neutralist attitude toward the Communists.

It was asserted also that the United States could not interfere in the internal political affairs of Latin American countries, and however much North Americans might deplore President Perón's dictatorial form of government, it was not their business.

Some Americans argued that the presidential elections of 1946 and 1952 showed that a majority wanted General Perón, although it is demonstrable that the elections showed nothing of the sort.

Finally, the pro Perónist United States policy is in part a gamble on the régime's continuation for some years and in part a calculation that any visible alternative might be even worse than Peronism.

On the Perónist side, the rea-

sion for the United States to commit itself wholly to a régime that they say is nearing its end and has no future. Why they ask, should the United States antagonize the men—Radicals, Socialists, Conservatives, and Christian Democrats—who are going to control Argentina some day?

The argument that General Perón has majority support is considered invalid. The Argentine voter has no real alternative, for General Perón has given no scope to political opposition and, indeed, has terrorized and arrested a good many opponents.

No Opposition Press

The entire press is Peronist so that only one viewpoint is presented. Large elements of the population depend for their jobs, wages and privileges on the régime. There is a large element also that fears civil strife if General Perón goes out, and some even fear Communism.

In these circumstances it is asked how can an election be anything but a triumph for him?

The argument that the United States has no business interfering in Argentina's internal affairs is answered by saying that a pro Perón attitude is in effect intervention. The only attitude that would not have been resented was one of strict neutrality.

The British in their dealings with Argentina have been calculatedly realistic and hard-headed, always ready to negotiate and ready to make loans on current trading operations. There has been no moralistic, legalistic attitude and they never put themselves in the position of praising or condemning Peronism.

Britain is getting better results than the United States in the treatment of her companies, in the collecting of profits and in trade in general. Her policy might be summarized as "Do

April 2, 1955

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Argentina's Economy in Distress Under Burden of Peronist Policy

*Much of Private Enterprise Displaced—
Tax Burden Among World's Heaviest
—Inflation Rampant Since the War*

This is the third of four articles on the political and economic status of Argentina under President Juan D. Perón

By **HERBERT L. MATTHEWS**

Special to The New York Times

SANTIAGO, Chile, April 8—Argentina under Gen. Juan D. Perón is a country in economic distress. This conclusion is inescapable after a study of the situation there made by this writer in February and March.

As is generally the case in the Peronist state it is difficult to achieve clarity. Much is hidden, for official statistics are restricted and often unreliable. There is no formal economic system such as state socialism or capitalism.

The basic fact is that President Perón has displaced private enterprise in Argentina to a great extent, especially foreign enterprise and capital. Half of all capital expenditures in Argentina are made by the Federal Government (in the United States it is more like 5 per

cent). 1943-45—have fared best. Contract wage rates advanced rapidly and continuously from 1943. The best years for the worker were 1948 and 1949. Since 1948 the cost-of-living index has risen faster than wage rates, so that the real purchasing power of wages has declined especially for higher paid employees.

A few figures will indicate the seriousness of inflation under General Perón. The working class cost-of-living index (1943 equals 100) was 549.6 in the first quarter of 1954 and 643.8 this year. The March 1955 figure was 651.6. The general level of the cost of living in the capital of Buenos Aires in the year 1949 was 236.5. In December, 1954 it was 678.2.

Budget Deficits Persist

The social security tax is the largest single source of revenue. All workers must pay a basic 10 per cent of their wages and all employers a basic 15 per cent of wages without exemptions to the social services.

In reality, the worker pays up to 12 per cent and when all the extra demands of the social laws are met, the employer pays at least 65 per cent on top of the wages. Only about a fifth of the intake is used to pay claims on the social services. The rest is borrowed by the Government, which gives bonds in return and spends the money.

The social services are Argentina's form of income tax. Only 5 per cent of gainfully employed persons pay a direct income tax.

High Tax Rates on Poor

It is estimated that 30 to 35 per cent of aggregate private income is taken by taxes. This makes Argentina one of the highest taxed countries in the world. The system is also one of the most regressive in that the burden is greatest on the lowest incomes. This is more true under General Perón than under previous Governments, because he introduced the social service feature.

It should not be supposed that Argentine workers have extensive social services. There is no national health service for all, no unemployment insurance (except a lump-sum indemnity on discharge), no organized relief for the destitute and no non-contributory pensions for the aged. The Eva Perón Foundation which monopolizes charity is selective in its operations.

Unskilled and semi-skilled industrial workers—the *descamisados* or shirtless ones about 1,000,000 strong who provided the main popular support for General Perón's rise to power in

been impossible since then to get the foreign exchange to import machinery, equipment, spare parts or even insecticides and herbicides for the farms.

The railway system, bought by General Perón from the British, has run down appallingly and is losing money at a great rate.

Output per man hour not only has not kept up with wage increases but has, in fact, declined. It has aptly been said that the greatest inflation is in the costs of production.

President Perón has tried to attract foreign investments and credits, but thus far little has materialized. Henry J. Kaiser has formed a company to import and make automobiles and jeeps. United States oil companies are preparing to enter Argentina on a large scale under a special contract law and this will have long-range importance. The Export-Import Bank recently announced a credit of \$60,000,000 to a Government controlled company to help build an integrated steel mill.

Essentially these are moves by North Americans, not by General Perón. His principal action to date has been an investment law that extends to new foreign investors the right to remit or capitalize up to 8 per cent of their profits.

There is no pure risk capital entering Argentina under this new investment law. What few companies are taking advantage of it are doing so primarily to be on hand when the Peronist régime ends and business becomes free and fairer for the foreign investor.

The situation being what it is economically and politically, Washington's role in encouraging United States investments in Argentina has aroused great interest and controversy.

To Arg. files.

Return to R

To: Mr. Roth
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ARGENTINA

Oct. 28, 1955

ADVANCE REPORT ON PREBISCH PLAN REVEALED

IRS Buenos Aires, in Spanish to Argentina, Oct. 28, 1955, 0001 GMT--W

(Text)

Because we consider this a matter of great importance, we have prepared, particularly for you, an advance report of the basic points of the second part of the report of Dr. Raul Prebisch on the ways and means to save the economic situation of Argentina from disaster:

- 1--No mass dismissals, but also no filling of vacancies.
- 2--Elimination of the Argentine Trade Promotion Institute--IAPI.
- 3--Increase of exports, particularly of industrial products.
- 4--Restriction of the imports of automobiles.
- 5--Increase of the petroleum output from the current production of 5.3 million cubic meters to 10 million cubic meters in 1958, which would make possible savings totaling 100 million dollars per year.
- 6--Reestablishment of the free exchange market under Government control until the factors responsible for inflation have been removed.
- 7--Adaptation of a new and more realistic exchange rate for imports.
- 8--Elimination of bilateral and deferred payment agreements.
- 9--Greater incentives for farm and livestock production.
- 10--Gradual elimination of the system of Government intervention.
- 11--Investment of 1,370,000,000 (pesos?) in transportation.
- 12--Neither increase nor reduction of taxes.

To my file

United States and Canada

U.S. Farm Income

Net income of U.S. farmers for 1955 is presently estimated at \$10.6 billion, 10 per cent below last year. Cash receipts are about \$1 billion lower, largely because of a sharp decline in hog prices, and production expenses are slightly above last year. Net farm income has been falling since 1951, with the total decline through 1955 amounting to 28 per cent. Since the farm population has fallen steadily, however, net income per capita declined by only about 7 per cent between 1951 and 1954.

Net farm income is expected to decline further in 1956, owing to lower support levels and intensified production controls on wheat, rice, cotton, corn, peanuts, and tobacco. Income from livestock is not expected to change. A decline in production expenses from lower feed costs will be largely offset by higher interest rates, tax payments, and wage rates, and increased prices for industrial products purchased by farmers.

Source: *The Wall Street Journal*, New York, N. Y., November 21, 1955.

U.S. Government Holdings of Farm Products

Government investment in farm commodities rose by \$0.4 billion in October, to a new high figure of \$7.7 billion. This is \$0.3 billion higher than the previous record at the end of February. The October increase was due largely to price-support loans on cotton, wheat and other grains, and tobacco. Cotton alone accounted for more than one half, as 1.3 million bales were placed under loan. Government investment will probably continue to rise until the end of the heavy marketing season early next year.

Source: *The Wall Street Journal*, New York, N. Y., December 6, 1955.

Loans for Canadian Grain Farmers

The Canadian Government is to provide a partial guarantee, up to an aggregate of Can\$50 million, on bank loans to grain producers in the prairie provinces who are unable to deliver their produce to the Wheat Board because of congested storage conditions. Individual loans may not exceed \$1,500 and the interest may be up to 5 per cent per annum; half of the proceeds from each subsequent delivery of grain by a farmer making use of these arrangements is to be used for repayment.

Source: Department of Trade and Commerce, Press Release, Ottawa, Canada, November 5, 1955.

Latin America

U.S.-Mexican Stabilization Agreement

The United States and Mexico signed a new Stabilization Agreement on December 2. The Agreement is de-

signed to assist Mexico by providing up to a maximum of \$75 million, if necessary, for exchange stabilization operations to aid in preserving Mexico's exchange system free from restrictions on payments. The Agreement continues until December 31, 1957 arrangements that have been in effect since 1941, and will be operated in close coordination with the activities of the International Monetary Fund (see this *News Survey*, Vol. V, p. 387).

Source: Treasury Department, Press Release, Washington, D. C., December 2, 1955.

Development Corporation in El Salvador

An autonomous development corporation, Instituto Salvadoreño de Fomento de la Producción (INSAFOP), has been officially set up in El Salvador with an initial capital of 3 million colones (US\$1.2 million). It will be headed by a board of nine directors composed of a president to be appointed by the Executive, four directors representing the Ministries of Economy, Agriculture and Livestock, Labor, and the Treasury, and four representing the Central Reserve Bank, the commercial banks, agriculture, and industry.

The main purpose of the institution is to supplement the credit and financial facilities not provided by the Central Reserve Bank and the private sector for the development of production in all sectors of the economy. In this connection, INSAFOP may engage in short-term, medium-term, and long-term lending operations, and it will contribute to further development of a securities market in El Salvador by participating actively in financing operations involving the issuance of public and private securities and trading in them.

Source: *Tribuna Libre*, San Salvador, El Salvador, October 25, 1955.

Argentine Exchange Measures

Exchange surcharges on exports and imports, the lists of commodities affected by the different exchange rates, and the treatment of foreign capital have been set forth by the Argentine Government in several decrees and circulars implementing the devaluation announced on October 27 (see this *News Survey*, Vol. VIII, p. 156).

As a result of exchange surcharges of 25, 15, and 10 per cent applied to the official exchange rate of M\$N 18 per U.S. dollar, the following are the effective buying rates: M\$N 13.50 per U.S. dollar for greasy wool, cattle on the hoof, hides, logs, etc.; M\$N 15.30 for all meat products, offals, pickled hides, wool tops, dairy products, all hunting and fishing products, etc.; and M\$N 16.20 for all cereals, tannin extracts, linseed, malt, cotton, and other miscellaneous products. Exchange proceeds from exports not included in these lists will be surrendered at the free market rate (about M\$N 32 per U.S. dollar).

Exports are also subject to an 8 per cent sales tax and a deposit, in domestic currency, amounting to 12 per cent of the value of the exports and to be retained for 120 days.

For imports, classifications have been set forth as follows: foodstuffs, raw materials, and some specified capital goods—mainly agricultural equipment—have a rate of M\$N 18 per U.S. dollar; electric power equipment, either thermal or hydroelectric, will be imported at the free market rate with prior authorization by the Central Bank; and all other goods will be imported at the free market rate without prior authorization, but subject to a surcharge, to be established by the Central Bank, which could be up to M\$N 20 per U.S. dollar.

On imports authorized prior to October 27, 1955, there will be a surcharge equivalent to the difference between the new and the previous exchange rate. However, in order to avoid undue cost of living increases, some foodstuff imports and fuels and capital goods imported under Foreign Investment Law No. 14222 have been exempt from this surcharge.

The proceeds from surcharges on exports and imports will be deposited in the National Economic Recovery Fund to be used in the technological and economic development of cattle production and agriculture, and to pay the temporary subsidies that may be established to alleviate the effect of higher prices on the cost of living. Bread, meat, and certain imported foodstuffs are now being subsidized.

Remittances of funds and imports through the free market, with or without a surcharge, will not be subject to prior exchange permits. All transactions in the official market require prior approval. On operations in the official exchange market, banks and brokers are authorized to charge a commission of 0.05 per cent on selling operations and 0.3 per cent on purchases of exchange.

In addition to regulations pertaining to remittances of foreign capital and profits, the Central Bank has issued a circular (No. 2324, November 17) which allows the entry of foreign capital investments in the form of new machinery (either complete plants or additional equipment for existing plants) to be used in the manufacture of goods that can be exported, but which are now imported. The following conditions must be fulfilled: capital investments must not be Argentine in origin (and this must be proven satisfactorily) and must be by firms of recognized technical, commercial, and financial standing; the machinery must be new and technologically up to date; raw materials and spare parts used in industrial development may be imported during a certain initial period provided they are not domestically produced; an investor must guarantee that his plans will be carried out; and corporations must be organized in accordance with the current legislation. If the foreign investments adversely affect similar domestic investments, exchange permits will be authorized

in the free market to permit the replacement of equipment by domestic concerns. Once a proposal has been approved, others related to the same type of production and which fulfill the conditions already established will also be authorized in order to avoid preferences and exclusions.

Sources: *The Review of the River Plate*, Buenos Aires, Argentina, October 31 and November 11 and 22, 1955.

Other Countries

Australia's Trade Agreement with Rhodesia and Nyasaland

Announcing details of the new three-year trade agreement between Australia and the Federation of Rhodesia and Nyasaland, the Australian Minister for Commerce said that both countries had agreed not to accept surplus commodities without first consulting each other. The Australian Government had been concerned that the United States might offer the Federation wheat or processed milk on concessional terms.

Under the agreement, the Federation granted the following concessions to Australia: free entry with a margin of preference on the most-favored-nation rate for wheat, processed milk, and certain other commodities; free entry of butter, cheese, fresh mutton, and certain types of machinery; a commitment to apply minimum preferential rates to various foodstuffs and manufactured items of Australian origin; and a special duty rebate of 2½ per cent ad valorem on passenger automobiles manufactured in Australia.

The main concession made by Australia was to extend to Northern Rhodesia and Nyasaland the preference, already granted to Southern Rhodesia, of 9d. a pound on unmanufactured tobacco.

Sources: Department of Commerce, *Foreign Commerce Weekly*, Washington, D. C., September 5, 1955; *Australian Financial Review*, Sydney, Australia, October 27, 1955.

International Financial News Survey, written by members of the staff of the Fund, is based on material published in newspapers, periodicals, official documents, and other publications as cited at the end of each note. Explanatory material may be added, but no Fund editorial comment or opinion. Therefore any views expressed are taken from the sources quoted and are not necessarily those of the Fund.

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THE REVIEW OF THE RIVER PLATE

A Letter to the President

The Supplement to the first issue of the Review of the River Plate... the Argentine Government... the Argentine Government... the Argentine Government...

It is my task to lay out the economic situation of the Argentine... the Argentine Government... the Argentine Government... the Argentine Government...

We have by no means exhausted our... the Argentine Government... the Argentine Government... the Argentine Government...

A report on Argentine economic and financial conditions, with recommendations for a new policy, submitted by Doctor Raúl Prebisch to the Provisional President, General Eduardo Lonardi.

October, 1955

I have endeavored to be as objective as possible... the Argentine Government... the Argentine Government... the Argentine Government...

I hope in that way the better to inform the public... the Argentine Government... the Argentine Government... the Argentine Government...

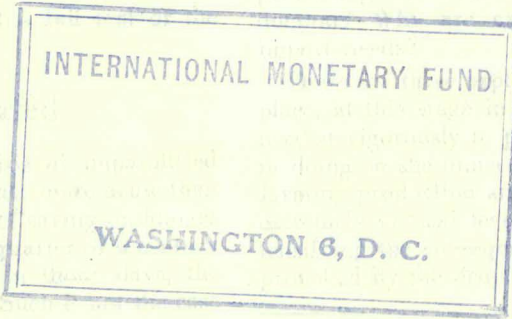
(I) The Problem Statement

The Argentine is experiencing a serious... the Argentine Government... the Argentine Government... the Argentine Government...

The effort made... the Argentine Government... the Argentine Government... the Argentine Government...

The Argentine Government... the Argentine Government... the Argentine Government... the Argentine Government...

The Argentine Government... the Argentine Government... the Argentine Government... the Argentine Government...



The Argentine Government... the Argentine Government... the Argentine Government... the Argentine Government...

The Prebisch Report

A Letter to the President

"Supplementing the first impressions which I had the honour of conveying verbally to you on October 7 last in the presence of H. E. the Vice-President of the Nation, Rear-Admiral Isaac Rojas, and the members of your Cabinet, I have pleasure in submitting the final text of this preliminary report, which is to be followed by another of wider scope, as soon as I am in possession of all the data required for the purpose.

"In this task I have had the valuable co-operation of the Consultative Board which the Minister of Commerce, Dr. Cesar Bunge, had previously appointed to act in an advisory capacity, and I have also had at my disposal the information supplied by those Government officials whom I have been able to consult in the time available, taking advantage of the ample authorisation which Your Excellency was pleased to grant me to this end.

We have by no means exhausted the useful sources of information and counsel available. I consider it indispensable, in addition to the co-operation of the Administration's experts, to obtain the opinion of other persons specialising in the matters under discussion, and very particularly the representatives of private economic activity, in its diverse forms, before presenting to Y.E. a programme for the country's economic recovery. In the meantime the present report may serve as a basis for the consideration of measures whose adoption cannot be postponed and will enable public opinion, as Y.E. intends it should, to form an accurate impression of the country's economic situation.

"I have endeavoured to be strictly impartial. The problems with which the country is afflicted in this respect are to a large extent the consequence of an economic policy which must be examined in a critical light. But in this I shall proceed with the same objective criterion as has guided me in other Latin American countries, without allowing personal sentiments to affect the oath of impartiality and political independence by which, in common with all United Nations officials, I am bound.

I hope in that way the better to fulfil the trust with which Y.E. has seen fit to honour me. In any case, the opinions ventilated in this report do not commit in any way the international institution in which I have the honour of serving. In order to facilitate the understanding of this report, I am presenting in the first place a section setting forth the problem in general terms, followed by the full text of the report proper."

I - The Problem Stated

1. — Argentina is experiencing a crisis of unparalleled gravity affecting her economic development; more acute than that which President Avellaneda solved by "saving on hunger and thirst;" or that of 1890, or that of a quarter of a century ago, in the depth of the world crisis. In those days, the country's productive potential was intact. Such is not the case to day; with the dynamic factors of the economy seriously endangered, an intense and persistent effort will be required to restore a vigorous rate of development.

That effort can and must be made. But, in the first place it is necessary to dispel certain dangerous illusions. The country has been seeking to maintain an intense upward trend in its consumption without augmenting its production to a sufficient degree to render that increase possible. The product per inhabitant^x in the present year so far is only 3.5 per cent. higher than it was a decade ago, and in order to achieve a consumption in excess of its product Argentina is unwisely incurring foreign indebtedness and is engaged in a serious process of decapitalisation.

2. — The country possesses a well-established economic potential which must be efficiently applied in order to speed up production and so meet the growing needs of the popular consumer demand, thus giving to its economic development a strong ingredient of social progress. For the time being, however, there are formidable obstacles to this goal. Firstly, it is not possible to expand imports of raw materials and fuel to the extent required in order to raise the rate of production. Secondly raising the rate of production implies the need for imports of machinery and equipment, and the country's precarious foreign exchange situation renders it impossible to grant exchange permits for the introduction of capital goods. Thirdly, even though such goods could be imported in substantial quantities, the necessary electric power would be lacking for running the machinery and equipment thus acquired owing to the gravity of the power crisis. And fourthly, the increased production could not be moved owing to the serious decapitalisation of the transport system. Excessive consumption has also been taking place at the expense of basic capital investment.

3. — The precarious foreign exchange position is manifest in a deficit of some 186 million dollars in the balance of payments for the current year. Adding this deficit to the commitments from previous years, we arrive at a foreign indebtedness total of some 757 million dollars by the end of the present year, comprising immediate and relatively short-term obligations. Vis-a-vis these commitments, the gold and dollar reserves available amount to only 450 million dollars, with the possibility of an eventual recovery of some 150 million dollars which the Central Bank had to advance to the private banks when foreign credit was cut off as a result of Argentina's interruption of her foreign payments in 1949.

4. — How, it may be asked, has this difficult situation of unbalance in the overseas payments situation come about, preventing the country from increasing its rate of production? Why are exports insufficient to cover essential import needs?

There are three explanations for this situation. In the first place, at this stage in her economic development Argentina needed vigorously to pursue her industrialisation effort, but in doing so she unnecessarily impaired the efficiency of her farming production and caused a reduction in exports to the extremely critical level at which they now stand, thus intensifying the consequences of the unfavourable trade trend provoked by the drop in prices for her overseas sales.

^x In this report the term "product per inhabitant" is employed as the equivalent of income, in order to avoid technical distinctions which would be out of place here.

Secondly, Argentina has not pursued a sound and balanced production policy designed to substitute imports; nor have the basic industries been created that are indispensable in order to strengthen the national economy. And thirdly, the exploitation of the country's petroleum resources has not received the strong stimulus which it required, with the result that foreign oil absorbs an over-large share of the country's import trading capacity.

5. — The economic policy followed in the past decade has caused certain very serious structural defects. The State has exercised a considerable influence on capital investment, but has failed to channel or effect such investment in the manner most conducive to the acceleration of the country's rate of development and the attenuation of her vulnerability to international influences, which latter condition has now become acute. In addition, part of the considerable resources which Argentina had at her disposal after the war were wasted in ill-advised or unproductive investment, and the rest was devoted to the repatriation of foreign debt and capital already invested in the country, whereas it was a matter of urgency to promote new investment, especially in agriculture, transport, electric power and housing.

6. — Over and above this mistaken investment policy, certain forms of State intervention have been increasingly pursued, perverting by bureaucratic excess the functioning of the economic system; and inflation, as also the exchange permit system and other regulations, have created spurious sources of profit which conspire against the orderly development of the economic system, to the serious detriment of its efficiency.

7. — Inflation in Argentina stems from two sources. On the one hand, wholesale increases in wages and salaries, unaccompanied by any increase in productivity. On the other, the expansion of bank credit to cover deficits accruing from the disposal of the crops (4,000 million pesos); the transport deficit (2,000 million pesos); and mortgage credit operations (4,500 million).

8. — The country has possibilities of increasing productivity, which has seriously declined, and of avoiding the disturbing effects of cost inflation. Increased productivity, however, entails the movement of labour into the expanding sectors of production, and, so long as machinery and equipment, and the power required for their operation, are lacking and the country is thus prevented from recovering its dynamic impetus, it will be unable to take full advantage of these possibilities of improving productivity standards.

II - Present Obstacles to Argentine Economic Development

Diminished Rate of Development

Income per inhabitant in 1955, according to preliminary calculations based on the figures for the first half of the current year, is barely 3.5 per cent. higher than 10 years ago, as will be observed from the accompanying table, the data being expressed in constant values on the basis of 1950 prices. These figures have been taken from a report which the Argentine delegation appointed by the previous Government submitted to the sixth meeting of E.C.L.A., recently held in Bogotá.

Years	Gross Nat. Income, in Millions of pesos at 1950 prices	Income per inhabitant in pesos at 1950 prices
1943	44,497	2,991
1944	49,532	3,274
1945	48,028	3,121
1946	54,106	3,456
1947	62,654	3,930
1948	65,890	4,041
1949	62,757	3,750
1950	62,249	3,621
1951	64,046	3,632
1952	59,715	3,310
1953	62,971	3,423
1954	65,914	3,516
1955	68 550	3,588

Income "per capita" was at a peak in 1948, aided by external factors of unusually favourable proportions. Thereafter a recession set in and continued in being up to 1952. This was followed by a gradual recovery in recent years, without, however, restoring the maximum figure mentioned, and showing only the small improvement referred to above (3.5 per cent.) for the whole of the past decade.

The fundamental problem facing Argentina's economy is how to attain the vigorous rate of growth which the country's great possibilities and the productive capacity of the people permit. In order to do this, many obstacles have to be overcome. These derive mainly from the country's precarious foreign exchange position, the electric power crisis, and the decapitalisation of the transport system. We may now briefly consider each of these aspects of the problem in turn.

A Critical Exchange Situation

The country's balance of payments is heavily in deficit the amount of which, it is estimated, will reach 186 million dollars by the end of the current year, as indicated in the following table.

BALANCE OF PAYMENTS IN TERMS OF DOLLARS

	1953	1954	1955
	(In millions)		
Exports	1,166	1,062	906
Other receipts	114	91	114
Total receipts	1,280	1,153	1,020
Imports	877	955	1,104
Other payments	48	128	102
Total payments	925	1,083	1,206
BALANCE	354	70	-186

Including this deficit, pending commitments at the end of the year will amount to approximately 757 million dollars. It might be said that, at this figure, these foreign commitments are not unduly burdensome, having regard to the country's economic potential. But it is not so much the amount that is disturbing as the prompt and short-term nature of these obligations, at a time when the balance of payments is already in deficit. The following are the pertinent figures:

PENDING FOREIGN PAYMENTS COMMITMENTS

	<i>Millions of dollars</i>
Credit availments under bilateral trade agreements ..	233
Debt in respect of deferred-payment imports	409
Owing to Export-Import Bank	57
(Sundry items	58
Total	757

These commitments are payable as follows:

<i>Years</i>	<i>Millions of dollars</i>
1956	260
1957	173
1958	145
1959	104
1960 and later	75

In addition to these commitments, there are arrears of financial services, the transfer of which has been promised by the State, and which amount to approximately 2,000 million pesos, of which, however, some part may have been re-invested.

Against these foreign obligations calling for immediate or comparatively short-term payment, the country's monetary reserves in gold and foreign exchange amount to only 450 million dollars, of which 360 million are in gold and the rest in foreign exchange. This, undoubtedly, is a small sum relative to the country's needs, and one has to go back many years to find a monetary reserve position of similarly reduced proportions, if we except the exiguous level touched in 1952.

At the end of the war, the country's monetary reserves had risen to the equivalent of 1,682 million dollars (1946). The heavy recession denoted by the current figures is due not only to the deficit in the balance of payments and to the repatriation of foreign capital, but also to the fact that the reserves have been deprived of approximately 150 million dollars which the Central Bank found it necessary to disburse as a consequence of the interruption of the country's foreign payments in 1949. Ever since the moratorium on the foreign debt caused by the crisis of 1890, the country had punctually and regularly complied with its foreign obligations. Argentina's credit placed it in the forefront of nations, in respect both of public and private financial operations. This enviable reputation, maintained at great sacrifice during the world depression, was abruptly destroyed, however, by the country's sudden failure to comply with its obligations under documentary credits opened by banks abroad in favour of those of this country in order to assist import trade operations.

Since then, Argentina has been deprived of this source of credit, and the Central Bank was under the necessity of placing considerable sums at the disposal of the local banks—estimated at 150 million dollars—in order to enable them to supply their clients with the means for the advance payment of their imports. We thus find a peculiar situation: on the one hand, costly deferred-payment import operations are effected, and on the other the country has had to pay in advance for other imports to the detriment of its diminished monetary reserves.

Deferred-payment imports, in addition to contributing heavily to the burdensome accumulation of foreign commitments, have involved a substantial surcharge in the prices which the country has had to pay for such supplies pur-

chased abroad. Bilateral agreements have had a similar effect. These agreements, by segregating trade into watertight compartments, have, not infrequently, resulted in prices bearing little relation to those ruling on the international market. This element of price distortion is less marked in the case of export produce, now that the conditions of scarcity ruling some years ago have disappeared, but it appears to be appreciable as regards import prices. It is estimated that, due to these two factors, import prices have been increased by a margin of at least 20 per cent. Thus the terms of trade, which had deteriorated owing to international factors beyond the country's control, have been rendered still more adverse by a series of practices which have had the effect of seriously weakening Argentina's foreign bargaining position.

Factors Leading to the Exchange Crisis

The three main factors that have led to the precarious foreign exchange situation in which the country is placed are: 1) a considerable reduction in exports and the deterioration of the terms of trade; 2) the orientation of the industrialisation policy, and 3) the heavy increase in oil imports necessitated by the country's failure to take full advantage of its resources in this respect.

So far as exports are concerned, Argentina is suffering the consequences of an economic policy which has discouraged agricultural production generally and also failed to develop an export trade in manufactured goods.

As is well-known, the exchange and price policies deprived the Argentine "camp" of the incentives and resources indispensable for its technical development, both as regards the machinery and equipment needed to increase output per worker and methods designed to increase yield per hectare. The result is seen in an aggravation of the technical backwardness of the country's agricultural and pastoral farming production, on which visiting foreign experts, after studying conditions ruling here in relation to those obtaining in other countries comparable with Argentina, have commented.

Actually, in the planning of the country's economic policy since the end of the war, a fact of vital significance has been overlooked, namely, that the earlier development stage when production could be rapidly expanded, through the simple expedient of taking in new land, had long since passed. With the passing of that stage, a new and more systematic effort became necessary to meet the exigencies of the next and considerably more complex stage, in order to ensure a substantial and sustained increase in productivity. This called for the combined intervention of three factors: 1) the technical action of the State; 2) the encouragement of producers, and 3) the resources which the latter required to enable them substantially to expand investment on a scale commensurate with technical progress.

The following figures will suffice to give an idea of the consequences of this policy. The physical volume of Argentine exports during the past five years—1950-54—is barely 64 per cent. of that for the five years immediately preceding the second world war. If the figures are calculated on a "per capita" basis, it is found that in recent years the share of each inhabitant in the export trade is only half what it was in the pre-war period.

It is a well-established principle of economic development that technical progress in agriculture is the essential basis for industrialisation in the Latin American countries,

for two compelling reasons. In the first place technical progress, by increasing productivity, renders possible a better employment of labour and thus enables an increasing proportion of the annual increment of the labour force to be absorbed into industry and other activities. In the second place, the higher level of farm incomes results in an expansion of the internal market for the products of industry. One of the most serious errors in Argentina's economic policy has consisted in ignoring this close bond between industrial growth—which is an indispensable requisite for economic development—and the technical progress of agriculture. Argentine farming enterprise has been provided neither with the necessary incentives nor with the resources required for its technical development, and it has also been deprived of the labour which could only have been released through an enhanced productivity. In this way an attempt has been made to intensify the vigorous rate of growth already attained by the industrialisation process since the second world war, without broadening its basis or adjusting its structure to the demands of development, and, at the same time, entirely neglecting the support of the rural production sector, which, however, was indispensable for the industrialisation programme.

It must be admitted, in all fairness, that steps were later taken to rectify the error, although not to the extent, nor with the resolution required for effectively repairing the damage done to the production sector. It is thus necessary to restore the balance between agriculture and industry, and the complementary nature of their respective functions, so that both may contribute with maximum efficiency to the rehabilitation of Argentina's economy and the speeding up of its rate of development.

A Mistaken Industrial Development Policy

But these are not the only reasons why the foundations of Argentine industrialisation have been rendered precarious. It was of course essential that the process should be shaped towards ensuring a diminution of the traditional vulnerability of the country's economy to foreign factors. Argentina had previously completed the first stage of the industrialisation process, this consisting of the comparatively simple substitution, through local manufacture, of its earlier imports of consumer goods. It then became necessary to face the problem of substituting a number of basic imports, and the production on an economic basis of essential raw materials.

An eminent Argentine citizen, General Savio, had already drawn up a plan, prior to the second world war, for the establishment of a steel industry. Unfortunately, the commencement of this project has been delayed until comparatively recently and in order to carry it out a foreign loan has had to be sought. I am far from believing that this loan is disadvantageous, but I cannot refrain from pointing out that if, some years ago, the plan had been financed by the use of the resources that were absorbed by certain repatriation operations, the country would to-day have its steel industry, and the ancillary enterprises, enabling it the better to endure the vicissitudes to which the factors of instability affecting its foreign trade economy have given rise.

The same applies to certain basic chemical industries, newsprint, pulp, and other primary lines, in which action has been tardy, dilatory and inadequate.

These deficiencies characterising the development of the industrialisation process have contributed to the foreign payments difficulties by which the Argentine economy is at present afflicted.

Petroleum

The third contributory factor responsible for this situation has been the slow rate of expansion of petroleum production relative to the considerable growth of national consumption. Imports of oil and coal have come to absorb almost one fifth of the value of the total imports in the past five years, whereas the proportion was only one tenth prior to the war. The participation of imported fuel in the country's total power consumption rose from 39 per cent. in pre-war years to 49 per cent. in the past quinquennium.

The deficit in fuel production has thus accentuated the vulnerability of the Argentine economy to international influences.

The Power Problem

To this growing dependence on foreign oil supplies must be added the electric power crisis which the country is experiencing, the gravity of which has been growing from year to year. The two problems are closely related, in as much as a high proportion of the electric power is generated by means of petroleum products, and a very high proportion of the power-houses using the latter are centred in the Littoral provinces. The most acute aspect of this problem occurs in Greater Buenos Aires, where some 70 per cent. of the country's electricity is consumed and where the deficiency in the power supply has led, among other effects, to serious obstacles to the development and efficiency of production. The installed capacity for public use is some 840,000 kW., and it is estimated that some 300,000 more are required to meet the unsatisfied demand and provide an efficient service. Of those 300,000 kW. of unsatisfied demand in Greater Buenos Aires, some 150,000 would be required immediately to meet the needs of production while maintaining the present restrictions on the use of electric current in other sectors of consumption. These increases do not allow for any reserve, thus violating all technical rules.

Unfortunately, the San Nicolás power plant will not provide any immediate relief, for although it is estimated that its equipment will be fully installed by April, 1956, owing to the failure to provide in time for the necessary transmission connections, it is unlikely that the 200,000 kW. which it is intended to assign to the consumption of Greater Buenos Aires will be available before mid-1957, at the very earliest.

In the interval, however, the demand will have increased still further, for which reason there are no grounds for hope of any appreciable relief from the present electricity consumption restrictions which are acting as a brake on economic activity.

Deficiencies in the electric power supply also exist in various cities in other parts of the country, but the solution, in general, is less difficult in such cases in view of the various projects that are in course of execution; this will render possible the installation of some of the new industries which the country must establish in order to improve its foreign payments position.

Summarising, it may be said that the State has not effected the investments indispensably required to provide the country with the power supplies requisite for its economic growth; neither have conditions been created to induce private enterprise to do so; moreover it has failed to undertake—in many instances of critical importance—a complete technical study of these problems, with the consequent considerable delay in devising the pertinent solutions.

Decapitalisation of the Transport System

The formidable difficulties which the country has been experiencing in the matter of transport are common knowledge. The railways are decapitalised; they are 25 years in arrears as regards rolling-stock renewals, and even more in the case of the permanent way. To give an idea of the extent of this decapitalisation, it will be sufficient to point out that technical experts regard as a matter of urgent necessity the implementation of a programme of renewals at a total cost of 22,000 million pesos, this including 1,400 million dollars for imported material.

The deficiencies in the Argentine transport system date from many years ago and, as is public knowledge, are not confined to the equipment factor. The antiquated management of the British companies has been succeeded by the impressive inefficiency of the State administration; but this is a matter for study. We need only recall here that the railway nationalisation arrangement adopted was not the only one available. The archives of the Central Bank must contain documents relating to other solutions which, if adopted, would have enabled the country to secure immediate control of the railways against a cash payment of only part of their cost and the remainder of the resources arising from the accumulation of blocked sterling during the war could have been used for the renewal of equipment. If such a policy had been followed the Argentine railways would now undoubtedly be in much better shape for serving the interests of the national economy.

If we add to the foregoing the insufficiency of numbers and the obsolescence of the motor lorries in service, it will readily be appreciated why the transporting of the products of the soil to the ports and centres of consumption has been a problem of increasing gravity.

In addition to the problem of renewals, there exists in the management of the country's transport system—both as regards the railways and the urban transport services of the city of Buenos Aires—a considerable deficit, estimated, for the current year, at 3,500 million pesos, of which 2,000 million is accounted for by the financial deficit and 1,500 million by the additional deficit which would arise if amortisation charges were calculated on the basis of replacement prices, and not of historical cost.

The experts who have been consulted consider that, on the basis of the present tariffs and organisation of the transport system, and if the renewals programme to which reference is made above were carried out in its entirety, it would require 15 years to eliminate the annual deficit by means of the revenue proceeds of the system alone.

Deficient Utilisation of Productive Resources

It is apparent from the general picture of the situation as regards agricultural production, industrialisation, petroleum, power, the transport system, and the well-known housing deficit, that the country has failed to employ its resources judiciously, nor has foreign credit been used for productive purposes in order to lessen the vulnerability of the economy to international influences and so create the most favourable conditions for accelerating the rate of economic growth and social progress. Furthermore, in the measure that the utilisation of those resources has raised the rate of capital per person employed, the downward trend of productivity has largely cancelled out the favourable effects which might otherwise have been expected from this increase in the rate of capital per man.

At the end of the war, the country was in need of considerable capital, for to the exiguous imports of machinery and equipment during its duration was added a back-log of unsatisfied needs from the years of the world crisis. These combined needs were not met in the measure and form required by Argentine development. Actually, a considerable portion of the resources in gold and foreign exchange accumulated during the war, and the considerable capital influx which occurred after hostilities ceased, thanks to the great improvement in the terms of trade, was devoted to the repatriation of investments of foreign capital already existing in the country, instead of employing it for the expansion of investment.

If we except the case of the railways, in which the accumulation of blocked sterling made it possible to fulfil a national aspiration of long standing, these repatriation operations were premature. It would seem that in certain sectors of public opinion sentiment prevailed over reason, usually a highly dangerous proceeding in economic affairs. Resources held abroad were thus employed in acquiring capital already in the country, while agriculture, transport, and power production lacked the machinery and equipment indispensably necessary for their normal development.

The repatriation of foreign investments coincided with the adoption of a hostile attitude towards the idea of foreign loans. Events, however, have led the country into more undesirable forms of foreign indebtedness, as has already been seen. The amount involved in the repatriation operations, including the railways, was 764 million dollars. In general these were old commitments, amortisable at a slow rate and with a comparatively low interest rate. The 757 million dollars of foreign obligations which the country has accumulated through the operation of bilateral agreements and deferred-payment imports, on the other hand, require immediate or comparatively short-term repayment, as already pointed out, and the interest rate in such cases is not usually moderate, quite apart from any consideration relating to the exceedingly high prices which the country has had to pay for the goods imported under such credit facilities.

III - State Intervention and Inflation

State Intervention in Economic Activities

Excessive and inefficient State intervention has seriously disrupted the Argentine economic system to the detriment of its efficiency, and, combined with inflation, has given rise to activities yielding inordinate profits, which contrast with the aims and purposes of social policy. State intervention is undoubtedly necessary to accelerate the rate of development and direct it towards the fulfilment of social objectives, but there are two types of intervention—under one, the State seeks to rule the conduct of individuals in the economic process, as has occurred in this country during the period under review, while, under the other, the State assists economic development by efficiently manipulating the main controls of the system through its fiscal policy, its policy relating to exchange, credit, Customs duties, the investment policy, and the Government's technical intervention, all combining to create the basic conditions and the stimuli and incentives required by private economic enterprise for its maximum functional efficiency, and directing it towards the attainment of certain fundamental objectives of economic development.

It frequently happens that when the State engages in the first-mentioned type of intervention, it ends by erring in its handling of the principal controls, and instead of providing guidance and incentives, leaves the economy adrift, disrupted by the vagueness, the inconsistencies and the improvidence of an intervention that finally defeats its own purposes.

The control of the import trade by means of exchange permits; the control of prices to check the consequences of inflation; the regulation of domestic and foreign financial movement; provisions which hinder the free action of the factors of production in the economic activities of both the urban and rural sectors, and other forms of intervention which have led the State into engaging in commerce and industry, have perverted private economic activity by bureaucratic excess and encouraged certain propensities which have gravely disrupted the sound development of the economy and the Administration. It is not the State, impersonal, infallible and omniscient that makes and carries out decisions of significance for the economy, but ordinary human beings who, when exercising their functions in the field of private activity, assume considerable discretionary powers which transcend the purely economic sphere.

The granting of exchange permits at rates far removed from reality on the official market, and of authorisations to import "without use of exchange", has resulted in substantial profits for the beneficiaries of those permits and authorisations. Apart from the obvious implications of this fact, the effects thereof on the functioning of the economic system have been extremely grave, tending, as they have, to divert endeavour towards that type of easy business to the detriment of productive employment and of the efficiency and increased productivity of the latter, which constitute the essential justification of the profit motive in economic activities. Those evils have been further aggravated by the consequences of inflation, which produced its own arbitrary effects on the distribution of income.

Responsibility for the decline in productivity which has occurred in the Argentine economy is frequently attributed exclusively to the workers. This is undoubtedly a one-sided explanation, since the easy profits which inflation has offered in past years to vast sectors of business management, and those which, until recently, certain groups obtained through the official regulations in question, have discouraged attempts to improve productivity or reduce costs.

To the indirect responsibility which pertains to the State for this decline in productivity must be added the direct responsibility attaching to its own Administration. It is no secret that a considerable expansion has occurred in State expenditure; until a thorough study of this matter has been effected, suffice it to say that in 1954 public expenditure throughout the country absorbed the high proportion of 22 per cent. of the gross national income, without taking into account the deficit of State trading agencies and public utilities, a figure this which would be appreciably increased if wages and salaries were to be raised in those divisions of the Administration where sub-normal earnings have been the rule. It is well-known that there is a substantial number of redundant employees in the Administration, which, precisely, is one of the reasons why an adjustment in the remuneration of Government employees and workers has not been feasible.

It is estimated that of the 48,000 persons working in the Buenos Aires transport system at least 15 per cent. could be dispensed with. Some 200,000 persons work on the railways, and it is calculated that ten per cent. of that figure

represents employees engaged in years of maximum activity who have retained their jobs although their services are not now indispensable. Similarly, there appears to be redundant personnel in the "frigorificos," which is one of the factors rendering necessary a State subsidy of approximately 470 million pesos per annum in this industry.

In the field of strictly private activity numerous cases could be cited, but it will suffice to mention in this report the obvious example of the building trades. While the housing shortage has become increasingly acute, it appears that the number of working hours required for each square metre of covered area has been almost doubled. Thus, if it were possible to return to previous productivity levels, dwelling-house construction could be substantially increased, although some difficulties relating to supplies of building materials might occur, complicating, but hardly preventing, a solution of the problem.

It is not intended to imply that the productivity problem could be solved, either in the official Administration or in private enterprise, by the simple expedient of resorting to mass dismissals; it will be explained in due course why this is far from being the solution, whether considered from an economic standpoint or because of its social implications.

Inflation

Inflation in Argentina is also a consequence of misdirected State intervention in the country's economic life. The two factors which have given rise to it are a consequence of the form that State intervention has taken.

One of these factors is monetary in character; the other pertains to the policy for wages and salaries.

As regards the monetary factor, the inordinate expansion of the money supply is attributable mainly to the deficits accruing from the State's trading operations in farm products and from losses on the transport systems; also from the manner in which mortgage operations are financed. The combination of these three factors will involve in 1955 an increase of approximately 9,700 million pesos in the money supply, the break-down of which is as follows:

	1954	1955
	<i>(Millions of pesos)</i>	
Deficit in grain operations	4,500	3,500
Deficit in transports (1)	1,600	2,000
Financing of mortgage operations	3,800	4,200
Totals	9,900	9,700

It is common knowledge that the deficit in grain operations arises from the fact that the State paid the producers prices apparently higher than those obtained by the sale of their produce on the international market, but this was exclusively due to the over-valued rate of exchange applicable to exports; the average of these rates is approximately 7.45 pesos per dollar, which obviously bears no relation to present-day, exchange reality although this does not necessarily imply that the quotation of approximately 30 pesos to the dollar ruling on the clandestine market is a true reflection of the reality of the matter.

It would appear that the reluctance of the authorities in the past to adjust the exchange rates to a more realistic level

(1) This does not include 1,500 million pesos in respect of provisions for renewals on the basis of replacement prices, as explained in the text.

has been inspired by the essentially commendable purpose of safeguarding prices from further inflationary pressure. But it will be seen, on closer scrutiny, that a rise in prices has not been averted, in as much as when the Central Bank issues currency to cover the deficit in the official grain operations this increased monetary pressure necessarily leads to higher prices.

The transport deficit produces the same monetary effects, and a similar result is brought about by the financing of mortgage credit operations, which must now be effected by means of Central Bank issues, after destroying the former *Cédulas Hipotecarias* system which proved so beneficial for the country during its application over a period of more than half a century. In addition to these inflationary factors, credit has also been expanded for purposes of private investments. During the whole of 1954, means of payment created totalled 13,714 million pesos, of which 4,832 million were absorbed, leaving a net increase of 8,882 million.

It may be remarked that the Administration's budget has not had a direct inflationary influence, due to the fact that the placing of bonds has been directed to the Pension Funds, as a means of ensuring monetary equilibrium. This does not imply, however, that such a method of financing does not create a serious problem, for, by devoting the very considerable savings represented by the Pension Funds revenue to government expenditure, of which only a part is capital expenditure, the remainder being used to cover the Budget deficit, such savings are being mis-used.

As this report is not concerned with the detailed study of financial and monetary aspects, which will have a place in another document, it will be sufficient to point out that the bonds thus issued account for a considerable portion of the total of 47,000 million pesos which the national consolidated public debt has reached, to which must be added 28,000 million pesos of official indebtedness to the banking system on various counts, chief among them being the I.A.P.I. indebtedness. Thus the total public consolidated and floating debt may be estimated at an approximate minimum of 70,000 million pesos, against 9,000 million at the end of 1945.

The remaining inflationary factor, as has already been remarked, derives from all-round increases in wages and salaries. If these increases are not accompanied by enhanced productivity, or absorbed by profits, they are immediately reflected in higher prices. This has occurred in respect of the increases granted in March, 1954, amounting to an average of 20 per cent. for industry and 16 per cent. for commerce. They were no sooner granted than the upward trend of prices was resumed with the result that, in the interval, prices have risen by 20 per cent., a result to which the other inflationary factors mentioned have also no doubt contributed.

It is not intended to suggest that all social sectors are back where they were before the general increases were granted. The figures issued by the National Statistical Service actually show that on the average reckoning for industrial workers, real wages have been maintained despite the higher prices; according to the same Statistical Service this appears to be partly due to higher productivity and partly to the effect of an increase in hours worked, which latter had previously declined to an abnormally low level.

Nevertheless, it can hardly be assumed that these conditions have also characterised other sectors of employment. In the case of Government employees, for instance, real wages must have fallen to the full extent of the rise in prices, as there increases in wages and salaries have been only

partial. Actually, the case of the industrial workers is characterised by special features; whereas real *per capita* income for the whole country has risen by 3.5 per cent. in the past ten years, the real income of industrial labour has risen in the same period by 47 per cent., or by 37 per cent. if pension fund contributions are allowed for. If a numerically important sector of the population has been able to increase its real income to such an extent in face of an insignificant expansion of the average income per inhabitant, it is clear that the average income of other sectors of the community must have suffered a reduction. These are the sectors that have been "left behind" in the inflationary race, comprising rural producers and numerically important groups of middle-class workers in particular.

However, in order to reach a clear understanding of the social consequences of this trend and of the changes produced by the redistribution of income process which it has involved, a very detailed analysis would be necessary. Nothing of the kind has yet been effected in this country although such a study is necessary in order to serve as a guide in directing the anti-inflationary policy and the adjustments which will be necessary to ensure that such a policy be established on firm foundations.

I consider it necessary further to clarify my point of view in this matter: formerly the proportion of the Argentine national income accounted for by wages and salaries was comparatively low. Thus in 1945 it amounted to 46.7 per cent., and in 1954 it reached 59.6 per cent., including pension fund contributions, thus approaching the level attained in advanced nations such as the United States, where wages and salaries account for 69 per cent. of the total income.

There has, therefore, been a net improvement in the participation in the national income of that sector of the population comprising workers and employees, a trend this which has also occurred in other countries as an outcome of economic development.

The nature of this process is well-known. As productivity increases, an increasing part of the increment is transferred to the working classes, both through forces which act spontaneously and through the operation of taxation and the influence of the trade unions, and this is of decisive importance in remedying the distributive defects of the capitalistic system when it functions with a full sense of its collective responsibility.

Unfortunately, the manner in which this phenomenon has occurred in Argentina has given rise to serious problems. In the first place, the higher participation in the total income represented by wages and salaries has not been accompanied by an increase in the average productivity per inhabitant, for it has been shown that the average income advanced by barely 3.5 per cent. in ten years. The higher participation of wages and salaries noted, therefore, has been achieved mainly at the expense of the income of rural producers, with the grave consequences arising therefrom, as also at the cost of a serious decapitalisation process, especially as affecting the transport system and agriculture itself. Secondly, although the wages and salaries aggregate denoted an increased participation in the national income, there is evidence of considerable disparity between the various employment groups which it comprises.

It is to be hoped that this social process will continue, but also, instead of disrupting the dynamic forces of the Argentine economy, that it may contribute towards a greater efficiency in its operation, promoting a greater increase in

B costs at present too high.
productivity and a more substantial expansion of real income. This is an essential condition for the solution of the problem of the equitable distribution of income.

SECOND PART

Immediate Solutions

A Preliminary Assessment

1. The grave problems with which the country is faced in the economic field require two types of measures—those of an immediate order, designed to alleviate the present precarious situation and impart a timely stimulus to the operation of the economic forces, and long-term measures, which must follow the first in order to correct the structural defects of the economy and restore the free interplay of its dynamic forces.

In this report the most urgent measures of an immediate order are suggested, and mention is made of others that are under study. As regards long-term measures, these will be incorporated in a recovery programme which will have to be drawn up with the least possible delay.

2. The immediate measures are urgent. In the first place, strong incentives must be provided for farming production, substantially raising prices by modifying the artificially over-valued exchange rates and thus enabling this sector of the economy to restore its present diminished capitalisation capacity; moreover, it must be allowed freely to import the production goods it needs and which national industry cannot supply on suitable terms.

It is not sufficient merely to seek to expand in this way the export possibilities of the traditional products. It is indispensable to encourage new exports, especially of manufactured goods. This is one of the ends which the re-establishment of a free exchange market is intended to serve, a market through which exporters of such articles may sell the exchange they create without let or hindrance. Another motive underlying the establishment of the free exchange market is to begin in this way to work progressively towards the eventual liberalisation of exchange.

3. The free market will serve, on the other hand, for the urgent importation of capital goods and their spares. In addition to production goods intended for farming activities, there are other indispensable imports which are urgently needed to relieve conditions of acute difficulty in other sectors of economic activity, especially transport and electric power. Imports of motor-cars have been effected of late through the clandestine market, which is to be substituted by a free market. For the time being, however, it will be imperative severely to limit such imports in order that production goods may be introduced.

4. It is not to be expected, however, that it will be possible for all the capital goods that are urgently required to be imported through the free market. Recourse to foreign credit will thus become a matter of indispensable necessity.

5. In this connection, the oil industry constitutes a very special instance of urgently needed capital equipment. According to the experts, for 1955, the country's oil production will total 5.3 million cubic metres, including natural gas, and, if all the appropriate and necessary measures are taken in the interval, this could be raised by 1958-59 to

Tom Bolwica
figure which is conservatively put at some 10 million cubic metres, from known reserves and with a normal drilling programme.

The solution of the present serious problem of oil supplies resides in transport rather than in production. To achieve it, the building of pipelines for oil and gas and other investments will be necessary. At the same time, the planning of the expansion of future production through new prospecting and drilling operations should be undertaken. Such operations will call for very heavy investment, over and above the normal expenditure demanded by current production, of the order of 200 million dollars for imported equipment and 3,000 million pesos of local expenditure. The increased national production envisaged would afford a saving in foreign exchange possibly exceeding 100 million dollars per annum. To the extent that it may not be possible to arrange credit financing on satisfactory terms for the dollar part of the investment, recourse to the use of the monetary reserves would be justified for purchasing such equipment abroad, provided the technical and economic validity of such projects, and that of the estimates on which they are based, is fully vouched for.

6. All this requires that steps be taken without delay. In another order of ideas, a start could be made on the progressive dismantling of the mechanism of State intervention. In addition to the move towards a liberalisation of exchange, it would be advisable to take immediately certain steps, of a similar kind, as applying to prices and other related matters with a view to giving the factors of production, especially in the agrarian sector, a greater fluidity.

7. In addition to credit expansion there is another inflationary factor, as has already been said: rising wages and salaries. There is no doubt that the adjustment of the exchange rates will cause prices to rise, but everything points to the fact that the increase will be moderate. If, in order to compensate it, general adjustments of wages and salaries were to be made, the cost and price spiral would again be put in motion. The stimulus to agrarian production would thus disappear, and further monetary devaluation would be inevitable. Such disturbing effects must be avoided at all cost, but it is not possible to ignore the situation of certain groups of workers and employees whose remuneration has not hitherto been adequately adjusted in line with the reality of the present situation. In these cases it will be necessary and advisable to effect a moderate revision of the rate of remuneration. On the other hand, the elimination of restraints affecting production and distribution, together with increased productivity, should absorb part of the devaluation impact, thereby ensuring that its full incidence will not be transferred to prices to the detriment of real wages.

8. It will also be necessary to take immediate steps to circumscribe inflationary pressure until it can be checked and eliminated. On the monetary side, the modification of the exchange rates, in addition to permitting higher prices, will eliminate the cause of the deficit in the commercial disposal of agricultural and pastoral produce; as regards the expansion of credit for mortgage operations, this could be covered to a considerable extent by means of the bonds which the new Pension Funds will issue, although this method might lead to a temporary increase in the inflationary pressure. There remains the deficit in the transport system, and the expansion that will be caused by indispensable investment. This may be offset, however, by the normal absorption factors, chiefly in the form of higher savings, and by

the increase in the currency needs of the public. From a monetary point of view, therefore, the inflationary process could be stayed by the adoption of a firm policy, which, however, should not be a deflationary policy. It is possible, by means of certain measures, to put an end to monetary inflation without the action taken leading to a contraction of economic activity or causing unemployment.

It will not be possible entirely to prevent price increases arising from the modification of the exchange rates, in as much as it is indispensable to encourage agrarian production by transferring to it part of the real income of the other sectors of the economy. But it will be necessary to ensure that this burden is fairly distributed; and, above all, it will be essential that all high income groups shall share in the sacrifices which the programme of national economic recovery will entail.

9. The immediate measures having been applied, it will then be necessary to draw up the economic recovery programme. An estimate must be made of the investment required in order to raise agrarian production to a high level of efficiency, without which any programme of economic recovery must fail. Estimates will also have to be made of the investment needed for the renewal of transport equipment and the elimination of the deficit on the operation of the services; for the solution of the electric power deficit the provision of the normal needs of the consumer demand in this respect; for relieving pressure on the foreign payments position, through the substitution of imported goods by local manufactures, and generally to improve productivity standards, creating the conditions and the necessary incentives for an acceleration of the country's economic development and the progressive correction of its vulnerability to foreign economic influences. As these steps produce the desired results, a vast plan of dwelling-house construction will have to be developed, in order to combat the grave crisis affecting housing in Argentina.

It should not be supposed that Argentina will be able to undertake this massive task of investment with her own resources. The prospect, of upwards of a decade ago, that because of the considerable degree of economic maturity attained then, the country might soon be in a position of relative independence of foreign capital, has again receded, probably for a good many years.

Foreign capital has been a controversial subject in Argentina, and it is advisable that public opinion should be enlightened as to its role. In order rapidly to overcome the present crisis affecting the country's economic development, foreign loans and capital investment are required. If it is desired to avoid recourse to such outside aid, the country will have to resign itself to the indefinite continuance of its present precarious condition. Such is the nature—and the magnitude—of the problem and it cannot be modified.

If the country elects the first of these alternatives, it will have to create favourable conditions for the influx of foreign capital, starting by curbing inflation and taking severe measures to achieve equilibrium in the balance of payments.

In this way it will be in a position to negotiate loans with honour and dignity, avoiding onerous private financial arrangements incompatible with national prestige, and attracting spontaneous investment requiring no special privileges. International confidence in Argentina's possibilities is returning, and a sound programme of rehabilitation, firmly enforced, will contribute to its consolidation.

Exchange Readjustment and Export Incentive

It is a matter of urgency to put an end to the fictitious and distorting over-valuation of the Argentine currency. Inflation has already caused it to lose a considerable part of its domestic purchasing power and it is imperative that its external value be correspondingly adjusted by modifying the export exchange rates. The necessary study for that purpose has already been made with a view to ascertaining the level to which those rates should be adjusted. It would not be wise to raise all agricultural prices to an extent commensurate with the increase in the exchange rates without leaving a margin within which those prices may gradually rise to the extent that internal costs may rise. In the meantime this margin might provide resources for a Fund, the proceeds of which could be used to finance part of the economic recovery programme.

This adjustment of the exchange rates will serve a double purpose. On the one hand it will serve to eliminate the deficit in the grain operations and on the other it will raise the prices paid to agricultural producers, giving the latter the necessary incentive for a rapid increase in production, and making available to them the necessary means for promoting the technical improvement of production methods. The exchange adjustment will undoubtedly have certain repercussions on domestic prices, a matter this which will be dealt with later.

The proposed measure (modification of the export exchange rates) should be accompanied by others designed to prevent the evasion of exchange, which appears to have attained considerable proportions. This can be remedied by establishing the amount of the exchange to be delivered to the State per unit of each product shipped, leaving exporters free to dispose of the remainder in a free exchange market; all exporters will thus be placed on an equal footing for the fulfilment of the provisions relating to the delivery of foreign exchange.

This, of course, involves the establishment of a free exchange market for the unrestricted remittance of funds to and from foreign countries, and the elimination of clandestine operations which, otherwise, it is absolutely impossible to prevent; nor would there be any advantage in attempting to do so. In this way, together with the Official Exchange Market, which must continue to be subject to control pending a substantial improvement in the balance of payments situation, there will be a Free Market in which, in addition to financial transactions, it will be possible to effect certain export and import operations.

Regarding financial transactions, the country, as mentioned elsewhere, has accumulated obligations relating to private financial service remittances for previous years which it has not been possible to transfer owing to the impecunious condition of the balance of payments; the Free Market will render possible these remittances, but this should only be done in a gradual manner, for the sudden wholesale transfer of these commitments might have unsettling consequences which it is advisable to avoid. Meanwhile, current financial services, as well as the transfer of funds actually in existence, between accounts of foreign holders, may be effected without the need for special permission and without limitation.

It has already been explained that a comparatively small part of the exchange created by exports may be sold on the Free Market, in order to prevent evasions. This concerns exports of traditional products but, there are, in addition, many articles which the country is in a position to export,

or the export of which could be expanded, especially in the field of industrial products.

This does not refer entirely to new export trade lines: the list includes products which have been exported in the past, and the overseas sale of which might be stimulated by means of the higher rates of exchange. Exchange control as applying to these exports in the Official Market might prove difficult and cumbersome, but this will be avoided if exporters are permitted to dispose of their exchange, without restriction, on the Free Market. The higher quotations ruling for foreign currencies in that market would serve as an incentive to intensify production and exports; but, so long as exchange is in short supply for imports of raw materials, it would be advisable to eliminate from the new system those articles in which imported raw materials account for a substantial part of their value.

Equilibrium of the Balance of Payments

In addition to the element of export incentive which these measures involve, they will also undoubtedly encourage the investment of private foreign capital, and prompt the return of Argentine funds invested abroad, especially when events have proved that the Government is determined firmly to enforce the measures which the present situation requires, thus strengthening foreign financial confidence in this country.

The equilibrium of the balance of payments will not be attained by those means alone. It will also be necessary firmly to limit imports against current resources, so far as that may be practicable without detriment to essential activities, and so long as the export trade has not recovered to a satisfactory level. Unfortunately, the position of the balance of payments is such that, in the absence of a substantial improvement, which seems improbable, it will not be possible in 1956 to use any part of the Official Market exchange resources for imports of capital goods. Those resources will have to be exclusively applied to imports of raw materials and fuel, and even these will have to be submitted to a rigorous scrutiny with a view to the elimination of all items which are not strictly indispensable, without prejudice to vigorous action to prevent evasion.

Finally, there is another and exceedingly important aspect: that of the artificial raising of the cost of imports owing to the special trading regime to which they are subject. As has been seen elsewhere, there are two factors enhancing the cost: bilateral agreements, and deferred-payment arrangements. There is at present a movement towards the revision of such agreements. Brazil has concluded, with the United Kingdom and the Netherlands, a series of arrangements involving a move away from a bilateral and towards a multilateral system, marking the initial extension to Latin America of certain advantages of the European Payments Union. It is a timely departure, and one that may favour Argentina's negotiations in the same field.

As regards deferred-payment imports, these are not, in general advisable, at least not in the same form as hitherto. It would be preferable in such cases to keep the credit arrangement separate from the commercial operation, and when this is not possible, further recourse to these operations might be permissible, provided they are effected under favourable price conditions and on the basis of a payments arrangement with which the country will be able to comply without running into future difficulties.

Once the most urgent requirements of imported capital

goods have been ascertained—i.e., imports which, as will be seen later, cannot be purchased out of current exchange earnings—it will be possible to make an estimate of the foreign credits that would be required for such imports and of the manner in which these commitments could be arranged, having regard to the probable trend of the balance of payments. This matter will have to be the subject of further study, for which, however, additional information to that available for the preparation of this preliminary report will be required.

Pending Commitments

It has been stated elsewhere that the overseas commitments totalling 757 million dollars which the country has accumulated in recent years do not in themselves constitute an excessive sum, although they create a delicate problem owing to the prompt, or comparatively short-term nature of those commitments. This matter also will have to be the subject of careful study with a view to devising arrangements by which payment may be staggered in order to restore the normal functioning of the balance of payments, creating the surpluses by means of which provision for these obligations may be conveniently made and the country's foreign credit thereby more solidly established.

In another order of ideas, this will also allow normal operations to be resumed between the country's banks and overseas banking institutions, facilitating in particular the opening of documentary credits under normal conditions and thereby permitting the gradual recovery of the 150 million dollars which the Central Bank was obliged to make available to the banks for the advance payment of imports. This will contribute to the re-constitution of the country's monetary reserves.

Imports of Production Goods

The need for attaining equilibrium in the balance of overseas payments in 1956 will not permit, as has already been stated, the utilisation of the current exchange resources of the Official Market for imports of capital goods, despite the country's enormous unsatisfied needs of such goods; nor will it be possible to effect, with such resources, imports of spares and accessories and other production goods which the country requires. As the speedy relief of the economic demands that certain imports be promptly effected, two ways of doing this have been devised: first, by authorising Free Exchange Market operations and second, by contracting foreign loans.

After an interval of so many years during which Free Market operations have been suppressed it will be impossible to establish, for the time being, the extent of the market's capacity, but the fact that during recent years motor-car imports have been paid for through the clandestine market—since that, in general, was the significance attaching to imports effected "without use of exchange"—suggests that the Free Market exchange resources will allow of imports of production goods, especially if it is borne in mind that part of the exchange obtained from staple exports will also be negotiated on that Market, as likewise the exchange from those exports specifically assigned to the Free Market.

Moreover, by stopping the exchange evasion, which at present occurs, both in the export and the import trades, the tendency will be to reduce the supply now available

What about spare parts.

on the casteline market, thus partly neutralising the effect of the sale of export exchange that is envisaged in this report.

Nevertheless it would be desirable to restrict, at least temporarily, the volume of permits for motor-car imports, in order to introduce production goods, and until such time as the capacity of the Free Market can be ascertained.

These motor-car imports could be restricted by establishing a tax for an amount similar to that of the unjustified profit which now occurs in this market. The proposed tax, however, would be devised for application on a rising scale, the higher rates of levy being proportionately applicable to the more expensive vehicles, the tax thus functioning also as an impost on luxury consumption expenditures of the high income groups. The amount of the tax would undoubtedly have to be very high, but it is pertinent to consider that the profits accruing in the past to those who were able to secure import permits were also high. The difference resides in the fact that, instead of falling into private hands, these profits will now benefit, as should be the case, the community as a whole.

Among the imports of production goods which it is recommended should be made through the Free Market, priority must be given to those required for farming production. The unrestricted import of spares for agricultural machinery might quickly restore the supply situation to normal, without an increase in price in the majority of cases, since, up to now, the cost of these items has been inflated by the intervention of intermediaries despite the preferential exchange rate by which such imports were favoured.

The same might be done in the case of spares for motor lorries, as well as imports of motors therefor, mainly with a view to facilitating the moving of the coming harvest. In the same way imports of other articles contributing to the technical progress of agriculture could be assisted, without prejudice to the adoption of long-term measures. This refers in particular to imports of seed for forage grains and hybrid grain varieties, as well as weed-killers and pest-killers, the importation of which is at present subject to limitations, although the sums involved are not large and despite the desirability that these aids to better production should be available.

Actually Argentina is very far behind the most advanced livestock-raising countries where artificial fodder has considerably increased livestock production per hectare. The Argentine "camp", moreover, figures amongst the "dirtiest" in the world, although generalised recourse to the use of suitable weed-killers could swiftly eliminate the loss of productivity thus occasioned; but this would be only a small beginning in a series of important decisions which the economic recovery programme must include in favour of the agricultural production sector.

The freeing of some of these imports might affect the domestic production of similar articles. The fact that the imports in question would be effected through the Free Market, however, would undoubtedly constitute a sufficient degree of protection for the latter, and this might be reinforced by means of an additional tax, although this should not be of such proportions as to cause prices to exceed their present level. This tax would be established on a temporary basis and would be applicable until such time as a study of the possibilities of national industry could be made, to determine the definite Customs duties required to protect those activities.

In addition to these imports in the Free Market, aimed at favouring farming production, it would be advisable also to liberalise imports of spares for all types of machinery, allowing them to be effected unrestrictedly through this Market. This same measure might be applied, when the capacity of the market is known, to certain items of machinery and equipment, without prejudice to the facilitating of immediate imports in those cases where the alleviation of pressing needs may dictate such a course. The possibility might also be considered of extending those freer importing conditions to certain indispensable raw materials and to newsprint, as has been suggested, independently of the official market quotas.

The foregoing measures are those recommended for prompt adoption. The larger problems of the import trade and its connection with economic development plans, and particularly with the promotion of industry, will be considered in the economic recovery programme.

Capital Goods: Urgent Needs

It will be inferred from the foregoing that it would not be wise to rely on the possibility of effecting immediately through the Free Market, all the imports of capital goods which the country will require in order to avert a deterioration of the present difficult situation and restore the normal balance of economic activity. It will consequently be necessary to consider recourse to foreign credit operations, provided they do not result in an unduly heavy increase in the burden of indebtedness which the country must account for in the next few years.

To this end it will be necessary to consider the imperative need of effecting imports of capital goods for the petroleum industry, the electric power industry and the transport services, without prejudice to the recommendations that may latter be submitted in regard to these matters in the economic recovery programme.

Considering, in the first place, the case of petroleum: in the matter of foreign capital participation it is necessary clearly to distinguish between capital invested under conditions of free competition and the capital investments of large international groups whose influence, in the countries in which they operate, is sometimes inconvenient for the countries concerned. A most open policy vis-a-vis the first type of investment is not incompatible with an attitude of extreme caution towards the second. Until very recently, Argentina's attitude, in this matter of petroleum, has been characterised by this element of caution, and, fortunately, there are no apparent or valid reasons for abandoning it. The prospects for increased oil production would appear to be very favourable, according to the experts of the State Oilfields Department (Y.P.F.). Our oilfields produce some 5,300,000 cubic metres of petroleum and natural gas (oil equivalent), of which 700,000 cubic metres represent the private companies' production, against a total consumption of 13,000,000 cubic metres; but, according to those experts, production could easily be increased by some 5,000,000 cubic metres, including natural gas from Campo Durán. It is estimated that that additional production could be made available by 1958-59, with a consequent saving in foreign exchange of the order of 100 million dollars per annum. It is thus evident that the petroleum problem is not so much one of production as of transport difficulties, which could be remedied by the construction of pipe-lines

for oil and gas. Furthermore, the known reserves are such that, by the end of the present decade the country should be able to produce a quantity equal to its present-day consumption. In the interval, of course, consumption too will have increased, so that it will be necessary to intensify the work of drilling and exploitation.

The programme for speeding up oil production requires heavy capital investments, estimated at some 200 million dollars in respect of imported materials, and involving 3,000 million pesos of local expenditure, at present prices.

As regards the financing of this capital expenditure, it will be necessary in the first place to explore the possibilities of foreign credit, but if it should not be possible to obtain such facilities on convenient interest and repayment terms, or if the prices of the equipment were unduly increased because of the credit, or if the latter entails other disadvantageous terms, I would not hesitate to recommend that, in the prudent utilisation of the country's gold reserves, priority be given to the necessity of meeting this expenditure.

So far as concerns the peso expenditure part of the petroleum development programme, this could be partially covered by the proceeds of the disposal of certain commercial and industrial enterprises which the State has created, or which it has appropriated, and which might be transferred to private ownership, since there is no common weal interest to be served by their continued operation by the State. The latter, however, is certainly and obviously the case with oil. These proposals, however, would, in the normal course of prudent procedure, require to be endorsed by qualified experts before final decisions were taken. I see no difficulty as regards the participation, in the construction of oil and gas pipe-lines, of foreign firms, in addition to national enterprises, since this would come into the first category of foreign capital investment as mentioned above.

In addition to these instances of capital expenditure which must be effected urgently in order to achieve a prompt increase in petroleum production, it will also be necessary to review the possibility of economising in fuel consumption, which appears to be excessive in some cases owing to the obsolescence of the electric generating equipment in use; it will also be necessary to consider the problem of other fuels, especially coal. All this will be dealt with in the economic recovery programme.

As regards electric power supplies, it has been explained elsewhere that the present critical situation will only be possible of alleviation, and even then not to any very marked extent, by the winter of 1957, when production from the San Nicolás plant will be available for Greater Buenos Aires.

In view of this delay, the possibility has been considered of importing generating units to remedy the most urgent needs, mainly in the sphere of industrial activity. In normal circumstances this is not the most advisable solution, but in the present grave crisis the possibilities of such a recourse must be taken into account, although only on the basis of a rigorously selective criterion aimed at obtaining the maximum advantage therefrom.

These expedients will constitute a certain relief in the present situation, but will not provide a solution to the problem of adequate power supplies for Greater Buenos Aires. (To achieve this it will be necessary to increase the capacity of the thermal power-houses, and some years will elapse before the additional capacity can come into production). Actually, should the plans for an expansion of

310,000 kW. in the existing power-houses be promptly approved—after the pertinent legal and financial problems have been settled—it is estimated that an approximate balance between production and consumption would not be attained before 1959-60. To avoid future repetitions of the crisis affecting electric power supplies, it would be advisable to consider forthwith plans for the solution of the supply problem beyond 1960. To that end, three possible alternatives may be considered: an expansion of thermal generating capacity; exploitation of the Salto Grande falls; and the utilisation of nuclear power. These alternatives will be discussed in the report relative to the economic programme.

With reference to the urgent necessity for transport material, it has also been seen elsewhere in this report that considerable sums will be required for the pertinent investments. Import needs for this purpose have been estimated at 1,370 million dollars. In the present situation, of course, that figure seems considerable, and will require careful study within the programme to be prepared. In the meantime, however, there are urgent imports of railway equipment to be considered without delay.

The implementation of these investment plans will call for the negotiation of foreign loans. In this connection there is a point to be cleared up. In the course of the joint discussions with the Advisory Board, which co-operated in the preparation of this report, I have been asked whether the word "loan" would be used in the text.

I see no objection to doing so. Foreign loans, credits, advances and obligations all mean essentially the same thing and differ only according to their distinctive technical features. I must now add that recourse to foreign credit need not affect the dignity or sovereignty of the borrowing country provided those in charge of the negotiations know how to defend those principles should their inviolability be threatened.

In 1950 the country contracted loans with the Export-Import Bank of the United States; not for the purpose of importing capital goods, but in order to meet pending commitments. As regards the International Bank for Reconstruction and Development, Argentina is the only Latin American country which is not a member. This Bank, together with the aforementioned institution, could play an important role in the execution of the economic recovery programme. Membership of the International Bank necessarily involves joining the Monetary Fund. I have been known to criticise the rigid nature of some of the Fund's provisions, and the seemingly unpromising prospects which characterised the earlier stages of the Fund's history. But the experience gained in the past ten years has turned it into a valuable institution from a technical point of view, although its credit-granting powers have proved to be somewhat limited. I consider it advisable that the country should frankly examine the pros and cons of membership of both entities.

It is possible that the urgent need of importing certain capital goods may lead to the conclusion of isolated foreign credit operations, but it would be advisable, as far as may be possible, to wait at least until the main points of the economic recovery programme have been established, in order to avoid a dispersion of effort.

Furthermore, foreign financing arrangements require a careful analysis of the country's foreign payments capacity, and of the possible development of that capacity in the light of the measures that may be taken to encourage exports

and attract private foreign capital, and to place imports on an orderly basis.

This will no doubt be one of the essential points in the negotiation of these foreign credits. And it may also be taken for granted that the success of the negotiations will depend, in considerable measure, on the firmness with which measures to check the course of inflation are applied.

Liberalisation Measures

Among the steps to be taken forthwith, it is necessary that the country should be clearly aware that the Government proposes progressively to dismantle the complicated system of restrictive regulations and bureaucratic intervention which so adversely affects the conduct of economic activities. In this way the State will be able to take a firm grip of the top-level controls, to which reference has been made elsewhere in this report, with a view to the implementation of a soundly conceived economic policy.

Above all it is necessary to restore the fluidity of the production factors in the Argentine "camp." The Rural Rents Law contains beneficial provisions, both from the economic and the social points of view, but experience has shown that it is impaired by a certain rigidity which, without protecting the tenant, actually prevents the efficient employment of the land and has contributed to the neglect of the soil, to the detriment of production. It is essential, at this time, that the country should utilise all available land in the most efficient way possible. To this end, the introduction of a special regime, applicable to "camp" habitually employed in stock-raising and based on a system of rotation, would be desirable.

In addition to the foregoing, there are regulations and practices which prevent the most advantageous utilisation of the labour and equipment available, especially as regards the transport of farm produce. In all this there is no reason to suppose that improved efficiency in production should conflict with the fundamental interests of the workers. It is clearly advisable that careful consideration be given to this matter.

I do not propose to deal here with the subject of the crop marketing system, as this will be considered in the programme in course of preparation. Certain immediate action should be taken, however. Although the actual marketing has been transferred to the National Grain and Elevators Institute, the I.A.P.I. continues to exist as a financing intermediary and as an agency for effecting certain imports. These functions could be returned to private enterprise, while financing, in the limited measure that it might be necessary after the exchange rates have been modified (by which means the main problem will be solved) could be arranged direct with the banks. In taking this decision, it was necessary to consider an apparent I.A.P.I. loss of 7,600 million pesos, a deficit this, however, which cannot be regarded as final as the inventory of the entity in question has not yet been examined.

Apart, moreover, from the direct benefits accruing from the establishment of a new Free Exchange Market, there is an undoubted psychological advantage to be gained from the adoption of this more liberal system. Unfortunately, so long as the balance of overseas payments is characterised by the present structural deficit—as distinct from the deficits of a circumstantial nature which occur in a country whose economy is subject to the influence of continuous fluctuations originating abroad—and the main causes of inflation

are not eliminated, the liberalisation of the Official Exchange Market and the suppression of the import permit system cannot be considered. No doubt, however, the higher rates constitute an important step at this initial stage in the process of progressively normalising the country's import trade.

On the other hand, in the matter of price controls, and so far as may be feasible and advisable, a policy of decontrol should be devised without delay as applying to a number of articles, until such time as the efficacy of the anti-inflationary measures render possible the dismantling of the whole system of such controls.

Whereas in the matter of commodity prices Argentina has followed the same road as other countries that have tried to suppress the consequences of inflation by means of price control measures, with all the distortions and dislocations inherent in that policy, nobody will dispute the originality of the idea of establishing a system of control applicable on the Stock Exchange to the quotations of shares and debentures of private companies. In this the State assumes a grave responsibility which it is not in a position to fulfil, and which there is no reason why it should undertake at all. There are other ways of encouraging private enterprise that are less exposed to speculative manoeuvres and machinations. The Minister of Finance has adopted the commendable course of leaving share prices free to find their proper level. There is, therefore, no reason why I.M.I.M. should continue to exist as a regulator of the Stock Exchange, although this does not mean that it should abandon that aspect of its functions which relates to the encouragement of savings and their investment; nor should the shares it holds be liquidated to the detriment of the market's stability. However, it will be necessary, in this respect, to proceed with caution and only on the basis of a careful study of the situation.

These are the first liberalisation measures which will have to be considered within the series of provisions for early adoption which we recommend. But this is only a beginning in the task of getting rid of this type of official intervention. In the national recovery programme subsequent steps will be proposed for the progressive attainment of this end in the measure that the normal functioning of the economy can be progressively restored.

The Anti-Inflationary Policy

When discussing in a previous chapter the need for raising the exchange rates to a level more in consonance with present-day reality, the possible effect of this adjustment on internal prices was not considered. Obviously, the prices of imported articles will have to rise, although not to the same extent as the increase in the rates. It is recognised that, so far as concerns a substantial proportion of imported articles, prices are far higher than is justified by the preferential exchange rate at which they were imported. Consequently the raising of the exchange rate will only have the effect, in such cases, of reducing the inordinately heavy profits of specially favoured importers and intermediaries—a scarcely undesirable effect.

As regards other imported articles, the raising of the exchange rates must undoubtedly result in higher prices. This is inevitable. As mentioned elsewhere in this report, it is an illusion to think that the artificial over-valuation of the exchange rates can ever be the means to maintain the stability of prices to the consumer. It has been seen that

this over-valuation is responsible for the deficit in the negotiation of the crops. This deficit must be covered through an increase in the money supply which results from the expansion of bank credit, and it is this inflationary financing that causes prices to rise. The price rise could only be avoided if the deficit in question were covered by the proceeds of taxation; but this recourse must be ruled out in the present Argentine situation.

The rise in internal prices is therefore inevitable in one form or another. But the adjustment of the exchange rates is undoubtedly the preferable method. This adjustment will allow the prices of farm products to be raised, thus furnishing the Argentine farm economy with the strong incentive needed to promote the maximum use of its considerable production potential. On the other hand, the price rise occasioned by the inflationary expansion of the money supply does not favour agricultural producers; it increases all other prices including, of course, those the farmer must pay for his supplies. Unfortunately, the effect of the exchange adjustment will be to raise internal prices, in the case of a number of articles of export trade significance, including some that are in popular demand.

In this problem, I am aware of social and political considerations which cannot be ignored. But the value of this report, such as it is, consists in the presentation, in an objective manner, of the exclusively economic aspect of the problem, which, however, does not mean that this aspect should of necessity prevail over others in the counsels of the authorities. I would only emphasise that any attempt to prevent the direct rise in prices resulting from the adjustment of the exchange rates would be promptly thwarted by the indirect increase which would inevitably supervene as a result of the inflationary consequences of the deficit created by the artificial over-valuation of those rates.

This is one of the most critical problems created by the erroneous direction of the country's economic policy. Agricultural production has been sacrificed in the interests of the consumer and the policy has defeated its purpose; resulting as it did in a severe curtailment of the capacity to import, it deprived the country of the means of obtaining the machinery and equipment it needed, and vis-a-vis internal production possibilities, the consumer demand has been proving insatiable. The most serious aspect of the problem lies in the fact that, in order to encourage rural production it has been rendered indispensably necessary to face a temporary and moderate reduction in urban consumption, regrettable though this is. It is the inevitable price that the country must pay now in order to enjoy in the future an increasing flow of consumer goods.

The expansion of production implies the need for capital goods, and those goods have to be imported; alternatively, capital equipment has to be imported in order to manufacture locally the capital goods required. This will not be possible in the period ahead; nor will recourse to foreign credit be practicable unless agricultural production is strongly stimulated with a view to restoring the country's former import trading capacity.

In other words, a moderate increase in internal prices, resulting from the measures proposed, is the only means of transferring to the rural production sector the higher real income by means of which an increase in production can be achieved. In order that this incentive shall produce the desired effects, its application must be sustained. If it should diminish or fall away within a short time of its

application, the success of the policy would be jeopardised, with grave consequences for the country. This is not a remote possibility. The danger is a real one, and it is advisable to avert it decisively.

Actually, the inflationary spiral relating to costs and prices, which appeared to have been checked before the all-round increases in wages and salaries granted in March, 1954, has been resumed; it has been seen that the higher level of prices does not, on the general reckoning, seem to have reduced the real income of the workers, although this has occurred in certain sectors of the economy, and especially so as affecting certain sectors of middleclass employment, and rural producers. If, in order to offset the effects of these higher prices, and those which are bound to occur as a result of the adjustment of the exchange rates, general increases in wages and salaries were to be granted, further price rises would not be slow in materialising, thus materially stimulating the inflationary spiral. This is the typical pattern of cost inflation, which tends to become progressively more serious as wage and salary increases become more frequent and the groups which temporarily benefit thereby are more numerically important. The Chilean experience of inflation is an instructive object lesson.

The most serious aspect in all this is that if internal prices were again to rise because of an all-round increase in wages and salaries, agricultural production would again be discouraged by the erosion of the incentive extended to it.

Such is the lamentable state of affairs Argentina has reached, from the social point of view. Numerically important sectors of the population are demanding immediate increases, which cannot be granted because real income per inhabitant has scarcely increased at all, as already pointed out. Not all social sectors of the population, however, are equally affected by the inflationary threat. And it will be necessary to make partial adjustments in wages and salaries to remedy the situation of groups which are relatively less advantageously placed vis-a-vis the inflationary process. In the case of those groups whose position is still satisfactory the granting of further increases in wages and salaries will only be possible in the measure that they can be met out of profits or the proceeds of increased productivity. This will have to be the subject of study immediately on the lines of the analysis referred to in Chapter III. (p. 6-7)

The adjustment of wages and salaries in the case of those groups where this may be necessary, will also result in increases although not with the same intensity as that which an all-round revision would produce. Some of these increases, moreover, may be compensated; others not. As the object of the increases proposed is to cause a transfer of real income analogous to that required also by the agricultural producer, they must, of necessity, be effected at the expense of other more favoured groups.

On the other hand, the proceeds of the marginal retentions which, for the time being, will accrue from the modification of the exchange rates, may be used, as already suggested, to ameliorate the more acute situations of difficulty created by rising prices until such time as increased productivity obviates the necessity for such action.

The conclusion to be drawn from the foregoing is clear enough: in order to reactivate agricultural production—without which the economy cannot be restored—and to remedy the situation of the less favoured groups, certain sacrifices of a collective nature are necessary. These, however, will diminish as productivity increases. The higher-income groups particularly must bear their fair share of these sacrifices.

In the first place, the proposed exchange reform measures will have the effect of rapidly extirpating all sources of illicit profit, which the ruling system favoured, to the benefit of small groups. The success of the anti-inflationary measures will also mean the disappearance of the excessive profits which inflation rendered possible in certain sectors of economic activity, although latterly these may have been less substantial than in previous years.

In addition, the heavy tax to be applied to motor-car imports will also affect the high-income groups. But this will not solve the problem by itself, since the measure in question is limited in its effects to special sectors. It is also essential that, in the present emergency, the other sectors of the high-income division, whose revenue is obtained from normal economic activities, shall contribute. This falls, of course, within the scope of the tax system, and to that end two types of measures are proposed: the tax on motor-cars, and an increased rate of tax applicable to that part of income which is applied to consumption, above certain levels.

In this connection it may be convenient to consider the practicability of making a distinction, in the application of the income tax law, between the taxation of income that is consumed and that portion which is saved; the former following a progressively rising scale and, in the latter case, a diminishing scale, designed to encourage investment.

For this purpose it will probably be necessary to reorganise the tax gathering mechanism, which in any case appears to be seriously disorganised.

I am not of the opinion, however, that there should be a general increase in taxation, the burden of which is already excessive. What is required is a better collecting system and an adjustment of the incidence.

It is considered that tax evasion has reached serious proportions, and vigorous measures will have to be devised for dealing with this.

Concern must also be felt over the retrogressive trend apparent in the Argentine taxation system as shown by the substantial proceeds of the sales tax, the levy of which bears heavily on the small consumer. Actually, the proportion of taxes on consumption, which ten years ago accounted for 39 per cent. of total revenue, has now reached 46 per cent. Thus, the more enlightened practices in this respect, which had commenced in this country with the introduction of the income tax, have received a setback. Further evidence of this retrograde trend in taxation matters is seen in the procedure applicable to shares, under which income from this source escapes progressive taxation under the income tax regulations while the income of small *rentiers* is taxed in excess of what their liability should be according to their income.

Although it is not deemed advisable to increase the burden of taxation, neither, at the present time, can there be any question of lightening it. Until the inflationary process has been extirpated, any general reduction in taxation would be unwise. It is true that inflation, in its monetary aspect, is not being caused by a Budget deficit, this having been covered by means of the bonds absorbed by the Pension Funds; but, as has already been mentioned, the State still has to cover the considerable deficit occasioned by its commercial and economic activities.

The magnitude and composition of this deficit has been indicated elsewhere in this report. It will be recalled that some 4,000 million pesos of it is accounted for by dealings in farm produce financed by I.A.P.I.; this deficit will be eliminated with the modification of the exchange rates. As regards the deficit of 2,000 million pesos on the operation

of the transport system, it will not be possible to deal with this immediately, since it will be necessary first to make a thorough study of the problem in order to recommend an adequate solution. Finally, there remains the financing of mortgage credit operations; until *cédulas* can again be issued these operations may be financed by means of bonds issued by the new Pension Funds, the contributions of which, estimated at some 2,500 million pesos, would furnish a substantial part of the resources needed.

As regards other mortgage credit financing, recourse may be had to the placing of bonds with other Pension Funds, to the extent that savings in Government expenditure may render this practicable, for it would not be advisable to diminish mortgage credit operations, in view of the gravity of the housing shortage and the adverse economic and social effects that such a reduction would cause.

By those means the expansion of credit of an inflationary nature could be considerably reduced, although, admittedly, the far more difficult problem of the transport deficit would remain in being. This deficit will be increased by the higher cost of fuel resulting from the raising of the exchange rates. The proceeds of the tax on motor-car imports to which reference has already been made, might perhaps be used to cover this deficit. In addition, certain pressing capitalisation needs, such as those relating to petroleum transport, and a variety of private enterprise investments will involve recourse to bank credit. On the other hand, there are factors which make for the marginal absorption of the money supply and which would counter-act the effects of an increase therein. And if the total national income continues to expand, at least at the same rates as the population, a certain proportion of the increase in the money supply will be absorbed by the currency needs of the public, without inflationary effects. All of which warrants the belief that if the anti-inflationary measures mentioned are adopted, and the expansion of credit to finance budgetary deficits is avoided, the problem of inflation, in its monetary context, is controllable. It should thus be possible successfully to check the inflationary process, always provided new pressures of a cost-inflation nature can be avoided. Therein lies the importance of a policy of cautious restraint in the matter of wages and salaries.

So far as State expenditure is concerned, the problem is not one of an inflationary nature, as has been explained elsewhere in this report.

Undoubtedly there is scope for effecting economies in public expenditure and it is certain that a careful analysis of the present position might reveal possibilities of substantial cuts, especially as regards outlays for purchases of goods. In the matter of personnel, although the number may be excessive, recourse to wholesale dismissals is not to be thought of as a possible solution. This could have undesirable repercussions as the country lacks the means to absorb large numbers of unemployed.

The solution in this case will have to be of a gradual nature, and the mere fact of not filling vacancies in the public service as they occur, will itself represent a substantial saving. This margin of saving, added to that which will be gradually achieved by reducing personnel and cutting down on other expenditure, might be used in the first place to improve rates of pay in those sectors of the Administration service where the personnel have been most adversely affected by the inflationary process.

The anti-inflationary measures advocated comprise, on the one hand, resolute action aimed at combating the typical cost-inflation spiral, and on the other, the need for progres-

sively reducing the creation of new money through State operations. It will have been observed that the recommendations conspicuously refrain from the advocacy of measures that might involve a contraction of economic activity in general, or result in a weakening of the country's industrial economy to the point of provoking unemployment. I do not consider that this is essential—nor would it be desirable—for curbing the inflationary process. Moreover the experience of other Latin American countries has shown that recourse to action on those lines ends inevitably in a new bout of inflation, because of the economic and social consequences of the steps taken.

The Productivity Problem

The foregoing considerations prompt certain observations on the productivity problem—a far from simple problem. It is not enough to achieve a greater output per worker in the factories, on the land, or in the transport services, by the use of better methods. Increased production necessarily creates surplus personnel; in some cases the latter may increase production in the trades in which they are already working, but in other cases they will have to move to other activities. These changes usually take place without undue difficulty in a dynamic economy, as new employment outlets are constantly being created and existing activities expand.

But such is not the case at present in the Argentine economy, due both to the electric power deficit and the shortage of foreign exchange for imports of capital goods. Until these two obstacles have been removed, the practical opportunities for increasing productivity, when such an increase would throw people out of employment, are limited. This, however, does not mean that such opportunities will not appear. The construction of oil and gas pipe-lines, to which reference has already been made; the establishment of new manufacturing industries to replace imports, the execution of public works which do not require a high proportion of imported materials, housing construction (albeit on a scale commensurate with the need to avoid inflationary excess), and, finally, the demand for certain types of labour for farming activities, all suggest ways which redundant labour may be absorbed. But, for the solution of this problem on the scale which the recovery of Argentina's economy requires, the country will first have to emerge from the grave predicament in which it is placed by reason of the electric power shortage and the impairment of its capacity for foreign payments.

In the measure that this is achieved, opportunities will occur for dealing resolutely with the productivity problem. For the reasons given, we should be on our guard against the advocacy of seemingly simple solutions. Mass dismissals, apart from the consequences of another nature which they entail, are not an advisable recourse, even from a strictly economic standpoint, because of the unfavourable repercussions they would provoke in an economy seriously impaired in its development possibilities as is Argentina's economy today. Only the full restoration of the dynamic factors of the economy will enable the country to face the essential problem of productivity in all its magnitude and complexity. This will be the subject of a further study, dealing with all aspects of the economic recovery programme.

V - The Economic Recovery Programme

In this report, certain measures for immediate application have been proposed for dealing with the difficult situation at present obtaining, and on various occasions mention has

been made of the need for an economic recovery programme. This does not mean that it will be necessary to wait until such a programme has been fully drawn up before the emergency measures can be followed by others for which there is a pressing need. Among the latter, it will be necessary to adopt decisions at the shortest possible notice with regard to projects which are already in an advanced stage of execution, and others which have already been approved but the execution of which would involve a considerable expenditure of foreign exchange.

In view of the remarks included in another chapter, it is scarcely necessary to say that the steel mill project deserves special attention, especially when it is considered that there is a definite possibility that a substantial credit towards its execution, may be available from the Export-Import Bank of the United States Government.

Other projects will have to be closely and urgently analysed, in the light of the present Argentine economic situation and taking into account their incidence, present and future, on the country's balance of payments. In any case in these, as in other projects, an attempt must be made to ensure favourable and convenient conditions for all who desire to participate, and at the same time it will be necessary to avoid the fiction to the effect that the profits obtained within the country by the beneficiaries of import exchange permits may be considered as an investment of foreign capital.

If I mention these projects here it is because they are closely linked with the recovery programme. This programme must take into account the needs of the national economy as a whole, and consider both action by the State and the steps that the latter should take to encourage private enterprise, creating favourable conditions for the achievement of certain fundamental objectives. But efforts must be concentrated on agricultural production, electric power production, transport, the substitution of certain imports, and a dwelling-house construction programme, all of which will require a considerable technical effort and substantial investment. The country should employ its best technicians in these undertakings; and if the supply is inadequate to the need, additional technicians should be trained. In the meantime advantage should be taken of foreign expertise.

It will also be necessary to reorganise the State services relating to these matters, and if this involves additional expenditure, the extra expense must be incurred without hesitation, provided the money is wisely disbursed and is used for the attainment of clearly defined objectives.

As regards the investments that will have to be made, and the large imports of machinery and equipment which will be necessary, I do not believe that, at the present time, these can be effected with the country's own means. Ten years ago, when Argentina had emerged from the world war with considerable resources, and with a valuable industrial experience, it might have been thought that, within a few years, through a wise industrialisation policy and the technical development of her agriculture, this country would be able to achieve a domestic savings capacity and a favourable foreign payments situation which would render possible a high rate of growth without any need of further contributions of foreign capital on any large scale.

This possibility has again receded from the Argentine economic prospect, however, and a considerable number of years will have to elapse before it can be expected of Argentina's economy that the problems of the country's economic development can be solved with its own capital resources.

Nothing about unwillingness of labor to increase productivity

The foreign capital problem thus presents itself in terms that must be clearly set before public opinion. Three aspects must be considered: the first concerns the unavoidable necessity, at the present time, of having recourse to foreign capital in order to cover the most pressing imports of capital goods; there is no other alternative if the country is to emerge from the present grave crisis. The second aspect relates to the economic recovery programme and consists in deciding whether foreign capital is to be used or not; the country may follow either of two roads: restrict itself to a programme of limited scope and volume which can be carried out solely with its own resources, but which would solve none of its fundamental development problems; or deal vigorously with the correction of the great structural defects of the economy.

The third aspect to the subsequent stage, after economic recovery has been achieved. After some years of restraint and judicious progress, the country, in order to speed up its rate of growth, might again be faced with the alternative of increasing its rate of capitalisation by means of an increase in internal savings, or instead of making this additional domestic effort, of resorting once more to foreign capital assistance. The country will then have arrived at the position which it had almost attained at the end of the war. But

these are scarcely the terms of the problem at the present time.

These are the grave problems which today afflict Argentina's economy and which are seriously hindering the rate of its growth. The country possesses enormous reserves of vitality with which to overcome them, but it must first discard the dangerous illusion that this can be done on a re-distribution basis. It is not by altering the distribution of the little that is produced that the standard of living of the Argentine masses can be continuously raised; but through increasing production by means of a vigorous and sustained effort.

That effort cannot be dispensed with; if it is not made, it will not be possible to maintain the full reality of the social gains of the past nor to expand their scope.

If the country understands this, it may rely confidently on its powers of recovery.

I have waited many years for the opportunity of again serving my country worthily, within my limited powers. Y. E. has now afforded me that opportunity and so given me an added reason to be sincerely grateful for the high honour you have done me in requesting my collaboration.

(Signed) RAUL PREBISCH

October 24, 1955.

Reprinted from NOTES ON NEWS

Tanglefoot Tale

The complexity and vicious intractability of the economic crisis which the Provisional Government inherited from the deposed regime is revealingly indicated in a single paragraph of the Prebisch Report which reads: "Firstly it is not possible [meantime] to expand imports of the raw materials and fuel which a more active rate of production requires; secondly, this more active rate of production also requires imports of machinery and equipment, but the country's precarious exchange situation prevents the granting of licences for the importation of such capital goods; thirdly, even if it were possible to import those capital goods in the quantities required, such is the seriousness of the power crisis that there would be no electricity to drive the motors, and fourthly, even if production could be expanded, such is the degree of decapitalisation afflicting the transport system that it would probably be impossible to move it [to the ports and centres of consumption]. Excessive consumption has thus also taken place at the expense of basic investment." A paragraph in General Lonardi's address supplements this desolate picture when, referring to the consequences of "ten years of irresponsibility and corruption," he said: "Under the impulse of some incredible folly [the country] has been consuming more than it has been producing, it has spent its monetary reserves, and has been living partly out of capital, it has accumulated a heavy internal deficit which has raised the public debt to unheard of figures, while the overseas deficit has resulted in the accumulation of a disquieting mass of indebtedness with foreign countries."

In another paragraph the President said that one of the most serious aspects of the situation revealed by Dr. Prebisch's report resided in the fact that, the "per

capita" rate of production had increased by only an insignificant margin (3.5 per cent.) in the past decade, indicating the "entirely fictitious foundation" on which the much vaunted social benefits of the previous regime rested. As the pertinent section of the Prebisch Report shows irrefutably, and as the President emphasised, the benefits enjoyed by some sectors of the community have been obtained at the expense of others. There was a touch of wry humour in General Lonardi's address, at this stage, when he said: "I do not deny that, within this illusion of prosperity, there is evidence that positive material progress has been made: there are those who, although formerly they had very little, today possess vast fortunes of questionable origin."

Programme of Reforms

The text of Dr. Prebisch's report on the general economic situation of the country (Part One) will be found, in an English translation, elsewhere in this issue. The second part of the report outlines the steps to be taken for dealing with the crisis. These will comprise two phases: a plan of immediate action designed to stimulate the primary production sector of the economy with a view to progressively improving its technical and economic efficiency, but primarily and in the meantime, of restoring export trading capacity and the level of the country's foreign income in order to relieve pressure on the highly precarious overseas payments position. Beyond these immediate steps, the principal feature of which is the reform of the exchange system, involving a devaluation of the peso in line with present-day national economic realities, there will be a programme of long-term action aimed at correcting the present distortions and deformities of the economic structure and

restoring its various components to full functional vigour and co-ordinated efficiency.

A measure of the recession characterising the export trading capacity of the country today is seen in the fact that, during the 1950-54 five-year period, the physical volume of exports was only 64 per cent. of the comparable figure for the five-years preceding the war. On a "per capita" reckoning this comparison is of course still more adverse: the average per inhabitant of export volume before the war was double the present-day figure.

The seriousness of this situation and of the foreign payments crisis which it has provoked, is reflected in what of necessity must be the pattern of trade for the coming year. Current exchange income, i.e. exchange earnings from the export trade in staple commodities, will have to be applied exclusively to the importation of essential raw materials, fuel and special consumer items such as medicinal and pharmaceutical products. Despite the country's desperate need of machinery, spares and capital equipment of all kinds, especially for transport services, petroleum production, agriculture, etc., the exchange budget for 1956 cannot provide for these, and the most indispensably urgent of them will have to be imported through the new free exchange market, or by means of foreign credit assistance. In the latter event, however, care will be called for to ensure that the future balance of payments position is not inconveniently mortgaged by the assumption of too heavy a burden of short-term indebtedness resulting from these credit arrangements as, for example, developed under the operation of the deposed regime's plan for deferred-payment imports of capital goods. It appears that other production goods and commodities, e.g. fertilisers, insecticides and weed-killer preparations for agricultural use will also have to be imported through the new Free Exchange Market, no doubt at rates of exchange which, to begin with at least, will probably be on a par with those hitherto ruling in the black market, now happily superseded. In such cases, however, provision is to be made for a compensating subsidy benefiting the user of such products.

Facing Facts

On Wednesday last the Argentine people were told, in the course of a nation-wide wireless broadcast, by the President of the Republic, the grim contents of the Prebisch Report on the economic situation of the country at the time the Provisional Government assumed

office last month. Public interest in the President's address had been heightened by the fact that it was the first statement from him on economic matters, as also because scraps of advance information on its contents that had begun to leak out during the week clearly indicated that the statement would reveal a situation of dramatic and almost insuperable difficulty. Moreover, earlier indications that had been published regarding the scale and earnestness of purpose with which highly-placed members of the deposed regime had been looking after their private interests during their tenure of high office warranted the assumption that their handling of the affairs of State must have been deficient in the extreme.

"The whole country," the President said, "had a foreboding of these truths (he was referring to the results of what he called "ten years of irresponsibility and corruption"); with a sound instinct perceived that the sustained mystification of the propaganda machine was designed to conceal something serious; that the facts of a profoundly adverse state of affairs were being hidden from public knowledge. People saw that no sooner were wages and salaries increased than the increase was swallowed up by still higher prices. Those evils were seen and felt, but people did not comprehend their nature nor suspect their magnitude."

So far as concerns the mass of the people, who for years have had access to no other information than that purveyed by the "Peronista" Press, the President's statement on the gravity of the country's economic plight must have come as a bewildering surprise. Regular readers of this journal, on the other hand, will doubtless have received the bad news with a certain fortitude born of the foreknowledge they must have gleaned from our columns of recent years. Only too often, unfortunately, it was of necessity required of them that they should read between as well as on the lines, an exercise, however, in which a high proportion of them must have acquired considerable proficiency if we may judge by the scarcely enviable reputation which latterly we gained as the most sepulchral of the prophets of gloom. We are satisfied now that the reputation was well earned in a good cause, although we could have wished that the reality of the situation as now presented by the President, on the basis of Dr. Raúl Prebisch's masterly diagnosis, might have been less, instead of even more, sepulchral than our gloomiest lucubrations had ever dared to suggest.



*After return from me to my
arg. file*

Office Memorandum

Return to R

TO : Mr. Ivar Rooth

DATE: November 7, 1955

FROM : Julio González del Solar *González*

SUBJECT: Argentina: Dr. Prebisch recommends that Argentina consider frankly the pros and cons of joining the IMF and IBRD

We now have the full text of Dr. Prebisch's economic report to the new Argentine Government, as published in the Argentine press. A summary of this report is being prepared. However, it may be of immediate interest that the report contains a recommendation concerning Argentina's entry into the IBRD and IMF.

The full text of the paragraph in Dr. Prebisch's economic report which relates to this matter is as follows:

"Argentina negotiated loans with the Export-Import Bank of the United States in 1950, but these loans have been used to pay commercial arrears and not to finance capital goods imports. In relation to the International Bank for Reconstruction and Development, Argentina is the only Latin American country that is not a member. This Bank, jointly with the other institution, could play an important role in the financing of the recovery program. However, to join the International Bank means that it is necessary also to join the International Monetary Fund. I have criticized in the past the rigidity of certain rules and the lack of real perspective that the Fund has had in its early period. On the other hand, the experience of ten years has made this institution valuable from the technical point of view, although its credit facilities have proved to be rather limited. I believe that it is convenient for this country to appraise frankly the reasons for and against joining both institutions."

Argentina

New York Times

Nov. 18, 1955

This morning, the new Government swore in three ministers. Dr. Eduardo Busso, whose dismissal by the Lonardi Government touched off that regime's downfall, was reinstated as Minister of Interior and temporarily as Minister of Justice. Dr. Luis A. Podesta Costa was named to succeed Mario Amadeo as Foreign Minister, and Navy Commodore Sadi Bonnet was sworn in to succeed General Uranga as Minister of Transport.

Tonight, Pedro Mendiondo, an engineer, was sworn in as Minister of Public Works. Dr. Eugenio A. Blanco as Minister of Treasury, Dr. Juan Llamazas as Minister of Commerce and Dr. Manuel Agustin Argibay Molina as Minister of Health. Dr. Julio Alizon Garcia continued as Minister of Finance and Dr. Raul Prebisch will continue as the nation's economic adviser.



Office Memorandum

R

TO : The Managing Director

DATE: November 8, 1955

FROM : Julio González del Solar

G. del Solar

Confidential

SUBJECT: Argentina

I have learned that the U.S. mission going to Latin America will leave Washington around November 16 and will visit Colombia, Ecuador, Peru, Bolivia, Chile, and Argentina. The mission will be in Buenos Aires from noon, November 30, until the evening of December 2, and will be composed of about fifteen persons (including the wives of three officers). The Eximbank will be represented by Messrs. Waugh and Sauer, and the State Department by Mr. Holland and Mr. Corbett. The group will also include high officers of the Army and the Navy.

I have also learned confidentially that Mr. Cesar Bunge, Minister of Commerce of Argentina, has arrived in Washington for a brief visit of two or three days in a purely personal capacity. Until three months ago, Mr. Bunge was Financial Attache to the Argentine Embassy in Washington and resigned his position when Peron broke relations with the Vatican and began his attacks against the Catholic Church. It is understood that Mr. Bunge's trip to Washington is connected with the dismantling of his previous household and has no official connections. In my opinion, however, it is likely that he will undertake to contact some high U.S. Government officers on a very discreet basis.

To Arg. files ^{Preservation copy} Return to R

20. Mr. Prebisch
935-

- a i -

ARGENTINA

Oct 28, 1955

ADVANCE REPORT ON PREBISCH PLAN REVEALED

IRS Buenos Aires, in Spanish to Argentina, Oct 28, 1955, 0001 GMT--W

(Text)

Because we consider this a matter of great importance, we have prepared, particularly for you, an advance report of the basic points of the second part of the report of Dr. Raul Prebisch on the ways and means to save the economic situation of Argentina from disaster

- 1--No mass dismissals, but also no filling of vacancies.
- 2--Elimination of the Argentine Trade Promotion Institute--IAPI
- 3--Increase of exports, particularly of industrial products
- 4--Restriction of the imports of automobiles
- 5--Increase of the petroleum output from the current production of 5.3 million cubic meters to 10 million cubic meters in 1958, which would make possible savings totaling 100 million dollars per year.
- 6--Reestablishment of the free exchange market under Government control until the factors responsible for inflation have been removed
- 7--Adaptation of a new and more realistic exchange rate for imports.
- 8--Elimination of bilateral and deferred payment agreements.
- 9--Greater incentives for farm and livestock production.
- 10--Gradual elimination of the system of Government intervention.
- 11--Investment of 1,370,000,000 (pesos?) in transportation
- 12--Neither increase nor reduction of taxes.

NEW ARGENTINE EXCHANGE REGULATIONS

Q

contain

capital flight

1. A free exchange market has been established through which financial transfers and other remittances of funds can be made without prior authorization of the Central Bank of Argentina at rates agreed upon between buyers and sellers.
2. The funds, investments and other assets in Argentina in the name of foreign holders will remain under control until the situation allows their gradual release. An exception to this rule is made in the case of profits earned from such assets after June 30, 1955. These earnings may be reinvested or transferred abroad through the free exchange market without previous authorization of the Central Bank.
3. The exchange derived from the export of certain products must be negotiated in the free exchange market and also certain imports will be paid for with exchange purchased in the same market. The lists containing such products have not yet been compiled.
4. A uniform single buying and selling rate of exchange of 18 pesos to the dollar or its equivalent in other currencies has been established for the official market.
5. The merchandise that is imported with permits issued at the exchange rates in effect until October 27, will pay a surcharge equivalent to the cost and freight value of the merchandise and the figure arrived at by applying the new rates of exchange. Imports of fuels are excluded from the above requirement. The proceeds of this surcharge will be deposited in a special account called "Fund for the Recovery of the National Economy."
6. At the time when the exchange derived from the exports is liquidated, up to 25% of the amount in pesos will be withheld. Such withholdings will be deposited in the special account referred to in point 5. The amount to be withheld will vary in accordance to the product involved. The list indicating the percentages to be withheld has not been compiled yet.
7. Imports which have to be paid through the free exchange market are subject to the payment of a surcharge which has yet to be established. The proceeds of these surcharges will also be deposited in the special account mentioned in point 5.
8. The proceeds of the "Fund for the Recovery of the National Economy" will be used for technological and economic development of agricultural and live-stock production and for the payment of temporary subsidies to be established to cushion the eventual impact of prices on the cost of living.

all exports?

November 1, 1955



ALTERNATE
EXECUTIVE DIRECTOR

INTERNATIONAL MONETARY FUND
WASHINGTON 25, D.C.

CABLE ADDRESS
INTERFUND

January 23, 1956

Mr. Ivar Rooth
Managing Director
International Monetary Fund
Washington 25, D. C.

Dear Mr. Rooth:

You may be interested in the attached article by Mr. Hermann J. Abs in which he expresses concern at the action taken by the Argentine Government in blocking the property of a great number of foreign firms and individuals. Such action, Mr. Abs fears, highlights the dangers to which private capital continues to be exposed in foreign countries, a condition which is anything but conducive to promoting a larger flow of private capital into underdeveloped areas.

To meet such dangers Mr. Abs has suggested, among others, the idea of creating a Magna Charta for the protection of private property abroad. It is my understanding in the matter that steps already have been taken in Western Germany to foster this idea through organizational efforts.

Sincerely yours,

Otto Donner
Alternate Executive Director
for Germany

Attachment

B A D E X A M P L E S

by Hermann J. ABS, Frankfurt/Main

From No. 51/52 of "Der Volkswirt",
Wirtschafts- und Finanzzeitung, Frankfurt/Main,
Issue of December 24, 1955

A few days ago, the news that the Argentine Government has temporarily blocked the property of a great number of foreign firms and persons caused a sensation in Germany as well as all over the world. These news have certainly not failed to impress industries and credit institutions holding capital investments abroad or having granted credits and loans abroad. The Government apparently explains these measures by asserting that property is involved which has been acquired unlawfully. According to information available the blocking has affected large German firms like Bosch, Daimler Benz, Siemens & Halske, Borgward, Klöckner-Humboldt-Deutz as well as foreign companies like the Italian motor car manufacturers Alfa Romeo and the American television firm Capehart. The blocking is said to affect altogether the property of more than 200 individual persons and 75 firms.

By a dash of pen

If the Argentine Government is of the opinion that this property in fact has been acquired unlawfully then the only right course to take in accordance with internationally recognized principles on the protection and treatment of private property would have been to conduct the necessary investigations for each case individually by way of a proper legal action at the same time hearing the proprietors concerned as to the accusations raised. Only in case it had been proved beyond any doubt that the property was acquired unlawfully - i.e. in violation of the laws of the country - the Government would have been in its right when taking action against those concerned, this of course, under due consideration of the limits set by law. The Argentine Government has not followed that way.

To the contrary - without taking the care of conducting a proper legal investigation - it has collectively blocked the property of firms and of individual persons by a dash of pen. More than that, reversing the usual burden of proof, it has charged those concerned to furnish evi-

dence of the legal acquisition of their property. Finally, it was decreed that the property will be seized in favour of the Argentine State in case such evidence is not furnished.

The fact that among the enterprises affected there are firms of a world-wide reputation should without further evidence show that there can be no question of having unlawfully acquired the property. All the more so the Argentine action can be labelled only as an arbitrary act the motives of which are all too clear.

The blocking of property as decreed by the Argentine Government represents - although under a different pretext - a further link in the chain of those measures which other states have taken in respect of foreign property especially after the last war. Last but not least we remember the confiscatory action of the Government of Guatemala brought against the United Fruit Corporation and the nationalization of the Anglo-Iranian Oil Company.

Concern over the protection of the private property

During the US-German negotiations on the release of German property vested during World War II and in later talks and publications the writer of this article has repeatedly pointed out that the policy of seizing and confiscating former enemy private property - as it is still being exercised long after the end of the War - considerably encourages other states, yes, even invites them, to infringe on foreign property under the pretext of some given reason. The underlying motive for that argument was not to find further support for the request of restituting confiscated German property. More than that it was concern over the protection of private property quite generally, which protection, especially after the last War, has become more and more weakened in consequence of numerous measures of public authorities all over the world. It was the concern of the writer who adheres to the principle of private initiative and of the sanctity of individual rights to demonstrate to the free Western world by a splendid example that it will destroy its own basic views and finally itself if it does not resolve to adhere uncompromisingly to the very principles which are continuously proclaimed in fighting the East.

Mr. Dulles warns:

Experience shows that the argument as set out above cannot just be labelled as a mere theory. It is a fact that the powerful who deviate in a principal question from the path of law must expect that others will follow that example when the opportunity arises. The American Secretary of State, Mr. John Foster Dulles, who, as an experienced lawyer, had already recognized during the negotiations in Versailles on German foreign property the risks inherent to a violation of legal principles, in 1954 well remembered his experiences when the American Senate discussed the return of German pre-war property. He said:

"I recognize that there is force in what you say to the fact that our own position to protect American interests abroad is strengthened if we protect foreign interests that are here. I would think that in an area where we expect the American interest abroad, American capital investments abroad, that it is wise for us to adhere ourselves strenuously to the highest standard of conduct in relation to those matters, that puts us in a better position to call upon others to apply the same standards."

When judging on that question Mr. Dulles clearly perceived that the confiscation of "enemy" private property may be a measure of security justified in war time, that however, its purpose becomes void after relations between victor and vanquished have been normalized again, and that by no means lawfully acquired property may be used to meet obligations incurred by somebody else, even if it is the former "enemy" state itself.

A surprising statement

Unfortunately, the American Secretary of State did not succeed in prevailing against those forces which on account of specific interests pleaded against terminating the confiscation and for an ultimate expropriation of former "enemy" private property.

There was, therefore, no need to be a prophet when one saw new dangers arising on the horizon for the continuity of the basic legal principles of the Western world and consequently for the protection of private foreign investments.

Bad examples spoil good manners. The dangers referred to above are even more imminent if persons of influence in the Western World declare in public that a principle of the sanctity of private property does not really exist. So, Mr. Dulles Townsend, Director of the American Office of Alien Property, during the hearings on a bill calling for the return of German private property, declared on 11th July this year: "You hear a lot of nonsense about the sanctity of property as such. As a matter of fact property as such does not have any sanctity. . . . Only the right to hold property is protected in the Constitution." When Mr. Townsend made this statement he managed to obscure the fact that in case property is seized by the State, this State is bound by constitution to grant the proprietor adequate compensation.

Whose turn tomorrow?

Whilst up to the present time some circles, especially those not immediately affected by seizures, in many cases showed a certain reserved attitude towards the endeavours to bring about the return of vested German property, this attitude decisively changed once the Austrian Treaty had been ratified, a treaty which one cannot but label as a - late - fruit of the confiscation policy of the former German adversaries. The blocking of property in Argentine has affected a further group of enterprises, some of which never before have owned any property abroad. The property affected are investments made long after the War. Not only German but to a far larger extent American corporations and enterprises of other countries maintaining foreign investments to-day find themselves in the same position of danger and everybody is asking: Whose turn will it be tomorrow? Whence have we to fear new attacks?

The Argentine situation again puts up with all urgency the problem of protecting private and public foreign investments and loans. American private capital at present holds foreign investments of a value of more than 26 billion Dollars all over the world; in addition there exist substantial investments and credits of the U.S.-Government. These are augmented by credits and loans granted to foreign states by the World Bank, a bank in which a great number of European and Non-European countries hold capital interests. Foreign investments of Great Britain, France, and the Benelux-Countries, Switzerland, Italy, and many other nations,

"Frankfurter Allgemeine Zeitung"
of December 28, 1955

"Whose turn tomorrow?"

The temporary blocking of foreign private property by the Argentine Government has caused a sensation not only in Germany but also in the United States, all the more so because a well known American television firm has been affected by these measures. Banker Hermann J. Abs in a special edition of the "Volkswirt" ("Economist") puts the question of "Whose Turn Tomorrow" not only to the Americans but to all countries of the Western world. However, Herr Abs does not restrict himself to this warning but he repeats his suggestion as put forward nine months ago in Washington to bring about a multilateral agreement with the object of protecting foreign property. All countries endeavouring to attract foreign capital for their economic development should also underwrite this "Magna Charta" for the protection of property. If the United States - says Herr Abs - which greatly endeavour today to take an opposite stand as against the views of the East negating any right for private property, would take the initiative to bring about the conclusion of such an agreement it is doubtful whether any Western country could decline to join.

It is to be wished that these incentives will fall on fertile ground. America could well do the first step in connection with the extension of its Foreign Aid Program. The condition would be that the Americans first find a fair solution for former "enemy" private property still vested by them in order to exclude any doubts whatsoever in the sincerity of such an agreement."

To Arg. file

Confidential

Jan 11, 1956^R

From Frubisch through del Solar

no esp. social invest now in Arg. But measures wage policy, only to the extent that the profits allow and if consistent with increase in productivity (mainly)

Trade unions not as strong as before. Certain persistence from BA

dir. of bank in Rosario
part of research in the bank

Julio Alicia Garcea, undersec.

\$1.200m for 3 years from everybody in US and Europe

Verrucio for Min of Fin. at end of January for a couple of weeks

membership of Fund & Bank

Declaration of policy by Govt. when Arg. joins

of interest of having someone from Fund (2) when 2 or 3 there.

Cepal mission to Argentina. One Arg. - ind, chosen arg, will be local newspaper, one or two dealing

If we could provide people with ^{for fiscal} economic & monetary matters

Copied of this month. In one or two months our people should come

Someone from the Bank

loaned from Fund to Cepal. he order to

Polak and Marshall or Finch

V's present 3 months over Arg Govt wants him back. He does not want to take a job in Arg. Will be half ^{of each} month in Cepal and half in BA or all time in BA with someone acting in Cepal

Coordination with Frubisch necessary. He will be the leader.

Lent by Fund to Cepal.

Full independence for Polak

Mission for six months. Polak for 2 months from end of March

More than 50% of ^{best} employees

get less than 1000 pesos (\$20) a month. They have to for a private firm to be able to live.

Arg. could not provide information needed for Fund without our assistance

Oil? nothing decided yet.

Send someone ⁿ² for 2 months from Fund to Cepal

Someone from Bank?

Should they make study monetary matters

Would rate-problem be a *cuius posterior*

Is it not necessary to have our men at end of Feb.
or at least one of them?

See last line on previous page.

Conditions for giving staff to them.

I would suggest everything except per diem.

2/21/50

*Credit system
credits to ag. & industry
as for current prof
by for investment purposes*

*See copies given to Bank return R
to file*

Divisional Paper S23

INTERNATIONAL MONETARY FUND

Western Hemisphere Department
Latin American (South) Division

Review of the Argentine Economy

Prepared by Edison Zayas

March 26, 1956

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Low productivity
- 5 -

INTERNATIONAL MONETARY FUND

Western Hemisphere Department
Latin American (South) Division

Review of the Argentine Economy

Prepared by Edison Zayas

March 26, 1956

Summary

During 1955, the Argentine economy continued the process of recovery from the recession that began in 1949 and continued until 1952, except for a temporary recovery in 1951 brought about chiefly by the Korean War. An extremely poor agricultural production in 1952 was followed by a particularly good harvest in 1953. The harvests in 1954 and 1955 were less satisfactory but were sufficient to permit a sustained recovery of the country's foreign trade, which together with the expansion of agricultural and labor incomes contributed to the gradual expansion of GNP in the last three years.

In the last quarter of 1955, the Government inaugurated a new economic policy emphasizing the development of agriculture as a necessary foundation for the further industrialization of the country. Larger increases in support prices for agricultural products were authorized in order to facilitate the rapid capitalization of agriculture. This measure came too late to have any significant effect on the 1955-1956 harvest which, as a result of smaller sowings, drought, and other natural factors, will yield a smaller crop than in the preceding season.

The international payments position of Argentina deteriorated in 1955, the balance of payments deficit being estimated at \$186 million. This adverse payments situation stemmed chiefly from the trade deficit caused by the decline in the value of exports and an increase in imports. Sagging international markets for Argentine exports, such as wheat and wool, an overvalued multiple rate structure, and substantial monetary expansion have continuously exerted strong pressures on the balance of payments. In the two preceding years, balance of payments surpluses were obtained primarily through a stricter quantitative control on imports.

The substantial devaluation of the Argentine peso on October 27, 1955, a single official rate of M\$N 18 per dollar and a free market for minor exports, nonessential imports and invisibles replacing the rates of M\$N 5, M\$N 7.50, and M\$N 14 per dollar, redressed the position of Argentine export products, and may prove effective in discouraging excessive imports if the prevalent inflationary conditions are satisfactorily checked. The 1956 export outlook is not, however, satisfactory because of a smaller agricultural production.

Will this continue? Why?
Effect on official rate

ESS report 1/21/56

The exchange reform that accompanied the devaluation established an official market with a fixed exchange rate of M\$N 18 per dollar and a free market with a fluctuating rate determined by market forces. Since the inception of the legal free market, the peso has shown a continuous weakness, and dollar quotations rose gradually from about M\$N 30 to about M\$N 42 in February 1956. Transactions in the official market include most exports, imports of combustibles, essential foodstuffs and raw materials, and government payments. The proceeds for certain minor exports (mostly industrial goods), payments for imports not included in the official market, invisible transactions, and capital movements are negotiated in the free market. Most of the restrictions affecting financial remittances and capital movements were abolished on October 28, 1955. As of that date, financial remittances and other movements of funds can be freely conducted through the free exchange market without prior authorization from the Central Bank.

The Argentine economy has been going through an intense inflationary process in the post-war years. In the period 1949-1952, the annual price increases averaged 33 per cent and the deterioration in the standard of living of workers resulted in a widespread demand for wage adjustments and in the spiral of prices and wages. Toward the end of 1952, the Government revised its economic policies and adopted an anti-inflationary policy. Strict price control enforcement, stabilization of wages--especially in 1953--and a significant reduction in public and private investments resulted in a relative price stability in 1953 and 1954. Nevertheless, the monetary expansion continued and prices increased again sharply in 1955.

At the end of November 1955, the Government lifted price controls on a long list of consumers' goods. In the following months, prices increased by about 1 to 2 per cent per month, which also reflected the effects of the devaluation of the peso. These price increases do not appear thus far to be greater than those registered at various times when price controls were severely enforced. The scope of the price control was widened again in February 1956 when the Government decreed a nation-wide salary increase of 10 per cent in order to prevent the transfer of the higher cost of labor to the consumer. The authorities intend that businesses will absorb the wage increase.

Will it be possible

In the post-war years, Argentina has resorted heavily to bank credit for the financing of the Government's economic development program. The consequent expansion of the money supply, the annual rate of increase ranging from 14 per cent in 1952 to 34 per cent in 1948, created considerable excess liquidity in the economy and was a significant dynamic factor in the inflationary process affecting the country in that period.

The Prebisch Report submitted to the Provisional President on February 7, 1956, suggests that in order to maintain a satisfactory level of income and employment, the financial needs of the private sector in 1956, which will require bank credit expansion, will amount to some M\$N 10 billion. The total increment in bank credit to the public and private sectors expected in 1956 would be about M\$N 11 billion, as credits to the public sector might increase by M\$N 1 billion. Taking into account the normal increases in non-monetary deposits and bank absorptions, the report estimates a possible net increase in the money supply of M\$N 9 billion in 1956.

Can't the private sector borrow anything from insurance corp, savings banks etc

This increase would represent an expansion of about 15 per cent during the year, a lower rate of expansion compared with the previous years. The report indicates that in order to avoid the serious inflationary effect of such expansion, the supply of goods and services should increase by 10 per cent during the year, and that this goal could be reached if resolute steps were taken to improve productivity.

The financial operations of the public sector at times have been a highly important factor in the inordinate expansion of the money supply. Most of bank credits extended to the Government sector have been applied to the financing of operational deficits incurred by official entities, chiefly to the State Trading Institute (IAPI). The ordinary government budget which has been operating with small surpluses, does not include public works and other capital expenditures. These expenditures have been financed with issues of government bonds, placed with the Pension Funds. Including these expenditures, the over-all annual government deficits are estimated at about M\$N 10 billion in the past few years. The deficits expected in 1956 are estimated at M\$N 8 billion, of which M\$N 7 billion is expected to be covered with issues of government bonds, and M\$N 1 billion with advances from banks. These figures reflect the hope of the Government that there will be an improvement in the fiscal situation in 1956 as less use will be made of bank credit facilities.

I. Structure of the Economy and Production Trends

1. Structure of the economy

The Republic of Argentina covers an area of 1,079,965 square miles, or about one-third of the area of the United States. Its present population of over 19 million is predominantly of European origin. Although the backbone of the Argentine economy is agriculture, approximately two thirds of the total population is urban. In 1954 Argentina's working population was about 7.6 million, of which some 25 per cent was engaged in agriculture, 23 per cent in industry, and 52 per cent in services. Ten years earlier, agriculture employed some 35 per cent of the working population and industry 21 per cent. As is typical in a developing economy, manpower engaged in services, transportation, commerce, communications, government, etc., has been increasing relative to goods-producing activities.

Table 1. Argentina: Working Population, 1945-54

Year	Total	Agri- culture	Industry (including mining) (Thousands)	Services	Agri- culture Industry Services		
					(Percentage of total)		
1945	6,023	2,092	1,284	2,652	34.7	21.3	44.0
1948	6,424	1,767	1,831	2,826	27.5	28.5	44.0
1950	6,818	1,746	1,868	3,204	25.6	27.4	47.0
1952	7,213	1,803	1,811	3,599	25.0	25.1	49.9
1954	7,600	1,900	1,748	3,952	25.0	23.0	52.0

Source: ECLA.

The contribution of agriculture (farming and livestock raising) and mining to Argentina's GNP were 27 per cent in the 1935/39 period, compared with 16 per cent of industry. The growth of industrial production caused a shift in the relative contribution to the GNP of primary and industrial production. In the last five years, primary production accounted for less than 20 per cent of the GNP, while manufacturing industries accounted for 22 per cent. The growth of the construction industry is also significant, rising from 2.5 per cent of the GNP in the pre-war years to 6.0 per cent in 1950-54.

Table 2. Argentina: Gross Domestic Product, by Industrial Origin. Gross Value Added by Factors as Percentage of Total

	Agriculture, Pastoral, and Mining	Manufac- turing Industries	Construc- tion	Services	Total
1935-39 Aver.	26.9	15.7	2.5	54.9	100.0
1940-44 "	24.4	19.7	3.0	52.9	100.0
1945-49 "	20.2	23.1	4.9	51.8	100.0
1950-54 "	19.1	21.9	6.0	53.0	100.0
1950	16.7	23.4	7.3	52.6	100.0
1951	18.4	22.7	6.3	52.6	100.0
1952	17.7	22.3	5.8	54.2	100.0
1953	22.8	19.8	5.0	52.4	100.0
1954	19.9	21.3	5.6	53.2	100.0

Source: Table B in the statistical appendix.

Argentina lacks sufficient fuel and mineral resources, but the country is exceptionally well endowed with fertile farm and pastoral lands. More than 41 per cent of the total area of Argentina is grassland, 32 per cent is wooded and approximately 11 per cent is under cultivation. The greater part of the cultivated land is devoted to the production of cereals and oil seeds. The most important crops are wheat, corn, barley, oats, rye, linseed and sunflower seeds. In the last five years, about 40 per cent of grain production has been for foreign markets. There has been a significant decline in production of cereals and linseed in the post-war years, but this has been offset in part by increased production of industrial crops, fruits, and garden products. Increase in domestic consumption, together with the smaller grain crops--the main agricultural export products--have reduced the country's export capacity, compared with pre-war years.

Table 3. Argentina: Index of Volume of Agricultural Production and Exports

index, wool and meat

*What? (1950 = 100)
should have been split (see next page)*

	Cereals and Linseed	Industrial Crops	Fruits and Garden Products	Total	Volume of Exports
1935-39	255.5	55.5	59.3	117.8	170.6
1940-44	251.8	73.0	91.5	135.3	77.2
1945-49	165.6	89.6	90.9	113.2	82.0
1950-54	140.7	105.9	105.5	116.3	89.9
1950	100.0	100.0	100.0	100.0	100.0
1951	148.0	104.6	105.0	118.0	95.3
1952	78.7	106.9	80.7	89.6	32.1
1953	196.6	112.5	116.8	139.9	94.5
1954	180.4	105.3	119.2	134.2	127.4

Source: Producto e Ingreso Nacional de la República Argentina, 1935-54, Secretaría de Asuntos Económicos, Buenos Aires, 1955.

The livestock population in 1950 was estimated at 38 million cattle, 50 million sheep, 4 million hogs, and 7.5 million horses. In 1954, some 4.2 million cattle, 5.4 million sheep, and 1.2 million hogs were slaughtered for meat. Total meat production amounted to 1.18 million tons, of which 72 per cent was for domestic consumption and 28 per cent for export. In the past five years, meat production has declined from the high level recorded during World War II and the immediate post-war years.

The decline in production and increase in domestic consumption resulted in a drop in meat exports of about 45 per cent in the 1950-54 period, compared to the preceding five-year period.

The annual production of wool, amounting to some 175,000 tons (greasy basis) in the period 1950-54, was about 15 per cent below the post-war production peak, yet it was some 17 per cent larger than the average production in the pre-war years. Domestic wool consumption, estimated at 45,000 tons, has absorbed some 30 per cent of production in recent years. Here, again, expanded domestic consumption is associated with the decline in wool exports in the last years compared with the pre-war period.

Table 4. Argentina: Meat and Wool Indices of Volume of Production and Exports

(1950 = 100)

Shhs 2

	Production		Exports	
	Meat ^{1/}	Wool	Meat	Wool
1935-39	83.1	86.6	139.9	97.3
1940-44	95.7	112.8	192.5	90.0
1945-49	103.4	111.6	150.5	123.1
1950-54	95.7	102.2	84.3	77.2
1950	100.0	100.0	100.0	100.0
1951	90.4	105.5	95.7	40.9
1952	94.9	95.6	69.8	73.5
1953	97.0	103.3	74.2	107.4
1954	96.1	106.4	81.6	64.2

^{1/} This index is based on the following data: (1) total animals slaughtered; (2) exports of livestock; and (3) adjustment for estimated changes in livestock population.

Source: Producto e Ingreso de la República Argentina, 1935-54, Secretaría de Asuntos Económicos, Buenos Aires, 1955

Argentina's industrial production, consisting mainly of food processing, textile, metal, vehicles and machinery, and wood industries, in the order of employment provided (see Table A in the appendix) is largely for the domestic market, although during the war and the years immediately thereafter exports to neighboring countries were relatively important. In fact, considerable industrial expansion took place in Argentina during the war and post-war years until 1948. In the following years industrial production ceased to grow, primarily as a result of slackening domestic and foreign demand, and in some cases due to power shortages. The contribution of manufacturing industries to Argentina's GNP is greater than that of primary activities while a decade ago the latter were more significant.

The level of industrial activity and investments in Argentina depend to a large extent on imports of fuel, raw materials and capital goods. A study prepared by ECIAL^{1/} shows that there is a close relation between the capacity to import and investments in Argentina, as well as in other Latin American countries. In Argentina, this capacity results chiefly from the quantum of exports and the terms of trade since the inflow of foreign capital has been negligible in the post-war years. Moreover, since 1951

^{1/} Economic Survey for Latin America 1951-52, Economic Commission for Latin America, U. N.

What is meant?

(inclusive) the effect of the terms of trade on the country's import capacity has declined considerably in significance. Hence, imports of fuel, raw materials and capital goods required to maintain the level of investment and of industrial activity depend largely on the country's exports, 90 per cent of which are agricultural products. This fact brings out the real significance of agricultural production in the Argentine economy, which is not apparent from the GNP data.

Table 5. Argentina: Industrial Production. Volume Index, 1935-54.

(1950 = 100)

	Total	Foodstuffs and Beverages		Textiles	Metals	Vehicles and Machinery		Wood
1935-39	55.6	74.8		43.4	61.4	63.7		58.0
1940-44	66.2	87.7		63.4	56.5	75.0		77.0
1945-49	92.0	95.7		91.8	81.3	126.4		102.5
1950-54	93.1	100.8		89.5	93.2	116.8		93.5
1950	100.0	100.0		100.0	100.0	100.0		100.0
1951	102.5	96.4		99.1	105.1	114.7		99.3
1952	95.0	98.8		81.5	82.3	127.4		86.2
1953	93.0	103.8		80.7	79.8	119.3		90.1
1954	100.1	104.9		86.0	98.7	122.5		92.1

Source: Producto e Ingreso de la República Argentina, 1934-54, Secretaria de Asuntos Economicos, Buenos Aires, 1955 (Table 26).

2. Gross national product, consumption, and investments

The GNP at constant 1950 prices rose from M\$N 48.0 billion in 1945 to M\$N 66.0 billion in 1948, declining thereafter to M\$N 59.7 billion in 1952. The 66.0 billion mark was reached again in 1954 and according to preliminary estimates the GNP reached M\$N 68.5 billion in 1955.^{1/} However, real per capita income in 1955 was still some 10 per cent below the 1948 peak. The impressive expansion of Argentina's GNP in 1946-48 resulted from especially favorable circumstances. In those years, the terms of trade were highly favorable to Argentina and the foreign trade was at a high level. Beginning in 1949, conditions in world markets changed and the terms of trade began to turn against Argentina, which became all the more serious as the volume of exports also declined, greatly curtailing Argentina's import capacity. This process continued in the following years--with an interruption in 1950, caused by the Korean crisis--and was strongly in evidence in 1952 when climatic conditions considerably damaged crops to the extent that Argentina, one of the largest wheat exporters of the world, had to import wheat in that year. The trend of the GNP in this period is associated with these factors.

^{1/} The Prebisch Report.

The decline in Argentine exports was partly the result of external factors and partly of internal conditions. The Government, by emphasizing the industrial development of the country, neglected the rural sector. An inflexible and unrealistic price and exchange policy discouraged agricultural production which constitutes the bulk of Argentina's exports.

Table 6. Argentina: Gross National Product and Per Capita Income, at Constant 1950 Prices

	G N P		Per Capita Income in Pesos
	Billion pesos	Per cent Five-year change	
1935	35.2		2,715
1940	41.3	17.3	2,940
1945	48.0	16.2	3,121
1946	54.1		3,456
1947	62.6		3,930
1948	65.9		4,041
1949	62.8		3,750
1950	62.2	29.4	3,621
1951	64.0		3,632
1952	59.7		3,310
1953	63.0		3,423
1954	65.9		3,516
1955 ^{1/}	68.5	10.1	3,588

^{1/} Preliminary estimate (Mr. Prebisch's report).

Source: Producto e Ingreso de la República Argentina, 1935-54.

The stagnation of real per capita income in Argentina in recent years appears inconsistent with the relatively high proportion of the gross national product devoted to investments, which were about 22 per cent in 1950-54. However, the larger proportion of investments has been in construction (about 63 per cent in 1950-54) which does not increase the productive capacity of the economy as much as investments in industrial plants, machinery, equipment, etc.

Investments in production equipment were only about 8 per cent of GNP in this period, compared with 10.3 per cent in 1945-49 and 11.3 per cent in the five pre-war years. This reduced level of investments in durable production equipment resulted, in turn, from insufficient imports of capital goods which, relative to the GNP and gross domestic investments, have declined substantially since 1950 (see Table D in the appendix). Another evidence of the inadequate volume of imports of capital goods is provided by the large investments in repairs of existing obsolete equipment. This type of investment is also generally of low productivity.

Table 7. Argentina: Gross Domestic Investments,
at Constant 1950 Prices

	Total		Composition, in Per Cent of the GNP			
	Billion Pesos	Per cent of GNP	Construc- tion	Production Equip. Total	Repairs ^{1/}	Changes in Stocks
1935-39 Aver.	9.28	23.9	11.7	11.3	(19)	0.8
1940-44 "	8.24	18.6	11.3	6.4	(38)	0.9
1945-49 "	14.11	23.5	12.3	10.3	(18)	0.9
1950-54 "	13.92	22.1	13.6	8.0	(27)	0.5
1950	13.58	21.8	15.2	7.7	(25)	-1.1
1951	15.96	24.9	14.5	8.5	(24)	1.9
1952	14.48	24.2	13.5	8.7	(27)	2.0
1953	11.61	18.4	12.1	8.1	(29)	-1.8
1954	13.98	21.2	12.8	7.3	(31)	1.1

^{1/} In percentage of total production equipment.

Source: Producto e Ingreso de la República Argentina, 1935-54,
Secretaría de Asuntos Económicos, Buenos Aires, 1955.

In the immediate post-war years a large proportion of the increase in the GNP corresponded to investments as industrial countries were again able to supply capital goods. Consequently there was a decline in the proportion of the GNP related to consumption, although in real terms total consumption has shown a continuous expansion until 1949. After this transitional period the ratio of consumption to GNP conformed again to more normal times. In the past few years the proportion of GNP devoted to consumption was higher than in the pre-war years. However, as shown in the following table, this development is associated with an increasing proportion of real resources being absorbed by the Government. In fact, the proportion of private consumption to GNP has declined slightly compared with the pre-war years.

Table 8. Argentina: Total Domestic Consumption,
at Constant 1950 Prices

	Amount, in billions of pesos			Relative to GNP, in Per Cent		
	Total	Private	Gov't	Total	Private	Gov't
1935-39 Aver.	29.4	25.7	3.7	76.0	66.4	9.6
1940-44 "	35.1	30.5	4.6	78.9	68.6	10.3
1945-49 "	43.0	35.8	7.2	73.6	61.3	12.3
1950-54 "	49.3	41.3	8.0	78.4	65.6	12.8
1950	48.3	40.6	7.7	77.6	65.2	12.4
1951	49.8	41.9	7.9	77.7	65.4	12.3
1952	46.9	38.9	8.0	78.6	65.1	13.5
1953	50.3	42.0	8.3	79.9	66.8	13.1
1954	51.4	43.1	8.3	78.0	65.4	12.6

Source: Producto e Ingreso de la República Argentina, 1935-54,
Secretaría de Asuntos Económicos, Buenos Aires, 1955.

However, there has been a relative increase in income of one sector of the population which generally has a higher propensity to consume compared with other groups. The industrial development of the country and a more liberal wage policy pursued in the last decade resulted in a substantial increase in the proportion of the national income going to salary and wage earners. The share of this group increased from 47 per cent of the national income in 1946 to about 60 per cent in the years 1950-54.

Table 9. Argentina: Distribution of the National Income, 1945-54

	Compensation of Employees	Net Income of Enterprises, Professionals, Interest, Rent, etc.	Total
1946	46.8	53.2	100.0
1948	52.4	47.6	100.0
1950	60.9	39.1	100.0
1952	61.0	39.0	100.0
1954	59.6	40.4	100.0

Source: Producto e Ingreso de la República Argentina, 1953-54, Secretaría de Asuntos Económicos, Buenos Aires, 1955 (Table 7).

Table 8. Argentina: Total Domestic Consumption at Constant 1950 Prices

Year	Amount, in billions of pesos		Relative to GNP, in Per Cent	
	Total	Private	Total	Private
1954	21.4	12.1	8.3	4.4
1953	20.3	12.0	8.3	4.3
1952	16.9	9.9	8.0	4.1
1951	14.8	7.9	7.9	3.9
1950	14.3	7.6	7.7	3.8
1949-51	14.3	7.6	7.7	3.8
1948-49	13.0	7.2	7.2	3.8
1946-48	12.1	6.8	6.8	3.5
1945-47	11.4	6.4	6.4	3.4

Source: Producto e Ingreso de la República Argentina, 1953-54, Secretaría de Asuntos Económicos, Buenos Aires, 1955.

3. Current production and prospects for 1956

During 1955 the Argentine economy continued the process of recovery from the recession that began to unfold in 1949 and which continued until 1952, after a temporary recovery in 1951, related to the Korean War. An extremely poor agricultural harvest in 1952 was followed by a particularly good harvest in 1953. The harvests in 1954 and 1955 were less satisfactory, although production was sufficiently large to sustain a high volume of exports, and the consequent expansion of imports, together with the expansion of agricultural and labor income, contributed to a sizable extent to the gradual expansion of the GNP in the last three years.

(1) Agriculture. The alarmingly small crops of 1952 induced the Government at the end of that year to give more incentives to agriculture by raising official agricultural prices, liberalizing credits to this sector, subsidizing imports of farm machinery through the exchange system, etc. The Provisional Government that took office in September 1955 has, nevertheless, considered that the agricultural sector has been neglected by the deposed government and that agricultural prices and financial facilities were not adequate to allow farmers to make the necessary investments in agriculture in order to improve and expand production. A substantial devaluation of the Argentine peso, analyzed elsewhere in this report, was announced on October 27, 1955, and large increases in support prices for agricultural products were authorized in order to facilitate a rapid capitalization in agriculture. Table 10 shows the minimum prices established for the 1955-56 crops.

Table 10. Argentina: Minimum Agricultural Prices for the 1955/56 Season

(In pesos per 100 kilos)

	1955-56 Harvest	Previous prices	Per cent increase
Wheat	70	50	/40
Oats	55	38	/45
Barley	55	45	/22
Rye	50	42	/19
Linseed	140	75	/87
Corn	65	45	/44
Sunflower seed	130	100	/30

To minimize the inflationary impact of the increased income of farmers resulting from higher prices, it has been established that 12 per cent of the support prices will be placed in a blocked bank account in the name of the producer. These blocked accounts will be released after six months.

Weather conditions during the 1954-55 season were favorable and the wheat crop amounted to 7.69 million tons, the largest in the last decade and 24 per cent larger than the previous year. The production of corn, on the other hand, was very poor on account of the weather conditions, and this was mainly responsible for the over-all decline in the cereal production compared with the two preceding seasons (see Table 11). Industrial crops also declined in 1955, the most significant being the decline in the production of sunflower and peanuts.

The decline in sunflower production has been under way for a number of years, with the consequent reduction in the production of edible oils, and Argentina--previously a net exporter of edible oils--has had to import edible oils since 1954 for domestic consumption. Preliminary estimates indicate that the production of sunflower in 1956 will show a tremendous increase, from 283,000 tons in 1955 to an all-time high of 1,200,000 tons in 1956. Such a crop would produce about 300,000 tons of oil, which would cover the total consumption requirements of the country, estimated at somewhat less than 200,000 tons and leave a substantial balance available for reserve and exports. This output will reach the market in the latter part of the year. Meanwhile, edible oil will have to be imported. It has been reported that during the first part of 1956 Argentina will have to import some 80,000 tons of edible oils, compared with 32,000 in 1955, and 16,000 in 1954.

The incentives provided by the new agricultural policy have come too late to affect the 1955-56 harvest which, as a result of smaller sowings, droughts, and other natural factors, will yield a smaller crop than in the preceding season. It is hoped, though, that better handling and harvesting of marginal crops may raise somewhat the earlier estimates.

Table 11. Argentina: Area in Cultivation and Production

	Area in Cultivation (Thousand hectares)				Production (Thousand tons)			
	1952/53	1953/54	1954/55	1955/56	1952/53	1953/54	1954/55	1955/56 ^{1/}
Cereals	14,784	14,723	13,963		15,157	13,354	13,254	
Wheat	6,066	6,354	5,937	5,413	7,634	6,200	7,690	4,820*
Corn	3,354	3,268	3,002	2,860	3,550	4,450	2,546	4,000*
Oats	1,702	1,500	1,376	1,410	1,269	991	890	807*
Barley	1,108	1,085	1,090	1,216	1,175	894	1,112	992*
Rye	2,483	2,445	2,493	2,529	1,335	607	844	723*
Rice	71	71	65	n.a.	194	212	172	n.a.
Industrial								
Crops	2,907	2,403	2,375		11,236	11,142	10,622	
Cotton	565	585	589	582	385	423	354	400
Sugar cane	278	289	297		9,596	9,761	9,422	
Sunflower	820	571	559	1,900	428	345	283	1,200
Linseed	1,020	732	739	694	584	410	414	271*
Peanuts	182	190	157		204	170	118	
Tobacco	42	36	34		39	33	31	

^{1/} Preliminary estimates.

Sources: Síntesis Estadística Mensual de la República Argentina, October 1955;

* The Review of the River Plate, January 20, 1956.

From US sources
Will it be difficult to sell

The production of wheat, now estimated at 4.82 million tons, a decline of about 37 per cent from the previous year, is the next lowest crop to the disastrous one of 1952. On the other hand, larger than normal stocks at the beginning of the current season compensate in part the lower production. Nevertheless, as shown in Table 12, the supply of wheat in the commercial year December 1, 1955-November 30, 1956 will be substantially lower than in the three preceding years. A sizable reduction is also expected in the 1955-56 linseed crop, 271,000 tons compared to 414,000 tons in the preceding year. This is the lowest linseed crop in several decades.

The lower wheat and linseed crop resulted partly from reduced sowings and partly from lower yields. Since wheat, linseed, and their products are important export products, the outlook of agricultural exports for 1956 is disappointing. It is hoped, however, that the production of corn will show an increase over the previous year in spite of smaller sowings, because favorable weather conditions have prevailed during the season.

Table 12. Argentina: Wheat Position. Crop Years ^{1/}1952/52-1955/56
(Thousands of metric tons)

	1952/53	1953/54	1954/55	1955/56
Carry-in	383	1,684	1,934	2,184
Production	7,634	6,200	7,690	4,820
Total Availability	8,017	7,884	9,624	7,004
Domestic Consumption	4,077	3,791	3,800	3,800
Exports	2,256	3,059	3,640	
Carry-Forward	1,684	1,934	2,184	

^{1/} December 1 to November 30.

Source: The Review of the River Plate, January 20, 1956.

(2) Meat production in Argentina was at an all-time high in 1948, declining thereafter to the lowest level in the postwar period in the year 1951. (See Table 4.) Ceiling prices for meat and a prolonged drought in 1951-52 discouraged investments and caused a decline in production. At the end of 1952 there was a complete reversal of government pricing policies with the aim of promoting investments in this sector. Meat production increased in the years 1953 and 1954, but all the increment was for domestic consumption. Production for exports declined by about 12 per cent in 1953, and recovered only partially in 1954. In the first quarter of 1955, the latest data available, meat production was some 12 per cent larger than in similar period of 1954. Judging by the volume of meat exports in 1955, which were about 35 per cent greater than in 1954, it appears that meat production in the whole of 1955 was substantially larger than in 1954.

Table 13. Argentina: Meat Production from Controlled Slaughtering

(In thousands of tons)

	For Domestic Consumption			For Exports			Total ^{1/}		
	Beef	Mutton & Pork	Total	Beef	Mutton & Pork	Total	Beef	Mutton & Pork	Total
1952	577	98	675	276	84	360	867	184	1,051
1953	653	113	766	230	89	319	897	204	1,101
1954	730	109	839	231	98	329	972	208	1,180
1954									
1st Qtr.	181	21	202	57	33	90	240	55	295
1955									
1st Qtr.	186	25	211	89	25	114	279	50	329

^{1/} Including a small amount for industrial use.

Source: Síntesis Estadística Mensual de la República Argentina.

In December 1955 the Government increased official minimum prices for cattle. The official announcement explained that the measure was in accordance with the present Government's policy of encouraging agricultural and pastoral production. By increasing cattle prices, the Government was seeking to bring the remuneration of livestock farmers into line with that of other farmers. The increased prices for cattle, however, have not been passed on to the domestic consumer as prices of beef of popular consumption are being subsidized by the National Economic Recovery Fund. ^{1/} It is expected that the new prices will provide effective incentives to expand investments in the stock-breeding industry and, barring unfavorable changes in natural factors, the production of meat should continue to increase in the coming years.

(3) Wool production. An estimate compiled by the Argentine Wool Federation indicates that the 1955/56 clip ^{2/} will be about 164,500 tons, greasy basis, which practically equals the previous clip of 165,000 tons. There has been a continuous decline since the 1950/51 season when the clip amounted to 195,000 tons. The Argentine wool position, by types of fiber, at the beginning of the current season, October 1, 1955, is shown in Table 14.

^{1/} See Part III, 5(1).

^{2/} Wool season: October 1-September 30.

Table 14. Argentina: Wool Position in the 1955-56 Season

(In thousands of metric tons)

	Merinos and Come- backs	Fine Cross- breeds	Medium Cross- breeds	Low Cross- breeds	Total
Clip of 1955/56 season	38.3	61.5	16.5	48.2	164.5
Carry-over from 54/55	6.3	16.2	2.3	8.2	33.0
Stock in the 1955/56 season	44.6	77.7	18.8	56.4	197.5
Local consumption	22.0	17.0	4.0	2.0	45.0
Exportable surplus	22.6	60.7	14.8	54.4	152.5

Source: The Review of the River Plate. Buenos Aires, January 20, 1956.

The current wool clip is the lowest in the postwar period. Inadequate price structure in relation to steadily rising costs in recent years has been the principal factor which has discouraged wool production, with wool available for export affected by overvalued exchange rates. The devaluation of the peso in October 1955, raising the rate applied to wool exports from M\$N 6.25 per dollar to M\$N 13.50 per dollar, led to an increase in local prices by almost 100 per cent. As a result, the outlook for sheep farming is now considerably brighter and indications are that it will recover quickly.

(4) Industrial production. The latest index of industrial production, corresponding to the period January-May 1955, shows that the recovery of industrial production in 1954--the index rose from 93 in 1953 to 100--continued in the first five months of 1955. While manufacturing employment increased by only one per cent in 1954, in the first eight months of 1955 employment increased by about 4 per cent over the same period of 1954. On this basis, it appears that industrial production in 1955 was at a higher level than in 1954. As indicated elsewhere, larger imports of raw materials, fuel and capital goods in 1954 and 1955, and the recovery of labor and agricultural incomes have stimulated the industrial activity.

The large devaluation of the Argentine peso, the new price policy designed to stimulate primary activities, and other measures being applied by the Provisional Government are bound to have significant impacts on the allocation of resources and distribution of income, which in turn will affect the direction and level of demand for industrial products. A devaluation generally affords a protection to the local industries, as higher costs of foreign goods may cause a shift

of demand to domestic manufactures. On the other hand, if the increase in the purchasing power of the rural sector is offset by a decline in real income of industrial workers, the aggregate demand for industrial products may decline, thus leading to a contraction of industrial activity. This is not likely, however, as generally a devaluation results in higher aggregate demand. The salary and wage increases of industrial workers and public employees, authorized in February 1956, were intended to reestablish their real income lost as a result of the devaluations. Availability of imported raw materials and fuel will also affect the industrial output. Since many facets of the new economic policy are still to be worked out in detail, and since the effects of such measures may vary according to the way they are implemented, it seems idle to attempt at this time an estimate of the possible level of industrial production in the current year.

slides

Year	Local consumption	Exportable surplus
1955	11.0	10.7
1956	11.0	10.7
1957	11.0	10.7

The current wool clip is the lowest in the postwar period. This is due to a number of factors, including a decline in the number of sheep and a reduction in the number of fleeces per sheep. The devaluation of the peso in October 1955, which raised the price of wool exports from 12.0 per ton to 13.5 per ton, led to an increase in local prices by almost 100 per cent. As a result, the outlook for sheep farming is now considerably brighter and it is hoped that it will recover quickly.

(b) Industrial production. The latest index of industrial production, corresponding to the period January-May 1955, shows that the recovery of industrial production in 1954--the index rose from 93 in 1953 to 100--continued in the first five months of 1955. This means that factory employment increased by only one per cent in 1955, in the first eight months of 1955 employment increased by about 11 per cent over the same period of 1954. On this basis, it appears that industrial production in 1955 was at a higher level than in 1954. An indication of the larger inputs of raw materials, fuel and capital goods in 1954 and 1955, and the recovery of labor and agricultural incomes have stimulated the industrial activity.

The large devaluation of the Argentine peso, the new price policy designed to stimulate primary activities, and other measures being applied by the Provisional Government are bound to have significant impacts on the allocation of resources and distribution of income, which in turn will affect the disposition and level of demand for industrial products. A devaluation generally affords a protection to the local industries, as higher costs of foreign goods may cause a shift

II. Internal Financial Developments

1. Prices and wages.

The Argentine economy has been subject to considerable inflation in the post-war years. The increase in prices, as measured by the cost of living index for a typical working class family in Buenos Aires, was most pronounced between 1949 and 1952. In this period the annual price increase averaged 33 per cent, and the deterioration in the standard of living of workers resulted in widespread demands for wage adjustments and in the spiral of price and wage increases. In 1952, conditions were at their worst, with strong inflationary pressures, low level of production, scarcity in the market, and social unrest. The cost of living index rose during the year by almost 40 per cent. In the face of this situation, the Government revised its economic policies and adopted an anti-inflationary policy which comprised: (a) the institution of quantitative and selective credit control, (b) reduction of public expenditures, (c) the adoption of a program of wage stabilization and of collective wage agreements for two year periods, and (d) the strict enforcement of price controls and the repression of speculative activities.

Table 15. Argentina: Cost of living and Wage Indices, 1947-55

(1946 = 100)

Year	Cost of Living		Wages ^{1/}	Real Wages
	Index	Per Cent Change		
1947	112.8	12.8	128.7	114.1
1948	128.2	13.7	183.6	143.2
1949	167.9	31.0	227.6	135.6
1950	211.5	26.0	279.0	131.9
1951	288.5	36.4	332.7	111.9
1952	400.0	38.6	426.7	106.7
1953	416.7	4.2	445.3	106.9
1954	431.8	3.6	521.9	120.8
1955	505.0	17.0	537.0	106.3

^{1/} Based on hourly wages of unskilled workers.

Source: Sintesis Estadistica Mensual de la Republica Argentina; The Review of the River Plate, Buenos Aires.

Although the monetary expansion continued unabated in 1953 and 1954, the rise in prices was relatively small. This relative stability in prices was achieved mainly by means of strict price control enforcement, stabilization of wages--especially in 1953--and a significant reduction in public and private investments. However, since the monetary expansion continued to inflate the economy and wages increased again substantially in 1954, prices resumed their sharp upward trend in 1955.

During 1952 and 1953 the real income of industrial workers was at the lowest level since 1946. To improve their situation, the wage policy was relaxed in 1954 and wage rate increases averaging 15 per cent were permitted. Real wages of industrial workers declined again in 1955 as nominal wages were relatively stable, while the cost of living rose sharply.

On February 17, 1956 the Government declared an emergency wage and salary increase of 10 per cent throughout industry and commerce, retroactive February 1, and established a minimum monthly wage of M\$N 1,120 for men and women over 22 years of age. Similar wage increases and minimum monthly compensation were later extended to government employees.

The decree increasing industrial and commercial wages also extended the operation of the collective labor agreements in force until such time as the agreements concluded to replace them are officially approved. Revision of the labor agreements may be initiated any time between March 1 and December 31, 1956 and the new agreements will be valid for 18 months. The 10 per cent increase will be regarded as an advance of any total increase that may result from the negotiations. A supplementary decree, which will be in force until February 28, 1957 stipulated that all wage and salary increases granted since November 1, 1955 and which may be granted during the validity of the decree must be met from the profits of businesses. Infringements of these regulations are subject to heavy fines.

At the end of November 1955, the Government announced the lifting of price control on a long list of consumers' goods. A number of essential consumer goods are still temporarily subject to price ceilings. Since the devaluation and the partial elimination of price control, the cost of living index rose by 1.9 per cent in December, and by 2.2 per cent and 1.1 per cent in January and February 1956. These increases do not appear thus far to be greater than those registered at various times when the price control system was severely enforced. More price increases are however thought likely as some of the effects of the devaluation and of the elimination of price controls have been offset by certain transitory measures, like price ceilings on products such as meat, fuel, bread, etc. corresponding with stocks held before the introduction of the new system.

2. Monetary developments.

In the post-war years, Argentina has resorted heavily to the mechanism of bank credits for the financing of the Government's economic development program. The consequent expansion of the money supply, the annual rate of increase ranging from 14 per cent in 1952 to 34 per cent in 1948, created considerable excess liquidity in the economy and was a significant dynamic factor in the inflationary process affecting the country in this period.

The annual rate of monetary expansion and the relative impact on the money supply of the operations of the public, private and foreign sectors of the economy are broadly summarized in Table 16. It shows that credits extended to business and individuals have been the most important factor of monetary expansion in the period covered in this table (1948-Aug. 1955). At times, however, credits to the public sector have been equally, or even more significant than credits extended to the private sector, e.g., 1948, 1949 and 1953.

The rate of change of the banks' net claims on the private sector reflects the impact of government policies and the fluctuations in the balance of international payments--shown in the table as the Foreign Sector. In 1946 the Government adopted an industrial development program involving substantial investments in capital equipment and the shifting of labor and financial resources from agriculture to manufacturing. In the 1946-48 period the Government derived large financial resources from the spread between the high foreign prices for Argentine exports and the lower prices paid to domestic producers. In spite of this, the Government resorted to borrowing from banks in order to finance large harvests, investments, and subsidies to certain imports. Since 1948 additional resources to finance the high level of investments were secured from the private sector. These resources consisted mainly of social security contributions of the private sector and securities of the Central Bank placed within the private sector.

Table 16. Argentina: Creations of Money. Changes in Selected Monetary Accounts Expressed as Percentages of the Money Supply at the end of the Previous Year.

	1948	1949	1950	1951	1952	1953	1954	1955 (Jan.- Aug.)
Increase or Decrease (-) in Banks' Claims on:								
A. <u>The Public Sector</u>	<u>26.7</u>	<u>18.3</u>	<u>5.1</u>	<u>-0.7</u>	<u>2.8</u>	<u>13.8</u>	<u>6.8</u>	<u>0.1</u>
1. Loans and Investments	44.2	19.5	5.5	4.3	3.7	17.7	14.0	7.1
2. Official Deposits	-17.4	- 1.2	- 0.4	-5.0	-0.9	-3.9	-7.2	-7.0
B. <u>Business and Individuals</u>	<u>23.1</u>	<u>7.8</u>	<u>21.2</u>	<u>27.1</u>	<u>21.3</u>	<u>8.5</u>	<u>14.3</u>	<u>6.3</u>
1. Loans and Investments	33.3	20.3	26.7	31.8	25.7	16.7	21.4	10.1
2. Nonmonetary Deposits	-10.2	-12.5	- 5.5	-4.7	-4.4	-8.2	-7.1	-3.8
C. <u>The Foreign Sector</u>	<u>13.4</u>	<u>- 3.3</u>	<u>10.2</u>	<u>-2.0</u>	<u>-9.0</u>	<u>7.7</u>	<u>0.8</u>	<u>0.9</u>
D. <u>Other and Balanc- ing Items</u>	<u>-28.8</u>	<u>4.7</u>	<u>-11.3</u>	<u>-2.8</u>	<u>-1.5</u>	<u>-5.8</u>	<u>-5.4</u>	<u>-1.3</u>
<u>Net Changes in Money Supply (Total A through D)</u>	<u>34.4</u>	<u>27.5</u>	<u>25.1</u>	<u>21.6</u>	<u>13.7</u>	<u>24.2</u>	<u>16.6</u>	<u>6.0</u>

Source: Tables E and F in the Statistical Appendix.

The increased recourse to private funds by the Government resulted in stronger pressures on the commercial banks for additional credits to business and individuals. In addition, the prices paid to agricultural producers were not adjusted to meet strong inflationary conditions, thus causing pressures to borrow. The ensuing substantial volume of credits extended to the private sector in the years 1950 to 1952 were mainly responsible for the expansion of the money supply in that period.

The rate of increase in private borrowings declined in 1953. This was associated with the increased liquidity of the economy brought about by a sharp expansion of banks' credit to the Government, to cover deficits incurred by the Argentine Trade Promotion Institute (IAPI) and for Treasury needs, and by a large balance of payments surplus. In 1954 and 1955 the foreign sector did not have significant domestic monetary effect, and increases in bank credits to the public sector, mostly to cover IAPI's deficits, although substantial, were partly offset by large increases in official deposits and the net impact on the money supply held by the public was considerably less than in 1953. Bank credits to the private sector again became the largest source of monetary expansion in 1954. In this year the increase in the money supply amounted to 16.6 per cent, which compares favorably with 1953, when the increase was 24 per cent.

In the first eight months of 1955, the money supply rose by 6 per cent, i.e., at a lower annual rate than in the previous years. However, since the largest expansion generally takes place in the last months of the year, and bearing in mind that the devaluation of the peso and the official price increases for agricultural products took place in the last two months of the year, it is logical to expect that steeper increases occurred in the latter part of 1955.

The Prebisch report submitted to the Provisional President on February 7, 1956 suggests that, in order to maintain a satisfactory level of income and employment, the financing needs of the private sector in 1956, which would require bank credit expansion, should amount to some M\$N 10 billion; M\$N 5 billion for mortgage loans to finance dwelling house construction and M\$N 5 billion for regular credits to business and individuals. The total increment in bank credits to the public and private sectors expected in 1956 would be about M\$N 11 billion, as credits to the public sector might increase by M\$N 1 billion.^{1/} On this basis, the report indicates that the money supply may show a net increase of M\$N 9 billion in 1956, taking into account the normal increases in non-monetary deposits and bank absorptions. This increase would represent an expansion of about 15 per cent over the money supply (including government deposits) at the end of 1955, which is a lower rate of expansion than in the previous years. The report states that this increase is, however, a matter of concern, and suggests that, in order to prevent so pronounced an expansion of the money supply having serious inflationary effects, it should be accompanied by a substantial increase in the supply of goods and services during the year. The goal should be an increase of 10 per cent, which the report indicates could be attained if resolute steps were taken to improve productivity. The excess of the increase in the money supply would be a normal or necessary sequel of the higher prices already resulting from the devaluation of the peso in October 1955.

^{1/} See section on public finances below.

(1) Credits and loans to business and individuals. As indicated above, the size of the credit expansion to this sector has been in itself a strong inflationary factor in Argentina, as it has had no relation whatsoever to the real growth of goods and services in the economy. The inflationary effects of commercial banks' accommodations to business and individuals, have been further accentuated by the fact that over 35 per cent of the credits have consisted of mortgage loans, which are generally long-term financing for housing construction, and other investments of low productivity.

The financing of mortgage loans with Central Bank issues instead of the method of mobilizing domestic savings through the issue of mortgage bonds, as has been the practice formerly in Argentina,^{1/} has in fact become one of the chief sources of monetary inflation in the country. As shown in Table 17, the expansion in mortgage loans in the last eight years has been faster than regular commercial bank credits.

Table 17. Argentina: Bank Credits to Business and Individuals

(In billions of pesos)

	General Credits		Mortgage Loans		Total	
	Out-standing	Per Cent Increase	Out-standing	Per Cent Increase	Out-standing	Per Cent Increase
1947	6.42		2.21		8.63	
1948	8.75	36	3.25	47	12.00	39
1949	10.19	16	4.58	41	14.77	23
1950	13.33	31	6.09	33	19.42	31
1951	18.44	38	7.90	30	26.35	36
1952	23.15	26	10.01	27	33.16	26
1953	25.79	11	12.41	24	38.19	15
1954	29.99	16	16.23	31	46.21	21
1955 (August)	31.51	5	19.10	18	50.61	10

Source: Table E, Statistical Appendix.

(2) Monetary policy. The excessive credit expansion in the post-war years was caused by the desire of the Government to accelerate the industrialization of the country. The total subservience of the Central Bank of Argentina to the Ministry of Finance reduced the Central Bank to an institution to carry out Government policies, thus losing sight of one of the basic functions of monetary management, namely, to safeguard the value of the currency. Nevertheless, the power of the Central Bank to regulate the volume and distribution of bank credits is very great because since the nationalization of bank deposits in Argentina in April 1946, commercial banks cannot extend credits unless the Central Bank provides them with the required

^{1/} When the Argentine banking system was reorganized in 1946, the financial policy of the National Mortgage Bank was modified and it was stipulated that, in future, the Central Bank would provide the funds required for mortgage operations. Consequently, in June 1946, it was decided to redeem all the mortgage bonds in circulation, which then amounted to M\$N 1,497 million.

Is anything said later about the importance of the credits

funds.^{1/} Commercial banks could extend credits or carry out other transactions without accommodation from the Central Bank, only to the extent permitted by their own capital and reserve funds. Thus, the expansion of credit that these banks could create outside the purview of the Central Bank was indeed very limited. For this reason, the classification of credit operations between the official commercial bank (Banco de la Nacion Argentina) and the private banks is of no importance. In either case, their credit operations are subject to the size of the funds made available by the Central Bank.

Dr. Raul Prebisch, Economic Adviser to the Provisional Government, included in his "Economic Recovery Program"^{2/} the recommendations that (a) the Central Bank should have technical and administrative autonomy, together with full powers to issue general directives, and the supervision of the banking system, and (b) deposits transferred to the Central Bank should be returned to the depository banks, i.e. to reinstate the traditional commercial banking system of credit operations based on bank deposits under the framework of the regulations established by the monetary authorities.

3. Public finances

As shown in Table 16, the financing of the public sector is an important factor in the inordinate expansion of the money supply since 1948. The expansionary impact of the operations of the public sector on the money supply, defined in Table 16 as the increase in total bank credits and investments net of the increase in official deposits, was very pronounced in the years 1948, 1949 and 1953 and was relatively moderate in the years 1950 to 1952. The increase in bank credits to the public sector in 1954 was equal to 14 per cent of the money supply, but a large increase in official deposits considerably reduced the net expansionary impact of the government financing. The growth of official deposits in the first eight months of 1955 was equal to the increment in bank credit to this sector and consequently they had no net effect on the money supply held by the public.

(1) Bank credits to the public sector. Table 18 shows the classification of bank credit extended in the years 1950 to August 1955. Most of these credits were extended to the Argentine Trade Promotions Institute (IAPI), a commercial entity entrusted with the export monopoly of Argentina's agricultural products, except wool, to cover losses resulting from the discrepancy between the international and domestic prices of products marketed by the Institute. From 1950 to August 1955 the total bank credits extended to the IAPI amounted to M\$N 10.96 billion, or two-thirds of the total credits extended to the public sector. Bank advances to meet fiscal needs aggregated in the period some M\$N 4.48 billion, or 27 per cent of the total. These advances, however, appear to have been for financing expenditures not related to the ordinary budget of the National Government, which include only current expenditures. As shown in Table 19, current expenditures of the

1/ A decree-law dated April 24, 1946 established that, as of that date, the nation guarantees all deposits of third parties with the official, private and mixed banks within the Republic, and that these banking institutions were to register such deposits in the name of the Central Bank. Thus, the Central Bank was appointed as the sole receiver of bank deposits in the country, which function is carried out through all the other banks.

2/ Report submitted to the Government on January 7, 1956.

Table 18. Argentina: Changes in Bank Credits to the Public Sector

(In millions of Argentine pesos)

Anything later
about IAPI

	Treasury	Trade Promotion Institute (IAPI)	Public Services	Total ^{1/}
1950	965	-833	341	473
1951	392	430	203	1,025
1952	230	791	129	1,150
1953	2,175	3,061	79	5,315
1954	736	4,515	131	5,382
1955 (through August)	-22	3,001	157	3,136
Total 1950- August 1955	4,476	10,965	1,040	16,481

^{1/} This series differs from the one shown in Table F in the Appendix, Loans and Investments with the Public Sector. For the whole period shown in this table, however, the difference is not significant.

Source: Sintesis Estadistica Mensual de la Republica Argentina (Estadisticas Monetarias: 2. Evolucion de los medios de pago interno).

Table 19. Argentina: National Government's Operational Budget, 1946-55

(In millions of pesos)

Year	Total Appro- priations	Actual Ex- penditures	Actual Tax Revenues	Surplus
1948	4,190	3,740	3,946	206
1949	5,055	4,477	4,582	105
1950	5,826	5,102	5,202	100
1951	8,691	7,704	7,813	109
1952	10,760	9,365	9,437	72
1953	11,035	9,203	9,250	47
1954	10,715	10,078	10,104	26
1955	12,965	n.a.	10,262 ^{1/}	
1956	12,965			

^{1/} Estimate

Source: The Review of the River Plate, May 11, 1954, December 10, 1954 and December 30, 1955.

National Government have been financed entirely with ordinary revenues; in fact, there were small surpluses for the years included in the table. Provincial and municipal governments and certain autonomous entities, however, have incurred deficits which have been financed by the Central Government and by short-term borrowing from the banks. The nationalized transport system has also been incurring substantial operational deficits, which have been met by borrowing from the banks. The outstanding debt of the state railways amounted to M\$N 1.5 billion at the end of 1955. Investment expenditures are not included in the fiscal budget and their financing is made with the proceeds of sales of public debt bonds, which are placed largely with the social security institutes.

No estimate is available of the volume of government investment expenditures, but the increase in public debt bonds may be taken as an indication of its magnitude. Data on the public debt are shown in Table 20. Some capital investments have also been financed with resources derived from the exchange system and with the resources of certain government enterprises.

Table 20. Argentina: Public Debt, 1948-53

(In billions of pesos)

Year	Total	Funded Debt (net)	Floating and Short-Term Debt	Increase	
				Amount	Per Cent
1948	12.9	10.6	2.3		
1949	15.2	13.0	2.2	2.3	17
1950	18.1	16.0	2.1	2.9	19
1951	21.5	19.5	2.0	3.4	19
1952	26.1	24.2	1.9	4.6	22
1953	34.2	31.9	2.3	8.1	31
1954	41.7	39.5	2.2	7.5	22

Source: The Review of the River Plate, May 11, 1954.

(2) Government budget estimates for 1956. The National Government's budget for 1956, shown in Table 21, was based on authorizations in force in 1955. It was regarded by the Minister of the Treasury as transitional, to tide over the first quarter of 1956, while careful study is being made of the various needs of the Government with the aim of introducing economies in subsequent months. At variance with previous years, the 1956 budget includes current government expenses, public works and deficits expected in the transport system. Total expenditures are estimated at M\$N 23.35 billion, while general revenues and other resources are estimated at M\$N 15.95 billion. Thus, a deficit of M\$N 7.40 billion, or about 45 per cent of total ordinary resources, is expected, which is to be financed with the proceeds of bond issues. Appropriations for current government expenditures amount to M\$N 12.96 billion, while total ordinary revenues are estimated at M\$N 13.45 billion, which leaves only M\$N 490 million to cover other expenditures. The estimated deficit in transport services alone amounts to M\$N 3.40 billion. Expenditures on public works are estimated at M\$N 6.99 billion, of which M\$N 2.50 billion will be financed with resources available to the Departments concerned and M\$N 4.49 billion with issues of government bonds.

Table 21. Argentina: National Government Budget for 1956^{1/}

(In millions of pesos)

Expenditures		Revenues	
I. Current expenditures	12,965	I. General revenue	13,455
II. Public works	6,989	II. Resources of certain dependencies for public works	2,500
1. Departmental resources	(2,500)	III. Bond issues	7,399
2. Other resources	(4,489)	1. Bonds to be placed with banks	(1,100)
III. Transport deficit in 1956	3,400	2. Other bond issues	(6,299)
	23,354		23,354

^{1/} Does not include autonomous dependencies and special account services which have their own resources.

Source: The Review of the River Plate, December 30, 1955.

In addition to the expenditures included in the 1956 government budget, an estimated expenditure of M\$N 4,800 million will have to be made during the year to cover certain urgent government investments and the increases in public employees' wages authorized last February. It is expected that some M\$N 4,100 million of this expenditure will be financed with resources derived from special increases in taxes and with other funds available for such purpose. An emergency tax on income and excess profits was established for 1956 only, the surcharge being equivalent to 20 per cent of the amount of income and excess profit taxes corresponding to 1955. The balance would be met with bank advances. These expenditures and resources are shown in the following table.

Table 22. Argentina: Additional Government Expenditures in 1956.

(In millions of pesos)

Expenditures		Resources	
Increased gov't. salaries	1,000	Special increase in taxation	1,100
Government investments	3,800	National Power Fund	1,700
Construction oil and gas pipelines	(1,200)	Miscellaneous resources	1,300
Steel industry	(300)	Total	4,100
Electricity, gas, coal and normal oil industry inv'ts.	(1,800)	Deficit-bank credits	700
Low-cost housing	(500)	Total	4,800
Total	4,800		

Source: Dr. Prebisch's Economic Recovery Program, Report submitted to the Provisional President of Argentina, January 7, 1956.

Consequently, the over-all government deficit in the 1956 fiscal year may be estimated at some M\$N 8.1 billion (deficit expected in the original budget M\$N 7.4 billion, plus the M\$N 0.7 billion deficit resulting from additional expenditures). The Government expects that some M\$N 7.4 billion of the deficit will be financed with the proceeds of government bond issues. Of this amount, M\$N 6.0 billion is to be placed with the Pension Funds, and M\$N 1.1 billion with the banks. The Prebisch report indicates that the absorption by the banks would be done by means of the normal increases in the capital, reserves and profits of banks and that it would not, therefore, have any expansionary impact on the money supply. The remaining M\$N 1.0 billion of the estimated deficit will be financed with advances from banks. The Government's recourse to the banking system in 1956 would be considerably less than in the past few years when bank credits to the public sector exceeded M\$N 5 billion per year.

No data are available on the over-all deficits of the public sector in previous years to make a comparison with the estimated deficit for 1956. However, an approximate idea of such deficits may be obtained from figures showing the increase in public debt and in bank credits to the public sector, net of increases in official deposits. This is done in the following table which shows that the aggregate deficits of the public sector were in the neighbourhood of M\$N 10 billion in 1953 and 1954. This figure includes the deficits of the provincial and municipal governments, which, however, are not large enough to invalidate comparison with the M\$N 8.1 billion deficit estimated in the 1956 National Government's budget. From these figures, it appears that the authorities expect to effect a reduction in government deficits in 1956. One important source of deficit, that incurred by the IAPI, has been eliminated with the new exchange and price policies and the restoration of agricultural exports through private channels.

Table 23. Argentina: Estimated Deficits of the Government

(In billions of pesos)

	1952	1953	1954	1955	1956
Increases in:					
1. Bank credits, ^{1/} net of official deposits	0.6	2.2	1.6	n.a.	
2. Public debt	<u>4.6</u>	<u>8.1</u>	<u>7.5</u>	n.a.	
Total (estimated deficits)	5.2	10.3	9.1	n.a.	8.1 ^{2/}

^{1/} Do not include bank holdings of public bonds.

^{2/} Estimated in the 1956 budget.

Sources: Table 20, and Sintesis Estadistica Mensual.

(3) Revision of the tax system. By a decree issued on February 22, 1956 the Argentine Government introduced important changes in the tax system. According to the text of the decree, the objectives of the tax reform are to increase the burden of taxation on large incomes and superfluous consumption, to create incentives for productive investment, and to lighten the burden of taxes on essential consumption or that having an excessive effect on the family budget.

Consequently, the income tax rate schedule was made more progressive, higher deductions being permitted for low incomes and more liberal exemptions for desirable investment expenditures. The capital gains tax rates were increased and numerous changes were made in various internal taxes, the seal tax, the real estate tax, etc. The decree also established an emergency tax for 1956 only, equivalent to 20 per cent of the amount of income and excess profit taxes corresponding to 1955.

While most of the tax rate increases and expected higher yields will be offset by the reduction in the yield of other taxes, the new tax rate structure is expected to result in an increase in revenue to the state. The emergency tax for 1956 was primarily intended to provide some M\$N 1.1 billion of additional revenue in 1956. It was estimated that the revised tax structure would yield an additional revenue of M\$N 1.5 billion, or about 11 per cent of ordinary revenues in 1956.

4. Economic development program

The present Argentine authorities believe that the country has lagged in the development of basic industries necessary for the balanced growth of the economy. The transportation system, electric production and the petroleum and steel industries are inadequate for the country's needs. Bottlenecks have developed in the movement of goods, and unutilized industrial plant capacity for lack of electric power, while an increased amount of the country's international monetary reserves had to be used in the importation of fuel, steel and other raw materials.

According to recent official statements, the Government's efforts will be aimed at the development of these basic industries as quickly as possible. These investment needs are outlined in Dr. Prebisch's reports to the provisional government. The main capital investment projects, which are part of the economic recovery program, under active consideration by the Government include:

For which periods?

a. A program for the speeding up of petroleum production. Capital investments required were estimated at \$200 million for expenditures abroad and M\$N 3,000 million (about \$167 million at the 18 pesos rate) for local expenditures. A recent press dispatch from Buenos Aires reports that the Government has called bids for participation in its oil development project;

b. Transportation system. Import needs for transport materials have been estimated at \$1,370 million. This program includes the replacement of a large proportion of existing locomotives, wagons and other rail equipment;

c. The establishment of a steel industry. A \$60 million loan was obtained from the Export-Import Bank of Washington at the end of February 1956 for the external financing of this project.

d. The expansion of electric power plant capacity. It was estimated that the electric power needed currently for public services in greater Buenos Aires, which accounts for

70 per cent of the country's total power consumption, is 1,150 million kilowatts against the present capacity of only 840,000 kilowatts, and that it will be necessary to double the installed capacity by 1956;

1966 3

e. The public works program, which includes the reconstruction and extension of roads and highways and the improvement and modernization of waterworks and port facilities, and the acceleration of dwelling-house construction.

The Prebisch Report indicates that the implementation of this investment plan will require considerable technical effort and financial resources which cannot be raised in the country. In this connection, Dr. Prebisch remarks that the International Bank for Reconstruction and Development and the Export-Import Bank in Washington could play an important role in the execution of the economic recovery program, and suggests the advisability of Argentine joining the Fund and the International Bank.

How much of budget exp. is for defense 3
Will it be possible to reduce them 2

According to recent official statements, the Government's efforts will be aimed at the development of these basic industries as a priority as possible. These investment needs are outlined in Dr. Prebisch's report to the provincial governments. The main capital investment projects, which are part of the economic recovery program, under active consideration by the Government include:

- a. A program for the speeding up of petroleum production. Capital investments required were estimated at \$200 million for expenditures abroad and \$1,000 million (about \$100 million at the 18 per cent rate) for local expenditures. A recent year's budget from Buenos Aires reports that the Government has called bids for participation in the oil development projects.
- b. Transportation system. Import needs for transport are certain have been estimated at \$1,200 million. This program includes the replacement of a large proportion of existing locomotives, wagons and other rail equipment.
- c. The establishment of a steel industry. A \$60 million loan was obtained from the Export-Import Bank of Washington at the end of February 1956 for the external financing of this project.
- d. The expansion of electric power plant capacity. It was estimated that the electric power needed currently for public services in greater Buenos Aires, which accounts for

III. International Position

1. Balance of payments

Like most Latin American countries, Argentina's balance of payments is dominated by its foreign trade. Other current transactions are of small significance and the trade balance is generally a good measure of Argentina's position in its current balance of payments. The volume of long-term capital inflow has been relatively small in the past years and, consequently, Argentina's capacity for international payments has become more dependent on the volume of exports and the terms of trade.

Balance of payments estimates for the years 1948-54 are shown in table 24. No estimate for the year 1955 is yet available. In 1952, Argentina had an unusually large trade deficit caused by a sharp drop in exports, which in turn resulted from a disastrous agricultural crop in the 1951/52 season. The resulting balance of payments deficit was met primarily by drawing down the country's international reserves, and to some extent with a net inflow of private capital. The balance of payments reckoning shows a decline in reserves by US\$373.4 million in 1952, which were however replaced in 1953 and 1954 when the balance of payments turned again favorable to Argentina. The surplus in the balance of payments in 1953 and 1954 resulted from the recovery of exports from the very low level recorded in 1952, and also from a significant cut in imports, achieved through stricter exchange and import controls.

The reduction of imports in 1953 and 1954 was facilitated by the relatively good supply of foreign goods in the local market provided by the high level of imports in the preceding years. This condition no longer existed in 1955, and the need for higher imports coincided with a decline in the value of exports. Preliminary estimates included in the Prebisch Report to the Provisional President ^{1/} indicate a trade deficit of US\$198 million, and a net income from other concepts of US\$12 million. Thus, the estimated decline in international reserves in 1955 would amount to US\$186 million.

The net inflow of recorded private capital was at the highest level in 1951 (since 1948) when it reached US\$146 million. Part of this inflow of private capital into Argentina came from Europe when the Korean crisis caused uncertainties in European financial centers. The inflow of private capital declined steadily in the following years to US\$38 million in 1954. Relative to the value of imports it declined from 10 per cent in 1951 to 4 per cent in 1954. This capital is believed to represent largely changes in direct foreign investments in Argentina.

^{1/} Submitted in October 1955.

Table 24. Argentina: Balance of International Payments 1/
(In millions of U.S. dollars)

	1948	1949	1950	1951	1952	1953	1954 2/	1955 3/
A. Current Transactions								
Exports f.o.b.	1,407.2	933.8	1,167.6	1,178.0	709.4	1,165.6	1,062.0	906
Imports	1,491.4	1,072.6	1,045.4	1,441.8	1,195.8	876.8	954.8	1,104
Trade balance	-84.2	-138.8	122.2	-263.8	-486.4	288.8	107.2	-198
Transportation (net)	50.4	32.8	18.4	31.4	61.0	36.6	51.2	
Investment income (net)	-7.6	-9.8	-3.0	-28.4	-4.8	-6.8	-12.4	
Gov't not included elsewhere (net)	-35.8	-33.6	-26.0	-25.8	-23.4	-27.8	-25.2	
Miscellaneous (net)	-4.0	11.4	2.0	12.8	-10.4	-13.8	-1.8	12 *
Net goods & services	-81.2	-138.0	113.6	-273.8	-464.0	277.0	119.0	-186
B. Capital Movements (net)	-105.4	73.4	-39.8	253.0	446.6	-305.8	-40.6	
Private (net)	5.8	39.4	46.6	146.0	68.1	45.5	38.2	
Official & banking institutions (net)								
a) Long-term liabilities (net)	-428.6	-2.6	—	88.4	5.1	2.9	-8.6	
Eximbank loans	—	—	—	92.0	5.1	2.9	-8.6	
Debt repatriation	-428.6	-2.6	—	-3.6	—	—	—	
b) Monetary movements	317.4	36.6	-86.4	18.6	373.4	-354.2	-70.2	186
Pay'ts & clearing agree'ts & other short-term assets (net) (increase-)	198.2	81.0	-86.4	50.2	391.8	-269.2	-70.2	
Monetary gold (increase-)	119.2	-44.4	—	-31.6	-18.4	-85.0	—	
C. Net Errors & Omissions	186.6	64.6	-73.8	20.8	17.4	28.8	-78.4	—

1/ No sign indicates credit; minus sign indicates debit.

2/ Preliminary.

3/ Forecast in Dr. Prebisch's report to the Provisional Government.

* Other receipts \$114 million; other payments \$102 million.

Source: IMF Balance of Payments Yearbooks.

Any arrears now? Any defaults on loans

Capital movements of official and banking institutions have changed in magnitude and in direction throughout the period (1948-54). The largest inflow was recorded in 1951 when Argentina drew US\$92 million on the US\$125 million loan granted in 1950 by the Export-Import Bank of Washington to a consortium of Argentinian banks to assist Argentina in the liquidation of private and Government short-term dollar debts to U.S. commercial creditors.^{1/} The Export-Import Bank also extended in 1950 a US\$5 million loan to the Mining Society of Argentina. The drawings on this loan were made in 1952-1954 (US\$0.5 million, US\$2.9 million, and US\$1.0 million, respectively). In 1954 there was a net outflow of capital of US\$8.6 million, corresponding to the first amortization payment on the Export-Import Bank loan to the consortium of Argentinian banks (US\$9.6 million) and a drawing on the Export-Import Bank to the Mining Society (US\$1.0 million).

At the end of February 1956, the Export-Import Bank of Washington authorized a US\$60 million line of credit to assist in the financing of U.S. exports to Argentina, of equipment, materials, and services for the construction of a steel mill. The loan bears interest at the rate of 5 per cent with repayment over an 18-year period starting in 1959.

2. Official gold and foreign exchange reserves

The Central Bank of Argentina, which keeps the country's official reserves, shows in its financial statement gold and foreign exchange assets and liabilities in terms of the domestic currency. Unfortunately, rates of exchange for the conversion of foreign exchange into pesos is not known to the staff. It is believed, however, that there has been no change in the rates used for such conversions in the past years, and therefore, the data available, shown in table 25, are adequate to show the fluctuations in Argentina's real holdings of international reserves.

In 1955 foreign exchange assets of the Central Bank declined by 24 per cent while its foreign exchange liabilities increased by 113 per cent. At the end of 1955, the net foreign exchange position of the Central Bank was negative by M\$N250 million, compared with a net asset position of M\$N1,390 million at the end of 1954. Gold holdings did not change in this period. This decline in reserves is associated with the balance of payments deficits in 1955 referred to earlier. The official reserves at the end of 1955 were at the lowest level in the post-war period, excepting the year 1952.

^{1/} Of the original US\$125 million loan, US\$28.4 million was canceled and the balance drawn (US\$96.6 million) is repayable in ten years beginning in 1954.

What kind of liabilities

Table 25. Argentina: Official Gold and Foreign Exchange Reserves^{1/}
(In millions of Argentine pesos)

End of	Gold	Foreign Exchange			Total Gold and Net Foreign Exchange
		Assets	Liabilities	Net Assets	
1947	1,030	2,656	41	2,615	3,645
1948	434	2,361	370	1,991	2,425
1949	656	1,883	541	1,342	1,998
1950	656	3,691	658	2,033	2,689
1951	813	2,179	1,127	1,052	1,865
1952	906	1,706	1,529	177	1,083
1953	1,623	2,232	770	1,462	3,085
1954	1,623	2,345	955	1,390	3,013
1955	1,623	1,786	2,036	- 250	1,373

^{1/} Holdings of the Central Bank of Argentina

Source: Síntesis Estadística Mensual de la República Argentina.

The Prebisch Report to the Provisional President (October 1955) indicated that pending commitments at the end of 1955 would amount to some US\$757 million, ^{1/} most of which will be due in the next five years, and that the country's international reserves amounted to only US\$450 million.

3. Foreign trade

In Argentina, like in most Latin American countries, foreign trade plays the dynamic function that investments play in the economy of highly industrialized countries. Investments and industrial production in Argentina to a high degree are affected by the level of imports of capital goods, fuel, and raw materials used by the domestic industry. These products account for about 80 per cent of total imports in Argentina. Since the capacity for foreign payments is largely determined by the country's exports, the volume of imports, therefore, is associated mainly with the quantum of exports and the terms of trade. This relationship, however, is not apparent from a year-to-year comparison of export and import quanta

^{1/} These commitments include:

Credit availments under bilateral trade agreements	US\$233 million
Debt in respect of deferred-payments imports	" 409 "
Owing to Export-Import Bank	" 57 "
Sundry items	" 58 "

Figures for various years

partly because import fluctuations have tended to lag one year behind exports and because part of the imports may have been financed with the country's foreign exchange reserves or with inflow of foreign capital (short- and long-term).

As shown in Table 26, the index of the purchasing power of Argentina's exports, i.e., the ability of exports to command foreign goods, was at the highest level in the immediate post-war years until 1948 as a result of large exports and favorable terms of trade. In these years the volume of imports was exceptionally high and the expansion of the real gross national product was impressive, reaching the highest level in 1948. The decline in exports in the following years until 1952, aggravated by a reversal in the terms of trade against Argentina, led to a contraction of imports which was largely responsible for the fall in the real GNP in those years. As indicated elsewhere, the conditions were worse in 1952 as a result of the poor crop in that year. The subsequent recovery of the GNP was also associated with a recovery in the foreign trade and some improvement in the terms of trade.

Table 26. Argentina: Foreign Trade Indices, 1948-54

(1950 = 100)

	Terms of Trade (A)	Quantum of Exports (B)	Quantum of Imports (C)	Purchasing Power of Exports (A) x (B) (D)
1946	96.0	123.0	81.5	118.1
1947	101.3	115.5	162.5	117.0
1948	117.6	97.3	165.4	114.4
1949	101.0	72.5	116.8	73.2
1950	100.0	100.0	100.0	100.0
1951	97.2	78.6	114.2	76.4
1952	73.3	51.0	82.3	37.4
1953	74.3	88.9	70.5	66.1
1954	77.9	94.9	88.6	73.9
1955 ^{1/}	75.0	93.0	102.0	70.0

^{1/} Preliminary estimates based on IFS data on Latin America foreign trade price indices.

Sources: Producto e Ingreso Nacional de la República Argentina, Secretaría de Asuntos Económicos, Buenos Aires, 1955, ECLA.

In 1955 a deterioration in Argentina's terms of trade and a reduced volume of exports caused by poor grain crops, with the exception of wheat, affected the country's capacity to make foreign payments. Thus, the higher volume of imports was financed chiefly with its foreign exchange reserves and with increases in liabilities to foreign banks and in bilateral agreement accounts.

(1) Exports. Argentina's foreign trade statistics are published in Argentine pesos with no indication as to the rate of exchange used in converting the foreign exchange value of exports and imports into pesos. Because various exchange rates are used in these transactions, these statistics lose much of their value in revealing the external significance of such transactions. Nevertheless, in order to give an approximate idea of the relative significance of the value of the products which compose Argentina's exports, such data were used in Table 27.

Livestock and agricultural products participate approximately equally in Argentina's exports and together they account for over 90 per cent of total export values. Forest, mining and game products, chiefly quebracho extract, account for about 6 per cent, and manufacturing and miscellaneous for about 3 per cent. Table 27 also shows the volume of exports in the years 1950-54. The wide fluctuations in the volume of exports, ranging from 3,038 thousand tons in 1952 to 9,690 thousand tons in 1954, reflect primarily the great dependency of Argentina's exports on natural factors. The unusually large volume of exports in 1954 was chiefly due to exports of cereals (wheat, corn, rye, oats, and barley) while in 1955 the decline in the volume of exports was also due to smaller exports of cereals, except wheat, which was the highest in the last decade.

As shown in Table 12, the 1955/56 wheat crop will be substantially smaller than in previous years and, although the stock carried over from the preceding season was larger than normal, the total supply and hence the exportable surplus will be one of the lowest in the past years. Exportable surplus in 1956 has been estimated at 2.2 million tons (allowing for contingency reserves of 1 million tons) compared with 3.5 million tons of wheat exported in 1955.

Exports of rye, oats and barley will also decline in 1956 on account of smaller supply, while corn shipments are expected to show a substantial increase, although not large enough to compensate for the decline in exports of other cereals. Exports of linseeds and linseed oil will be only a small fraction of customary exports, due to a sharp drop in production. On the other hand, exports of livestock products may be expected to increase during 1956, and wool shipments will be approximately equal to 1955.

Nearly one third of the wheat exported by Argentina in 1955 went to Brazil^{1/} and most of the balance to West European countries, the largest shipments going to Italy. Other cereals are almost entirely exported to

1/ In 1955 the Governments of Argentina and Brazil signed a three-year agreement calling for annual shipments to Brazil of 1.2 million tons of wheat (exports to Brazil amounted to 1,265 thousand tons in 1955). It was provided that the figure agreed upon would only apply when the exportable surplus amounted to at least 3 million tons. If the surplus was smaller than this amount, Argentina's commitments would be limited to 30 per cent of the estimated surplus.

Table 27. Argentina: Composition of Exports, Years 1950-54

	1950	1951	1952	1953	1954	1955 ^{1/}
I. Volume. In thousands of metric tons						
Livestock products	1,082	755	710	803	737	
Meat	346	294	236	269	284	285
Meat by-products	235	168	122	129	133	
Hides	240	127	163	151	144	146
Wool	142	60	106	155	98	105
Dairy products	43	29	25	60	54	
Cattle in the hoof	76	75	58	39	24	
Agricultural products	6,106	4,714	2,102	6,258	8,756	
Cereals & linseeds	4,366	3,504	1,118	4,784	7,390	4,868
Flour & wheat by-products	255	219	55	403	420	300
Other	1,485	991	929	1,071	946	
Forest, mining and game products	242	271	193	189	160	
Manufacturing & other	44	50	33	36	36	
Gross Total Volume	7,474	5,788	3,038	7,286	9,690	
II. In Percentage of Total Peso-Value of Exports						
Livestock products	50	45	55	48	47	
Meat & by-products	16	19	25	21	24	
Hides	13	8	9	6	7	
Wool	16	14	16	16	11	
Dairy products	3	2	3	4	4	
Cattle in the hoof	2	2	2	1	1	
Agricultural products	43	46	34	44	46	
Cereals & linseeds	21	23	14	27	31	
Flour & wheat by-products	1	1	0	1	2	
Other	21	22	20	16	13	
Forest, mining & game products	4	5	8	6	5	
Manufacturing & other	3	4	3	2	2	
Total	100	100	100	100	100	

^{1/} Preliminary estimates based on data compiled by The Review of the River Plate.

Source: Sintésis Estadística Mensual de la República Argentina.

Table 28. Argentina: Composition of Imports, 1951-54^{1/}

	1951	1952	1953	1954
<u>I. Value, in millions of dollars^{1/}</u>				
Fuels and lubricants	219.0	253.5	197.5	183.4
Iron and manufactures	208.9	149.8	72.3	141.4
Metals and manufactures	88.6	57.1	42.6	49.4
Machinery and vehicles	250.2	194.3	214.6	174.4
Lumber and products	115.1	94.5	58.0	83.7
Paper and products	55.3	63.8	8.7	13.2
Chemicals and pharmaceuticals	111.5	59.4	55.3	84.0
Textiles and manufactures	138.6	109.8	74.9	58.7
Foodstuffs and beverages	63.7	72.5	77.5	95.7
Other	190.9	141.1	75.3	70.9
Total	1,441.8	1,195.8	876.8	954.8
<u>II. In percentage of total value</u>				
Fuels and lubricants	15	21	23	19
Iron and manufactures	14	13	8	15
Metals and manufactures	6	5	5	6
Machinery and vehicles	18	16	24	18
Lumber and products	8	8	7	9
Paper and products	4	5	1	1
Chemicals and pharmaceuticals	8	5	6	9
Textiles and manufactures	10	9	9	6
Foodstuffs and beverages	4	6	9	10
Other	13	12	8	7
Total	100	100	100	100

^{1/} Approximate dollar values. Converted from pesos as follows: fuels and lubricants at the rate of M\$N 5 per dollar. The dollar values of other imports were computed using a weighted average rate of all imports other than fuels and lubricants. Hence the groups of products where nonessential imports predominate, i.e., those coming in at the M\$N 14 rate, show inflated figures and vice versa. The broad grouping of commodities makes it difficult to distinguish one type of import from another.

Source: Síntesis Estadística Mensual de la República Argentina.

European countries. Argentina's traditional export market for meat is the United Kingdom, and her largest market for wool is the United States. Large quantities of quebracho extract, casein and canned meat are also marketed in the United States.

(2) Imports. The difficulties encountered in studying export values are also present here, for the same reason stated previously. Consequently, the figures shown in Table 28 are only rough estimates of the value of Argentine imports, expressed in U.S. dollars. The method of conversion is indicated in the table. Nevertheless, in spite of the inaccuracy of the estimates, they are believed to give a satisfactory indication of the real composition of Argentina's imports. The table shows that fuels and lubricants take the largest share of imports, on the average accounting for some 26 per cent of the total; imports of machinery and vehicles are equally significant. From the classification of imports, as published in current Argentine foreign trade statistics, it is difficult to segregate raw materials but it is reported that these goods account for as much as 40 per cent of imports.

Imports of foodstuffs accounted for about 10 per cent of the 1954 total. Over the past five years these imports have increased gradually. In 1952 wheat had to be imported and in the following years the shortage of domestic edible oils had to be supplemented with imports. From a net exporter of edible oils, Argentina in 1954 became an importer. In 1956 Argentina will import some 80,000 tons of edible oils from the United States, at a value of US\$25.3 million, under the U.S. surplus disposal program. Argentina will pay for these imports in pesos and therefore will not absorb its foreign exchange reserves. The purchase agreement with the United States provides that 70 per cent of the peso value is to be loaned back to Argentina for financing economic development projects.

(3) Geographical pattern of trade and commercial policies. About half of Argentina's foreign trade is conducted with Europe, the United Kingdom being the main European market for Argentine products and Germany her main supplier. Trade with the Western Hemisphere is somewhat less than with Europe, although the United States is the largest single trade partner of Argentina. However, as shown in Table 29, Argentina's trade with the United States has declined in the past years. Normally surpluses tend to develop in her trade with Europe and deficits with the Western Hemisphere.

As a result of this geographical pattern of trade and of the inconvertibility of European currencies, Argentina has tended to conduct her foreign trade through bilateral agreements with the aim of preserving her gold and convertible foreign exchange reserves and of enhancing her foreign trade. In fact, Argentina has been engaged intensively in negotiating bilateral trade, payments, and clearing agreements with European and Latin American countries. A very large proportion of Argentina's foreign trade has been conducted through bilateral agreements. It may be said that bilateralism has been the outstanding characteristic of Argentina's commercial policy and the principal instrument used for the control and planning of her trade and financial arrangement with other countries. This policy may soon be revised. Dr. Prebisch, the economic adviser to the Provisional President, suggested in his report on the "Economic Recovery Program" the revision of bilateral trade agreements in the European trade sectors with a view to

facilitating multilateral trading and the progressive expansion thereof.^{1/}

Table 29. Argentina: Direction of Foreign Trade, 1952-54

(Percentage distribution)

	Exports			Imports		
	1952	1953	1954	1952	1953	1954
<u>Western Hemisphere</u>	<u>42</u>	<u>42</u>	<u>32</u>	<u>46</u>	<u>48</u>	<u>42</u>
United States	25	19	14	18	17	14
Brazil	7	16	9	11	11	12
Chile	4	3	5	4	5	4
Peru	3	1	1	2	2	2
<u>Europe, excluding USSR</u>	<u>55</u>	<u>50</u>	<u>57</u>	<u>47</u>	<u>38</u>	<u>41</u>
United Kingdom	14	20	18	6	6	7
West Germany	5	4	10	8	14	9
France	8	4	5	7	3	5
Italy	2	5	3	3	5	4
Netherlands	4	4	6	3	3	3
<u>Asia, excluding USSR</u>	<u>2</u>	<u>6</u>	<u>5</u>	<u>7</u>	<u>14</u>	<u>14</u>
Japan	1	5	4	2	2	5
India	0	1	0	1	6	4
<u>Other Areas</u>	<u>1</u>	<u>2</u>	<u>6</u>	<u>0</u>	<u>0</u>	<u>3</u>
USSR	—	1	5	—	—	3
Africa and Oceania	1	1	1	0	0	0
Total	100	100	100	100	100	100

Source: Sintesis Estadistica Mensual de la Republica Argentina.

The present Government has already taken significant measures for the liberalization of the country's foreign trade. The liquidation of the IAPI, decreed at the end of 1955, has been one such step. This official institute had carried on most of Argentina's export trade. With the termination of the IAPI's export monopoly, which included most farm and pastoral products, exports

^{1/} News despatch from Buenos Aires (March 9, 1956) indicates that the Argentine Government reportedly has sent notes to the German and Austrian Embassies proposing revision of rigid bilateral trade treaties in order to make multilateral trade possible. Similar notes may be sent to each of the 22 countries linked by trade agreements with Argentina. Under this system Argentina's foreign trade would be divided into four areas: (1) the dollar area, with which trade has always been on a multilateral basis; (2) the neighbouring countries, Brazil, Uruguay, Paraguay and Chile, with which trade would be governed by an agreement based on the U.S. dollar; (3) the E.P.U. countries; and (4) the eastern-bloc countries. The multilateralism reigning inside each of these areas would be a first step towards a free trading system. The Argentine Government is said to be seeking "equality of access to different markets without discrimination, and the sale of Argentine products at world prices."

will again be made through private channels. The opening of a free exchange market, in October 1955, for minor exports, certain imports, and capital movements may also be considered as a step toward the gradual liberalization of Argentina's foreign trade.

4. Balance of payments prospects for 1956.

The substantial devaluation of the Argentine peso on October 27, 1955, a single official rate of M\$N 18 per dollar and a free exchange market for minor exports, non-essential imports and invisibles replacing the rates of M\$N 5, M\$N 7.50 and M\$N 13.95 per U.S. dollar, redressed the position of Argentine export products and may prove effective in discouraging excessive imports if the prevalent inflationary conditions are effectively checked. Higher minimum prices for agricultural products decreed by the Government toward the end of 1955 were also intended to increase exports by expanding production. It appears, however, that the effects of these measures will not be significant in 1956 as the new exchange and price policy was introduced at the time the current harvest was underway.

no before hand for 1956

Agricultural production in 1956 is expected to be lower than in 1955 as a result of smaller sowings and unfavorable weather conditions. It was indicated earlier that the production of wheat, linseed, and other cereals will be smaller in 1956. The expected increase in corn production will not be large enough to compensate for the decline in exports of other grains. It may be pointed out, however, that the decrease in the exportable production of grains would not be as large as indicated by the decline in production because increased domestic prices would tend to decrease to some extent domestic consumption and thus increase exportable surpluses. An increase in meat exports may be expected as a result of the higher prices extended to this product.

The more liberal terms granted to foreign capital in Argentina^{1/} would create favorable conditions for an increased inflow of foreign capital. The result of the balance of payments in 1956 may largely depend on the magnitude of the response of foreign capital to the new conditions now prevailing in Argentina. An improvement in the balance of payments will also depend on the behavior of import and export prices. The devaluation of the Argentine peso was intended primarily to render higher domestic monetary income to producers but it may also decrease Argentina's export prices. Assuming that import prices remain unchanged, the terms of trade would be affected to the extent of the fall in export prices. It seems, however, that this factor may not be of major significance in the determination of Argentina's balance of payments in 1956.

5. The October 1955 devaluation and the exchange system.

On October 27, 1955 the Argentine Government announced a change in the value of the peso, a single rate of M\$N 18 per dollar replacing the past multiple rate structure. Previously the exchange rate structure of Argentina consisted basically of a rate of M\$N 5 per dollar applied to main exports and some essential imports (combustibles and government payments); a rate of M\$N 7.5 per dollar was applied to exports not controlled by the State Trading

^{1/} See next section.

Institute and to imports of raw materials and foodstuffs; and a rate of about M\$N 14 per dollar to the remaining transactions in foreign exchange. This exchange rate structure had been in effect since August 1950 and there were only minor changes, such as establishing some mixed rates for exports like wool and other raw materials. The curb market was used mainly for certain invisibles and financial remittances, its quotation at the time of the devaluation being about M\$N 28.30 per dollar.

The devaluation attempts mainly to restore the internal and external price relationships and to give price incentives for increasing agricultural output. The maintenance of a rigid exchange rate structure at a time of rising internal prices and falling external prices led to a growing imbalance in the domestic and foreign price structure. Under such conditions exports were facilitated by the payment of subsidies, the mounting costs of which, financed with bank credits, became strongly inflationary. The new exchange rate of M\$N 18 per dollar restored this price relationship and permitted further substantial domestic price increases of export products, considering the level of international prices at the time of the devaluation. In order to minimize the decline in foreign prices resulting from the devaluation and to transfer the benefits of the measure to producers to the fullest extent possible, the authorities raised the support prices for agricultural products, established minimum requirements for exchange surrendered in the official market and applied exchange surcharges ("retentions") roughly corresponding to the remaining difference between domestic and foreign prices.

(1) Characteristics of the new exchange and restrictive system. The exchange reform that accompanied the devaluation established two exchange markets; the official market with a fixed exchange rate of M\$N 18 per dollar and the free market with fluctuating rate determined by market forces. Since the inception of the legal free market, the peso showed a continued weakness and the dollar quotations rose gradually from about M\$N 30 to about M\$N 42 per dollar in February 1956.

Transactions in the official market include exchanges corresponding to exports, imports of combustibles, essential foodstuffs and raw materials, and to Government payments. The effective rates applied to exports through the official market are not uniform however, as a "retention" or tax of up to 25 per cent of the domestic currency equivalent of export exchange was established. According to the pertinent government decree the "retention" will be temporary, the aim being to minimize the undesirable effects of the devaluation.

Transactions pertaining to the free exchange markets are minor exports, most other imports not included in the official market, invisible transactions and capital movements. Import of commodities not included in the official or free market is prohibited. Imports coming through the free market do not require license, but a long list of goods is subject to an exchange surcharge of M\$N 20 per dollar or the equivalent in other currencies computed on the c. & f. value of the goods. The Minister of Finance is authorized to establish the surcharges in accordance with the degree of essentiality of the goods, as defined by the authorities. A summary of the present exchange rate structure is shown in Table G, in the statistical appendix.

not cif

not
a tax

Table C. Argentina: Gross National Product or Expenditure,
at Constant 1950 Prices, Years 1935, 1940, 1945-55

	Consumption			Gross Domestic Investments				Net Invest- ments Abroad	Total GNP	
	Pri- vate	Govern- ment	Total	Con- struc- tion	Durable Produc- tion Equipment Total	Produc- tion Repairs	Changes in Stock			
I. In billions of pesos, at 1950 prices										
1935	23.9	3.2	27.1	3.6	3.4	0.7	0.8	7.9	0.2	35.2
1940	29.7	4.0	33.7	4.5	3.8	1.0	0.1	8.4	-0.8	41.3
1945	31.2	6.7	37.9	5.9	2.5	1.1	-1.2	7.2	2.9	48.0
1946	32.4	6.5	38.9	6.4	4.5	1.1	0.7	11.6	3.6	54.1
1947	35.4	6.9	42.3	6.5	10.0	1.2	2.3	18.7	1.6	62.6
1948	38.1	8.2	46.3	8.2	8.9	1.2	2.1	19.2	0.4	65.9
1949	42.1	7.6	49.7	9.0	5.6	1.2	-0.7	13.9	-0.8	62.8
1950	40.6	7.7	48.3	9.5	4.8	1.2	-0.7	13.6	0.4	62.2
1951	41.9	7.9	49.8	9.3	5.4	1.3	1.2	16.0	-1.7	64.0
1952	38.9	8.0	46.9	8.1	5.2	1.4	1.2	14.5	-1.7	59.7
1953	42.0	8.3	50.3	7.6	5.1	1.5	-1.1	11.6	0.5	63.0
1954	43.1	8.3	51.4	8.5	4.8	1.5	0.7	14.0	0.5	65.9
1955										68.5 1/
II. In Percentages of the GNP										
1935-39 Aver.	66.4	9.6	76.0	11.7	11.3		0.8	23.9	0.2	100.0
1940-44 Aver.	68.6	10.3	78.9	11.3	6.4		0.9	18.6	2.5	100.0
1945-49 Aver.	61.3	12.3	73.6	12.3	10.3		0.9	23.5	2.9	100.0
1950-54 Aver.	65.6	12.8	78.4	13.6	8.0		0.5	22.1		100.0
1950	65.2	12.4	77.6	15.2	7.7		-1.1	21.8	0.6	100.0
1951	65.4	12.3	77.7	14.5	8.5		1.9	24.9	-2.6	100.0
1952	65.1	13.5	78.6	13.5	8.7		2.0	24.2	-2.8	100.0
1953	66.8	13.1	79.9	12.1	8.1		-1.8	18.4	1.7	100.0
1954	65.4	12.6	78.0	12.8	7.3		1.1	21.2	0.8	100.0

1/ Preliminary estimate (Dr. Prebisch's Report).

Source: Producto e Ingreso de la República Argentina, 1935-54. Secretaría de Asuntos Económicos, Buenos Aires, 1955. (Tables 18, 19, and 20)

Table B. Argentina: Gross Domestic Product, by Industrial Origin
Gross Value Added by Factors in Percentage of Total

	Agricul- ture	Stock- breed- ing	Mining and Fishing	Manufac- turing Indus- tries	Con- struc- tion	Com- merce	Transporta- tion, Com- munications, Other Public Utilities	Housing, Finance and Service	Government Services	Total
1935-39 Aver.	14.9	10.6	1.4	15.7	2.5	13.8	11.6	21.1	8.4	100.0
1940-44 "	10.7	12.1	1.6	19.7	3.0	15.4	10.4	19.1	8.0	100.0
1945-49 "	10.6	8.5	1.1	23.1	4.9	18.2	10.0	15.6	8.0	100.0
1950-54 "	9.0	9.0	1.1	21.9	6.0	16.4	11.5	15.3	9.8	100.0
1950	7.5	8.0	1.2	23.4	7.3	17.1	11.1	15.3	9.1	100.0
1951	8.3	9.0	1.1	22.7	6.3	18.2	11.2	14.4	8.8	100.0
1952	7.2	9.2	1.3	22.3	5.8	17.0	11.8	15.5	9.9	100.0
1953	11.8	9.9	1.1	19.8	5.0	14.9	11.9	15.3	10.3	100.0
1954	10.1	8.7	1.1	21.3	5.6	14.7	11.6	16.1	10.8	100.0

Source: Producto e Ingreso de la República Argentina, 1935-54. Secretaría de Asuntos Económicos. Buenos Aires, 1955. (Table 3)

Table C. Argentina: Gross National Product or Expenditure,
at Constant 1950 Prices, Years 1935, 1940, 1945-55

	Consumption			Gross Domestic Investments				Net Invest- ments Abroad	Total GNP	
	Pri- vate	Govern- ment	Total	Con- struc- tion	Durable Produc- tion Equipment Total Repairs	Changes in Stock	Total			
I. In billions of pesos, at 1950 prices										
1935	23.9	3.2	27.1	3.6	3.4	0.7	0.8	7.9	0.2	35.2
1940	29.7	4.0	33.7	4.5	3.8	1.0	0.1	8.4	-0.8	41.3
1945	31.2	6.7	37.9	5.9	2.5	1.1	-1.2	7.2	2.9	48.0
1946	32.4	6.5	38.9	6.4	4.5	1.1	0.7	11.6	3.6	54.1
1947	35.4	6.9	42.3	6.5	10.0	1.2	2.3	18.7	1.6	62.6
1948	38.1	8.2	46.3	8.2	8.9	1.2	2.1	19.2	0.4	65.9
1949	42.1	7.6	49.7	9.0	5.6	1.2	-0.7	13.9	-0.8	62.8
1950	40.6	7.7	48.3	9.5	4.8	1.2	-0.7	13.6	0.4	62.2
1951	41.9	7.9	49.8	9.3	5.4	1.3	1.2	16.0	-1.7	64.0
1952	38.9	8.0	46.9	8.1	5.2	1.4	1.2	14.5	-1.7	59.7
1953	42.0	8.3	50.3	7.6	5.1	1.5	-1.1	11.6	0.5	63.0
1954	43.1	8.3	51.4	8.5	4.8	1.5	0.7	14.0	0.5	65.9
1955										68.5 ^{1/}
II. In Percentages of the GNP										
1935-39 Aver.	66.4	9.6	76.0	11.7	11.3		0.8	23.9	0.2	100.0
1940-44 Aver.	68.6	10.3	78.9	11.3	6.4		0.9	18.6	2.5	100.0
1945-49 Aver.	61.3	12.3	73.6	12.3	10.3		0.9	23.5	2.9	100.0
1950-54 Aver.	65.6	12.8	78.4	13.6	8.0		0.5	22.1		100.0
1950	65.2	12.4	77.6	15.2	7.7		-1.1	21.8	0.6	100.0
1951	65.4	12.3	77.7	14.5	8.5		1.9	24.9	-2.6	100.0
1952	65.1	13.5	78.6	13.5	8.7		2.0	24.2	-2.8	100.0
1953	66.8	13.1	79.9	12.1	8.1		-1.8	18.4	1.7	100.0
1954	65.4	12.6	78.0	12.8	7.3		1.1	21.2	0.8	100.0

^{1/} Preliminary estimate (Dr. Prebisch's Report).

Source: Producto e Ingreso de la República Argentina, 1935-54. Secretaría de Asuntos Económicos, Buenos Aires, 1955. (Tables 18, 19, and 20)

Table D. Argentina: GNP, Gross Domestic Investments and Imports of Capital Goods, 1935-1954
(Billions of pesos at 1950 prices)

	GNP	Gross Investments	Imports of Capital Goods	Per Cent of Capital Goods Imports to:	
				GNP	Gross Investments
1935-39 Aver.	38.7	9.28	2.06	5.3	22.2
1940-44 "	44.6	8.25	0.79	1.8	9.6
1945-49 "	58.7	14.11	2.72	4.6	19.3
1950-54 "	63.0	13.92	2.50	4.0	18.0
1950	62.2	13.58	2.87	4.6	21.1
1951	64.0	15.96	3.03	4.7	20.0
1952	59.7	14.48	2.34	3.9	16.2
1953	63.0	11.61	1.86	2.9	16.0
1954	65.9	13.98	2.38	3.6	17.0

Source: Table C, and ECLA Studies.

Table E. Argentina: Consolidated Accounts of the Banking System ^{1/}
(Millions of Argentine pesos)

	1947	1948	1949	1950	1951	1952	1953	1954	1955 (Aug.)
A. With the Public Sector									
(Net)	7,442	10,160	12,660	13,540	13,397	14,153	18,313	20,860	20,916
1. Loans and Investments	8,601	13,088	15,748	16,706	17,638	18,621	23,962	29,214	32,326
2. Official deposits	-1,159	-2,928	-3,088	-3,166	-4,241	-4,468	-5,649	-8,354	-11,410
B. With the Private Sector									
(Net)	2,370	4,713	5,778	9,467	15,375	21,034	23,586	28,950	31,712
1. Loans & Investments	8,626	12,005	14,772	19,418	26,348	33,161	38,194	46,213	50,611
a) General	6,414	8,754	10,188	13,326	18,444	23,153	25,789	29,988	31,513
b) Mortgage Loans	2,212	3,251	4,584	6,092	7,904	10,008	12,405	16,225	19,098
2. Nonmonetary Deposits ^{2/}	-6,256	-7,292	-8,994	-9,951	-10,973	-12,127	-14,608	-17,263	-18,899
C. With the Foreign Sector									
(Net)	2,894	4,257	3,811	5,582	5,150	2,766	5,086	5,388	5,765
D. Other and Balancing									
Items	-2,546	-5,471	-4,828	-6,791	-7,405	-7,804	-9,553	-11,559	-12,147
1. Cash held by banks	632	1,008	1,188	1,410	2,333	3,053	4,393	4,751	5,040
2. Banks' absorptions ^{3/} , other accounts & balancing items	-3,178	-6,479	-6,016	-8,201	-9,738	-10,857	-13,946	-16,310	-17,187
E. Money Supply									
(Equal to A through D)	-10,160	-13,659	-17,421	-21,798	-26,517	-30,149	-37,432	-43,639	-46,246
1. Currency in circulation	-4,772	-6,736	-9,059	-11,902	-15,356	-18,249	-22,046	-26,838	-27,694
2. Monetary deposits of the public	-5,388	-6,923	-8,362	-9,896	-11,161	-11,900	-15,386	-16,801	-18,552

^{1/} No sign indicates assets or net credit positions; (-) indicates liabilities or net debt positions.

^{2/} Time deposits: savings, term, judicial and other deposits not classified as demand deposits.

^{3/} Includes Central Bank securities with the public, capital, reserves, profits, etc.

Source: Síntesis Estadística Mensual de la República Argentina, September 1952, October 1954, and November 1955. (Tables IX. Estadística Financiera. A) Bancaria: 1 and 2; and B) Monetaria: 1. Medios de pago Externos).

Table F. Argentina: Creation of Money.
Changes in Selected Monetary Accounts

(Millions of Argentine pesos)

	1948	1949	1950	1951	1952	1953	1954	1955 (Jan-Aug)
Increase or decrease (-) in banks' claims on:								
A. <u>The Public Sector</u>	2,718	2,500	880	-143	756	4,160	2,547	56
1. <u>Loans & Invest- ments</u>	4,487	2,660	958	932	983	5,341	5,252	3,112
2. <u>Official deposits</u>	-1,769	-160	-78	-1,075	-227	-1,181	-2,705	-3,056
B. <u>Business & Individuals</u>	2,343	1,065	3,689	5,908	5,659	2,552	5,364	2,762
1. <u>Loans & Invest- ments</u>	3,379	2,767	4,646	6,930	6,813	5,033	8,019	4,398
a) <u>General</u>	2,340	1,434	3,138	5,118	4,709	2,636	4,199	1,525
b) <u>Mortgage loans</u>	1,039	1,333	1,508	1,812	2,104	2,397	3,820	2,873
2. <u>Nonmonetary deposits</u>	-1,036	-1,702	-957	-1,022	-1,154	-2,481	-2,655	-1,636
C. <u>The Foreign Sector (Net)</u>	1,363	-446	1,771	-432	-2,384	2,320	302	377
D. <u>Other & Balancing Items</u> ^{1/}	-2,925	643	-1,963	-614	-399	-1,749	-2,006	-588
Money Supply Changes (Equal to A through D)	3,499	3,762	4,377	4,719	3,632	7,284	6,207	2,607

^{1/} Banks absorptions, sundry accounts and balancing items.

Source: Table E.

I don't understand this table

See p. 70 about exch. surcharge - 48 -
on certain imports

Table G. Argentina: Effective Buying and Selling Exchange Rates

Official Exchange Rate (M\$N per US\$)	<i>This is temporary</i> Surcharge (Percentage)	Effective Exchange Rate (M\$N per US\$)	Commodities
(a) Effective Buying Exchange Rates			
18.00	10	16.20	All cereals, linseed, flour and by-products; vegetable seeds, their oils and by-products; alfalfa, malt, beans and peas, cotton and formium fibres and linters; yerba mate; tobacco; quebracho and urunday extracts and all other miscellaneous agricultural products.
18.00	15	15.30	All meat products; offals; pickled hides; wool tops; cheese, butter, other dairy products and by-products; cattle for breeding purposes; eggs and frozen poultry; all hunting and fishing products.
18.00	25	13.50	Cattle on the hoof; sheep, pigs, etc.; hides and skins; greasy and <u>frigorifico</u> wool; fresh milk and cream; various livestock products; logs, firewood, charcoal and lumber; mineral and petroleum products and by-products; textiles; jute and jute bags; woolen waste; coal; etc.
18.00	--	--	Miscellaneous exports.
Free market rate (about M\$N 42) ^{1/}	--	Free market rate	All other exports and all invisibles.
(b) Selling Exchange Rates			
18.00	--	18.00	Foodstuffs, raw materials and specified capital goods (mainly agricultural equipment).
Free market rate (about M\$N 42) ^{1/}	--	42.00	Diesel motors, pharmaceutical goods, electric generating sets, light industry products, etc. Invisibles.
Free market rate (about M\$N 42) ^{1/}	M\$N 20 per US\$	62.00	Other specified imports. ^{2/}

^{1/} Prevalent rate in February 1956.

^{2/} A surcharge of M\$N 20 per dollar is applied to these imports.

T 1

Week
April 1956

Roberto VERRIER

underscretary of the
Dep. Gov. of C.R.

3 + 5 = 8 15 -

ask for \$150 as a fund or man.
For railways

pipe
200 ~~feet~~
wells

Grid system and more stations

50-50 shipping - not considered
different 1% loss of \$ 1000000

2.77 - 2.80

If slow & because us buys tons
I may come back to you

mid. and v. ✓ ✓ trans currencies

France have for free market transactions

Free bid position for '57

The after cash

14 monthly settlements - trans

have accumulated & meat
and swaps in \$ margin

abolish different crack

Norway afraid of a hard free
market in U.K.
in N.K.

Use 2

lot of capital back-credit squeeze
\$11 a day

Arg. buys 2 in U.K. for payment of
12 tons or more

\$300 per period

Plan for debt Arg plan for 1-10
years, each country a quote
private & Govt

Private priority
if not enough to avoid
default, etc

\$53 UK Govt

\$14 private 4.25%, 1/2 57

Gen. swing debt \$190

Consolidated Govt 22%

Private \$190

(1895 for markets) graft

Unwillingness

H.	\$ 120	} Swing + Consolidation of prior debt taken over by Govt	} Wick
Fr.	23		
Dutch	\$ 22		
Italy	0m		
Japan	53		

Govt debt to Aug 87
 Aug debt.
 Smaller debt disregarded
 sw. \$ 7

Govt of funds \$ 600 outside Japan
 \$ 300 \$

We look after \$
 No interest in com. In com into \$
 Will cut com. goods
 \$ out 5m. Terms than not
 let credit for \$

Sw. will join Aug,

May 24, 1956

ARGENTINA

The Financial Times for May 19 had an article saying that an agreement on new multilateral trade and payments system was established at a meeting in Paris on May 18. All the Western European countries except Germany agreed on the principles. It is hoped that some understanding with Germany will be arrived at fairly soon.

As in the Brazilian case, each country will negotiate individually with Argentina but broad terms for the debt repayment have been laid down. The debt should be repaid within 10 years. The average rate of interest would be 3 1/2 % but lower at the beginning and higher later on.

One of the problems not yet solved is at what rate of exchange the remittances of blocked amounts will be released during the coming ten years. At present such remittances can take place at the free market rate, about 105 pesos to the pound. The rate for ordinary commercial trade transactions is about 50 pesos to the pound.

Mr. Verriers, the Under Secretary of Finance of Argentina, has been in Europe to discuss the economic problems with western Europe. He has also been studying the possibility of multilateralizing the payments between Argentina and OEEC members. It is not proposed that the multilateral agreement would be concluded but that each country separately should undertake a number of commitments. Argentina has substantial short and long-term debts to foreign countries which have to be consolidated. The Argentina idea was that the short-term indebtedness should be prolonged up to 15 years. The European countries are thinking of a much shorter time. It may be that an understanding could be reached to consolidate the credits for say 8 to 10 years. Over and above, Argentina needs a fonds de manoeuvre.

The private indebtedness should get priority.

Here follow some of the debts to other countries:

<u>U.K. Government</u>	\$ 53	m.
Private U.K. creditors	14	m.

It is hoped by the British creditors that half of this could be repaid in 1956 and half in 1957.

<u>Germany: swing credit</u>	12	m.
Other Government credits	22.5	m.
Private credits	190	m.

(\$95 m. of these private credits are for tractors. As there probably was substantial graft in connection with this transaction, the other creditors are unwilling to let Germany come in pari passu with this amount. They have suggested that it should be either scaled down or postponed.)

<u>Italy</u>	\$120	m
Swing credit and private debts taken over by the Italian Govt.		

<u>France</u>	48	m.
(a lower figure (\$23 m.) was also mentioned)		

<u>Netherlands</u>	22	m.
<u>Japan</u>	53	m.
<u>Sweden</u>	7	m.

Argentina.

Belgium, Denmark, and Switzerland have no claims on Argentina. Denmark and Switzerland had, on the contrary, small debts to Argentina.

To some other countries, Argentina had smaller indebtedness but they should be disregarded in this general agreement.

The U.S. claims were about \$300 m. It was the intention that the U.S. claims should be looked after by the U.S. and not be included in an agreement with Europe.

The government and provincial long-term indebtedness outside the dollar area was \$600 m.

Due to the credit squeeze in Argentina a lot of capital is returning, about \$100 m. a day.

As mentioned, Argentina had hoped to get a fonds de manoeuvre. The European countries have not shown any interest in this. Germany, for instance, said that their claims on Argentina were so big that nothing more could be considered. The Bank Deutscher Länder now fighting the inflationary tendencies, could not consider any new credits. If the B.D.L. should give a credit to Argentina, it would also set a precedent that was dangerous.

Argentina hoped it could get some of these temporary credits from the U.S. and the Fund.

cc Mr Cochran
Friedman
Del Canto
Stevens
Bernstein

May 24, 1956

ARGENTINA

The Financial Times for May 19 had an article saying that an agreement on new multilateral trade and payments system was established at a meeting in Paris on May 18. All the Western European countries except Germany agreed on the principles. It is hoped that some understanding with Germany will be arrived at fairly soon.

As in the Brazilian case, each country will negotiate individually with Argentina but broad terms for the debt repayment have been laid down. The debt should be repaid within 10 years. The average rate of interest would be 3 1/2 % but lower at the beginning and higher later on.

One of the problems not yet solved is at what rate of exchange the remittances of blocked amounts will be released during the coming ten years. At present such remittances can take place at the free market rate, about 105 pesos to the pound. The rate for ordinary commercial trade transactions is about 50 pesos to the pound.

May 25, 1956

ARGENTINE

1) Are the prices established for the various farm products well balanced and will the farmers be able to produce and export at these prices and at the present rates of exchange?

2) Prebisch speaks of the necessity of encouraging new export especially on manufactured goods. What goods does he have in mind?

3) We understand that electricity and transport are perhaps the worse bottlenecks. Has Argentina been able to import enough spare parts to put the machinery in function and electric wires to use the new power station?

How much money is needed for the urgent import~~ant~~ of capital goods during say the first two years?

4) Is anything done to increase oil production? Is the agreement with the Standard Oil cancelled? If so, what is being done to increase the oil production as soon as possible? Is it really a transport problem rather than a production problem?

5) Has the full rise of prices that was expected as a consequence of the changed rates already taken place?

Will it be possible to avoid further wage increases?

Are the strikes that have taken place lately due to demands for higher wages or are there other reasons for them?

6) Will there be any, if so how big a deficit in the budget for 1956? Are there any forecasts for 1957? If there are deficits, how will they be covered?

Are there any deficits and if so, how big in government entities, which do not appear in the budget?

Have the states and the municipalities budget deficits, and if so, how will they be covered?

7) Prebisch stressed the importance of creating favorable conditions for the influx of foreign capital. Is the decision to block the property of foreign firms and persons compatible with this intention?

8) Is there no flight of capital?

Is there still an influx of Argentine money held abroad?



INTERNATIONAL MONETARY FUND
WASHINGTON 25, D. C.

RESEARCH DEPARTMENT

May 28, 1956

CABLE ADDRESS
INTERFUND

MEMORANDUM

TO: Mr. Rooth
FROM: J. J. Polak
SUBJECT: Discussions with Argentine Delegation

In view of the great importance of statistical questions in connection with Argentina as a future member of the Fund, I should like to recommend that the Research Department be fully represented in any staff delegation instructed to discuss with the Argentine Delegation which, I understand, is to visit the Fund next month.

cc: Mr. Del Canto

ARGENTINA

*To my talk with Arg. representatives
in June 1956*

May 31, 1956

1) Prebisch stressed the paramount importance of raising agrarian production.

Are the new prices for the various farm products well balanced and will the farmers be able to produce and export at these prices and at the present rates of exchange?

2) We understand that the oil and electricity industries and the transport system are perhaps the worse bottlenecks. Has Argentina been able a) to import enough spare parts to put the machinery in function and b) to buy electric wires needed for using the new power station? Has anything been done to improve the transport situation? Is the railway deficit eliminated?

How much money is needed for the urgent import of capital goods during say the first two years?

3) Is the agreement with the Standard Oil cancelled? If so, is anything and what, being done to increase the oil production as soon as possible? Is it only a transport problem or not also a production problem? The figure for the needs for oil production is - according to Prebisch - \$200 m. for imported materials and Pesos 3 b. for local expenditures. Has Argentina tried to find out if there is any possibility for obtaining foreign capital for the building of pipe lines for oil and natural gas?

4) Prebisch speaks of the necessity of encouraging new export especially on manufactured goods. What goods does he have in mind?

5) Has the full rise of prices that was expected as a consequence of the changed rates already taken place?

P. hoped for wage increases of only 10%. End of May 1956 already 30%
Will it be possible to avoid further wage increases?

Are the strikes that have taken place lately due to demands for higher wages or are there other reasons for them?

6) Will there be any, if so how big a deficit in the budget for 1956? Are there any forecasts for 1957? If there are deficits, how will they be covered?

Are there any deficits and if so, how big, in the budgets of such government entities, which do not appear in the budget?

Have the states and the municipalities budget deficits, and if so, how will they be covered?

Prebisch said that the liquidating of the IAPI would mean a loss of Pesos 7,600 m. Are these monies already lost or will the liquidation lead

Argentina.

to new cash expenditures for the government, or perhaps to some income?

7) Prebisch stressed the importance of creating favorable conditions for the influx of foreign capital. Is the decision to block the property of foreign firms and persons compatible with this intention?

Previously expropriated property. Property under Argentine control. The Arg. Consultative Council has recommended expropriation of fr. electric companies.

8) Is there no longer any flight of capital?

Is there still an influx of Argentine money held abroad? Is any foreign money coming in?

9) Are transfers of current profits by foreigners or servicing investments by foreigners in shares, bonds, and loans possible without special permission. If so, is that one of the reasons for the depreciation of the rate? May previously blocked income for previous years now be transferred? If so, to what extent?

10) For the time being, has there been free import of raw materials, fuel and spare parts or have they, for lack of foreign exchange, also been scrutinized.

11) Are stocks of raw material, fuel, etc. too low? Are there unsold stocks of export products?

12) Has there been any sign of higher savings as yet?

13) Prebisch suggested a fund, the proceeds of which would be used to finance part of the economic program. Has anything been done, so far?

14) What is the attitude towards ~~the~~ bilateral agreements other than with the OEEC countries?

15) Prebisch gave the overseas commitments as of \$757 m. Do we have a breakdown of this figure? Are all arrears included in this figure?

16) Has Argentina succeeded in funding or obtaining ^{ing} any prolongations of its arrears or its short-term indebtedness?

Has the present Argentine Government got any other new foreign credits than the Ex-Imbank loan and the \$30 m. Russian loan? What are the conditions of the Russian loan?

17) A policy of decontrol of prices was suggested by Prebisch. Have there not been new price controls lately?

18) Prebisch stressed the gravity of the housing shortage. Can the country afford to use substantial amounts for alleviating this shortage with so many other claims on the economic resources that have priority?

How much does the Pension Fund increase each year?

Will the Pension Fund not be forced to finance part of the government expenditures? Will it really be possible to use a substantial part of it for financing the housing projects?

Is there any likelihood that it will be possible to revive the cedulas or sell other bonds to the public before the economy is more balanced?

19) We have understood that low productivity, especially slow work by the labor force was a very disturbing factor a couple of years ago. Is there a marked improvement since then?

20) Present gold and foreign exchange reserves and ^{the} foreign exchange budget for 1956.



The New York Times

FRIDAY, JUNE 1, 1956.

ARGENTINES HAIL CURRENCY 'CLUB'

Accord With Nine European Nations to Ease Payments and Help Settle Debts

BUENOS AIRES, May 31 (UP)—Formation of a nine-nation European payments area for trade with Argentina was hailed in financial quarters here today as a "major success" in the Government's program for restoring the nation's trade and finances.

An agreement announced simultaneously yesterday in London, Paris and here established exchange convertibility between the currencies of Britain, Austria, Belgium, France, Italy, the Netherlands, Norway, Sweden and Switzerland for trade with Argentina.

It also fixed general terms for the liquidation of Argentina's commercial debts with those countries accumulated under bilateral trade agreements negotiated by the Peron dictatorship. The agreement thereby cleaned the slate for a new start of trade under the multilateral system.

The agreement was one of the many recommendations of Raul Prebisch, United Nations economist, in his capacity as advisor to the Argentine revolutionary regime.

MONEY DEALERS UPSET

Accord May Reduce Their Role in Clearing Currencies

Foreign exchange dealers in New York were disturbed about the news from Paris yesterday. If, as is reported, the Argentine deal follows the pattern of the so-called "Hague Club," it can cut sharply into their revenues.

Under an agreement signed last year at The Hague, Brazil joined a multilateral clearing arrangement with Britain, the Netherlands, West Germany and, a little later, Belgium. In practice, this means that Brazil may pay for German machines by selling coffee to England or quebracho bark to Belgium. The accounts are kept in practical balance by bookkeeping, without actual transfers of gold or currency.

The effect of the "Hague Club" deal has been to narrow the discounts at which Brazilian money creates in world markets and to expand the volume of Rio's trade with other members of the club.

Argentina since the war has conducted a great part of her trade through bilateral deals. For example, she might buy Japanese machinery. This would be paid for in yen by Japan's Foreign Exchange Control Board, which would receive a credit in Argentine pesos. If Japan had no immediate need for Argentine goods, it might offer the Argentine credit at a discount in the world market for "clearing currencies" that has grown up since the war. A Greek trader might buy the pesos at a 2 per cent discount to ship Argentine beef to Britain.

About 53 per cent of Argentina's foreign trade today is with European Payments Union nations.

COMMUNICATIONS AND EXCHANGE

The Argentine Multilateral Payments Scheme The press of 31/5 reports on the agreement which has now been reached in principle between Argentina and nine European countries about the establishment of a multilateral payments system and the repayment of Argentine debts. The European countries concerned are Austria, Belgium, France, Italy, Norway, the Netherlands, Sweden, Switzerland and the U.K. Trade and payments will be conducted in transferable currencies with effect from a date as early as possible in June. Argentina's debts to its main creditors will be settled on an equal footing by progressively increasing annuities over a period of ten years. Interest will be paid at an average rate of $3\frac{1}{2}\%$. Within the general framework agreed upon Argentina and each participating country will hold any necessary bilateral discussions about the procedure for introducing the multilateral system and for the conclusion of new definitive agreements for the settlement of Argentine debts. The German representatives expressed the readiness of western Germany to join the multilateral system as soon as possible.

Dr Verrier, Argentine Under-Secretary of Finance, announcing in Paris the agreement reached, stated with regard to the settlement of Argentine debts that the average rate of $3\frac{1}{2}\%$ for the interest payable had been arrived at by way of an initial rate of 2% and a final rate of $5\frac{1}{2}\%$, it being understood that the volume of debt repayments will grow every year. He will return to Europe in about three weeks' time

with a body of experts to negotiate the bilateral debt agreements and launch the payments scheme. The latter will be largely a copy of the Hague club, but will be called the "Paris Club". As the pilot currency unit, which will be freely convertible into the currencies of the other club units, it is probable that sterling will be adopted. The multilateral payments scheme is expected to come into force about the middle of June. Argentina has undertaken to limit the use of the free rates for the peso for commercial exchanges. The Argentine spokesman also said that, in view of its obligations arising from the debt settlement, Argentina would have to restrict for some time its imports in order to prevent a disequilibrium between imports and exports, which would jeopardise the inflow of foreign exchange required to meet its commitments.

The City editor of THE TIMES draws attention to the fact that two countries which have been involved in the Paris negotiations have not so far reached agreement: western Germany and Denmark. Germany has had difficulty in establishing the size of Argentina's liabilities to German traders, but has expressed a readiness to join the multilateral system as soon as possible. Denmark is still deciding whether to join. The main difficulty has been in getting agreement on Argentine debts. To western Europe these amount to about \$450 million and are made up of Govt debts, arrangements with central banks, and liabilities to private concerns under long-term orders already placed. The German difficulty is that Argentina's main liabilities to it are largely commercial, amounting to about \$100 million. It is believed that some re-financing may be necessary. In the writer's view, the Argentine payments system will not take the form of a currency club on the Brazilian model, in which case special arrangements had to be made because of Brazil's currency auctions. This will not be necessary with Argentina, and so far as sterling is concerned no great change is contemplated. Argentina is already able to spend sterling anywhere throughout the non-dollar world. The main point under the new system is that all transactions will be done at an official cross rate, and that Argentina will not discriminate among the nine member countries.

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JUN 1 1956

Dear Mr. Keenleyside:

Thank you for your letter of the 25th relative to the Argentine request for technical assistance to be supplied by the Fund.

This matter, as you know, has to date been handled so far as the Fund is concerned mainly by Mr. E. Nerle Cochran, Deputy Managing Director. As he will be returning in a few days from Europe while I shall be shortly going off on holiday, I am taking the liberty of holding up a firm reply to your letter until he has had a chance to see it.

Sincerely yours,

Ivar Rooth
Managing Director

Mr. H. L. Keenleyside
Director-General
Technical Assistance Administration
United Nations
New York, N.Y.

GW:rd
5/31/56

CENTRAL FILES

INTERNATIONAL MONETARY FUND

June 8, 1956

TO : Mr. Ivar Rooth

FROM: Jorge Del Canto

SUBJ: Argentina

Mr. Grumbach of the Argentine Embassy informs us that the party that was supposed to leave Buenos Aires today has delayed its departure, in view of the Cabinet reshuffle, for a week. If the portfolios of Finance and Treasury are merged, there is a chance that our friend, the present Minister of Finance Dr. Alizón García, might lose out. However, he would remain as President of the Central Bank.

Mr. van Campenhout has called for today at 3 p.m. the first meeting of the Committee on Membership for Argentina.

Mr. Rooth:

After I wrote this note for you, I read in the "Washington Post" the following:

"Buenos Aires, June 7 - Three Cabinet Ministers lost their jobs in a reshuffle of the Argentine Cabinet announced tonight-- Dr. Julio Alizon Garcia, Minister of Finance; Carlos Alzogaray, Industry, and Juan Llamazares, Commerce.

"Robert Verrier, Under Secretary of Finance, also loses his job. He returned from Europe only last week after obtaining for Argentina a 10-year period for the country to pay debts to 10 western European countries and paving the way for Argentina's entry into West Europe's multilateral payment system."

Argentine Payments Arrangements with Europe

Agreement has been reached in principle for the repayment of Argentine debts and the establishment of a multi-lateral payments system between Argentina and Austria, Belgium, France, Italy, the Netherlands, Norway, Sweden, Switzerland, and the United Kingdom. A system of payments in transferable currencies is to be set up as early as possible in June. Agreement has not yet been reached with two countries participating in the recent negotiations with Argentina. West Germany has had difficulty establishing the extent of Argentina's liabilities to German traders, but has expressed a readiness to join the multi-lateral system as soon as possible. Denmark has not yet decided whether to join.

The main difficulty in establishing the new arrangements has concerned Argentina's debts to Western Europe, which amount to some \$450 million. They comprise government debts, arrangements with central banks, and liabilities to private concerns. Argentina's liabilities to West Germany are mainly commercial, which amount to about \$100 million; it is believed that some refinancing may be necessary. The nine countries with which agreement has been reached have acceded to an Argentine proposal to settle outstanding debts on an equal footing by progressively increasing annuities over a period of ten years; an average rate of interest of 3½ per cent has been agreed.

The new payments system will not take the form of a currency club on the Brazilian model ("The Hague Club") since, in that case, special arrangements were necessary to

take account of Brazil's currency auctions (see this *News Survey*, Vol. VIII, p. 75). From the standpoint of the United Kingdom, the main features of the new arrangements with Argentina are that all transactions will be carried out at an official cross rate, and that Argentina will not discriminate among the nine member countries. No other significant changes are contemplated vis-à-vis sterling; Argentina is already able to spend sterling anywhere throughout the non-dollar world.

Under the new system, U.K. exporters should be able to secure a larger share of Argentine trade. Previously, a large part of Argentina's sterling earnings were earmarked for purchases of oil and other sterling area raw materials; this, presumably, will no longer be necessary. But Argentina is still having payments difficulties, and no relaxation of import restrictions appears to be contemplated at present. Detailed discussions between the United Kingdom and Argentina will begin in the next few weeks; the present trade and payments agreement expires on June 30, 1956. As a result of the debt settlement, the U.K. Government short-term loan of £20 million will be repaid over ten years. It is not known whether agreement has been reached concerning Anglo-Argentine Tramways and the Primitiva Gas Company.

Source: *The Times*, London, England, May 31, 1956.

Preservation Copy

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New York Times

July 17, 1956

400 Million 'Emergency' Credit Is Sought by Argentine Mission

By EDWARD A. MORROW

Special to The New York Times

BUENOS AIRES, July 16—Argentina's financial mission to the United States hopes to obtain at least \$400,000,000 in "emergency" credits an authorized spokesman said today. In presenting its case to Washington officials and banking and utility executives, the Argentine mission headed by Dr. W. Carlos Coll Benegas, president of the Banco de la Nacion, has been instructed to emphasize that the Government has stringently pared its needs to that figure. The original estimates of Argentina's capital needs were reduced from \$2,000,000,000 to \$1,200,000,000 in "priority" needs.

In talks now going on in Washington, the Argentine mission hopes to obtain funds from four sources. It is expected that the Export-Import Bank and the World Bank will each be asked to lend one-third of the required sum. The remaining third Argentine economic officials hope will come from a United States Government loan and from private interests.

The negotiators also have been instructed to seek medium-term loans of fifteen years instead of long-term credits of twenty years.

Transport Crisis Feared

The country's most urgent needs are estimated at \$250,000,000, of which almost two-thirds would be allocated to repairing the ravages in Argentina's transport system. Without more locomotives, other rolling stock and some tugboats, the country will be unable to move its next harvest. The Government has placed its reliance on the crops for a marked upswing in foreign exchange earnings.

The remainder of this hard-core sum is to be earmarked for electric power projects. The Government has firmly decided not to embark on a policy of expropriating foreign power interests. However, the Government will limit future utility investment and "attempt to transform foreign private investments into national private capital" through several schemes designed to get large consumers of power to invest in new power plants.

Should negotiators succeed in getting this \$250,000,000, they are then instructed to try for overall package loans amounting to \$450,000,000. This would enable the Government to cover more than the most dire needs and allow for additional investments in transport and utilities as well as allocating small sum for industrial re-equipment.

Argentine hopes are based largely on the treatment to be received from the International Monetary Fund. The executive council of the fund recently approved the Argentine application for entry and its acceptance based on a membership quota of \$150,000,000 will be announced early next month.

The spokesman emphasized that no government loans would be sought for Argentina's other pressing economic problem—development of oil resources. "There has been great eagerness to sell to the Government's oil agency on easy terms," he added.

Peron Books Audited

Meanwhile, the departure of another economic mission to Europe was once again delayed. The mission, headed by Dr. Mendez Delfino, had been named to put the finishing touches to the "Paris Club" a multilateral trade and payments agreement.

Although the agreement technically went into effect July 2 with Austria, Britain, Denmark, France, the Netherlands, Norway, Sweden, Switzerland and the Belgium-Luxembourg economic union, the Argentine Government still does not have sufficient data on its debts. Employees of the central bank are working overtime trying to determine how many import licenses were issued by the deposed regime of Juan D. Peron to ascertain the nation's total debt to these countries.

The debt to European countries is estimated to be at least \$650,000,000. Tentative arrangements have been made to fund \$350,000,000 of that amount.

ARGENTINE:

Excerpt from BUSINESS WEEK, July 28, 1956.

International Outlook.

.....

* Observers in Buenos Aires are grim.

The Central Bank sold \$60-million in gold during the past month to keep afloat reducing reserves to a bare \$10-million at the official rate of exchange. Currency in circulation is up 20% since Peron was ousted. A new round of wage increases is threatened - some unions demanding doubling of wages.

A good harvest is rotting on sidings because of a breakdown in the nationalized railways. Two-million tons of wheat are reported in trade circles to be unusable already."

ARGENTINE:

Excerpt from THE ECONOMIST, July 28, 1956.

Bankers' Credit for Argentina.

A city consortium, headed by Baring Brothers who have been agents to the Argentine government since 1822, is being arranged with the idea of extending trade credits to a maximum of between £ 20 and £ 30 million, should Argentina's demand for capital goods of British origin justify it.

To Arg. file

July 31, 1956

I. D. Lewis, Bank of England, informed me July 30 that Argentina on July 2, made a Hague Club arrangement with the U.K., Holland, Belgium, France, and Austria. An Argentine team was going to Europe to discuss the problem with Germany and Italy. It was not yet clear which debts of these countries should be included in a future arrangement.

Small debts of Argentina would be paid at maturity. So far the debt agreement concerned only the U.K., Holland, and France. *Belgium and Austria had only small claims.*

Sweden was negotiating with Argentina to join the Club.

Chile was unable to sell its bilateral currencies and was consequently trying to end the bilateral agreements on nitrate.

Uruguay had made up its mind to remove the discrimination against sterling on the wool rate. The decree has, however, not yet become effective.

There have been talks in Latin America about inter-Latin American bilateral agreements. This is not easy partly due to the big seasonal variations in the trade between countries like Argentine and Brazil.

R

To Arg file

August 1, 1956

ARGENTINA

Garcia had a sharp tongue and has had conflicts with various people. Some people believe that it was a pity that he left. Everybody is very sorry that Verriers left at the same time as Garcia. He had been asked to stay but refused to do so.

It is also a pity that Mr. Campos has resigned as Director General of the central bank. They have not been able to find anyone who has been willing to give up his present position to take over a job under the provisional ~~machine~~ ^{regime}. The candidates do not feel that they have enough security as the elections will take place at the end of 1957.

The president of the central bank is a 71-year old man from Entrerias who is a politician and more of a nominal president.

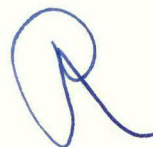
It was very much regretted that Bunge had left. He is now in business in Peru.

The transport situation in Argentina is extremely precarious. 1,400 of the 4,000 railway engines cannot function. Only lately have they taken steps to have them repaired.

The president seems to be afraid of taking decisions especially as far as oil and electricity are concerned.

The firm of Baring Bros. is now official agent for Argentina. Mr. ~~Filmer~~ ^{Phillips}, partner of Baring Bros., has been leading a consortium that has agreed to a 10-year credit for the present indebtedness. The ten years were accepted as it is not likely that the new suppliers' credits that Argentina can get will be for more than ten years. It would have been impossible for

Argentina to pay all debts at the same time as they have to repay the new suppliers' credit.



Economic Situation in Argentina

The greatest progress in the Argentine program for a transition from controls to the re-establishment of price

The free exchange rate, which by the end of February had fallen to about 42 pesos per U.S. dollar, has since recovered sharply, the rate at the end of June being 32

mechanisms and economic freedom has been in relation to the country's international economic relations. An attempt to abolish domestic price controls was not successful.

The precise effects of devaluation on the external payments situation can still only be estimated, because of the long delay in the publication of official foreign trade statistics. The trade deficit for 1955 is estimated at US\$125 million (exports being estimated at US\$965 million and imports at US\$1,090 million), which is more favorable than was assumed in the Prebisch report of October 1955 (see this *News Survey*, Vol. VIII, p. 165). During the first five months of 1956, the volume of exports was less than in the corresponding period of 1955. There are no global data on imports, but as the Argentine Central Bank's reserves declined by nearly US\$80 million in the first five months of 1956, it may be concluded that the trade balance has continued to be unfavorable.

Exports of meats, hides and skins, wool, fresh fruit, oats, and barley have increased, but other exports, especially of wheat, have declined as a consequence of smaller crops. The effects of larger exports of maize and oilseed will not be felt until the second half of the year, but increases would have to be large if equilibrium in the trade balance is to be established for the year as a whole.

Export prospects for 1957 are reported to be better. The price increases of 40 to 80 per cent for basic crops introduced by the Government at the end of 1955 could influence sowings of only maize and sunflower. Agricultural prices have recently been raised again by percentages varying from 8 to 18, and the main crops in 1957 are expected to be larger than in 1956. Price incentives are not enough, however, and, in view of the present unfavorable price developments for foodstuffs and raw materials, a reduction in the costs of farm production is desirable. The Prebisch report, which stated that the normalization of Argentine trade required an increase in exports from the present level of US\$1 billion to US\$1.5 billion by 1960, estimated that farm machinery imports of about US\$200 million are needed over the next three to five years.

During the first half of 1956, the money supply increased from M\$N 60 million to M\$N 64 million, a figure which is within the forecast of the Prebisch plan. Since the end of April, the money supply has declined slightly, a movement which, taking into account higher prices produced by the devaluation and increases in salaries, has helped to strengthen the free market exchange rate. The appreciation of the peso has weakened the stimulus to export certain commodities, such as fruit, cotton cloth, porcelain, and crystal ware, the proceeds from which are surrendered at the free market rate.

The free exchange rate, which by the end of February had fallen to about 42 pesos per U.S. dollar, has since recovered sharply, the rate at the end of June being 32

pesos per dollar. This recovery has been attributed mainly to three developments that should eventually make a sizable contribution to the solution of the Argentine payments gap. The introduction of a much more favorable rate of exchange has stimulated Argentina's minor exports, thereby adding substantially to the amount of foreign exchange flowing into the free market. The measures to keep imports on an austerity basis, pending the re-establishment of the country's economic health, have kept at modest levels the demands made on the free market for foreign exchange in respect of payments for less essential products. And with the improvement in Argentina's long-term economic prospects, more foreign exchange has been flowing into the free market in connection with capital transfers. It was recently officially stated that, since the present Government came to power, more foreign investment money has reached Argentina than in the period between the inauguration of the foreign investment law of 1953 and the establishment of the present Government some two years later.

The free Argentine peso was quoted in New York on August 6 at about 28 pesos per U.S. dollar.

The cost of living index, which is based on essential items used by unskilled workers, rose by 12 per cent between October 1955 and May 1956. If less necessary items are included, the increase in the index since last fall is estimated at from 35 to 40 per cent.

Price increases have recently produced demands for higher wages. The policy of the Government is that increases in wages should be absorbed in entrepreneurs' profits or matched with increases in productivity, but not shifted to prices. Trade unions, however, are requesting wage increases (from 65 to 135 per cent) much higher than the increase in the cost of living, and in wage negotiations employers consider productivity as a separate problem.

Sources: *The Financial Times*, London, England, July 20, 1956; *Neue Zürcher Zeitung*, Zürich, Switzerland, July 24, 1956; *The Wall Street Journal*, New York, N.Y., August 7, 1956.

International Financial News Survey, written by members of the staff of the Fund, is based on material published in newspapers, periodicals, official documents, and other publications as cited at the end of each note. Explanatory material may be added, but no Fund editorial comment or opinion. Therefore any views expressed are taken from the sources quoted and are not necessarily those of the Fund.

The *News Survey* is published weekly, except in the Christmas and New Year weeks. It may be obtained free of charge by applying to

The Secretary

INTERNATIONAL MONETARY FUND
1818 H Street, N.W. Washington 25, D. C.

pending until further notice, except in respect of rice imports and imports of wheat from Australia.

Source: *The Journal of Commerce*, New York, N.Y., August 7, 1956.

Indonesian Monetary Reserve Ratio

The Indonesian Monetary Board has reduced from 20 per cent to 15 per cent the legal minimum ratio of gold and convertible exchange to the note issue and other current liabilities of the Bank Indonesia; the lower ratio is effective for three months from July 11. The measure was adopted because Indonesia's gold and convertible foreign exchange reserves had declined from \$253 million on December 31, 1955 to \$132 million on July 11, 1956, owing to adverse balance of payments developments, and the monetary reserve ratio had accordingly fallen from 29.1 per cent to 19.9 per cent. The statutory minimum reserve ratio had been similarly lowered to 15 per cent in an emergency situation for a period of three months beginning July 12, 1954 (see this *News Survey*, Vol. VII, p. 187).

Source: *Indonesian Observer*, Djakarta, Indonesia, July 13, 1956.

United States

U.S. Customs Legislation

The U.S. Customs Simplification Act of 1956 was signed by President Eisenhower on August 2. The new Act changes the basis for valuation of imports to export value; heretofore, the Customs Bureau appraised import goods on the basis of both foreign and export value and then used the higher valuation as a basis for duty assessment. A qualifying amendment limits the application of export value to those imports whose value would not be reduced more than 5 per cent. When its application would result in a greater reduction, the old dual formula will continue to be applied. The President stated that the new valuation procedure "will do more than any other single measure to free the importation of merchandise from customs complications and pitfalls for the inexperienced importer."

Source: *The Journal of Commerce*, New York, N.Y., August 3, 1956.

U.S. Agricultural Exports

U.S. exports of farm commodities in the fiscal year 1956 were valued at \$3.5 billion, a 10 per cent rise over 1955. If raw cotton is excluded, the increase over 1955 was 25 per cent. Cotton exports fell by 55 per cent owing to foreign underpricing and to the expectation of lower U.S. prices under the U.S. Government cotton disposal program. The value of exports of grain, and also

of fats and oils, was one-third higher than a year earlier. Foreign shortages resulting from unfavorable growing conditions, as well as generally favorable economic conditions abroad, were important factors in this increase. Shipments of surplus commodities against foreign currencies under Public Law 480 accounted for 28 per cent of all wheat exports, 23 per cent of cotton, 50 per cent of cottonseed and soybean oils, and 13 per cent of tobacco.

Source: Department of Agriculture, *Foreign Agricultural Trade Digest*, Washington, D.C., July 1956.

Latin America

Increase in Chilean Customs Surcharge

To adjust for changes in the value of the paper peso, following establishment of a free exchange rate, the Chilean Government has increased its customs surcharge, raising the gold peso-paper peso conversion rate from 65.5 to 98.6. Chilean customs duties stated in gold pesos are converted to paper pesos at this rate. The rate of conversion of gold pesos to dollars remains fixed at 1 gold peso to US\$0.2060.

On July 26 the paper peso was quoted at approximately 495 pesos per dollar.

Source: Department of Commerce, *Foreign Commerce Weekly*, Washington, D.C., August 6, 1956.

New Exchange System for Uruguay

A new exchange system became effective in Uruguay as of August 4. Most export proceeds will continue to be purchased by the central bank and at a rate of Ur\$1.519 per U.S. dollar. However, under the new system, which establishes a certificate market for commercial transactions, exporters will be permitted to retain varying percentages (11 in number) of their foreign exchange earnings for sale to importers. Imports of essential raw materials, fuels, agricultural serums, construction materials, and essential foods will be effected without import permits and with exchange purchased from the central bank at Ur\$2.10 per dollar. Most remaining imports will be effected under a quota system with exchange purchased in the certificate market. The rate for imports in the certificate market is not yet known. Essentially, the new system is interpreted as representing a devaluation and a freer system of trade.

Source: *The Journal of Commerce*, New York, N.Y., August 7, 1956.

Economic Situation in Argentina

The greatest progress in the Argentine program for a transition from controls to the re-establishment of price

Call Payments on a/c.

To Repurchase file

Tax value

28/856

Arg. Electricity - foreign finance Code, Habs-Arg.

Multilateral payments, Austria, Belgium, UK, Denmark,

Norway Sweden France Switzerland

Port & Finland interested

Germany & Italy 2.

INTERNATIONAL MONETARY FUND

Aug. 28, 1956

Mr. Rooth:

I am attaching herewith the following documents, of possible use for discussions with our Argentinean friends tomorrow:

1. General subjects for discussion with Argentine representatives;
2. Argentina: Preliminary questions on economic background and policies, and
3. A brief review of economic conditions in Argentina.

J. Del Canto

Enclosures



Jorge Del Canto

R

General Subjects for Discussion with
Argentine Representatives

1. Balance of payments and reserve trends for the years 1955 and 1956. Prospects for 1957.
2. Effects of the exchange and price policies of the new Government in order to increase agricultural production and to redress the balance of payments.
3. Monetary effects of the shift of bank deposits to private banks. Policies of the new Central Bank. To what extent the Government will be successful in containing inflationary pressures presently existing in the Argentine economy. A discussion on the monetary, fiscal, and wage policies will be desirable in this connection.
4. What are the prospects for solving the basic problems of transportation,² energy and fuel, and³ agricultural mechanization facing Argentina's economic development today? In this connection, what are the expectations of the Argentine authorities for getting foreign loans and investments?
insufficient & great losses
Spain parts
5. Argentina's policies with respect to bilateral agreements. Present working of the Paris Club arrangements and possibility of converting the surpluses which Argentina may have with Western European countries.

Labour problem.

Argentina: Preliminary Questions on Economic
Background and Policies

I. National income, production, employment and economic development

1. Are there any data on unemployment or on under-employment in Argentina? Are there shortages of labor in certain activities? Information on the characteristics of the labor market, degree of unionization, methods of settling wage disputes, etc., will be appreciated.

2. Is there an officially or unofficially constructed index of industrial production? And of agricultural production, somewhat along the FAO lines?

3. What are considered to be normal profits on new investments in Argentina? Information about these profits in different branches of economic activity will be appreciated.

4. Is there any information about the capital held abroad and the form of those investments? Have the policies of the new regime had any effect on repatriation of that capital and is there any appraisal of the amounts?

5. What are the prospects of using a capital market and the savings of institutions, like insurance companies, to finance new economic activities?

6. What is the present general economic condition of landowners and farmers in the Argentine economy? How much squeeze was exerted upon them by the previous government? Information on the measures taken to restore them to their previous position will be appreciated.

7. Is the new price relationship between cereals and cattle such that a shift in land from cattle raising to cereal production may occur? What is the main reason for the larger quantities of cattle recently coming to the packing houses? Does this endanger the magnitude of present cattle stocks?

8. Is there any idea of the amount of capital invested in agriculture during the last decade?

9. What means were used by past governments to control the magnitude and forms of investment? From the national income figures it appears that Argentina had a high rate of capital investment in the last two decades. Is it possible to know the economic branches in which these investments took place and their form?

10. Construction investment has been roughly more than half the total investment in the last ten years. What kind of construction has mainly taken place? How is the housing position in Argentina? Any information about regulations for new buildings, rent control and how effectively it works, schemes for building low cost houses, credit facilities opened to prospective home owners, etc., will be appreciated.

11. The share of "repairs" in capital formation seems to be very large and increasingly so at times when investment in production equipment has been particularly low. If that is the case, has it had a definite effect on the productivity of capital equipment?

*are forced
to get more meat
to market.*

12. As far as industrial development is concerned, any information on the following points will be appreciated:

(a) Past government policies in relation to industrial development and judgment of them;

(b) Types of industries the Government will aim to encourage;

(c) Means to be used for that purpose: (i) credit facilities; (ii) taxation and subsidies; (iii) tariff policy; and (iv) exchange system--quotas and multiple exchange rates.

13. Very important problems affecting the future development of Argentina are the shortage of fuel and electric power and the critical condition of her transportation system. What are the plans of the Government to cope with this situation?

14. To what extent have exchange control measures and the scarcity of machinery, spare parts, fuel and raw materials impinged on industrial production? What are the new exchange regulations contributing to correct that problem?

15. What are the views and policies of the Argentine Government with respect to:

(a) Public investments and investment of public enterprises--amounts and shape;

(b) Incentives to be provided to private investment;

(c) Controls over the magnitude and form of total investments;

(d) Contributions expected from foreign investment, the form of these investments and the incentives which will be provided;

(e) Forms of financing new investments; and

(f) Ways and means to be used in order to implement the above-mentioned views.

16. To what extent have the exchange measures introduced in October 1955 contributed to raise internal prices of export commodities, thereby reducing internal consumption and increasing the quantities disposable for overseas markets.

17. Is there any information about the area under agricultural cultivation for the year 1956-57?

II. Internal financial developments

A. Prices and wages

18. Are there any price indices in addition to the cost of living index? How good is that index as an indicator of the effective changes in the level of prices?

19. Any estimate of the actual earnings of labor will be appreciated.

20. How is it possible to reconcile the figures given by Argentine statistics on real wages, declining by a large percentage, output, declining by a smaller percentage, and income distribution, where the labor share appears to be increasing?

21. Price effects--not only effects on the cost of living, but also effects on particular prices--of the October 1955 devaluation will be of great interest.

22. In February 1956 a general increase in wages was granted by the government and the intention was expressed that enterprises should pay the larger wage bill without increasing the prices of their products, i.e., out of their profits. Was that possible? What means were used by the Government to implement that decision?

23. What are the wage policies the Government is at present envisaging and what are the ways of implementing them? In particular, what are the effects of wage rate changes upon internal and external stability?

24. Of the present wage contracts under negotiation, how many have been terminated and to how many workers do they apply? Is it possible to obtain any information about the contents of those settlements, especially the percentage of the agreed wage increases.

25. Is there any cost of living subsidization in existence as a consequence of the last exchange reform? If so, what is the amount and how is it being carried out?

B. Monetary developments

26. A short summary of Argentine commercial banking organization, practices and policies will be appreciated.

27. If commercial bank deposits are restored, what provisions will be adopted in order to prevent an excessive credit expansion. Specifically, in what amount will the measure increase bank liquidity, what percentages of reserves will the banks be required to hold and what measures will the Central Bank take in order to influence lending capacity and policies of the commercial banks?

28. International reserves of Argentina. Composition by maturity of assets, currencies and types of liabilities against them. Position of payments agreements should be included. A conciliation between Prebisch's and Central Bank figures on reserves will be appreciated.

29. Banking loans classified by beneficiaries, maturities and collaterals. A knowledge of interest charges by different types of loans and advances.

30. What other kinds of credit institutions to provide long and medium term financing or to encourage certain types of activities operate in Argentina? Mortgage institutions should be included in this category. The statement should give information about the source of their funds, and the kind of loans as specified under No. 29.

31. Information on the tools of monetary controls which have been used in the past and which are expected to be used in the future will be appreciated.

32. What is the justification for the increase of M\$N 5 billion in loans to the public and in mortgage operations contemplated in the report of Dr. Raul Prebisch?

33. An explanation of the underlying forces explaining the Argentine inflation in the last few years would be desirable.

Foreign indebtedness.

C. Public finances

34. Is it possible to get cash budgets for the Argentine Government for the last few years? The ways of financing the deficit and the disposal of surpluses will be very useful.

35. A classification of fiscal revenues by categories should be obtained. The same for expenditures and, if possible, the amounts spent on general administration, defense, education, servicing of the public debt, etc.

36. A statement of the finances of autonomous entities, provincial and municipal governments, giving kind of revenues and expenditures will be appreciated.

37. A consolidated account for the whole of the public sector will be very useful. At least the position of the public sector with the banking system should be sought.

38. As far as the social security institutions are concerned, the following data should be obtained:

- (a) Sources of revenue;
- (b) Administrative expenditures;
- (c) Benefits distributed to their members;
- (d) Net savings and its disposal;
- (e) Changes in the composition of their assets in the last few years.

39. The Argentine Government has undertaken to reform the present tax system. How much revenue will the new law provide?

40. In the National Government budget for 1956 an amount of M\$N 6,299 million is expected to be sold to non-banking investors. What kind of investors are they?

41. An attempt should be made to obtain the following information on the public debt of Argentina:

- (a) Total debt with expression of the kinds and maturities;
- (b) Holders of the debt;
- (c) Yields of securities;
- (d) Amount of foreign debt with expressions of denomination, maturity, holder of securities, and yields.

42. With the new exchange system (October 1955) a "Fund for the recovery of the national economy" was established. The revenue, expenditures, management and policies of the Fund should be obtained.

43. What policies with respect to fiscal revenues (taxation, subsidies, etc.) and expenditures are going to be pursued in order to attain internal and external balance and long-term growth?

III. International economic position

44. What effects has the 1955 exchange reform had so far for redressing the balance of payments disequilibrium in Argentina. If possible, an explanation of the export and capital inflow items encouraged and of import and capital outflow items discouraged should be sought.

45. How large are the Argentine peso balances held by non-residents and what kind of regulations are applied to them?

46. If Argentina is seeking external financing for meeting (a) short-term indebtedness and (b) long-term development plans, what are the expectations of achieving a balance of payments surplus for the servicing of that debt and what policies will be pursued to achieve that objective?

47. What kind of developments are expected in the Argentine economy and what assumptions are made about its foreign markets in order to reestablish the strong external position Argentina previously had? Insofar as these developments impinge on domestic policies, a clarification of these policies should be obtained.

48. What policies will the Argentine Government follow with respect to the magnitude of international reserves?

Private debts to foreign countries

Argentina

1. Production, prices, and wages

Argentina's economic development has been extremely slow during the past 15 years. The two basic economic activities, agricultural and pastoral (animal) production, were 4 and 15 per cent higher in 1954 than in 1940, compared with a population increase of over 30 per cent during the same period. The war gave a big impetus to industry and this was accentuated by the policies pursued by the previous government. However, industrial production which had increased by 64 per cent in 1947 as compared with 1940 remained at the same level during the next 7 years.

When the Peron Government was overthrown in September 1955, Argentina was confronted with very serious problems: a heavy deficit in her balance of payments and large amounts of short-term foreign indebtedness; a reduction in the area farmed, especially of basic crops; a considerable backwardness in farming methods and a lack of adequate machinery; the need to replace a considerable part of the transportation system (most of the equipment was out of date) in order to have adequate facilities to move production to the consumption centers; and a huge deficit of energy which was aggravated by the need to import large quantities of petroleum and coal, the main bottleneck to the country's industrial growth.

The new Government has made a serious attempt to cope with these problems by a series of policy measures aimed at increasing the level of basic production and expanding exports. The first steps were the establishment of a more realistic exchange system in October 1955, devaluing the peso, simplifying the rate structure, and eliminating many of the quantitative restrictions previously

existing in Argentina. The State Trading Institution, IAPI, which had a monopoly on foreign trade and which had lately been the main source of inflationary pressures, was scrapped. Basic agricultural prices were drastically increased for the 1955-56 crops and slightly increased again for the 1956-57 season. Trading methods were somewhat changed allowing for more freedom to sell and official prices have become minimum support prices paid by the National Grain Board. At the same time Argentina undertook to fund her short-term indebtedness with European countries and to multilateralize her net of payments agreements with them. Also, at the same time the country started procedures to join the IMF and the IBRD and a financial mission came to the United States to negotiate financial assistance needed to improve and expand Argentina's capital facilities.

On the internal side, an early attempt to abolish price controls was reversed, the Government has restored the autonomy of the Central Bank and has stated its intention to return to the previous system of fractional reserve requirements for bank deposits.

Since only 9 months have elapsed since the enactment of the new policies, it is difficult to assess their effects on the level of agricultural production. The 1955/56 wheat crop was not affected by the new prices and exchange rates, and the low level of that crop is the determinant of the present volume of Argentina's exports. The production of maize and oilseeds is much larger than in the past year but the increase will not be felt until the second half of the year.

Beef production has greatly expanded under the stimulus of higher prices and more favorable exchange rates. At the same time increased cereal prices may explain the high proportion of breeding stock recently being marketed which exceeds current demand. Much of the land can be used either for cattle raising or for sowing cereal.

The behavior of the national income during the present year is not known, but the prospects for 1957 are better especially if the area sown is expanded and if mild weather conditions prevail.

Price increases on basic export commodities have been previously mentioned. At the same time the Government reintroduced price controls in an attempt to prevent complaints from the lower income groups and demands for higher wages. The cost of living index in Buenos Aires, which is based on essential items used by unskilled workers, rose by 12 per cent between October 1955 and May 1956. If less necessary items are included, the increase in the cost of living since last fall has been unofficially estimated at from 35 to 40 per cent.

At the outset, the new regime announced its policy would be that wage increases should be absorbed by entrepreneurs' profits or matched by increases in productivity and would not be shifted to prices. Wages should be negotiated between unions and entrepreneurs, taking into account those objectives. If no agreement were reached, the dispute would be solved by a National Wage Board. In the meantime, last February the Government decreed an across-the-board increase of 10 per cent for all wage earners and later on a 20 per cent increase, on the average, for rural workers retroactive to February 1 of this year. Very few agreements have been signed and it is known that trade unions are requesting wage increases much higher than the increase in the cost of living (from 65 to 135 per cent) and in wage negotiations, employers consider productivity as a separate problem. The solution of labor disputes is a crucial problem in the Government's program and the failure to keep wages in line can impair the effects of the devaluation and the improved agricultural prices which should increase production and redress the balance of payments deficit.

2. Money and credit

During the first half of 1956, the money supply went from M\$N 60 to M\$N 64 million, a figure which is within the forecast of the Government's plan. The contractionary effect of a balance of payments deficit has been counteracted by advances to the Government, banks, and individuals. However, the moderate increase in the quantity of money (6 per cent in 6 months) has created a sensation of tightness in the money market, because of the considerable devaluation of October 1955 and the increases in wages and other costs.

Since the end of April, the money supply has declined slightly and this has mainly contributed to the appreciation of the peso in the free exchange market as a result of a repatriation of funds by Argentine residents holding foreign exchange.

The Government has announced the restitution of deposits to the private banks, reversing a measure adopted in 1946. This may enable a number of banks to extend their credit volume but this will depend on the amount of liquidity presently held by the banking system, on the relation between deposits and rediscounts with the Central Bank, and on the new regulations regarding reserve requirements against bank deposits.

3. Public finance

Finances of Argentina's public sector have been out of balance for a number of years. The main contributors to the fiscal deficit were the losses in the operation of nationalized railroads, some urban transportation enterprises, and IAPI. A large offsetting factor has been the absorption of government bonds by social security funds. In 1955 expenditures were M\$N 34 billion and revenue M\$N 18 billion. The deficit was financed by selling to the social security funds M\$N 8 billion in government bonds and increasing currency issues

by M\$N 8 billion. In 1956, the Government will spend M\$N 35 billion, including the Public Works Plan and the railroad deficit. The envisaged deficit of M\$N 15.3 billion will be financed by a sale to the social security funds and other non-bank investors of M\$N 6.3 billion in bonds and by increasing the currency issue by M\$N 9 billion.

4. Payments situation

The exact amount of the 1955 balance of payments deficit is not known, but considering the losses in foreign reserves of the Central Bank it must have been over US\$100 million.

As was previously mentioned, some of Argentina's short-term foreign indebtedness had already been funded and the funding of another part of it is presently being negotiated.

The effects of the October 1955 devaluation on the balance of payments cannot be assessed accurately as yet. For some exports, like wheat, it would not have any effect during 1956 because the crop was already sown when the measure was effected. Other crops, like corn and oilseeds, which are expected to be supplied in larger quantities than in 1955 will affect the payments position of the second part of the year but they will have to increase by a very considerable amount to offset the payments deficit already produced during the first half of 1956. This deficit has been due mainly to a large decline in wheat shipments which has not been compensated by an expansion of meat, wool, fresh fruits, or other marginal exports.

In Argentina trade movements run very close to payments movements. During the first five months of 1956 the Central Bank lost nearly US\$80 million of reserves. Even assuming an improvement for the second half of the year, it is not unlikely that the payments deficit will be about the same as in 1955.

Prospects for 1957 are better because there the full effect of the exchange and price policies will be felt.

The free exchange rate, which by the end of February had fallen to about M\$N 42 per U.S. dollar, recovered sharply and by the middle of August was M\$N 30. This recovery has been attributed to the stimulus to minor exports which added to the flow of exchange going to the free market, to a larger capital inflow due to the improvement of Argentina's long-term economic prospects, and to the stringency of the money market which already has been pointed out.

5. Relations with the Fund

Argentina is a new member of the Fund, having a quota of US\$150 million. No par value has been agreed with Argentina.

The exchange system of the country is characterized by the existence of a fixed exchange rate of US\$1 = M\$N 18 and a fluctuating free market where the quotation was US\$1 = M\$N 30 in the middle of August.

The official market is used for most exports (some of them are subject to retentions of the nature of an exchange tax, making for effective buying rates up to US\$1 = M\$N 13.50) and for certain basic imports. The free market is fed by minor export proceeds, excesses of official market export proceeds over the aforo (official valuations) established for that market, invisibles, and capital. Outgoing payments in the free market are authorized for non-essential imports (some of them subject to surcharges) and for invisibles and capital transactions.

6. Topics for discussion

Establishment of a par value, payment of its subscription, and Argentina's availability for the transitional arrangements of Article XIV of the Fund Agreement will be topics of discussion with the country's representatives.

The effects of the exchange and price policies for expanding production and exports and consequently for redressing Argentina's balance of payments is the most urgent problem confronting the country today. In this connection, the efforts to check inflationary pressures--monetary, fiscal, and wage policies--as well as the prospects of obtaining foreign investments and loans should be examined.

Possible need of Fund resources could also be a point of discussion with the Argentine representatives.