DM/58/17

INTERNATIONAL MONETARY FUND

Western Hemisphere Department

Latin America: Economic Development and Economic Stabilization

Prepared by Jorge Del Canto[1]

April 7, 1958

Index

1/ This paper was presented at the Conference on "International Trade and Economic Development," under the auspices of the John E. Owens Memorial Foundation, Southern Methodist University, Dallas, Texas, April 3, 1958. The views expressed are the personal opinion of the writer and do not necessarily reflect the opinion of the International Monetary Fund.

I. Opening remarks

Coming from the other Republic of the Lone Star at the southern tip of the continent, I am very gratified to be in Texas and to attend this conference on international trade and economic development, sponsored by the Owens Memorial Foundation. I find it quite stimulating to come back to university circles, an association that has been very dear to me in the past. Indeed it was about 20 years ago that I had the privilege of doing some graduate work at the University of California--of which our main speaker in this conference, Dr. Howard S. Ellis, has been the leading professor in the field of economics for many years. Upon my return to Chile in 1942, I became professor in the field of international trade at the University of Chile and it is with certain regret that I confess now that in my day-to-day work at the Monetary Fund, in the last 12 years, I have lost these stimulating contacts with university circles.

As someone interested in the field of international trade and international finance, I had thought originally of dealing with the topic that I have selected for my talk, in rather general terms, and that perhaps I should review current thinking and the literature of the last few years on this subject. Unfortunately, since Dr. Zook wrote to me last January about participating in this conference, we have been quite busy at the Monetary Fund in our day-to-day work in the Latin American field, and I have not had time to put my thoughts together in terms of what might be a useful academic contribution to this panel. Accordingly, my comments will be those of a practitioner, somewhat descriptive, and they will deal particularly with the role that the International Monetary Fund plays in assisting our Latin American member countries to pursue policies that will permit them to achieve economic development under conditions of stability.

Some of you might ask yourselves the question of why I have selected this topic: "Latin America: Economic Development and Economic Stabilization." There are many reasons for this. The first one is that I am speaking to an American audience and Latin America offers a special significance to the United States not only for political, economic, and cultural reasons, but also because there is a community of interest in the field of trade and investment between the United States and Latin America. After all, Latin America is one of the most important markets for U.S. exports --which have been increasing in the last postwar years to an all-time high of $4½ billion in 1957[1]--and large segments of the U.S. economy, such as industrial and electrical machinery, automobiles, chemicals and related products depend to a significant degree upon the Latin American market. U.S. imports represent a large part of Latin American exports, although they have not increased as fast as U.S. exports in recent years; $3.8 billion in 1957.[2] In the field of investments, United States private investments

---

1/ The breakdown of U.S. exports (excluding special category exports) for 1957 is $2.6 billion for South America, $1.2 billion for Mexico and Central America, and $0.7 billion for the Caribbean countries. (For further details see Table 1 attached.)

2/ Of total U.S. imports, $2.5 billion for South America, $0.7 billion for Mexico and Central America, and $0.6 billion for the Caribbean countries. Imports of coffee averaged $1.3 billion in 1957, petroleum averaged $0.7 billion, copper averaged $0.3 billion, and other metals, constitute between one third and one half of total Latin American exports. (For further details see Table 1 attached.)

in the area have been growing steadily since the postwar years and have reached an estimated total of $9.2 billion at the end of 1956.[1] The expanded pace of these investments has created a broader market for U.S. exports.

The potentialities of the Latin American market are tremendous if one realizes that Latin America, in addition to its large inventory of natural resources, has today a population of approximately 180 million persons--as compared with 171 million in the United States--with an average per capita income of $312--as compared with $2,400 in the U.S.--and with one of the highest rates of population growth. Furthermore, investment, imports and exports in the Americas are significant not only because of their actual size but perhaps even more so because of the many respects in which trade complements the economies of the participating nations. Petroleum, copper, manganese, iron ore and other metals, as well as tropical products, such as sugar, coffee, cocoa, oils, fibers, etc., are vital to the U.S. economy both for normal production and more so in times of emergency. On the other hand, the machinery and equipment, chemicals, airplanes, automobiles, and other products that the Latin American nations import from the United States are essential to the growth of the economies of these countries.

It is obvious then that it is in the national interest, both of the Latin American countries and the United States, to allow the potentiality of the area to materialize. Economic growth and economic diversification will add gradually to the importance of these countries as trading neighbors and higher standards of living will go far in promoting increased social stability and thus strengthen the basis for democratic political evolution.

A second reason for dealing with this topic in my talk is the increasing interest that has developed in the United States for the underdeveloped countries in general. One has only to follow the discussions associated with the Foreign Aid Program of the U. S. As a Latin American, I am particularly gratified to see that this interest is spreading and many universities, like Southern Methodist, are taking an active role in this respect.

Thirdly, I have selected this topic because it is a topic of current interest, professionally, among economists. I need not elaborate in this respect since the professional journals as well as magazines and newspapers are now devoting increasing attention to this very topic, and our judgment

---

1/ Direct investment as such represented $7 billion at the end of 1956, distributed as follows: petroleum, $2 billion; manufacturing, $1.5 billion; public utilities, $1.1 billion; mining and smelting, $1.1 billion; agriculture, $0.6 billion; trade, $0.5 billion, and miscellaneous, $0.3 billion. For further details see U.S. Investments in Latin America, U.S. Department of Commerce, Office of Business Economics, 1957.

of underdeveloped countries is generally based on the extent to which these countries achieve orderly growth in an environment of stability.

Finally, I have selected this topic for reasons of personal convenience. In my 12 years with the Monetary Fund most of my day-to-day work deals with the role that the Fund, both in terms of technical and financial assistance, plays in assisting our Latin American members to pursue adequate financial policies.

II. The concept of economic development

Before I speak of actual developments in the area and our experience in the Fund, I would like to make some general comments of a broad character on the concept of economic development.

Economic development is a complex social phenomenon. Broadly speaking, in underdeveloped countries all efforts of an economic and social nature to raise living standards are the basic objectives of economic development. More specifically, in countries where low real income is associated with low productivity and scarcity of capital, development is understood as those efforts to increase capital formation, efforts to increase the capacity to save. However, the technical contribution that capital can bring about--through physical output with modern machinery and efficient management--gives only a partial answer to the question of economic development. Economic development goes beyond this and is the result of a number of factors, some of which are not controllable, such as climate, natural resources, population, rate of population growth, religion, education, political evolution, etc. Furthermore, the process of economic development requires a social attitude receptive to new fields and new methods of production, institutional arrangements that encourage enterprise and investment, technical and managerial skills, a healthy and well trained labor force that is able to adapt itself to new methods of production. For our talk of today, however, we prefer to identify development with capital formation, because fundamentally the difference between underdeveloped and developed countries lies in the scarcity of capital in relation to population and available resources. No matter what the limiting factors that hamper development might be, only through increased capital formation can such countries undertake the necessary investment to increase production per capita, to increase their productive efficiency. Gradually, with a steadily expanding income, the capacity of the economy to provide savings for further development will increase and the process of economic development will gain momentum.

In addition to such basic factors that limit capital formation in underdeveloped countries, such as low income level and lack of institutional facilities to mobilize effectively whatever savings can be obtained, one should mention--as it is increasingly recognized by social scientists--the growing awareness of advanced living standards in more developed countries by the lesser developed countries, which reduces the propensity

to save and makes the process of capital formation a more difficult one. The very existence of international disparities in real income levels is aggravated by the attraction exercised in the poorer countries, of the consumption patterns of the more advanced countries. It has been stated that the disparity in the levels of income between the developed and underdeveloped countries--increasingly more evident in the modern world through the so-called "demonstration effect"--is leading to a new revolution, the "revolution of rising expectations". The more developed countries succeeded in promoting economic development under such conditions of stability in the 19th Century that are non-existent today, when institutional, social, and political factors make the process of economic development much more difficult.

III. How underdeveloped is Latin America?

To determine the range of variations, in the degree of underdevelopment that prevails among the underdeveloped countries, it will be useful to provide some general comparative figures on national income. This will help us to see how much saving, of a local nature, can be generated to increase capital formation and make economic progress possible. We will see that for most of these countries the rate of domestic savings needs to be supplemented by foreign resources, since the present rate of investment originating from local savings is quite limited.

Africa[1/] has been in the past one of the least developed areas of the world. There are roughly 220 million people divided into some 50 different countries and territories and national income ranges from a low of $55 per capita in Ethiopia, to $104 in Liberia; $110 in Libya; $126 in Tunisia; $143 in Ghana; and $191 in Morocco, to illustrate a few. The Union of South Africa (14 million people) has 6 per cent of the total population of Africa, but 22 per cent of the gross national product. Africa's population has increased by 13 per cent since 1950, against 16 per cent in the previous decade (1941-50). The volume of production, however, has increased faster: agriculture, 20 per cent; mining, 45 per cent; and exports, 30 per cent. Africa's gross national product has been increasing at the rate of 5 per cent since 1950 and Africa's per capita production by an average of 3 per cent per year. Total capital investment is running between $4 billion to $5 billion, between 15 per cent and 20 per cent of the gross national product, estimated at around $50 billion. The principal factor behind this growth has been heavy investment of foreign capital and loans--including $432 million from the I.B.R.D. and $133 million from the British Colonial Development Corporation--that have been invested in mining (copper, uranium, lead, chrome, cobalt, antimony, bauxite, etc.) and hydroelectric power.

In the Near East and South Asia[2/] (17 countries representing 610 million people) we find an area that covers 9.5% of the free world and one third of the population, but whose share of the world's total income is only 4%.

1/ These figures are 1957 estimates. For further details see "The Mutual Security Program," Fiscal Year 1959, ICA.

2/ The Near East and South Asia in these estimates cover: Greece, Turkey, Iran, Egypt, Iraq, Jordan, Lebanon, Sudan, Syria, Saudi Arabia, Yemen, Israel, Afghanistan, Ceylon, India, Nepal, and Pakistan.

The variations of different income levels are very great, and begins with a low of around $52 for Pakistan and Afghanistan, and increases to $63 in India, $131 for Iran, $190 for Iraq, and goes up to $283 for Greece, $318 for Turkey, $372 for Lebanon, and $722 for Israel.

The Far East[1] represents 900 million people, more than 1/3 of the world's population, and income per capita of an average of $154, for the area, with Burma ($54), Indonesia ($83), and Korea ($113) on the low side of the average, and the Philippines ($205) and Japan ($274) on the better side. The area is heavily overpopulated: 620 persons per square mile in Japan, 570 persons per square mile in Korea and 200 persons per square mile in the Philippines. This compares with 57 persons per square mile in the U.S.A., and an average income of $2,400 in 1957. The economies of these countries, like in most underdeveloped areas, are heavily dependent upon a few exports: Burma, 77% of exports is rice, Taiwan 71% is sugar and rice; 67% is rubber and rice for Viet Nam; 67% is rice and rubber for Thailand; 64% is coconut products and sugar exports for the Philippines; 63% is rubber and oil for Indonesia; 61% is rubber and rice for Cambodia.

Now, let us look at Latin America.[2] The total population of Latin America in 1956 was 179.5 million inhabitants (126.1 million in South America; 41.1 million in Mexico and Central America, and 12.3 million in the Caribbean countries). The average income per capita for the area as a whole in the same year was $312, and large countries like Brazil ($250 per year per capita), Mexico ($240 per year per capita), Colombia ($272 per year per capita), Cuba ($395 per year per capita), Chile ($334 per year per capita) are around the average, but there are large differences between those at the low end of the scale, like Haiti ($98 per year per capita), Ecuador ($115 per year per capita), Paraguay ($143 per year per capita) and those like Venezuela ($773 per year per capita) and Argentina ($635 per year per capita) with income levels closer to Western European standards.

These differences of income levels are a reflection of a number of factors, but it is interesting to observe that the volume of foreign trade per capita and the availability of foreign financial resources--primarily foreign direct investments--contribute significantly to these differences of income levels. Thus a country, like Venezuela, with a population of 6 million, has a dynamic economy, with close to $2 billion of U.S. direct investment and its total exports are today at over $2 billion per annum--or $355 per capita--leading exporting country of Latin America. While population has increased around 35% in the last decade in Venezuela, national product per capita in real terms has nearly doubled. Similarly, in Peru, population--around 9.6 millinn--has increased by 25 per cent in the last decade while per capita gross national product has increased around 60 per cent. This is not due to any significant improvement in the

---

1/ In this area we follow ICA classification of the Far Eastern countries: Japan, Philippines, Viet Nam, Taiwan, Korea, Thailand, Indonesia, Cambodia, Burma. See Mutual Security Program, Fiscal Year 1959, ICA.

2/ For further details see Table 4 attached.

terms of trade, but rather to an expansion of the export basis of the country--exports have more than doubled in the last 10 years, to $321 million in 1957, and substantial new direct investment and loans from the World Bank and Export-Import Bank have supported this growth. Mexico has an equally impressive record of growth under conditions of reasonable stability.

On the other hand, the countries of the A.B.C., Argentina, Brazil and Chile, have not had any significant change in the per capita gross national product in the last decade. For instance, in Argentina--a country of 20 million people--in the postwar years population has increased by 25 per cent, while per capita gross national product has been stationary. Furthermore, the Argentine economy is confronted with serious bottlenecks in the field of power and transportation. This is due to a very large extent, to the fact that exports have declined--partly due to a deterioration in the terms of trade--from $1.5 billion in 1947 to around $1 billion in 1957 and no significant new foreign investment--but to the contrary foreign disinvestment--has taken place in postwar years. Brazil--a country of 60 million people--has also increased its population by around 25 per cent since 1947, but per capita real gross national product only increased by 15 per cent. Brazilian exports have not expanded to an extent commensurate with the resources potential of the country--only from $1.2 billion in 1948 to $1.4 billion in 1957, but substantial new foreign investment and the use of loans is strengthening the basis of the Brazilian economy and further expansion can be expected in the future.

Chile--a country of 7 million inhabitants--has increased its population by around 20 per cent since 1947, but real per capita gross national product has been stationary. Chile, like Brazil, however, has stimulated new investments and is using new loans from the Eximbank and the World Bank, that will contribute to better growth in the future--if proper domestic policies are followed.

In conclusion, while the rates of growth of the Latin American countries cannot, on the average, compare with the rate of growth of the U.S. and Canada--an average of 4 per cent per capita national product in the last two decades--or those of Africa (7% in recent years), the figures still show that the Latin American countries as a whole have the potential --both human and natural--that enables us to speak of these countries as "growth" countries rather than as "typically underdeveloped" countries.

As "growth countries", it is important that the Latin American countries follow policies that will lead to an increase in the rate of capital formation, both from domestic and foreign sources. While one cannot ignore the role that foreign capital--in the form of direct investments and loans--can play in increasing the rate of capital formation, one should not deny that there is room in Latin America for strengthening the rate of domestic capital formation and improving the institutional machinery that can assist in a better mobilization of available savings. One of the most serious obstacles, however, to the promotion and better utilization of domestic savings, is inflation. To this problem we turn now our attention.

IV. Inflation and economic development[1]

Inflation has been a serious problem in Latin America in the postwar years. As in other underdeveloped countries, this is a typical phenomenon of countries where investment outstrips savings, where government spends more than it receives in revenue, where credit expansion is excessive. Most underdeveloped countries are constantly under continuous inflationary pressure. Money demand--though low in absolute amount--is excessive in relation to the capacity to produce. This capacity to produce is low due to low productivity, which in turn is largely due to the lack of real capital. Supply in underdeveloped countries being inelastic, as well as inadequate, monetary expansion leads then merely to price inflation. The effect of inflation in the end is detrimental to the sound growth of the economies of these countries. It soon reflects itself in overvalued exchange rates, with their unfavorable effect on exports and imports, loss of reserves, intensification of restrictions, accumulation of commercial arrears.

For most of these countries, the two principal factors of inflation have been the financing of government deficits by central bank credit and the expansion of credit of commercial banks. On the whole, the tradition of central banking, as it is known to the more developed countries, is only beginning to develop in Latin America, and the fiscal systems are still quite inadequate. Monetary discipline, in Latin America as in most underdeveloped countries, is a hard thing to develop. It requires a psychological attitude of self discipline at all levels: government, labor unions, public opinion at large.

Quite often professional economists in Latin America have adopted an attitude of complacency towards inflation in Latin America. In my own country, Chile, for instance, many economists argue that inflation contributes to development because it transfers income from consumers or conservative savers to the more dynamic entrepreneurial minority, because it contributes to a transfer of surplus labor in agriculture, with low productivity, to other activities and that it is politically an easier alternative to taxation. There exists a misunderstanding in many underdeveloped countries as to the role of credit creation to finance underemployment in underdeveloped countries, as compared with industrial countries. The limitations for an underdeveloped country are obvious. The creation of bank credit to finance development might result in some increase in production of consumer goods in the future, but not sufficient to meet the increase in demand that will be generated currently. A deficiency of real resources cannot be corrected by credit creation.

The concept that inflation must be accepted as inevitable is beginning, however, recently to be seriously challenged among professional economists in Latin America. It would be false modesty if I were not to mention that the Fund as an institution, and the professional work of the economists of

---

1/ I am deeply indebted to a large number of my colleagues in the Fund, for the ideas embodied in this section.

the staff of the IMF--reflected in technical reports to the various Latin American governments and the day-to-day technical assistance of the Fund in the field have contributed materially toward this change of mentality.

As the distinguished Brazilian economist, Dr. Roberto de Oliveira Campos, indicated in his paper "Inflation and Balanced Growth", submitted at the Round Table of the International Economic Association last August 1957 in Rio de Janeiro: ". . . practical experience has rendered our economists increasingly more skeptical about the compatibility of inflation with development. The counter arguments can be summarized as follows: (a) the wage lag needed to ensure the transfer of resources to the entrepreneurial group becomes increasingly shorter and tends to disappear as wage and salary groups mobilize themselves for defense of their real income; (b) such transfer as may be realized to the entrepreneurial group is largely wasted through increases in luxury consumption, unproductive investments in real estate, leakages into foreign exchange or metal hoards, etc.; (c) investments in overhead capital--public utilities, transportation--which are controlled-price sectors, tend to be discouraged due to the practical impossibility of continuously adjusting tariffs to rising costs; (d) balance of payments difficulties usually emerge, reducing the capacity to import; (e) lack of interest in increased productivity and efficiency may occur."

I have emphasized that development, reflected in an increase in the rate of capital formation, without a reduction in consumption of the lower income groups, is the basic objective of policy of underdeveloped countries. To encourage countries to undertake such efforts in an environment of stability is one of our basic objectives at the Monetary Fund. This is not a doctrinaire position of the Fund but it is based on 12 years of direct observations in the field, which makes us believe that inflation--either originating from excessive creation or deficit spending--in underdeveloped countries is a socially and economically wasteful means of attempting to increase investment. Inflation is not only socially unjust but also misdirects available savings to sectors where their effect on production is negligible. It encourages excessive investment in inventories, real estate, and foreign exchange holdings.

Our concern with inflation in the Fund deals not only with distortions created in the pattern of production and investments due to inflation, but more so with the balance of payments effects of inflation. It is a fact that balance of payments pressures exist at all times for most countries undergoing economic development. Inflation, however, can seriously aggravate these balance of payments difficulties. By depressing export earnings and wasting borrowed capital, inflation has caused many countries to have such severe balance of payments problems that there is insufficient financing available for essential imports let alone for capital goods required for further development.

Balance of payments difficulties arising from inflation is then one of our most important areas of work in the Fund, both in terms of analyzing the problems and also providing technical and financial assistance to member countries to deal with these problems. It might be useful to make a brief evaluation of our experience in Latin America in the last few years. Before I do so, however, I would like to make some general comments on inflationary trends in Latin America.

V. Inflationary tendencies in Latin America

The degree of inflation--as measured by price increases--of the different countries in Latin America has varied significantly in the last decade. The countries of the so-called "dollar area," including Mexico and Central America, the Caribbean countries, Colombia, Venezuela, and Ecuador--more than half of whose trade is with the United States--have had in the past decade a moderate degree of inflation (annual average less than 10 per cent), while many of the South American countries--which trade less with the United States--have had an inflation of more than 10 per cent per year in the last decade. The following percentages (annual average for the last decade) of the degree of inflation per year for each one of the Latin American countries is of interest to verify this observation.

Latin America: Rate of Inflation1/

(Average per year increase in cost of living for last decade)

1. Countries with price increases of more than 10%:

Argentina	19.8 per cent
Bolivia	63.0
Brazil	15.4
Chile	35.7
Paraguay	43.8
Peru	12.4

2. Countries with price increases of less than 10%:

Colombia	9.6 per cent
Costa Rica	4.3
Cuba	1.4
Dominican Republic	1.9
Ecuador	3.5
El Salvador	5.9
Guatemala	3.3
Honduras	2.9
Mexico	7.8
Nicaragua	6.9
Panama	6.2
Uruguay	9.1
Venezuela	4.7

1/ For further details see Table 5 attached.

The different degree of inflation of the Latin American countries reflects itself in the degree of stability and the convertibility status of the currencies of this area. Thus, the currencies of countries of the dollar area are fully convertible--de facto, if not always technically speaking, under the Fund Agreement--and fairly stable single rates of exchange (only with minor multiple currency features in some cases). On the other hand, many of the southern South American countries--at least until recently--have had inconvertible currencies with severe exchange controls and unstable rates associated with complex multiple rates. The situation has changed recently, however, in South American countries and now Peru, Chile, Bolivia, Ecuador, Colombia and Paraguay have fairly simplified exchange systems free from quantitative restrictions.

The fact that many of the countries of the dollar area--with moderate inflation or no inflation--have had a high rate of growth and have enjoyed stability and convertibility of their currencies would seem to indicate that inflation and exchange control are not necessarily a price that must be paid to achieve economic development. The Latin American countries as a whole have begun to recognize this and are now combatting inflation. In their efforts they have received technical assistance and financial support from the International Monetary Fund. I would like to make some detailed comments on the experience of the Fund in assisting some of the South American countries to develop suitable stabilization policies. Before I do so, however, I should speak about the Fund in general, to refresh your memories on this international financial organization.

VI. Role of the International Monetary Fund in the stabilization efforts of the Latin American countries

The International Monetary Fund is one of the specialized institutions established at Bretton Woods in 1944 to further international cooperation in the economic and financial field. Article I of the IMF basic Charter, which defines the purposes of the institution, speaks in terms of international monetary cooperation, expansion and balanced growth of international trade, maintenance of high levels of employment, development of productive resources, promotion of exchange stability, maintenance of orderly exchange arrangements, and avoidance of competitive exchange depreciation. It also aims at a multilateral system of payments and the elimination of foreign exchange restrictions. It provides for making the Fund's financial resources available to members to correct maladjustments in their balance of payments.

The area of competence and responsibility of the Fund, at least jurisdictionally speaking, is closely defined by its Articles of Agreement. It relates primarily to exchange matters, i.e., exchange rates and currency arrangements, balance of payments and exchange problems, and restrictions in the exchange field. In studying and dealing with these specific matters that are its direct concern, the Fund is bound to penetrate beyond their immediate

confines and to give consideration to the wider range of underlying monetary, financial, and economic conditions and to their effect on the immediate problems at hand and their possible solutions. Nevertheless, it is clear that the Fund, in view of the specialized nature of its functions, must concentrate in the first instance on the short-term aspects of economic problems, i.e., the balance of payments and related exchange, monetary, and fiscal policies. It is, for example, not the proper agency to evolve or advise member countries on specific long-range plans for economic development. Moreover, its Articles of Agreement imply that the Fund's resources are not to be used for the financing of economic development as such. This does not mean, on the other hand, that the Fund, in assisting its members within its proper sphere of competence, must not and should not give proper weight to their economic development potential and plans, e.g., the effects of such development plans or of their method of financing on the country's short-run position or the eventual balance of payments benefits it may derive from their realization.

The Fund was instituted to help its members and has been of assistance to its member countries through several inter-related types of activities: (1) consultation and provision of technical advice on problems in the financial field, (2) collection and dissemination of information, and (3) financial assistance.

The Fund's consultation activities can be viewed as a form of technical assistance, with emphasis on an over-all approach to the economic and monetary situation of each member country. Such assistance is provided through continuing and close contact between the Fund and its members. The Fund endeavors to keep abreast of current economic development in its member countries and to be in frequent direct contact with them, through correspondence, informal visits, or missions. Such continuing study and contact enables the Fund to assist members promptly and effectively when called upon to deal with specific problems that may arise. In some cases the technical work of the IMF has been related to immediate balance of payments problems and measures to deal with them, such as changes in exchange rates or exchange systems or in restrictions. At other times, the Fund has been ready to assist members in dealing with other and broader financial subjects, e.g., over-all studies of inflationary conditions and monetary policies, organization and reform of central banks, or certain aspects of fiscal policy.

The membership of the International Monetary Fund (at present 65) embraces practically all of the free countries of the world. Nine billion dollars in gold and national currencies has been paid to the Fund by its members to provide resources to be used to carry out its principles; the payments have ranged from $2,750 million by the United States to $500,000 by Panama.

The Fund does not engage in transactions with the general public. All its exchange operations are conducted with its members and only through their treasuries, central banks, or other designated fiscal agencies. A member obtains assistance by purchasing from the Fund with its own currency whatever currency it may need. Transactions are made, as a rule, at the par values agreed with the Fund. Each member of the Fund has guaranteed the Fund's holdings of its currency against fluctuations in its gold value.

A member purchasing a currency from the Fund must state that the currency is presently needed for making payments which are consistent with the Fund Agreement. In general, this means that assistance is available to help a member meet a deficit in its balance of payments on current account, provided the deficit does not arise from an inappropriate exchange rate. Under the Fund Agreement, current transactions are described as including all payments in connection with foreign trade, other current business including services, and normal short-term banking and credit facilities. They also include interest on loans and income from other investments, and payments of moderate amounts for amortization of loans or for depreciation of direct investments.

Each member has a quota which represents the dollar equivalent of its subscription to the Fund in gold and in its own currency, and which determines the amount of financial assistance that can normally be obtained from the Fund. A member may purchase the currencies of other members in an amount that would not cause the Fund's holdings of the purchasing member's currency to increase by more than 25 per cent of its quota during the period of 12 months ending on the date of the transaction. There is also an aggregate quota limitation, i.e., a transaction must not bring the Fund's holdings of the member's currency above 200 per cent of its quota. These limitations do not preclude a member from securing additional assistance from the Fund if that is required, since the Fund may waive the limitations specified in the Fund Agreement.

The Fund has developed another technique for assisting its members. This takes the form of a stand-by arrangement under which a member is assured that during an agreed period an agreed amount of resources will be available whenever the member requests a transaction. Some countries have found stand-by arrangements particularly useful when a program for exchange stabilization or relaxation of exchange restrictions may place temporary pressure upon their exchange reserves. A stand-by arrangement for an amount more than 25 per cent of the quota is of special convenience since it provides a prior waiver of the quantitative limitation on the use of the Fund's resources.

A member purchasing the currency of another member pays a service charge of 1/2 per cent of the transaction. There is no further cost if the currency acquired by the Fund is repurchased by the member or sold by the Fund to another member within three months. Also, there is no further

charge if the Fund's holdings of a member's currency do not exceed the member's quota. Otherwise, the Fund levies charges on the average daily balance of a member's currency in excess of the quota. These charges start at the rate of 2 per cent per annum and rise with the amount of the balance relative to the member's quota and with the period of continuous use of the Fund's resources. The charge for a stand-by arrangement is 1/4 per cent per annum. In certain circumstances, charges already paid under a stand-by arrangement may be credited to the service charge when a drawing is made.

In the eleven years which have passed since the Fund began exchange operations in the spring of 1947 (until January 31, 1958) the total of Fund transactions in the form of drawings and stand-by arrangements still outstanding now amounts to almost $4 billion. Of the total amount of drawings of $2.9 billion, no less than $1.3 billion has been repaid, and that is as it should be, since the International Monetary Fund is, in effect, a "Revolving Fund". The policy was adopted in 1952 that currencies acquired by members through transactions with the Fund should be repaid within three years, with an outside limit of five years. This has in fact been done. Indeed, with only a few small exceptions, all transactions prior to 1955 have been fully repaid.

As to Fund operations with Latin America, I would like to mention the following figures:1/ (a) the aggregate of quotas of the Latin American countries in the Fund is $673 million. To this total the Latin American countries have subscribed $168.6 million in gold and the balance in their local respective currencies; (b) with a disbursement of $168.6 million in gold, Latin America has benefited from drawings in the decade 1947-1957 of $500.9 million and has available lines of stabilization credits or "Stand-bys" for $120 million; (c) of the total drawings of $500.9 million, $224.2 million has been repurchased, insuring the revolving nature of the Fund's operations.

At present, by late March 1958, the Fund has available in gold $1.3 billion; U.S. and Canadian dollars of around $1 billion; sterling equivalent to $1.6 billion and deutsche marks for the equivalent of $240 million. However, it has commitments in stand-by arrangements of about $1 billion that can be drawn, so that the liquidity of the Fund is somewhat smaller than these figures would indicate.

In reviewing the Fund's operation, I would like to quote from our Managing Director, Dr. Per Jacobsson, in his speech submitting the Fund's last Annual Report to the Board of Governors:2/

1/ For further details see Table 6, attached.

2/ Statement by the Managing Director of the International Monetary Fund, Mr. Per Jacobsson, in presenting the Annual Report of the Executive Directors to the Board of Governors of the Fund, September 24, 1957.

"This experience (the experience of the Fund) therefore emphasizes that the assistance obtained from the Fund is essentially of a short-term character, and must be regarded by the countries concerned as a temporary addition to their reserves, permitting them to adopt and carry out, within a limited period of time, a constructive program to restore stability and balance in their respective economies. The time thus obtained is really "borrowed time", of which the best use has to be made. The member countries seem quite aware of the relevance of such considerations; and they seem anxious to keep in close contact with the Fund as regards the measures they intend to introduce, and the main lines of policy which they expect to follow. Indeed, it has become the practice of the Fund that in all cases of major assistance, the main lines of financial policy of the country turning to the Fund are laid down as part of the preamble to a stand-by arrangement, or, in the case of a drawing, as a "declaration of intent" on behalf of the government of the country concerned. In that way, the broad features of the policies which ensure a rehabilitation of the payments position are set out concisely and authoritatively."

The Managing Director further explained in his speech:

"To gain a clearer understanding of the circumstances under which countries have turned to the Fund, the instances in which assistance has been granted may be divided into four main groups.

"In the first place, there are the emergency needs which suddenly arose as last year [1956] in connection with the Suez crisis. The most typical example of this kind of assistance is that granted to the United Kingdom in December 1956, when $561 million were provided in the form of a drawing (all of which has been utilized) and $739 million as a stand-by (none of which has been drawn upon)." The stand-by was renewed in December 1957.

"The countries in the second, rather heterogeneous group, are those which have experienced an increasing strain in the current account of their balance of payments, most often as a result of heavy expenditure on consumption and investment. Thus, over the last year, assistance has been granted to Argentina, Denmark, France, India, Japan, and the Netherlands. (Brazil, Turkey, Israel and South Africa should be added after September 1957.) The circumstances under which the strain developed varied considerably, but it was generally the case that equilibrium could only be restored if steps were taken to reduce the volume of spending, or at least prevent any further expansion for the time being.

"Special difficulties often arise in those countries which have adopted rather ambitious development plans, since they may find it hard to secure the necessary finance in the present period of an increasing capital shortage. In these, as in other cases, the task of the Fund, when assistance is given, is to give temporary support to the monetary reserves while the proper adjustments are made to avoid the dangers of inflationary financing. The problems arising in this connection have been frankly discussed with the countries concerned, which have fully understood the nature of the Fund's resources, and for what purposes they are to be employed. There is a high degree of specialization in the functions of different financial institutions, and the differences arising from this specialization have to be recognized by those who turn to them for loans and credits.

"Assistance in the third group is provided to meet temporary exchange difficulties caused, for instance, by seasonal balance of payments deficits. Such assistance has recently been received by Cuba, Honduras, Nicaragua, Ecuador, El Salvador. These countries are largely dependent on one major export crop, and in such a case special needs may arise in the part of the year before the export crop is sold. In such cases of seasonal assistance, arrangements have usually been made for repayments to the Fund as soon as the inflow of export proceeds has again strengthened the exchange position, i.e., usually within a period of six to twelve months. Although the sums involved in these transactions have generally been smaller in absolute amounts, they have been substantial in relation to the quotas of the members concerned; and they do illustrate the capacity of the Fund to adapt its procedures to meet the widely varying requirements of its members.

"Assistance in the fourth group has been granted for the definite purpose of backing stabilization programs, as in Chile, Colombia, Bolivia, Paraguay, Peru and Nicaragua--all in Latin America. While there are marked differences between the programs initiated and the conditions existing in these countries, there are also some common characteristics:

> "One of the main reasons for adopting the stabilization programs has been that these countries wanted to get rid of the complex systems of multiple exchange practices which they had previously applied. To extricate themselves from these systems, they have adopted as a temporary measure a fluctuating exchange rate at which all or the bulk of their foreign transactions are settled. It is sometimes feared that the

adoption of a fluctuating exchange rate may be a way for a country to avoid taking the proper internal measures which are needed to restore internal and external balance to its economy. It should, therefore, be explained that in the case of the five countries here mentioned, far-reaching measures of fiscal and monetary reform have formed an important and integral part of the programs adopted. It is, moreover, understood that these countries will stabilize their currencies at a fixed rate as soon as practicable.

"It has been an interesting feature of the financial arrangement with these countries that the assistance granted by the International Monetary Fund has been combined with credits from such other sources as the United States Treasury or banks in the United States."

VII. Country reviews

It might be useful to review, with some detail, the stabilization efforts of some of those countries in which the IMF has played a significant role, technically and financially, in supporting these efforts.

1. Peru

Since 1949, Peru has changed its economic policies gradually. It broke away from exchange controls and developed clearer policies toward foreign capital, has permitted a substantial expansion of imports and a larger inflow of foreign capital, which created the basis for an expanding economy under relatively stable conditions. At the end of the post-Korean boom, with a decline of raw material prices, Peru faced a difficult balance of payments situation in early 1954. In order to meet these difficulties, the Government of Peru, with the technical assistance of the Fund, strengthened its stabilization policies and secured a stand-by arrangement with the Fund for $12.5 million, which was supplemented by another $12.5 million from the U.S. Treasury and $5 million from a private New York bank. From 1954 through 1956, Peru enjoyed a remarkable degree of financial stability, owing to a new boom in exports, steady inflow of private foreign investments (particularly in the mining and petroleum industries), and the availability of large official loans and credits, both from the International Bank and the Export-Import Bank, for a variety of basic development projects. When export prices of some of Peru's leading minerals weakened, and cotton exports met with more sales resistance, certain elements of financial instability already noticeable came more clearly into the open, and exchange reserves began to fall at a rapid pace. The authorities did not adjust their policies to the new situation soon enough, and new inflationary pressures emerged which led to a substantial loss of reserves toward the latter part of 1957. In January of 1958, however, the decision was taken to adopt a more flexible exchange rate policy and, with the cooperation of the Fund, Peru developed a new stabilization strategy. In order to back up these new efforts, the Fund renewed, in February 1958, the stand-by on a more liberal basis than previously. The new stand-by package involves $25 million from the IMF, $17.5 million from the U.S. Treasury, and $17.5 million from a group of New York private banks. The Government announced, in this new stabilization effort, the policy of permitting the certificate rate to fluctuate in response to fundamental market trends, intervening only in the presence of seasonal or speculative pressures. An important element in this new arrangement is the fact that the Peruvian authorities are stregthening their stabilization program with a series of fiscal and credit measures.

2. Chile

Chile, neighboring Peru, a country which had suffered from inflation for over fifty years, adopted in early 1956 a stabilization program. In 1955, the cost of living increase, which had been gradually climbing in previous years, reached 86 per cent, and the community became tired with the long-term inflation that had resulted in a misdirection of income between social groups. When the Chilean Government, late in 1955,

decided to adopt an anti-inflationary program, the policy adopted was that of having an over-all program designed to slow down the inflation, with final stability to be achieved over a period of several years. The program put into effect early in 1956 covered, in addition to budgetary reforms and credit restrictions, such matters as the breaking of the automatic link in the adjustment of wages and salaries to changes in the cost of living index, the economic weaknesses of the social security system, the tax system, monopolies in the distribution system, and fundamental changes in the exchange system. The exchange reform was a particularly important part of the program, for Chile had lived under complex multiple rates and exchange controls for more than twenty-five years. To ease the transition and to encourage confidence, external financial support was obtained in February 1956 to the amount of $75 million, of which the Fund provided a stand-by credit of $35 million.

The plan succeeded to the extent that the cost of living increase was cut in half in 1956, to 36 per cent, and another half in 1957, to 17 per cent. However, domestic policies in the fiscal and credit field have not been sufficiently severe to cope with a new, unforeseen contingency which Chile has been facing in the last year: the fall in the price of copper. Copper in 1956 constituted 72 per cent of Chilean exports and contributed directly about 20 per cent of government revenue. When the plan was initiated, early in 1956, the price of copper was nearly 50 cents per pound. It came down to an average of 40 cents per pound in 1956, 27 cents per pound in 1957, and it is currently 21 cents per pound. The decline in copper prices has obviously meant a considerable drop in export proceeds, and this has led to a decline in national income, which, in a presidential-election year like the present one, has further complicated the future of the stabilization plan. During the period of the plan, the Central Bank has allowed the bankers' rate (to be distinguished from the free rate, which is used for invisibles and not for trade) to depreciate from a level of 480 pesos to the dollar to 740 pesos to the dollar, but even at this rate Chile has found it difficult to maintain equilibrium between receipts and payments and has been drawing down its limited exchange reserves and has also used part of the stand-by package of $75 million credit originally contracted. In order to moderate a further decline in the rate, the authorities have been using monetary and credit weapons such as the use of advance deposits for imports and credit restrictions on imports. Last week, the Chilean authorities discussed and agreed with the IMF on a new and tighter program for 1958 to bring the level of payments more into line with available receipts, and on this basis the Fund and the other parties in this stand-by package agreed to its renewal for another year.

3. Bolivia

Bolivia, in the decade of 1946-56, was the most inflationary country in Latin America with an annual average rate of inflation of 63 per cent per year. The pace of inflation increased until in 1956 prices doubled in the first six months. The exchange system had become fantastically distorted with exchange rates varying from 190 bolivianos to 12,000 bolivianos for a U.S. dollar. Internal commerce was in disorder with long queues for essential goods. In December 1956 the

Government made a courageous attempt to end the inflation immediately with a comprehensive stabilization program. As in Chile, steps were taken to limit increases in money wages, and the exchange system was simplified and exchange control removed. With the help of counterpart funds derived from sales of U.S. Aid goods, plans were elaborated for over-all balance in the government sector. The reform of the exchange system played a large role in the improvement of the finances of the Government, for half the deficit of the government sector had originated in the excess of the average payment in local currency for foreign currencies earned by exports over the average charge in local currency for foreign currencies spent to import. The program included a thorough review of the budget of the government-owned Mining Corporation, which is responsible for two thirds of Bolivian exports, resulting in the elimination of subsidies for the company's commissaries and a program for the gradual release of a large number of redundant employees. The other government agencies were subjected to a similar review, with major revisions in their prices and policies, some diminution of their labor force, and substantial reduction of their imports. As in Chile and Peru, the program was supported by a stand-by package, which in this case amounted to $25 million, of which $7.5 million was provided by the Fund and $7.5 million from the U.S. Treasury, and $10 million from ICA.

In spite of serious handicaps, Bolivia made great progress in 1957, toward achieving a stable and expanding economy. The long period of price increases was broken and the Government managed to live within its own resources, supplemented by the assistance given by the United States. Dependence on central bank credit and overseas suppliers' credit has been avoided and the drain on international reserves was halted. In 1957, Bolivia received a growing amount of foreign capital in the field of petroleum, and it is fairly certain now that petroleum will gradually substitute for tin in Bolivian exports. Unfortunately, this increase will not take place quickly and the problems in the interim have been increased by a substantial weakening in world mineral markets. However, the grant aid and technical assistance from the U.S. Government have facilitated a program of agricultural diversification which, under the better incentives with a reformed exchange system, has greatly reduced the reliance of Bolivia upon food imports.

In December 1956, the Fund agreed to the renewal of the stand-by arrangement for another year. The program for the next year involves continuation of the present system of the free exchange rate fluctuating in accord with market forces and the foreign exchange reserve position. The freedom of exchange payments from restrictions and the exchange budget for government exchange purchases is to continue. The internal stabilization program is to include: continuation of the wage freeze for another year, after an adjustment in family allowances, enactment of legislation permitting dismissal of excess labor, continued balancing of the budget of the national government with the aid of counterpart funds arising from U.S. economic assistance, continued balancing of the budgets of the various autonomous agencies to avoid recourse to central bank financing, and effective implementation of regulations concerning control of bank credit to the private sector of the economy.

4. Paraguay

Paraguay, like Bolivia, is a landlocked country with one of the lowest incomes per capita in South America and, like Bolivia, one of the countries that has been suffering from acute inflation in the last decade (average of 44 per cent in the last ten years). With the assistance of the Fund, in March 1956 Paraguay embarked on a program to end this decade of acute inflation and eliminate a highly complex exchange system. The strategy followed was very much the same as that adopted in the previous countries: simplification of the exchange system, elimination of budget deficits and the maintenance of strict credit controls. As in Chile the program envisaged stability as being achieved over a period. In July 1957, Paraguay adopted the final step in this stabilization program, through the adoption of a new exchange system based on a single rate that is permitted to fluctuate in accordance with exchange availabilities and the foreign exchange position of the country. The move toward a fluctuating rate was accompanied by measures to achieve an over-all balance in the government budget, a ceiling on domestic loans and investments of the Central Bank, the strict enforcement of existing marginal reserve requirements, elimination of price and rationing controls. The plan was supported by a stand-by arrangement of $7.5 million from the Fund and $7.5 million from the U.S. Treasury.

The program has achieved a considerable measure of success. The expansion of commercial bank credit was reduced from 77 per cent in 1955 to 13 per cent in 1956 and to zero in 1957. The rate of price inflation, as measured by the cost of living index, has been reduced from 25 per cent in 1955 to 18 per cent in 1956 and 15 per cent in 1957. The better financial situation has encouraged the attention of foreign capital. If the stabilization policies endure, there is every reason to hope that, like Peru and Chile, Paraguay may be able to supplement its internal savings, which are low, due to the poverty of the country, with sufficient foreign capital and loans that will enable the country to bring its potential into reality.

5. Colombia

Colombia provides another interesting example of a South American country attempting economic stabilization.

Export of mild coffee is the major source of foreign exchange in Colombia, representing an average of 75-80 per cent of total export earnings. Coffee prices have fluctuated widely since 1950 to the present. The high level of coffee prices and exports during 1950 to about 1956 resulted in a stronger balance of payments during those years and also in increasing levels of income. Higher exchange earnings permitted larger investments, especially in industry, and increased levels of production. The plans for economic development adopted by the Government and various official agencies became more ambitious. The level of imports during those prosperous years was heavily in excess of the country's ability to pay, and large commercial arrears were accumulated abroad for an estimated total of $410 million at the end of 1956. In addition, international monetary reserves were greatly reduced.

During 1957 the coffee market weakened considerably, and export earnings from coffee declined by about $100 million from their 1956 level. Inflation, which previously was contained by the large import surplus, started to press against the price system in Colombia. The Government which took over in May 1957 was confronted with various difficult problems, the most important of which were those of arresting inflation, reducing imports to a level compatible with balance of payments equilibrium, and repaying the arrear indebtedness. A stabilization program designed to cope with these problems, which had been elaborated with the technical assistance of an IMF staff group, was adopted in mid-1957. There was a reform of the exchange system which included the adoption of two fluctuating exchange rates for the peso: the certificate market rate, which applied to imports and exports and to a few invisibles, and the free market rate, applied to all capital transactions. Central bank control over monetary trends was strengthened, and the Government economized on its expenditures, especially those effected abroad. The currency was devalued rather drastically, from an official rate of Col$2.50 per US$1 to Col$4.80 and gradually to Col$6.10 at present. The Fund is assisting Colombia with a $25 million stabilization loan to be applied in the management of the certificate market, limiting the intervention of the central bank to those temporary situations of imbalance because of seasonal factors. The coffee market continued to weaken, and Colombia, with other Latin American coffee-producing countries, entered in October, in Mexico City, into an agreement designed to stabilize prices.

Colombia with the assistance of foreign lending was successful in 1957 in settling commercial arrears previously accumulated. Of the $410 million outstanding, $212 million was refinanced primarily with the issue of notes in the U.S. market and with loans granted by U.S. banks and by some European countries. Early in 1958 new problems appeared. The further weakening of the export markets with the attendant increases in inventories of unsold export commodities and the heavy burden of servicing the short-term debt contracted abroad to refinance the arrears were the main elements in the weakened external payments position. A resurgence of inflationary pressures appeared, and further monetary and credit measures were adopted in February 1958 to relieve the pressure on the exchange rate and to restore stability to monetary conditions. The export rate for coffee was fixed in March 1958 at Col$6.10 per US$1 to reduce the unsettling effect on the coffee market of depreciation. However, the balance of payments position of the country can be maintained in equilibrium only with a much lowered level of imports. It is estimated that imports of $25 million per month are all that the country can afford with the prospective level of exchange earnings. This is only half of what the country imported during its more prosperous years. The problem now confronting Colombia is that of maintaining imports at this reduced level without causing unfavorable repercussions stemming from unemployment in industry and in other vital sectors of the economy.

6. I suppose the experience of nearby Mexico is of particular interest to you even though the Fund's cooperation in this case was not of the same kind as the assistance extended to Peru, Colombia, Chile, Bolivia, and Paraguay. Inflationary pressures have been in evidence in Mexico in the postwar years although not to the same extent as in some of the South American countries mentioned above. But these pressures were

strong enough to force what in effect were three devaluations of the peso in the postwar years (which together reduced the external value by more than 60 per cent), although Mexico has at no time applied exchange restrictions.

Currency instability produced periodic capital flights on a large scale, and by thus depriving the country of scarce domestic savings, slowed down the pace of economic development. After the last peso devaluation in April 1954 the authorities embarked on policies designed to strengthen the foreign reserve position of the Bank of Mexico so that in the future it may be better able to cope with temporary balance of payments disturbances without having to devalue the currency. While building up its foreign reserves to the desired level, the Bank of Mexico entered into a stand-by arrangement with the Fund for $50 million to assure itself of external financial assistance in case of need. For the same reason, the Bank of Mexico has had a stabilization credit of $75 million from the U.S. Treasury Department. Neither of these lines of credits had to be used on that occasion or since.

The Mexican authorities have been following strict credit policies. The government banks no longer enjoy the free access to central bank credit that they had had in the past. The private banks can ordinarily obtain rediscount facilities with the Bank of Mexico only in case and to the extent that they lose deposits. They are subject to high reserve requirements in the form of required cash and security holdings, the latter obtained exclusively from the Bank of Mexico and, therefore, having precisely the same monetary effect as cash reserve requirements. Soon after the devaluation these reserve requirements were adjusted so that approximately three-fourths of any increase in the deposit obligations of the commercial banks would be sterilized in the Bank of Mexico. With the gradual return of confidence there was no longer any need for the Bank of Mexico to continue its support purchases of public and private securities, and in fact it was able to resell some of those it has acquired just before and after April 1954.

Since the Government also observed considerably more restraint in its spending policies than it had in the past, while tax revenues increased as the economy expanded, the Bank of Mexico acquired the desired foreign reserves within a considerably shorter period of time than anybody could have hoped at the time of the devaluation. In 1955 the Bank of Mexico more than doubled its gold and foreign exchange reserves, and there was a further addition to these reserves in the following year. In the process, domestic prices rose fairly rapidly--much more so than prices in the United States, which naturally influence the Mexican price level--but then Mexico had acquired considerable leeway for an autonomous price movement by the drastic currency devaluation of April 1954. Now that there is again more nearly equilibrium in Mexico's prices relative to the prices prevailing abroad, there is little likelihood of further large foreign reserve gains. But the reserve the Bank of Mexico now holds should be more than adequate to deal with any foreseeable balance of payments contingencies, including the present economic recession in the United States which already has had a telling impact on Mexico.

I think it is fair to say that Mexico has clearly established that policies of monetary and fiscal restraint do not hamper production, but have actually helped to attain growth rates exceeding those of the previous postwar years. The favorable cost price relationship that was brought about by the peso devaluation tended to stimulate industrial production, and the policies pursued strengthened confidence in the stability of the peso, which in turn tended to stimulate domestic savings and encourage the largest inflow of private foreign capital in Mexico's history.

VIII. Concluding remarks

The review that I have made of the experience of some of the Latin American countries in attempting to stabilize their economies provides an interesting variety of different situations in which the International Monetary Fund has been of assistance. As it has been commented in these country examples, since the latter part of 1957 the recent efforts toward stability of these countries has been affected from the downward trend of raw material prices, which has contributed to a decline of export earnings of several of these primary producing countries.

In general, the decline of raw material prices has been around 10 per cent since a year ago. It has been sharper for industrial raw materials than for foodstuffs; this is due to the close dependence of raw material prices on changes in U.S. demand arising from industrial production, a fact that has been verified in previous booms and depressions. For instance, the present decline of 5 per cent in industrial production in the United States has been accompanied by a decline of 15 per cent in industrial raw material prices and it is expected that a deepening of the United States recession could lead to a further decline in prices for industrial materials. Since the demand for food imports is less elastic--and affected more by crop variations, as well as inventories of importing countries--than that of industrial raw materials, the downward trend of prices of agricultural commodities has been moderate; only for sugar and "mild" coffees has the drop been significant.

The following figures might illustrate the extent of the decline in Latin American raw material prices from the end of 1956 to the end of 1957; all prices are New York quotations: mild coffees, from 74.4 cts/lb. to 58.2 cts/lb.--and now in March 1958 54 cts/lb.; "world" sugar price from 4.65 cts/lb. to 3.87 cts/lb.; wool, 69.7 cts/lb. to 50 cts/lb.; copper, 34.8 cts/lb. to 22.5 cts/lb.; lead, 14.7 cts/lb. to 9.1 cts/lb.; zinc from 12.6 cts/lb. to 7.6 cts/lb.; tin from 98.6 cts/lb. to 91.3 cts/lb.

On the basis of current prices for raw materials, the staff of the Monetary Fund has estimated an expected 7 per cent decline of export receipts for Latin America (excluding Venezuela) for the year ending September 30, 1958, around $420 million. The countries particularly affected are Chile, Peru, Bolivia, and Mexico among the metal-producing countries and Argentina, Brazil, Colombia, Cuba and the Central American countries among the food-producing countries. The positions of Argentina and Uruguay have been further aggravated by the decline of wool prices.

The decline of raw material prices, associated with the U.S. recession, is followed with anxiety in Latin America and there is hope in these countries--as much as in the U.S.--that business conditions will improve in the near future, so as to prevent a serious setback in the present stabilization effort that many of these countries are undertaking and I have commented in my talk. Fortunately it has been increasingly recognized in Latin America today that the present decline of export receipts calls for a further strengthening of the stabilization effort rather than a weakening of such efforts. This in itself reflects a realistic change of attitude. In the past some Latin American countries have been inclined to engage in ill-conceived compensatory policies that have further weakened the balance of payments position. Such policies, although warranted within limits, can be ill afforded by countries with inadequate international reserves.

I personally believe that if the recession does not deepen any further and its impact upon the economies of the underdeveloped countries becomes more severe, one can confidently hope that the stabilization effort of these countries can survive this difficult test because, as our Managing Director, Mr. Per Jacobsson, stated to the Economic Conference of the Organization of American States, in Buenos Aires last August 20, 1957, on a visit to some of the Latin American countries: "One thing is certain: in these as in other countries the general public is increasingly demanding a stable and reliable currency, being tired of the continuous inflationary rise in prices which often goes with a depreciation of the national currency on the foreign exchange markets."

Table 1. U.S. Trade with Latin America

(Millions of U.S. Dollars)

	U.S. Exports					U.S. Imports				
	1953	1954	1955	1956	1957	1953	1954	1955	1956	1957
Total*	2931	3208	3160	3684	4553	3442	3291	3328	3629	3765
Mexico & Central America	912	935	1001	1151	1246	590	559	627	617	660
Mexico	647	634	705	841	902	355	328	397	401	430
Guatemala	45	48	57	80	81	63	66	71	79	74
El Salvador	37	41	47	49	50	65	61	62	48	56
Honduras	36	34	34	38	42	30	27	23	30	26
Nicaragua	26	37	39	33	39	25	26	26	20	22
Costa Rica	38	41	43	42	48	35	33	28	19	28
Rep. of Pan.	83	100	76	68	84	17	18	20	20	24
Caribbean Countries	504	517	543	615	716	500	498	500	532	563
Cuba	427	429	451	512	618	431	401	422	457	482
Haiti	29	36	32	36	24	17	25	16	15	18
Dom. Rep.	48	52	60	67	74	52	72	62	60	63
South America	1517	1758	1619	1922	2593	2353	2234	2202	2481	2542
Bolivia	19	31	39	47	34	62	47	41	42	16
Colombia	287	343	332	315	241	466	507	442	409	382
Venezuela	515	534	559	658	1050	441	504	576	698	898
Ecuador	43	48	46	44	51	45	61	53	53	58
Peru	119	98	120	159	198	87	97	111	134	137
Chile	99	75	91	154	195	242	197	201	236	196
Brazil	299	456	241	293	482	769	682	633	745	700
Paraguay	7	7	5	8	11	6	5	4	6	7
Uruguay	25	43	38	33	49	53	31	15	25	18
Argentina	104	123	148	211	282	182	103	126	133	130
Neth. Antilles**	82	63	57	80	84	157	165	217	237	272
% of Total U.S. Trade	21.0	23.4	22.4	21.5	22.5	31.7	32.2	29.2	28.8	29.0

* Excl. special category exports.

** Not in total.

Table 2. U.S. Exports to Latin America

(Millions of U.S. Dollars)

	1953	1954	1955	1956	Jan.- Sept. 1956	Jan.- Sept. 1957
Total	2931	3208	3160	3684	2683	3270
Machinery	767	825	801	954	693	864
Industrial	422	447	464	575	416	560
Electrical	216	207	191	241	177	191
Autos, Parts and Accessories	341	410	418	475	347	422
Chemicals and Related products	283	357	356	401	308	329
Medicines and Pharm. Prep.	106	120	107	119	93	94
Food & Bev.	383	352	340	412	311	328
Grains & Prep.	187	141	117	180	138	168
Textile Mfrs.	184	195	166	174	124	124
Iron & steel-mill prod.	156	144	165	224	138	234
Other	817	925	916	1046	762	969
U.S. Imports* from Latin America						
Total	3417	3291	3311	3608	2785	2798
Coffee	1368	1358	1228	1301	1027	879
Foodstuffs, Other than coffee	669	669	663	656	533	538
Cane sugar	320	298	305	331	278	287
Cocoa	76	132	94	67	52	39
Meat Prod.	48	38	36	28	22	26
Crude petr., gas & residual fuel oil	420	469	532	642	477	634
Metals & mfrs.	517	440	487	598	443	444
Copper	263	213	239	281	210	164
Textile fibers & mfrs.	195	118	142	140	117	99
Wool, unmfd.	125	66	73	73	64	52
Other	248	237	259	271	188	204

* Imports for consumption; these totals differ slightly from imports in country table, which are general imports.

Table 3. U.S. Investments in Latin America

a. U.S. private investments in Latin America, by type and selected years
(Millions of dollars)

Type	1946	1950	1952	1955*	1956*
Total private investments	4,009	5,698	7,018	8,276	9,296
Long-term investments	3,603	5,143	6,149	7,345	8,203
Direct (book value)1/	3,045	4,735	5,758	6,608	7,408
Dollar bonds (market value)	199	159	147	148	137
Other	359	249	244	589	658
Short-term claims and loans	406	555	869	931	1,093

* Preliminary

1/ Includes shipping investments in Panama as follows (millions of dollars): 1946, $40; 1950, $290; 1952, $315; 1955, $375; 1956, $400.

b. Book value of U.S. direct investments in Latin America, by major industries and selected years
(Millions of dollars)

Industry	1929	1940	1946	1950	1952	1955*	1956*
All industries, total	3,462	2,705	3,005	4,445	5,443	6,233	7,008
Agriculture	797	359	407	520	564	606	632
Mining and smelting	727	507	506	628	871	1,024	1,090
Petroleum1/	589	516	697	1,233	1,383	1,561	1,967
Manufacturing	231	210	399	780	1,166	1,372	1,515
Public utilities2/	886	960	880	927	954	1,008	1,052
Trade	118	81	72	243	344	442	495
Miscellaneous	115	73	45	115	161	220	257

* Preliminary

1/ Excludes investments in tanker companies in Panama of $175 million (1950); $193 million (1952); $240 million (1955), and $260 million (1956).

2/ Excludes investments in shipping companies in Panama of $40 million (1946); $115 million (1950); $122 million (1952); $135 million (1955), and $140 million (1956).

c. Book value of U.S. direct investments in Latin America, by selected countries and years

(Millions of dollars)

Country	1929	1940	1946	1950	1952	1955*	1956*
All countries, total	3,462	2,705	3,005	4,445	5,443	6,233	7,008
Argentina	332	388	202	356	393	447	470
Brazil	194	240	323	644	1,013	1,115	1,209
Chile	423	414	485	540	623	639	677
Colombia	124	112	189	193	232	274	289
Cuba	919	560	553	642	686	736	774
Mexico	683	358	316	415	490	607	675
Peru	124	82	131	145	242	305	354
Venezuela	233	262	444	993	1,174	1,428	1,817
Central America, Dominican Republic and Haiti 1/	318	242	312	431	485	563	610
Other 2/	112	48	50	86	103	119	133

* Preliminary

1/ Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama, Dominican Republic and Haiti. Investments in Panama exclude tanker and shipping operations of $40 million (1946); $290 million (1950); $315 million (1952); $375 million (1955), and $400 million (1956).

2/ Bolivia, Ecuador, Paraguay, and Uruguay.

Source: U.S. Investments in the Latin American Economy, U.S. Department of Commerce, (Office of Business Economics), 1957.

Table 4. Latin America—Population, Gross National Product and Foreign Trade, Year 1956

	Population (thousand)	Gross National Product (US$ millions)	Per Capita GNP (in US$)	Total Exports (US$ millions)	Exports Per Capita (in US$)	Total Imports (US$ millions)	Imports Per Capita
1. Mexico—Central America	41,076			1,338	33	1,640	40
Mexico	30,538	7,520 1/	246	874	29	1,072	35
Guatemala	3,349	677 1/	202	122	36	138	41
Nicaragua	1,288	n.a.	n.a.	58	45	69	54
Honduras	1,711	324 1/	189	73	43	67	39
El Salvador	2,268	n.a.	n.a.	113	50	105	46
Costa Rica	988	353 1/	357	67	68	91	92
Panama	934	257 1/4/	290 4/	31	33	98	105
2. Caribbean	12,232			853	70	890	73
Cuba	6,280	2,478 1/	395	686	109	714	114
Dominican Rep.	2,608	580 1/	222	125	48	126	48
Haiti	3,344	325 1/5/	98	42	13	50	15
3. S. America	126,111			6,434	51	5,403	43
Argentina	19,486	12,384 2/	635	944	48	1,128	58
Bolivia	3,235	n.a.	n.a.	80	25	84	26
Brazil	59,846	14,985 2/	250	1,482	25	1,234	21
Chile	6,944	2,318 2/	334	542	78	354	51
Colombia	12,939	3,525 2/	272	599	46	657	51
Ecuador	3,796	751 1/	198	115	30	101	27
Paraguay	1,601	229 3/	143 3/	37	23	29	18
Peru	9,651	1,502 1/5/	160 5/	308	32	361	37
Uruguay	2,660	n.a.	n.a.	211	79	206	77
Venezuela	5,953	4,602 1/5/	773 5/	2,116	355	1,249	210
4. Total	179,420	55,944 2/	312	8,625	48	7,933	44

Sources: United Nations, Monthly Bulletin of Statistics, March 1958; International Financial Statistics, March 1958; ECLA, Economic Survey for 1956.

1/ Gross national product--national currencies converted into U.S. dollars as follows:

Costa Rica	colones 6 per US$1	Haiti	gourdes 5 per US$1
Cuba	pesos 1 " "	Honduras	lempiras 2 " "
Dominican Rep.	pesos 1 " "	Panama	balboa 1 " "
Ecuador	sucres 15 " "	Peru	soles 19 " "
Guatemala	quetzal 1 " "	Venezuela	bolivares 3.15 per US$1

Source: IFS, March 1957, except for Costa Rica and Cuba which are from publications of these countries.

2/ ECLA's estimates of gross domestic product in U.S. dollars at 1950 prices, projected in U.S. dollars at 1956 prices by adjusting ECLA's figures by U.S. wholesale price index (Source: ECLA, Economic Survey of Latin America, 1956).

3/ National income estimate, guaranies converted into dollars at the rate of ¢ 60 per US$1 (Source: IFS).

4/ Year 1954.

5/ Year 1955.

Table 5. Percentage Increase or Decrease (-) in Money Supply and Cost of Living in Latin American Countries, 1955-57

Countries Classified by Percentage Increase in Money Supply, 1957	Money Supply 1/			Cost of Living 1/		
	1955	1956	1957	1955	1956	1957
Decrease						
Honduras	-12	11	-6 2/	1	-1	0
Nicaragua	3	-2	-2	—	-7	1 5/
Guatemala	11	20	-1 5/	3	0	-1 3/
Increase below 5%						
El Salvador	3	14	0	2	2	1 4/
Paraguay	33	35	3	27	17	15
Cuba	4	9	4	1	-2	1 5/
Ecuador	-6	14	4	-2	0	2 4/
Increase of 5-10%						
Costa Rica	4	1	6 3/	2	-1	3
Argentina	18	17	6 5/	8	16	25
Dominican Rep.	14	6	7	-1	1	4 3/
Increase of 11-20%						
Peru	5	18	11 5/	4	6	8
Uruguay	3	13	11 2/	10	6	20 3/
Mexico	20	11	13 4/	16	-2	13
Increase above 20%						
Colombia	4	24	22 3/	2	7	21 3/
Chile	70	39	25	84	38	12
Bolivia	103	258	30	68	473	-14
Venezuela	11	14	34 5/	-1	1	1
Brazil	17	22	34	17	28	14

Source: International Financial Statistics.

1/ Changes are from end of one year to end of next year.
2/ Change from July 1956 to July 1957.
3/ Change from November 1956 to November 1957.
4/ Change from September 1956 to September 1957.
5/ Change from October 1956 to October 1957.

Table 6. Latin America in the I.M.F.
(Quotas, Subscriptions and Transactions)

A. Transactions by Countries (1947-1958)

Member	Quota	Original Subscription: Gold	Original Subscription: Member Currency	Drawings: Gross	Drawings: Net
		(In millions of dollars)			
Argentina	150	37.5	112.5	75.0	75.0
Bolivia	10	2.5	7.5	7.5	7.5
Brazil	150	37.5	112.5	206.0	75.0
Chile	50	8.8	41.2	58.6	37.3
Colombia	50	12.5	37.5	40.0	35.0
Costa Rica	5	0.4	4.6	1.2	0
Cuba	50	12.5	37.5	47.5	25.0
Dominican Republic	10	2.5	7.5	0	0
Ecuador	10	2.5	7.5	5.0	0
El Salvador	7.5	1.9	5.6	2.5	0
Guatemala	5	1.3	3.7	0	0
Haiti	7.5	1.9	5.6	1.0	1.0
Honduras	7.5	1.9	5.6	6.2	3.8
Mexico	90	22.5	67.5	45.0	0
Nicaragua	7.5	1.9	5.6	6.1	3.8
Panama	0.5	0.1	0.4	0	0
Paraguay	7.5	1.9	5.6	6.4	5.5
Peru	25	3.2	21.8	0	0
Uruguay	15	3.8	--1/	0	0
Venezuela	15	3.8	11.2	0	0
Total	673.0	160.9	500.9	508.0	268.9

B. Transactions by Year (1947-1957)

	Drawings	Repurchases
1947	31.3	--
1948	1.7	--
1949	37.5	1.4
1950	--	0.3
1951	28.0	-25.9
1952	38.4	-69.2
1953	80.5	-39.2
1954	47.5	- 0.4
1955	--	-22.4
1956	21.4	-28.2
1957	204.6	-47.2
Total (1947-57)	500.9	224.2

1/ Local currency subscription equivalent to $11.2 million not completed.

Table 6. Latin America in the I.M.F. (Cont'd.)

C. Stand-by Arrangements
(In millions of dollars, as of April 1, 1958)

Member	Date of Agreement	Expiration Date	Amount Agreed	Amount Available (on April 1, 1958)
Bolivia	November 1956	December 1958	7.5	2.5
Chile	April 1956	March 1959	35.0	10.0
Colombia	June 1957	June 1958	25.0	15.0
Honduras	November 1957	May 1958	3.75	--
Nicaragua	October 1957	September 1958	7.5	3.8
Paraguay	July 1957	July 1958	5.5	2.0
Peru	February 1958	February 1959	25.0	25.0