

COMPARISON OF ECONOMIC GROWTH RATES,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955-1965.

by

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FOREWORD

The comparison of the economic growth rates of Canada and the ten Latin American countries is important to understand the reasons why some countries develop more rapidly in the economic sphere at certain times than others, and why the take-off has been slow for some nations and more rapid for others.

The interest of these relationships is reinforced by the significance of Canada and the ten Latin American republics on world trade and international developments.

Considerable work has been done by United Nations agencies and some scholars in comparing rates of economic growth of the Latin American countries and reasons for differentials in growth rates observed on a regional basis and in a world perspective. However, practically no studies exist comparing Canadian economic growth with the growth of the Latin American republics. The analysis presented in the following chapters is an attempt to fill in this lack. The writer subscribes the idea that knowledge fosters closer ties between nations as well as individuals.

The writer would like to thank Dr. O.J. Firestone, Professor of Economics and Vice Dean of the Faculty of

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CHAPTER I

INTRODUCTION

In this thesis, the rates of economic growth of Canada and of ten Latin American countries are compared and examined; some of the problems encountered in achieving satisfactory rates of growth are discussed, and possible solutions are suggested.

To think of the Latin American group of countries as an entity, and to attempt to characterize these countries as an homogeneous group involves oversimplification of reality and a generalization that overlooks some basic differences that do exist among them. The nations concerned do not represent an economic group. Rather they live in a geographical area inhabiting a common continent and their people have similar political and sociological characteristics arising largely out of their common cultural and linguistic heritage.

The period of time chosen for this survey does not affect materially such factors as population trends. But it is significant when characteristics such as rates of economic growth, inflation or exports are studied. These

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aspects are affected by external factors such as conditions of the world economy and particularly, of the leading industrial countries. For example, the Korean War pushed up prices for the Latin American exports of primary commodities and the period 1950-1955, which preceded the decade under review, was favourably influenced. The years between 1955 and 1960 were more "normal" and a reaction set in. In some cases, there was even a fall in the level of world prices for some exports. A further sharp fall in world commodity prices took place between 1960 and 1962, followed by a general price rise in 1963-1965.

Rates of economic growth are also influenced by internal factors such as good or bad crops and the economic policy followed within the country.

The rates of economic growth, economic development and economic progress as well as other related economic factors are presented in the tables appearing in Appendix A. The data may obscure some important differences among the countries given the economic diversity within the group of Latin American nations and Canada. This thesis does not attempt to provide a comprehensive description of the process of economic growth of Canada and the ten Latin American republics during the period 1955-1965. The purpose is to provide an overall impression, emphasizing at the same time, the situations peculiar to each of the countries.

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This thesis is based on a survey of a number of major economic factors during two quinquennial periods and the decade 1955-1960-1965. Chapter II contains an explanation of some basic concepts. Chapter III and IV are devoted to the analysis of the key working economic and non-economic variables in Canada and the ten Latin American countries respectively. Chapter V presents the quantitative findings based on data available. The analysis of some of the factors contributing to these findings are discussed in Chapters VI to X; and the conclusions are presented in Chapter XI.

CHAPTER II

CONCEPTS AND MEASUREMENTS OF ECONOMIC GROWTH, ECONOMIC DEVELOPMENT AND ECONOMIC PROGRESS

Introduction

This chapter presents a brief survey of the different concepts and measurements of economic growth, economic development and economic progress; emphasizing, at the same time, their interrelationships.

The discussion of these concepts is required not only to clarify possible differences in meaning, but also to establish an analytical framework in which theories are fitted, and their applicability is examined.

The concepts most frequently used in existing economic literature are those of economic growth and economic development. Both terms seem to be used interchangeably by some economists, while others differentiate between them. Some economists go further and separate out another concept, that of economic progress.

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Definition and Measurement of Economic Growth

According to Professor Firestone, for whom the three concepts of economic growth, economic development and economic progress have a different meaning, economic growth "is a process involving the expansion of a nation's real output over the longer term, bringing with it improvements in the standard of living of the population and increasing the capacity to produce an expanded volume and a greater range of goods and services so as to maximize consumer satisfaction, as well as to create the social framework and economic climate conducive to further expansion and development".¹

For Professor Brown, who also makes the difference between the concepts of economic growth and economic development, the former means "an increase in the gross real production and income available to the residents of a nation".² Economic growth means an increase in the country's real Gross National Product.

In this context, it will be convenient to redefine

- 1.- Firestone, O.J., Education and Economic Development, The Canadian Case, Paper given at the Tenth General Conference of the International Association for Research in Income and Wealth, Maynooth College, Ireland, August 20-26, 1967, p.2.
- 2.- Brown, T.M., Canadian Economic Growth, A Study prepared for the Royal Commission on Health Services, Queen's Printer, Ottawa, 1965, p.16.

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the economic growth concept as any increase in national output irrespective of the use of the output and its welfare implications.

Professor Kindleberger says that "growth and development are often used synonymously in economic discussion, and this usage is entirely acceptable".³ But where two phrases exist, a question that needs to be answered is whether there is a distinction between them and what is involved. Implicit in general usage, and explicit in what follows, economic growth means more output, and economic development implies both more output and changes in structure as well as in the technical and institutional arrangements by which it is produced. Thus, says Kindleberger, "growth may well imply not only more output, but also more inputs and more efficiency, i.e., an increase in output per unit of input".⁴

Other economists explicitly incorporate changes in structure as one of the elements conditioning economic growth. In this respect, Professor Kuznets defines economic growth "as a sustained increase in per capita or per worker product, most often accompanied by an increase

3.- Kindleberger, C.P., Economic Development, McGraw-Hill Book Company, Second Edition, New York, 1965, p. 3.

4.- Loc. cit.

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in population and usually by sweeping structural changes".⁵
 The inclusion of both the increase in per capita or per worker product and increase in population stresses an important aspect of economic growth: "the interplay between sustained rises in population and rises in economic performance substantial enough to assure an upward trend in per capita product."⁶

Professor Hagen also makes the distinction between economic growth and development. He considers changes in economic and social structure as characteristics of economic development. He explains that "the former (economic growth) is used to refer merely to rise in per capita income, the latter to rise in income plus changes in economic and social structure".⁷

Economic growth is usually measured in terms of an increase in Gross National Product in real terms. Professor Kuznets explains that "in defining and measuring the economic growth of a country, there is at present no escape from the obligation to be comprehensive".⁸ He further suggests the possible use of other macro-economic indicators that would be indicative of other dynamic factors bearing

5.- Kuznets, S., Modern Economic Growth, Rate, Structure and Spread, Yale University Press, New Haven and London, 1966, p. 1.

6.- Ibid., p. 20.

7.- Hagen, E.E., The Economics of Development, Richard D. Irwin Inc., Homewood, Illinois, 1968, p. 29.

8.- Kuznets, S., op. cit., p. 25.

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the process of economic growth. Examples would include the index of manufacturing production or of electric power consumption which Kuznets believes provide "a sound basis for diagnosing growth of a country's economy".⁹

Other definitions take into account such other matters as increase in leisure and improvement of the quality of living. To illustrate, Samuelson and Scott claim that "the best measure of growth is real Gross National Product, modified by data on leisure, population size, distribution, quality and non-economic factors".¹⁰

In discussing economic growth a distinction should be made between actual economic growth and potential economic growth. The former refers to the record of past economic achievements, irrespective of whether the resources of a country were fully and effectively employed. The latter refers to the level of output that a nation is able to produce on the basis of full and effective use of its resources both human and physical. The quantitative difference between potential and actual economic growth is what is called "the economic gap". Its measurement is given in terms of the difference between the Gross National

9.- Ibid., p. 26.

10.- Samuelson, P.A., and Scott, A., Economics: An Introductory Analysis, Mc-Graw-Hill Company of Canada Limited, Toronto, 1966, p. 851.

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Product that could have been produced under full employment of the human and physical resources of the country and the Gross National Product that has actually been produced. From these concepts are derived those of "rapid economic growth" which occurs when the Gross National Product rises in real terms close to the rate of increase of the potential Gross National Product; and "slow economic growth" which occurs when the economic gap or the Gross National Product gap expands.

The economic origin of slow growth usually is insufficient demand for goods and services which an expanding economy is able to produce. Consequently, there is a lessening in the rate of increase in the actual Gross National Product in real terms and this case is known as "demand induced slow growth". On the other hand, when the factors of production are expanding less rapidly than they could as a result of the pursuit of inadequate economic policies, inefficiencies and/or bottlenecks, a lessening in the potential Gross National Product takes place and this situation is known as "capacity induced slow growth".

These two last concepts are important because their understanding supports the decisions of policy makers. They can choose between to follow economic growth policies that increase the potential Gross National Product even at

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the risk of increasing the Gross National Product gap; or, to keep potential output expanding slowly minimizing the gap through, for example, keeping full employment at a lower level of productivity. The optimum goal would be to maximize both potential and actual Gross National Product at the same time.

Meaning and Measurement of Economic Development

According to Professor Firestone economic development in a broad sense "involves continuing economic expansion of an adequate rate achieved through a substantive broadening of the industrial base of the country concerned, the advancement of technological and managerial know-how, the raising of the quality of human capital and the creation of an adequate infrastructure covering both public facilities and private institutions".¹¹ In this context, economic development means a continuous increase in national output accompanied by significant changes in industrial and social structures and substantive improvements in productivity. These characteristics are emphasized by Professor Hagen when he states that "development — that is, increase in productivity — may go on forever"¹²

11.- Firestone, O.J., Industry and Education, A Century of Canadian Development, University of Ottawa Press, Ottawa, 1969, pp. 91-92.

12.- Hagen, E.E., op. cit., p. 5.

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because the standard of living can always be higher, even in the most advanced countries. Economic development is measured in terms of changes in Gross National Product in real terms per person working, or in terms of output produced per man-hour.

Economic development may also be defined as "the improvements of the material standard of living of a nation's population and the integration of all sectors of the society and the economy".¹³ In this definition two aspects of economic development are differentiated. Both are complementary and interrelated because the integration of a nation's population is, at the same time, cause and consequence of development. Economic development not only requires an increase in national product, but also the proper distribution of this national product. These two goals are equally important but distinct and to a certain degree competing with each other, mainly in the case of developing countries. For them, the primary need is to increase output, since one of their fundamental characteristics is the low level of national output. However, although a uniform income distribution would partially eliminate inequalities because of the number of low income

13.- Inter-American Council for Commerce and Production, Economic Development of Latin America, A Statement on Policy, September, 1966, edited by the Committee for Economic Development, New York, 1966, p. 10.

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earners, the large majority of the population would not improve its situation very much assuming a normal increase in the national product, while the level of national savings, which is so important for further development, would diminish. A mere increase in national product is not enough to reduce the economic inequality which exists among individuals. These economic and social inequalities which are a common feature of the developing countries as a consequence of historical, social and economic factors, have different effects such as absence of real social unity and lack of popular enthusiasm for development which "is both the lubricating oil of planning, and the petrol of economic development — a dynamic force that almost makes all things possible".¹⁴ There is a close relationship between a country's social conditions and its economic situation and "insofar as efforts have been made to give a social bias to the economic development of countries, such development has assumed increasing importance and and investment is no longer guided solely by economic considerations".¹⁵

14.- Lewis, W.A., "On Assessing a Development Plan", Economic Bulletin of the Economic Society of Ghana, May-June, 1959, p. 16.

15.- Doublet, J., "Social Aspects of Economic Growth", Paper given at the Series of Lectures on Economic Growth exponsored by the Organization for European Economic Cooperation, University of Madrid, Spain, January-February, 1961, published by the Organization for European Economic Cooperation, Series of Lectures on Economic Growth, Paris, June, 1961, p.110.

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Economic inequality also means an insignificant purchasing power of the majority of the population which restricts development since enterprises are unable to find a sufficient market for their products.

According to Professor Furtado, the developmental process "involves either new combinations of existing factors at a given technical level or the introduction of technical innovations".¹⁶ Economic development consists of the introduction of new combinations of the factors of production or technical improvements which tend to increase productivity. According to Furtado, the intensity of growth of an economy is a function of two relationships: "the ratio of investment to income and the ratio of reproducible wealth employed in the productive process to income".¹⁷ At the same time, while the growth of a developed economy is mainly a matter of accumulating and using new technological knowledge, in the case of underdeveloped countries it is principally a matter of assimilating technology already existent.

Professor Myrdal defines development "as the movement upwards of the entire social system".¹⁸ He considers

16.- Furtado, C., Development and Underdevelopment, University of California Press, Berkeley, California, 1967, p. 61.

17.- Ibid., p. 68.

18.- Myrdal, G., Asian Drama, An Inquiry into the Poverty of Nations, A Twentieth Century Fund Study, Pantheon, New York, 1968, Vol. III, p. 1867.

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the social system as consisting "of a great number of conditions that are causally interrelated, in that a change in one will cause changes in the others".¹⁹ Then, Professor Myrdal classifies the conditions in six broad categories:

- 1) output and incomes;
- 2) conditions of production;
- 3) levels of living;
- 4) attitudes toward life and work;
- 5) institutions;
- 6) policies.

The conditions in the first three categories represent what are usually called "economic factors"; and categories 4) and 5) represent the "non-economic" ones; while category 6) is a mixture of both types.

As a consequence of the complexity of the process of development and since it depends on many factors, not only of internal but also of external origin, it is not advisable to put too much emphasis on any one of them. Besides, up to a point, a weakness in one factor might be compensated by the strength in others. Also, the appropriated economic policy can partially compensate for the scarcity of certain factors, while the wrong economic policy can hamper development of a richly endowed country or impede it in a developing country.

19.- Ibid., pp. 1859-1860.

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Concept and Measurement of Economic Progress

Professor Firestone points out that "when economic growth occurs without economic development, little or no economic progress may be made if economic progress is defined as an increase in the share of the nation's output available to each citizen. In this sense, economic progress can be measured in terms of changes in Gross National Product in real terms per capita".²⁰

In reference to economic progress, Professor Boulding states that it "consists in an improvement in the efficiency of the use of means to attain ends".²¹ He considers economic progress as one of the most important and significant factors in an economic system. Economic progress means "the discovery and application of better ways of doing things to satisfy our wants".²² In spite of the difficulties that he finds in the quantitative measurement of economic progress over relatively short periods of time, Professor Boulding regards the index of output of commodities per man-hour as an adequate measurement.

As economic progress is concerned with changes in the economic welfare of individuals, per capita income or

20.- Firestone, O.J., Industry and Education, A Century of Canadian Development, University of Ottawa Press, Ottawa, 1969, p. 93.

21.- Boulding, K.E., Principles of Economic Policy, Prentice-Hall Inc., Englewood Cliffs, New Jersey, 1964, p. 22.

22.- Ibid., p. 23.

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family income adjusted for hours worked can be adopted, according to Professor Brewis, as a way of measuring welfare.²³

Interrelationships between Economic Growth, Economic Development and Economic Progress

Professor Brown points out some differences existing on the use and meaning of the concepts of economic development and economic growth. He emphasizes that "the term 'development' was used more in the early literature, while the term 'growth' has been used almost exclusively in the last decade"²⁴ and that it "appears to be a tendency to use the term 'development' in relation to underdeveloped areas, and 'growth' with regard to the more mature countries".²⁵

Economic growth, in general, implies the expansion of national output and this can occur with or without development. Thus, the term growth has a broad significance which justifies and "explains the recent shift to the more comprehensive term".²⁶

For Professor Hagen "rise in per capita income is always accompanied by change in economic and social struc-

23.- Brewis, T.N., Growth and the Canadian Economy, Carleton University Press, Ottawa, 1965, p. 1.

24.- Brown, T.M., op. cit., pp. 2-3.

25.- Ibid., p. 4.

26.- Loc. cit.

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ture. There is no economic growth without some economic development".²⁷

Their interrelationship is also indicated in Professor Kindelberger's writings. He emphasizes that "economic growth is...measured by increases in income. Economic development involves as well structural and functional changes. In the absence of effective measures of the latter, however, states of development are estimated by levels of income, and rates of development by the growth of income. Ordinarily levels of income and rates of increase are given on a per capita basis to approximate measures of efficiency and welfare".²⁸

In this aspect Professor Higgins stresses how "although economic policy seeks to raise per capita production as quickly as possible, it is not a matter of indifference how this increased output is attainedincreases in outputare assuredly 'progress' only if the gains outweigh the sacrifices in the view of the people concerned".²⁹

Professor Shearer also makes a distinction between the two concepts. He refers to economic growth as an increase in the output of goods and services; while economic

27.- Hagen, E.E., op. cit., p. 29.

28.- Kindleberger, C.P., op. cit., p. 15.

29.- Higgins, B., Economic Development, Problems, Principles and Policies, Revised Edition, W.W. Norton & Company Inc., New York, 1968, p. 368.

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development implies a more general development including personal and social values. He concludes that a country might be growing economically but failing to develop or even be retrogressing because other values were being lost.³⁰

Professor Viner recognizes that a difference exists between the two concepts, but his main stress is on the interrelationship between the two concepts. "I use the term 'economic development' to signify not merely economic growth, but economic growth with which is associated either rising per capita levels of income or the maintenance of existing high levels of income."³¹

Nevertheless, other scholars such as Professor Lewis do not appear to have made any difference between the concepts of economic growth, economic development and economic progress. Lewis defines economic growth as "the growth of output per head of population"³² and he states that for the sake of variety, it is possible to use other terms such as progress or development.³³

Professor Morris also suggests that the terms

30.- Shearer, R.S., "Concept of Economic Growth", Kiklos, No. 4, 1961, p. 449.

31.- Viner, J., International Trade and Economic Development, The Clarendon Press, Oxford, 1953, p. 125.

32.- Lewis, W.A., The Theory of Economic Growth, Richard D. Irwin, Inc., Howewood, Illinois, 1955, p. 9.

33.- Ibid., p. 10.

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"economic growth" and "economic development" can be used interchangeably and he refers to "a rise in the per capita national output".³⁴ According to Professor Morris, a country is considered to be experiencing economic growth or economic development if it undergoes a persistent increase in its national output of goods and services per capita over a period of years. Its measurement is then the money value of the output of goods and services within the country during the year and this is the Gross National Product.

Professor Leibenstein adheres to the equality of concepts when he utilizes the "per capita output or per capita income as indices of development".³⁵ He mentions that per capita output is a good index of economic growth.

Process of Economic Growth

Despite the different characteristics of the concepts presented so far, there are some common features shared by most of the economic growth definitions. The following are most often mentioned:

- a) Growth must be on continuing basis;
- b) Growth must be in real terms;
- c) Growth must be largely economically induced;

34.- Morris, B.R., Economic Growth and Development, Pitman Publishing Corporation, New York, 1967, p. 7.

35.- Leibenstein, H., Economic Backwardness and Economic Growth, John Wiley and Sons, Inc., New York, 1963, p. 7.

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- d) Growth must be largely diffused;
- e) Growth must be non-marginal.

The rate of economic growth achieved by a country over a specific period of time depends upon economic and non-economic growth factors. Professor Denison point out the existence of "many sources of growth and these vary greatly in importance from time to time and from place to place".³⁶ He defines sources of growth as "the changes that caused national income to increase from one date to another".³⁷ These various factors in which favorable changes may assist or contribute to the process of economic growth, according to Professor Higgins, are divided into four broad categories: economic, political, sociological and technological. Then, he mentions capital accumulation, population growth, discoveries of new resources and technological progress as the major economic factors contributing to the process of economic growth.³⁸

For Professor Hagen only two factors are of any importance and "these are capital formation and technical progress".³⁹ According to him "technical progress, or advance in the state of technical knowledge, consists of the invention of new methods or new products, that is, the

36.- Denison, E.F., Why Growth Rates Differ, The Brookings Institution, Washington, D.C., 1967, p. 5.

37.- Ibid., p. 7.

38.- Higgins, B., op. cit., pp. 188-206.

39.- Hagen, E.E., op. cit., p. 29

creation of new mental constructs, and the introduction of these constructs into the processes of production in a society. The term 'innovation' is commonly used to refer to this second step."⁴⁰ Professor Hagen defines capital formation as "the use of productive resources for the construction of added capital equipment".⁴¹

For Professor Kindleberger there are five economic key variables in the process of economic growth; that is "resources, capital formation, labor, technology, and organization".⁴² He emphasizes the non-existence of a unique way of describing the process of growth because "growth involves a dynamic interacting system of linked changes".⁴³ At the same time, besides the economic factors, there are social and cultural factors which are interrelated. In this aspect, the process of economic growth may alter prevalent attitudes and institutions.

The modern theories of economic growth are partially based on the works of Harrod⁴⁴ and Domar⁴⁵. The Harrod-Domar model emphasizes the importance of capital accumulation and subsequent investment, suggesting a quasi-mecha-

40.- Loc. cit.

41.- Ibid., p. 30.

42.- Kindleberger, C.P., op. cit., p. 384.

43.- Loc. cit.

44.- Harrod, R.F., "An Essay in Dynamic Theory", Economic Journal, Vol. 49, 1939, pp. 14 ff..

45.- Domar, E.D., "Capital Expansion, Rate of Growth, and Employment", Econometrica, Vol. 14, 1946, pp. 37 ff..

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nistic theory of economic growth based on the relationship of investment and product (capita/output ratio) with capital as the engine of growth.

The adequacy of the resource base for economic growth has been argued on different grounds. The wide acceptance of the idea that the less-developed countries are caught in a vicious circle of poverty brings forth a controversy among economists. Some of them think that economic growth is best stimulated by a big push in all of the sectors of the economy or by comprehensive simultaneous investment in all areas of production.⁴⁶ Other economists believe that balanced growth is often impossible or not desirable, suggesting deliberate unbalanced investment in accordance with a predesigned plan as a better procedure.⁴⁷

Recent theories place emphasis on the decisive role of education as a factor of economic growth.⁴⁸

46.- Nurkse, R., Problems of Capital Formation in Under-developed Countries, Oxford University Press, New York, 1955, particularly Chapter I. Also, P.N. Rosenstein-Rodan, "Notes on the Theory of the Big Push" edited by H.S. Ellis assisted by H.C. Wallich, Economic Development for Latin America, MacMillan Company, Ltd., London, 1963, pp. 57-67.

47.- Hirschman, A.O., The Strategy of Economic Development, Yale University Press, New Haven and London, 1965, specially Chapter IV, pp. 62-75.

48.- See Denison, E.I., Why Growth Rates Differ, The Brookings Institution, Washington, D.C., 1967; Firestone, O.J., Industry and Education, A Century of Canadian Development, University of Ottawa Press, Ottawa, 1969; and also, Schultz, T.W., The Economic Value of Education, Columbia University Press, New York, 1964.

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A theory which according to Professor Gordon seems to explain the case of Latin America's economic growth is the Institutional approach.⁴⁹ This approach attempts to explain how social and economic changes evolve over a period of time as a consequence of the accumulation of technical knowledge.

Conclusion

The Economic Council of Canada pointed out that "a high and consistent rate of economic growth is a basic economic and social objective of all modern economies".⁵⁰ Professor Firestone defines this desirable rate of growth as the "one that provides employment opportunities for all additions to the labour force (with due allowance for the stated unemployment ratio) and ensures continuing increases in productivity. The total of these two factors, that is, increases in employment and increases in productivity, is then combined to increase Gross National Product in real terms".⁵¹

The analysis of the process of economic growth can-

49.- Gordon, W.C., The Political Economy of Latin America, Columbia University Press, New York, 1965, p. 158-160.

50.- Economic Council of Canada, Towards Sustained and Balanced Economic Growth, Second Annual Review, Queen's Printer, Ottawa, 1965, p. 45.

51.- Firestone, O.J., Problems of Economic Growth, University of Ottawa Press, Ottawa, 1965, pp. 18-19.

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not be only focussed on economic factors in a narrow sense, because economic growth cannot be studied in isolation but only in its social and political setting. The interrelated economic and non-economic factors often differ in significance from country to country and from time to time. For example, economic factors were predominant in Canada's process of economic growth, while non-economic factors have greater importance in the Latin America's case during the decade under review.

The analysis of these key working economic and non-economic factors in the Canadian and Latin American economies are respectively presented in the next two chapters.

CHAPTER III

CHARACTERISTICS OF ECONOMIC GROWTH IN CANADA

Introduction

This chapter presents a survey of some of the key economic and non-economic factors in the Canadian economy at work during the period 1955-1965. The same approach is followed in Chapter IV dealing with the ten Latin American countries. These two chapters together provide the background necessary to assess the economic growth rates attained by Canada and each of the ten Latin American countries in Chapter V.

Resources

Economic growth is particularly dependent on the endowment of natural resources. As Professor Lewis emphasizes, "the extent of a country's resources is quite obviously a limit on the amount and type of development which it can undergo".¹ Professor Hagen also stresses that "between two countries with given amounts of natural

1.- Lewis, W.A., The Theory of Economic Growth, Richard D. Irwin, Inc., Homewood, Illinois, 1955, p. 52.

resources relative to their labor forces, amounts which are not increasing, continuing economic growth is easier in the country in which they are more abundant";² and Professor Firestone explicitly says that "continuing economic growth requires making full and productive use of available manpower, capital and natural resources".³

Canada has rich and abundant natural resources which have contributed to the rapid development of the Canadian economy.

Canadian agriculture contributed yearly with about 10 per cent to the Gross Domestic Product and over the period 1955-1965, it chalked up an annual average growth rate of 1.4 per cent.⁴

Index numbers reflecting agricultural production increased at an annual average rate of 1.8 per cent over the same period.⁵ However, the agricultural sector has been declining as a source of employment and a large amount of manpower has shifted from the farm to manufacturing and service sectors. A number of these represent areas of economic activity involving a higher level of productivity.

Canadian agriculture was dependent to a large degree upon export markets with about one-third of the total farm

2.- Hagen, E.E., The Economics of Development, Richard D. Irwin, Inc., Homewood, Illinois, 1968, p. 197.

3.- Firestone, O.J., Problems of Economic Growth, University of Ottawa Press, Ottawa, 1965, p. 16.

4.- See Tables 6 to 11 inclusive.

5.- See Table 20.

output exported, and the proportion being much higher for such commodities as wheat.

The growth of the mining sector, which has been one of the most important features in the development of the Canadian natural resources, averaged an annual rate of 9.3 per cent over the decade. Mining represented 4.4 per cent of the Canadian Gross Domestic Product in 1955 rising at the end of the decade to 5.6 per cent.⁶ Output in the mining sector has risen rapidly as a consequence of rising domestic and external demand and the index numbers of mining production showed an annual average rate of increase of 7.1 per cent over the period 1955-1965.⁷

The ten most important minerals of industry (petroleum and natural gas, iron ore, nickel, copper, zinc, gold, asbestos, cement and uranium) accounted for about three quarters of the total mining output. Canada has been the world leader producer of nickel, zinc and platinum; and second in uranium, cobalt, titanium, molybdenum, cadmium, sulphur, potash, gypsum and asbestos. About two thirds of the mineral production was exported and contributed over 30 per cent of all commodity exports.

The mining sector has backward and forward linkage effects on the Canadian economy, because it is an important consumer of products and services provided by secondary and

6.- See Tables 6 to 11 inclusive.

7.- See Table 21.

tertiary industries. Further mining output represent the inputs in most product producing sectors.⁸

Population

Population is a major factor contributing to economic growth in two aspects: first, as a supply of labour; and second, as a source of demand for goods and services produced.

Canadian population increased at an annual average rate of 2.4 per cent over the period 1955-1965.⁹ In the period of ten years, the Canadian population has increased by nearly one-fourth of the initial total, and in the middle of 1965 the total population was close to twenty million. According to Professor Galbraith, the reasons behind this high rate of population increase were that "Canada, with her great unpeopled areas, has always been especially alert to the importance of an increasing population. This has been explicit in her immigration policies. It has been implicit in its family allowances, aid to settlement, and in other ways".¹⁰

8.- Hirschman, A.O., The Strategy of Economic Development, Yale University Press, New Haven, 1965, particularly Chapter VI, pp. 98-119.

9.- See Table 2.

10.- Galbraith, J.K., "The Causes of Economic Growth: The Canadian Case", Edited by M.H. Watkins and D.F. Foster, Economics: Canada, McGraw-Hill Company of Canada, Limited, Toronto, 1963, p. 284.

Canada is a young country, not only in her life as a national entity, but also in terms of the age distribution of her people. The Economic Council of Canada stressed the point that, "Canada has a young population compared with other major industrialized countries".¹¹

The percentage of labour force to total population climbed from 34 per cent in 1955 to 35 per cent in 1965,¹² and "the present rate of growth (of the Canadian labour force) is near the highest level ever attained in Canada's history. It also far exceeds the recent and current growth rates in the labour force of other industrialized countries".¹³ One of the most important factors contributing to the Canadian labour force growth has been the strong increasing participation of women, and "in the course of this movement, Canada will approach levels of female participation, now prevailing in other major industrial countries".¹⁴

Another important factor contributing to the increase of the Canadian labour force has been immigration. Here, two interrelated characteristics must be stressed; first, immigration in a large part is immediately reflected in the

11.- Economic Council of Canada, The Canadian Economy from the 1960's to the 1970's, Fourth Annual Review, Queen's Printer, Ottawa, September, 1967, p. 59.

12.- See Table 13.

13.- Economic Council of Canada, op. cit., p. 71.

14.- Ibid., p. 74.

labour force; and second, the majority of immigrants are young.

Capital Investment

One of the most striking features of the Canadian economic growth over the decade 1955-1965, has been the high proportion of Gross National Product devoted to Gross Domestic Capital Formation necessary for continuous economic growth.¹⁵

Canada's growing population has also required substantial increases of social capital, particularly in the field of education and health services.

The Economic Council of Canada in its more recent Annual Review emphasizes how "by comparison with the United States and European countries, Canada has an unusually construction-intensive economy. Among the factors contributing to this are climate, geography, and the somewhat greater relative importance of construction-intensive industries such as electric power and mining".¹⁶ The Economic Council points out how 34 per cent of the Canadian total growth of 3.8 per cent per year over the period 1950-1962 was due to capital input.¹⁷

15.- See Table 12.

16.- Economic Council of Canada, The Challenge of Growth and Change, Fifth Annual Review, Queen's Printer, Ottawa, September, 1968, p. 17.

17.- Ibid., p. 16.

Summing up, capital investment has been a key factor in the Canadian process of economic growth and in the attainment of the high living standard enjoyed by her inhabitants.

Technological Progress

Technological progress is a principal factor affecting the process of economic growth. According to Professor Hagen, it is one of the two important causes of economic development.¹⁸ Professor Kuznets goes even further by saying that "since the second half of the nineteenth century, the major source of economic growth in the developed countries has been science-based technology".¹⁹

The Economic Council of Canada emphasizes how "technology sets limits to what a country can produce at any given time with the land, labour and capital available to it. It also determines how production takes place. As the state of technology advances — either by drawing existing knowledge into use or by applying new technological knowledge — the production frontiers are extended."²⁰ Technological changes are directed towards new and better ways of combining actual and new resources to satisfy human wants. The contribution of technological progress to the process of the Canadian economic growth is difficult to measure

18.- Hagen, E.E., op. cit., p. 29.

19.- Kuznets, S., op. cit., p. 10.

20.- Economic Council of Canada, op. cit., Fifth Annual Review, p. 35.

quantitatively. However, some of the factors that promote and contribute to technological advances are identified. Among them, research and development, innovation, managerial know-how, skilled manpower and education are of primary importance in obtaining rapid improvement in productivity which is necessary for the Canadian economic development.

International Trade

Few countries in the world depended as heavily on international trade as Canada. Foreign trade was one of the major factors contributing to the Canadian economic growth because it had a multiplier effect in all sectors of the economy far beyond the direct employment of the export industries. In the Canadian case, international trade meant an increment in the country's current income that spreads widely through the economic system, and this has fostered economic growth.

Exports increased in money value at an annual average rate of 8.4 per cent while imports increased at a rate of 7.2 per cent.²¹ Exports of merchandise were ahead of imports, and the contribution of goods and services exports as a percentage of the Gross National Product increased from 20.5 per cent in 1961 to 21.3 per cent in 1965.²² In other words, more than one-fifth of the total goods and services

21.- See Table 36.

22.- See Table 32.

produced in Canada were exported.

The bulk of the Canadian exports consisted mainly of agricultural, forestry and mining products. Also, as Professor Firestone points out, "faced with the challenge to meet increasing international competition, Canadian manufacturing industries responded by embarking on the largest capital investment program in their history and by endeavouring to increase significantly the productivity of their operations. Between 1962 and 1966, Canadian manufacturing industries invested close to \$10 billion in expanding and improving their productive capacity, over 50 per cent more than they had spent in the preceding five-year period... Results began to show in terms of increases in productivity. In 1965, industrial output rose by 7 per cent in volume terms over 1964... Gradually, Canada started to export greater quantities of fully manufactured products and the proportion to total domestic output turned upward again."²³

Professor Firestone then stresses how, "in this effort of increasing exports of highly fabricated products, Canadian manufacturing industries had the full support of the Federal Government. Measures taken by the Canadian Government included proposals strongly advocating removals or reduction of tariffs on fully manufactured products

23.- Firestone, O.J., Industry and Education, A Century of Canadian Development, University of Ottawa Press, Ottawa, 1969, p. 48.

among the major trading nations of the world, substantial financial assistance particularly in the area of export financing, and significant fiscal incentives to expand and improve production facilities and to increase exports of processed material and fabricated products, accompanied by vigourous trade promotional efforts".²⁴

Government Policies

Professor Hagen suggests that "governmental action will ideally include maintaining favourable institutions, providing appropriate education, opening channels of information, countering the biases of the market, and complementing it by government operation of enterprises".²⁵

The role of modern government is a changing one and there has been a steady growth in the number and importance of governmental activities. This has happened in Canada at the three levels of government, federal, provincial and municipal. Activities such as the development of natural resources and efforts to encourage, strengthen and broaden industrial development are among the many which have added a number of new tasks to the three levels of government.

The over-all trend of government revenues and expenditures has been upwards and fiscal and monetary policies have been important factors in promoting economic growth.

24.- Ibid., pp. 49-50.

25.- Hagen, E.E., op. cit., p. 480.

However, effective economic policies demand more than good government planning and execution. They also require cooperation of business, trade unions, and the public in general. Professor Firestone emphasizes how "the challenge of economic planning in a democracy involves a realistic assessment of economic trends, the setting of desirable and acceptable targets, and a well informed and broadly based public discussion of the key economic issues".²⁶

Economic and social developments in Canada required the establishment of a consultive and administrative machinery, as Professor Firestone suggested, "to assist the Government of Canada in the framing of long term national economic objectives and the broad areas of policy formulation aiming at realizing these objectives".²⁷ The creation of the Economic Council of Canada was an important step and a basic agency of future developments, as is explained in Chapter X.

Conclusion

Canada, over the decade 1955-1965, has enjoyed an annual average rate of increase of 5.4 per cent in her real Gross National Product.²⁸

As a consequence of the openness of the Canadian

26.- Firestone, O.J., Problems of Economic Growth, p. 88

27.- Ibid., p. 63.

28.- See Table 1.

economy and her dependence upon what happened in the United States, the Canadian economic activity during the Korean War period was followed by a mild recession in 1954. The years 1955 and 1956 were characterized by an increase in the level of investment over the previous years, and the period of 1957 to 1960 by a new recession, exception for the year 1959 in which a short recovery took place. From the middle 'fifties to 1960, the Canadian economy for a variety of reasons including high levels of exchange rates which hampered her competitiveness in world markets, went through a period of slow increase in total output. During the period 1955-1960 the annual average rate of increase was only 3.6 per cent in the Canadian real Gross National Product, while in the 1960-1965 period, the annual average rate of increase was 6.1 per cent.²⁹

From 1961 to 1965, the Canadian economy enjoyed four years of continuous expansion which according to Professor Firestone was due to "rising exports of goods and services... capital expenditures..., and higher consumer expenditures, particularly consumer durables".³⁰

The budget of June 1963 contained tax provisions inhibiting capital inflow and particularly a "take-over" tax designed to prevent foreign acquisition of Canadian stocks which was lately withdrawn but the remaining

29.- See Table 1.

30.- Firestone, O.J., op. cit., p. 6.

uncertainty was detrimental for new investment. Confidence reappeared, when in July of the same year, the United States Government introduced an interest equalization tax. The United States exempted Canada from the interest equalization tax in line with an agreement whereby Canada agreed not to use American capital inflow to expand her foreign exchange reserves beyond a given level. This assured Canada continuing access to United States money markets. Other developments helpful to Canada were the conclusion of wheat export contracts with the U.R.S.S. in 1963 which provided for the sale of a minimum of 244 million bushels over the period of 3 years, and with China for the sale of a minimum of 112 million bushels over the same period of time.

In relation to total national output on per capita basis³¹, a rough measure of average living standards as shown in Chapter II, Canada ranked second in the world just behind the United States.

The Economic Council of Canada has emphasized how "the ability of the Canadian economy to provide rising living standards for its people, is related in many highly significant ways to the growth of foreign markets for products which can be competitively produced in Canada, as well as to the spur of foreign competition as a factor in rising productivity of domestically oriented Canadian

31.- See Table 5.

producers".³² Canada's rate of increase in productivity has not been as rapid as desired and improvements in productivity levels are of vital importance in order to have a competitive performance in the international economic framework. This can be done by placing greater emphasis on education which would improve skills through research, training and innovation.

32.- Economic Council of Canada, Prices, Productivity and Employment, Third Annual Review, Queen's Printer, Ottawa, November, 1966. p. 29.

CHAPTER IV

CHARACTERISTICS OF ECONOMIC GROWTH IN THE TEN LATIN AMERICAN REPUBLICS

Introduction

This chapter deals with some common characteristics as well as a number of differences among ten Latin American countries. The prime objective is to examine the main economic and non-economic sources of growth. Chapters V to X present a detailed discussion of these factors with the conclusions presented in the Chapter XI.

Common Non-economic Characteristics

The ten Latin American sovereign states have certain features that give them geographical, political and cultural similarity.

The population consists mainly of people of Spanish and Portuguese origin, and of the intermixture of these races with native indians. Brazil is the only country whose population originates from the Portuguese, which is also their official language. Spanish is the official language of the population in the nine other countries, and generally

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speaking, the Roman Catholic is the predominant religion.

All the countries have a presidential form of government. Argentina, Brazil and Venezuela have a federal system which, in reality, is strong only in Brazil.

The peripheral location of the population is a result of the topography and climate of the region. In such a large area, virtually every kind of climate is to be found and consequently, almost all types of vegetation are encountered.

As a consequence of those common traits, there exists a tendency to generalize for Latin America as a whole, and this tendency has been an obstacle in the search for uniform formulae when the diversity of conditions of these countries requires the specific study of each one of them with its particular problems.

Common Economic Characteristics

The ten Latin American countries have not yet achieved a steady and satisfactory rate of economic growth. While some countries such as Brazil enjoyed an annual average rate of increase of 6.6 per cent in its Gross National Product, other countries such as Argentina and Uruguay grew at an annual average rate of 3.8 per cent and 0.5 per cent respectively during the period 1955-1965.¹ The degree of

1.- See Table 1.

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economic development attained also differed notably among the various regions within each country and particularly between the urban and rural areas.

The agricultural production of these ten countries was not well balanced. Often the best land was devoted to cultivation of coffee, bananas, or whatever other product each country found productive to export; and agricultural products for domestic consumption occupied the less fertile land and were given less attention. This situation was prevalent in all countries except in Argentina and Uruguay where food crops, particularly grains, were grown for export.² The ten Latin American countries "were less efficiently farmed in terms of output per farm worked or per unit of land than other countries".³ This mainly resulted from using backward techniques of cultivation.

For the same reasons, livestock farming production was generally inefficient, except in Argentina and Uruguay where cattle were raised for export.

Mining output has grown for the region as a whole, and the importance of the mining sector is determined by

2.- The importance of increasing agriculture along with industrial development, is discussed in Professor W.A. Lewis's paper "Economic Development with Unlimited Supply of Labour", The Manchester School of Economics and Social Studies, Manchester, May 1954, pp. 139-191.

3.- Cole, J.P., Latin America, Butterworths, London, 1965, p. 163.

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the part it plays in the export trade of some countries like Bolivia (tin), Chile (iron and copper) and Venezuela (petroleum).

An important feature of the industrial development was that industries were generally located in or near large cities, usually the capital, where the main home markets were to be found. Most of these industries were established to meet domestic requirements and usually were protected against foreign competition.

Structural Changes

During the decade 1955-1965, there were considerable changes in the structure of production, which were mainly due to three factors:

- 1) Effects of external demand;
- 2) Import-substitution effect;
- 3) Changes in the level of income.

In relation to the first factor, the reduction in export prices⁴ vis-a-vis the relatively stable prices of imports⁵, or the deterioration of terms of trade⁶, led to severe balance of payments problems for nine out of the ten countries, excluding Venezuela.⁷ While the volume of

4.- See Table 39.

5.- See Table 40.

6.- See Table 41.

7.- See Tables 30 to 35 inclusive.

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exports was expanding in some cases at a relatively high rate⁸, adverse terms of trade served to cancel out some of the gains resulting from the expansion of the volume of exports. This fact was a serious obstacle to economic development, because imports which consisted mainly of fuels, intermediate and capital goods were severely restricted. Thus, the re-allocation of domestic resources became the cornerstone of governmental policies for economic growth.

The second factor, the initiation of import-substitution policies, "represented, at one and the same time, an imperative requisite for the over-all development of the Latin American economies and one of the mainsprings of their industrialization process".⁹ The degree of influence of these policies varied from one country to another, but this dominant economic strategy was adopted by the ten Latin American countries.

The use of import-substitution as a primary criterion for identifying whether a new industry should be established, led to an insupportable degree of diversification and created high-cost production, especially in some of the smaller countries. Few of these countries availed

8.- See Table 37.

9.- Economic Commission for Latin America, The Process of Industrial Development in Latin America, United Nations, New York, 1966, p. 21.

themselves to a more meaningful economic alternative, namely to try to become efficient and to concentrate on relatively low-cost producing industries, the output of which could be sold on more favourable terms on both domestic and foreign markets.

In relation to the third factor, changes in the levels of income, the acceleration of the growth rates of population and labour force raised two important problems:

- 1) The necessity for the economy to absorb additions to the labour force at adequate levels of productivity; and,

- 2) the necessity to raise the level of real per capita income and to achieve a more equitable distribution of the national income among different social sectors.

The population boom in these countries affected both the occupational structure of the labour force and the productivity levels. The production of non-agricultural goods did not achieve a sufficiently rapid rate of growth to absorb the expansion in the labour force and thus of necessity, additions to the labour force shifted to some extent towards the service sector.

In the ten Latin American republics, the distribution of income was remarkably unequal. A large sector of the population had incomes much lower than those indicated by the average figures, while a small number of individuals

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enjoyed extraordinarily large incomes. An increase of the earnings of the low-income sector of the population would have a significant effect on domestic demand and consequently on production.

The use of average per capita income index indicates that the population of the ten Latin American countries lived in poor conditions as compared with Canada.¹⁰

Obstacles to Economic Development

A summary of the obstacles to economic development in the ten Latin American republics is presented before the peculiarities of each country are discussed.

1) Land has often been ineffectually used. This is important since food and clothing are important elements determining the average standard of living of the population of a country. Agricultural production has lagged in relation to the industrial development of the area. Increased demand for food and raw materials by the urban industrial sector was not met by increased domestic production; but, by importing these products. Given the availability of foreign exchange reserves, the situation was detrimental to the possibility of importing intermediate and capital goods, which were necessary for the economic growth of the ten Latin American countries. As Professor

10.- See Tables 3 and 4.

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Higgins emphasizes "industrialization and agricultural improvements are not alternative roads to economic development, but are completely complementary".¹¹

2) The prevalent distribution of ownership of the natural resources and particularly land tenure was a handicap to development. "The existing pattern of land tenure (i.e., ownership and control over land resources) is such that it corresponds neither to the aspirations of the rural population nor to the requirements of rapid technological progress."¹²

3) Workers moved from agricultural to non-agricultural activities changing the employment structure. Demand for industrial employment was greater than supply and consequently, unemployment increased along with growing urbanization.

4) There were inter-sectoral and inter-regional disequilibriums which caused disparities in the rates of remuneration of the factors of production between one sector and another (agriculture, industry and services) according to their respective productivity; and between

11.- Higgins, B., Economic Development, Principles, Problems and Policies, W.W. Norton and Co., Inc., New York, 1968, p. 326.

12.- Carrol, T.F., "The Land Reform Issue in Latin America" in A.O. Hirschman, Latin American Issues, Essays and Comments, The Twentieth Century Fund, New York, 1961, p. 162.

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regions in relation to their level of economic development or to other causes such as labour unions pressures.

5) Inflation, low productivity, marketing shortcomings and low level of skill of workers were general characteristics of most of the Latin American countries.

6) Substantial institutional and social changes were necessary to accelerate economic development and these changes had to be made by the countries themselves, since they are the makers of their own destiny. What has to be done, according to Professor Gordon, is "to overcome the ideological poverty that prevails...to identify the gap between theory and reality...and to surmount certain myths regarding economic development which have been the traditional bails for decision making".¹³

Summing up, the question of the economic development of the ten South American republics must be seen as one related to the limiting factors of both internal and external origin which were often interrelated and dependent upon one another.

With respect to internal factors, among the basic obstacles were the specific aspects of their economic and social structure; namely, the unequal distribution of property and income, the land tenure system, the level of

13.- Gordon, W.C., The Political Economy of Latin America, Columbia University Press, New York, 1965, Preface.

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education of the population in general and the level of training of the labour force in particular. Other obstacles to economic growth were the low level of savings, the inflationary pressures, the existence of monopolistic practices in production, the low level of productivity and the insufficient resources of the public sector.

In relation to the external factors, among the most important were the inadequate growth of exports and even more important their lack of diversification. "In Latin America as a whole, there has been no marked trend towards the diversification of the export trade, which is still based on the traditional primary commodities."¹⁴ Then, imports had to be adjusted to the slow increase of the purchasing power of exports. The slowness of the rise in the value of exports, in contrast to the rapid rising trend for the prices of the intermediate and capital goods imported, reduced the international purchasing power still further.

Analysis of Economic Development by Countries

In this part, an analysis of some of the prominent features of the economic growth of each of the ten Latin American countries during the decade 1955-1965 is presented.

14.- United Nations, The Economic Development of Latin America in the Post-War Period, United Nations, New York, 1964, pp. 121-122.

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Argentina.- Argentina is the second largest in area and in population among the countries under review. Unlike the other countries, its population is almost entirely European since the Indians were virtually exterminated by the end of the Nineteenth Century. Population growth is somewhat slower than in most of the other countries and people live mainly in the big cities.¹⁵

Argentina differed greatly from the other countries of the area. In the first place, agriculture which accounted for only about 20 per cent of Gross Domestic Product provided virtually all of the exports. Mining accounted for approximately 1 per cent of the Gross Domestic Product and manufacturing about 20 per cent, which was a little higher ratio than that of Canada. The great bulk, referred to as "other sectors", accounted for over 40 per cent which was less than that of Canada.¹⁶

In some aspects, such as its magnificent farming region, Argentina resembled Canada rather than the rest of Latin America. If it had been organized as efficiently as Canada, the standard of living of Argentinians would have been much higher than it was.

Although Argentina developed slowly during the decade 1955-1965, it had the structure of a developed

15.- See Table 2.

16.- See Tables 9 to 11 inclusive.

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country and the conditions necessary for growth. Various reasons can explain why growth did not take place. In the first place, the system of land tenure in the "pampa" has failed to provide incentives to increase yields because rich landowners were already satisfied with their current returns. Secondly, the traditional exports of food stuffs were reduced as a consequence of increasing productivity of the agricultural sector in Western Europe, one of the customary markets of Argentinian grains.

In relation to mining, most of the production consisted of oil and gas. However, Argentina was a net importer of oil.

Manufacturing was important not only for its variety but also for the number of people employed.¹⁷

Foreign trade was almost completely dependent on agricultural products for exports, and imports consisted largely of capital goods.

Bolivia.- Bolivia suffered more than perhaps any other country from having a small population dispersed over a large area, even the occupied area consisted only of a limited portion of the country as a whole. Population growth as in Argentina was slow and together with Uruguay showed a 1.2 per cent annual average rate of increase during

17.- See Tables 14 to 19, inclusive.

the decade 1955-1965, which was the smallest of the countries under study.¹⁸

The stagnation or even the decline of many branches of the economy in Bolivia¹⁹ have many different causes, of which the most important was that tin production, which accounted for over three-quarters of the value of all exports, declined for reasons of both bad organization and the exhaustion of accessible deposits.

Brazil.- Brazil differs from the other Latin American countries in at least two main aspects. First, it is much larger than any other country of the group, being comparable in size to Canada and about three times as large as Argentina; and secondly, it was colonized by the Portuguese, not the Spaniards.

Brazil had a population of over 80 million in 1965 and through all the decade its increase was of 3.5 per cent per annum.²⁰

The economic history of this country has been interpreted in terms of a number of cycles during each of which a particular item, lumber, sugar, minerals, coffee was exploited and formed the main product of its exports. During the decade under review, the great expansion of

18.- See Table 2.

19.- See Tables 5 to 8, inclusive.

20.- See Table 2.

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manufacturing could be considered as the beginning of a new era of industrialization.²¹

Agriculture went through a period of adaptation and adopted a new outlook and way of organization. Its principal product "coffee has had a far greater impact on the Brazilian economy than any other single product in the last hundred years".²² The coffee situation, given its importance, is studied in particular in Chapter VIII.

The importance of agriculture can be viewed from the standpoint of Brazil's Gross Domestic Product. Agricultural production represented an average of 30 per cent of the Gross Domestic Product.²³

Mining contributed only a small part, less than 1 per cent, of the Gross Domestic Product, in spite of the common reference to Brazil as a land of enormous potential resources.²⁴ Iron ore, coal, metallic minerals, oil and natural gas were the most important items. Short of both coal and oil, the Brazilian economy was suffering from the lack of home produced energy, but the presence of a large hydro-electric potential has made remarkable developments possible in this area.²⁵

The relative importance of manufacturing can be

21.- See Table 19.

22.- Cole, J.P., op. cit., p. 338.

23.- See Tables 9 to 11 inclusive.

24.- Ibid.

25.- See Tables 24 and 25.

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shown by its contribution of about 20 per cent to the Gross Domestic Product.²⁶ The annual average rate of growth of this sector was impressive, especially during the period 1955 to 1960.²⁷ The steel industry was at the basis of industrialization in Brazil, averaging one-half of the production of the ten Latin American countries, with an annual average rate of increase of over 12 per cent during the decade under review.²⁸

In relation to foreign trade, coffee was the main export and the source of an important part of the export earnings. Other export items were minerals, sugar and cotton. With the exception of cotton, which was largely exported to Europe and to Japan, these products were exported mainly to the United States. As a consequence of the growing engineering industry, a constant increase occurred in the exportation of industrial goods to the other Latin American countries. Imports were composed of the typical items of a country in the process of industrialization, such as capital goods.

Chile.- Chile has approximately the same area as Venezuela or Bolivia but is distinguished by its great length, which is about 3,000 miles from North to South,

26.- See Tables 9 to 11 inclusive.

27.- See Tables 6 to 8 inclusive.

28.- See Table 22.

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while it averages only about 100 miles in width.

The economy of Chile depends heavily on mineral production. Although mining only accounted for 6 or 7 per cent of the Gross Domestic Product,²⁹ minerals accounted for most of the export earnings. Chile produces a wide range of minerals. In Latin America it rated as the leading producer of copper and nitrates. Being one of the most important countries for iron ore, coal and oil made Chile almost self-sufficient in sources of energy.

As in most of the Latin American countries, the importance of agriculture has been diminishing over the decade while manufacturing has been increasing. Chile was one of the most highly industrialized countries of the Latin American group having developed important iron and engineering industries.

The service sector accounted for 50 per cent of the Gross Domestic Product, with an annual average rate of increase of 5.5 per cent, comparable to Canada's which was 5.6 per cent.³⁰ For Chile, this was a high proportion considering her level of development.

Colombia.- In Colombia, between 1955 and 1965, agriculture accounted for over 32 per cent of the Gross

29.- See Tables 6 to 11 inclusive.

30.- See Tables 6 to 11 inclusive.

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Domestic Product, mining 4 per cent and manufacturing 17 per cent. The average annual growth rate of the Gross Domestic Product was 5 per cent.³¹

Colombian agricultural production could be divided into two main groups. First, coffee, which is of exceptional quality and produced essentially for export; and second, other crops and cattle raising, mainly for domestic consumption.

The key to greater industrialization lay in oil and gas production and also the expansion of the steel industry, where a large development occurred.³²

A major problem in Colombia was lack of integration and failure to bring some of the remote rural areas into contact with the urban centers. The unfavourable topography of the country was an obstacle to the internal movement of people and goods. One of the aims of the various developmental programs is to achieve greater integration territorially. Other objectives are to reduce the uneven distribution of wealth, achieve greater self-sufficiency in industry, and reduce the dependence on coffee, for which export earnings represented about 70 per cent of the total revenue from the external sector.

³¹.- See Tables 6 to 11 inclusive.

³².- See Table 22.

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Ecuador.- In Ecuador, agricultural production accounted for over 35 per cent of the Gross Domestic Product³³ and bananas were responsible for the majority of its export earnings. During the sixties, Ecuador started to supply one-quarter of the world's demand for this product, which was a remarkable achievement considering the great distance of Ecuador from her markets. This accomplishment was partly due to a satisfactory land tenure system, and partly to the improvement of marketing facilities.

Paraguay.- Although Paraguay is large in area, it has the smallest population of the ten countries of the group.³⁴

Agriculture was the most important sector, contributing to over 38 per cent of the Gross Domestic Product, but its output did not increase satisfactorily.³⁵ Paraguay did not satisfy its food requirements and it was necessary to import food products, while exports, quite diverse, mainly include meat and hides.

Paraguay also needed to import fuel and appeared to lack virtually all other minerals. Production of energy per inhabitant was the smallest of the group but quite impressive progress was made in this area.³⁶

³³.- See Tables 6 to 11 inclusive.

³⁴.- See Table 2.

³⁵.- See Tables 6 to 11 inclusive.

³⁶.- See Tables 24 and 25.

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Peru.- The economy of Peru depended heavily on agriculture and included in this sector was the satisfactory rise of the new fishing industry.³⁷

Mining, which only contributed to 4 per cent of the Gross Domestic Product, accounted for almost one-third of the total value of exports. Manufacturing was increasing over the period, but Peru was not as advanced in this sector as other countries of the group.³⁸

Lima, the capital of Peru, occupied by one-fifth of the total population, concentrated the economic and cultural life of the country. This feature was shared by most of the other Latin American republics.

The foreign trade of Peru was characterized by the diversity of its exports, but Peru did not export large quantities of any one product. Its exports were divided among minerals, such as copper and agricultural products, mainly cotton and fishing products.

Uruguay.- Like Paraguay, Uruguay has many of the physical features of its neighbours, Brazil and Argentina.

Of the total population, one-half is concentrated in Montevideo, where most secondary industries are located. The capital of the nation dominates the economic life of the

³⁷.- See Tables 6 to 11 inclusive.

³⁸.- See Tables 6 to 11 inclusive.

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country more than any other Latin American capital does. The rate of annual increase in population of the country was 1.4 per cent, which was the smallest of the group together with Bolivia, and represented less than one-half of the average of the ten Latin American nations together.³⁹

Uruguay is an agricultural country, where cattle and sheep provide almost all the exports. The agricultural sector contributed over 20 per cent of the Gross Domestic Product, but over the decade, there was a decrease in its contribution of 0.4 per cent per annum.⁴⁰

Another important feature was that over 50 per cent of the Gross Domestic Product was accounted by the service sector and this was a high proportion, considering the level of its economy.⁴¹ This situation is comparable to the Chilean one, yet Uruguay did not have the same high rate of increase in its economic growth.⁴²

Venezuela.- Venezuela had an annual average rate of increase in population of 4.3 per cent which made of Venezuela the leading country of the group in this aspect.⁴³

Venezuela is different from the other Latin American countries, because of its great oil industry. As this

39.- See Table 2.

40.- See Tables 6 to 11 inclusive.

41.- See Tables 6 to 11 inclusive.

42.- See Table 1.

43.- See Table 2.

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industry has expanded to account for over 20 per cent of Venezuela's Gross Domestic Product, the contribution of agriculture to the same aggregate has decreased to 7 per cent. However, over the decade an effort was made to increase agricultural production and as a result of technological advancements, an annual average growth of 7.7 per cent was⁴⁴ achieved.

The Venezuelan oil industry before 1964 was in the hands of a limited number of European and United States oil companies, and Venezuela was entirely dependent on them for its development. Initially, Venezuela could not possibly have developed a large modern industry with its own capital, but during the middle sixties the position was changing and the governmental Venezuelan Oil Company, although it had only a negligible production, introduced a new pattern for the future. The plan was to stop granting new concessions to foreign companies and, instead to cooperate with them in new developments on the basis of association.

Manufacturing, as a consequence of a considerable domestic market with a relatively high per capita purchasing power, achieved great improvements during the period under review. Oil refineries and associated petrochemical industries, light engineering products and the steel industry

⁴⁴.- See Tables 6 to 11 inclusive.

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were all developed with impressive results.⁴⁵

The amount of electric energy produced was increased at an annual average rate of 37.5 per cent during the period 1958-1965, and the consumption of electric energy per capita was 944 K.W.H. in 1965, placing Venezuela in front of the other nations of the Latin American group.⁴⁶

45.- See Table 22.

46.- See Tables 24 and 25.

CHAPTER V

COMPARISON OF ECONOMIC GROWTH RATES IN MACROECONOMIC TERMS

Introduction

The aim of this chapter is to present the main quantitative findings based on the data contained in Appendix A. The analysis of some of the factors contributing to differences in growth rates is contained in Chapters VI to X.

Rates of Economic Growth

The decade 1955-1965 has been one of rapid economic growth for Canada and eight out of the ten Latin American countries with the exception of Argentina and Uruguay.¹

The average annual rate of increase in the Canadian Gross National Product at market prices in terms of constant national currency was 5.4 per cent. Among the individual countries of the Latin American group there was a considerable variation in the rates of economic growth. From virtually no increase in Uruguay, the data shows an annual average rate of increase of 6.9 per cent for Peru,

1.- See Table 1.

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6.6 per cent for Brazil, and 5.4 per cent for Colombia. The latter is equal to the Canadian rate of economic growth. All other countries experienced rates between 3.8 per cent in Argentina and 5.3 per cent in Venezuela.

The reasons behind the rapid rate of economic growth enjoyed by some of the countries varied, but in general, the reasons were mainly, increasing international demand for traditional exports, stepped-up degree of industrialization and rapid development of the service sector.

In some countries, the decreasing foreign demand for the main exports (grains and meat) as for example in Argentina and Uruguay, and increasing protectionism — the result of short sighted import-substitution economic policies — were the principal reasons for a slow rate of economic growth. Uruguay suffered economic stagnation, with an annual average rate of increase of 0.5 per cent in the Gross National Product at market prices in terms of constant national currency during the decade.

Canada appears to have a Gross National Product at market prices in current American dollars of about three quarters of the total Gross National Product of the Latin American group.²

In 1955, Argentina, by contributing approximately 34 per cent of the total Gross National Product of the

2.- See Table 5.

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group, occupied the leading position. In 1965, Brazil made a contribution of approximately 36 per cent of the total, taking over the leading position from Argentina and this was due mainly to the more rapid industrialization of the former as compared with the latter country. Paraguay made the smallest contribution, a little less than 1 per cent of the total, at both the beginning and at the end of the decade.

Measures of Economic Development and Economic Progress

While the annual changes in Gross National Product in terms of constant currency are considered as measures of economic growth, variations in the Gross National Product in constant currency per economically active person and per capita can be used to illustrate the economic development and economic progress of the countries concerned.³

The Gross National Product per economically active person in constant currency reflects in a broad sense changes in productivity for each country over the decade. With the exception of Uruguay where productivity decreased for the reasons mentioned, all other countries experienced increases in productivity. These ranged between an annual rate of 3.9 per cent in Peru and 0.9 per cent in Paraguay.

3.- See Chapter II.

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Canada with an annual average rate of increase of 2 per cent was about half-way between the Latin American countries.⁴

Peru is the leading country in terms of rate of economic progress attained, measured in terms of Gross National Product per capita. On this basis, she recorded an annual increase of 3.1 per cent. Uruguay is at the bottom of the list, experiencing an annual decrease of 0.8 per cent.⁵ Rapid population growth converted Venezuela's rapid overall economic growth of 5.3 per cent per annum into an actual decrease on a per capita basis, 0.1 per cent per annum.

The variations which were taking place in the production of electrical energy can be considered as rough indicators of changes in the rate of economic growth.⁶ On this basis, the production of electrical power per economically active person could be taken as an index of economic development and on a per capita basis as an index of economic progress.

The Latin American group of nations as a whole showed an annual average rate of increase of 9.7 per cent in the production of electric energy over the decade, while Canada averaged an annual increase of 6.8 per cent.⁷ But

4.- See Table 4.

5.- See Table 3.

6.- Kuznets, S., Modern Economic Growth, Rate, Structure and Spread, Yale University Press, New Haven and London, 1966, p. 26.

7.- See Table 24.

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Canada started from a much greater base than the group of Latin American countries. And by 1965, the total production of electrical power in Canada was 144,274 Billion K.W.H., or double the total for the ten Latin American republics.

Per capita consumption of electric energy amounted to 7,355 K.W.H. for Canada in 1965. In the same year, the ten Latin American countries consumed 443 K.W.H. per capita. This means that the average Canadian consumer used 17 times the amount consumed by the average person living in the ten Latin American countries.⁸

Consumption of electric energy per economically active person for 1965 amounted to 21,025 K.W.H. in Canada. The average for the Latin American group of countries was 1,359 K.W.H..⁹

The data presented show a significant disparity between Canada and the Latin American group of countries. However, there was also a wide difference in the production and consumption of electric energy among the Latin American countries themselves. For example, in 1965, total production of electric energy amounted to 30,128 Billion K.W.H. in Brazil, and to 136 Billion K.W.H. in Paraguay. The other Latin American countries recorded

8.- See Table 25.

9.- Ibid.

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electric power consumption between these two ends of the scale.¹⁰

For the same year, consumption of electric energy per capita and per economically active person amounted respectively to 944 K.W.H. and 3,074 K.W.H. in Venezuela, and to 66 K.W.H. and 199 K.W.H. in Paraguay while the eight other Latin American countries were in between these two mentioned republics.¹¹

In summary, during the period 1955-1965, a general rate of increase in the Gross National Product per capita and per economically active person was taking place in all of the countries reviewed in this thesis. The exception was Uruguay which showed a continuously decreasing trend in terms of both economic indicators. There were, however, significant differences in the rate of economic progress and economic development realized among the countries.

Composition of Gross Domestic Product

Economic development of a country is affected, among many factors, by changes in the industrial structure, i.e. the varying contribution which different sectors such as agriculture, mining, manufacturing, and services make to total economic activity in terms of employment and income. One way of measuring the contribution of each sector

10.- See Table 24.

11.- See Table 25.

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to total economic activity is to assess its share in Gross Domestic Product.

Canada and the ten Latin American republics have reached different stages in industrial structure, with Canada being more advanced than the Latin American group of nations.¹²

The ten Latin American nations concentrated largely on agricultural and other primary activities. Still, agricultural output represented only one-fourth and in some cases, one-third of the Gross Domestic Product. The contribution of agriculture to the Canadian economy represented about 10 per cent of the domestic output, and this percentage placed Canada below any of the Latin American countries of the group with the exception of Venezuela, in which agriculture only accounted for about 7 per cent of Gross Domestic Product.

The contribution of the agricultural sector to Gross Domestic Product increased over 5 per cent annually in Brazil, Peru and Venezuela. The main reason why agricultural output rose substantially was because of the introduction of new techniques and mechanization. However, the remaining countries, including Canada, experienced a lower rate of increase, and Uruguay a decrease mainly due to the loss of world markets for the traditional exports,

12.- See Tables 6 to 11 inclusive.

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meat and grains.

Mining made only a modest contribution to Gross Domestic Product, except in the cases of Bolivia and Venezuela. In the latter country, mining and especially petroleum, contributed over 25 per cent to the Gross Domestic Product. However, all countries had a high annual rate of increase in this sector, especially in the cases of Argentina and Chile, where rapid industrialization made it necessary to increase domestic production of raw materials.

Manufacturing contributed a proportion varying between over 33 per cent in Argentina and about 10 per cent in the cases of Bolivia and Venezuela, enjoying a steady rate of growth over the decade as a consequence of the increasing interest in industrialization. As well, construction, electricity, gas and water contributed with different percentages to the Gross Domestic Product, but each of them showed a steady growth in its share of the Gross Domestic Product.

The "other Sectors" or "service sector" averaged 58 per cent of the Gross Domestic Product in Chile, 53 per cent in Uruguay, and for the rest of the Latin American countries and Canada 40 per cent. All the countries under review presented a substantial annual increase in this sector, as a consequence of increasing needs for more

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services by industry and individuals.

Population

The rates of population growth in some of the ten Latin American countries were among the highest in the world. For the ten countries as a whole, population was increasing at an annual rate of 3 per cent over the decade 1955-1965. However, the rates varied from 4.3 per cent in Venezuela, 3.7 per cent in Colombia and Ecuador, 3.5 per cent in Brazil, to 1.4 per cent in Bolivia and Uruguay. Canada enjoyed an intermediate rate of 2.4 per cent.¹³

The Latin American situation leads to the conclusion that, there is no inverse relationship between the rate of population growth and the rate of economic growth. As proof, Argentina and Uruguay have low rates in both, population and economic growth; while Brazil, Peru and Venezuela have had high rates in both.

An outstanding feature of the Latin American population, due to the continued high birth rates coupled with a rapid reduction in the death rate, was the increasing proportion of the population under 15 and over 65 years of age. The proportion of the economically active population which was 34.3 per cent of the total population in 1955 decreased to 33.3 per cent in 1960, and to 32.5 per cent in

¹³. - See Table 2.

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1965. Thus, these countries were dealing with an age composition which was unfavorable to rapid economic growth. In Canada the proportion rose from 34 per cent in 1955 to 35 per cent in 1965, due in part to the immigration policies which encouraged the inflow of people of working age to Canada.¹⁴

Employment

The employment structure changed as agriculture diminished in importance and mining, manufacturing and the service sector increased in significance. The ten Latin American countries had a predominately rural population operating an agricultural economy. As industrialization was developing, a continuous and increasing number of rural workers moved from the agricultural areas to the cities where the standard of living was higher because of higher wages paid in the industrial sector.

In the Latin American countries, the non-agricultural labour force usually found employment to a greater extent in the service sector rather than in industry. Employment in the service sector for the ten Latin American republics was similar or even larger than in countries such as Canada with a higher income per capita level. This fact reflected a lack of industrial development to absorb the

14.- See Table 13.

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non-agricultural labour force surplus.

In most of the Latin American countries unemployment and underemployment created serious problems. Although the extent of the problems faced cannot be adequately measured because of the inadequacy of available data, certain qualitative information is indicative of the situation in these countries.

Unemployment was concentrated largely in urban areas while "considerable underemployment is known to prevail in both rural and urban areas".¹⁵ The reasons for underemployment in rural areas were usually found in the land tenure system. In all of these countries there was enough idle land to increase employment opportunities for the underemployed agricultural labour force and, simultaneously, fulfill the great and urgent need for more agricultural output. Besides farming, a number of other labour intensive rural activities such as forestry and fishing if developed could help to absorb the manpower surplus. These activities could act as sources of supplementary employment and also become important industries, because most of the Latin American countries are rich in forest and water resources. For example, Peru has developed a large fishing industry which exports a great part of its output.

15.- International Labour Office, Employment and Economic Growth, International Labour Office, Geneva, 1964, p. 30.

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The index numbers of employment indicate the number of persons engaged in the industrial pursuits of the covered units, expressed in full-year equivalents. Industrial and manufacturing employment, both followed the same increasing trend over the decade 1955-1965, with the exception of Argentina and Brazil.¹⁶ In these countries, labour absorption by the industrial sector has tended to decline in inverse proportion to the development of that sector, mainly because of automation.

The gradual modernization of the manufacturing sector has led to a continuous and increasing replacement of artisan activities by factories with a much higher level of productivity. Table 14 shows that more than one half of the total number of persons employed in the manufacturing sector were in the artisan activities. This was one of the reasons for the low level of productivity in this sector. The proportion between the factory and artisan sectors varied among the different Latin American countries. The reasons were the degree of industrialization; and to a certain extent, the way in which the artisan tradition has been preserved such as is the case in Bolivia, Ecuador and Paraguay, and to a lesser extent Colombia and Peru.

16.- See Tables 14, 15 and 16.

Price Indices

The Latin American region was characterized by an uneven distribution of wealth and income, with the majority of the population having low incomes, and only a small portion of the population enjoying a considerable high income.

The problem of inflation and economic growth in the Latin American countries has given rise to considerable controversy (see Chapter IX). With respect to the relationship between the rate of economic growth and the rate of price rise, no definite correlation emerges.¹⁷ There have been considerable differences in rates of economic growth in countries having the same degree of price stability. For example, similar price increases can be found in countries like Colombia and Uruguay with different yearly rates of economic growth. Also, many other combinations appear; rapid rate of economic growth and of rapid inflation in Brazil, a slow rate of economic growth and of rapid inflation in Argentina and Chile, a moderate rate of growth and slow inflation in Ecuador, a rapid rate of economic growth and moderate inflation in Peru. Canada and Venezuela showed similar rate of economic growth and also similar slow rise in the price indices over the decade. By way of explanation, Professor Ruggles says that "the tradi-

17.- See Tables 1, 28 and 29.

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tional theory, which, broadly speaking, attributes inflation either to excess demand of one sort or another or to 'cost-push -- generally wage push -- does not provide an adequate explanation of the differences which are observed among the countries of Latin America in the relation between inflation and growth".¹⁸

With respect to the comparative analysis of the different rates of economic growth and different levels of inflation in the Latin American countries, stability does not insure rapid rate of economic growth and inflation by itself is not a sign of economic growth. In this connection, and referring to experiences in Latin America, Professor Higgins points out how "in some cases, the inflation seems to have been justified as a lubricant to economic growth. In others it appears that rampant inflation has disrupted the economy and retarded economic development."¹⁹

The point is made in Chapter IX that a major step towards achieving economic progress would be to bring rapid inflation under some measure of control and this

- 18.- Ruggles, R., "Introduction" to Inflation and Growth in Latin America, edited by W. Baer and I. Kerstenetzky, A Publication of the Economic Growth Center, Yale University, Richard D. Irwin, Inc., Homewood, Illinois, 1964, p. ix.
- 19.- Higgins, B., Economic Development, Problems, Principles and Policies, W.W. Norton & Company, Inc., New York, 1968, p. 483.

would best be achieved through the pursuit of appropriate monetary policies.

Indices of Production

Index numbers of production over a period of time indicate the trend followed by output, expressed in constant prices. These index numbers are essentially ratios by which the output produced during two intervals of time (a current year and a base year), are compared to one another. Also, the series of these indices describe the production trend followed by one specific sector.

In examining the data presented in Tables 17-21, the following conclusions are offered.

The index numbers series relating to manufacturing output do not present results substantially different from those becoming apparent from an examination of industrial production indices. Such series do not support the possibility of a major lag in the growth of industrial production, except in the cases of Argentina and Uruguay. In fact, the other Latin American countries averaged an annual growth rate of industrial production of about 7 per cent or over, which was equal to the Canadian figure during the period 1955-1965. In judging the achievements obtained in the industrial sector, Professor Gordon stated that, in general, "Latin America might well like to do

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better, but its record is not bad".²⁰

The index numbers of agricultural production showed a relatively poor performance, except in the case of Venezuela. Although in Canada, this did not create any problem, it caused a serious one in some of the Latin American countries. Production increase was offset by population increase, and thus most of the Latin American countries continued to be net importers of food-stuffs. This reduced their capacity to import capital goods and fuels required to promote their economic growth. A growing desire has appeared to increase domestic production of food-stuffs and become more self-reliant on domestic sources of supply. In order to achieve this objective, technological advances, better economic organization and reform of the land tenure system are essential conditions.

The overall mining output rose fairly rapidly in most of the countries under review. The performance of Argentina is striking with an annual rate of increase averaging 27.6 per cent per annum. The reason for this general development was a sudden interest in this field which was sparked by new economic opportunities which were opening up and expanding world markets.

20.- Gordon, W.C., The Political Economy of Latin America, Columbia University Press, New York, 1965, p. 138.

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Most of the Latin American countries have large reserves of important minerals. But they all lack adequate domestic supplies of coal, one of the basic products required for industrial development.

The Latin American group of countries, like Canada, is well endowed with two sources of energy, namely, water-power and petroleum reserves, including natural gas. The growth in the volume of mining production has been largely concentrated in petroleum which was the main export of Venezuela.

The production of electric energy shows a substantial and continuous rate of increase in most of the countries under review over the decade 1955-1965. In this period, the ten Latin American countries as a whole had an annual average rate of increase of 9.7 per cent, 2 per cent higher than that of Canada.²¹ Still, Canada was one of the leading producers and consumers of electrical energy, ranking second in the world on a per capita basis, after Norway.²²

The production of steel experienced a dynamic growth in some countries, such as Argentina and Peru.²³ The reason was the heavy demand for this product which originated with the increasing industrialization.

21.- See Table 24.

22.- See Table 25.

23.- See Table 22.

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Cement production increased on a continuous basis and at a rapid rate in most countries except in Argentina and Venezuela.²⁴ This increase was mainly due to the initiation of appropriate national policies to boost construction in general and housing in particular.

Balance of Payments

One of the most critical factors in influencing economic growth of Canada and the ten Latin American countries is found in their changing balance of payments situation.

The data available concerning balance of payments refer to the years 1961 and 1965²⁵, because of lack of fully comparable data for the period 1955-1960. Still partial data are available for the earlier period and they are presented here, including indices of volume of exports and imports and terms of trade for the years 1958-1965²⁶, and the decade 1955-1965.²⁷

In 1961, all of the countries under study, with the exception of Venezuela, showed a deficit on "goods and services" account. In general, the surplus of merchandise exports over imports was more than offset by a deficit on

24.- See Table 23.

25.- See Tables 30, 31 and 32.

26.- See Tables 33, 34, 35 and 37 to 41, inclusive. See also Appendix B.

27.- See Table 36.

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service account. The current account deficit was mainly covered by capital imports.

During 1965, Argentina, Brazil and Uruguay, together with Venezuela, became creditor countries in "goods and services" through appropriate policies of imports restriction and expansion of traditional and new exports. However, during the period 1961-1965, Brazil, and to a lesser degree Peru and Venezuela, showed a decreasing trend in the percentage of exports of goods and services in relation to their increasing Gross National Product.

The ten Latin American nations also showed a heavy dependence upon imports of capital goods, fuels and many durable and non-durable consumer goods, such as machinery and spare parts. It is unlikely that the rate of economic growth obtained by these countries could have been possible without the rising trend in the volume of imports. The substantial increase in the capacity to import was due, in some countries, to favorable terms of trade; while in other countries, the increasing export volume was the most important factor. Since 1960, the main reason for the general improvement in the capacity to import, appears to be the rising trend of capital inflow.

The fact that the Latin American countries relied on a few primary commodities for their exports, has meant that their respective terms of trade were subject to wide

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fluctuation from year to year. These varying international prices for primary commodities created serious problems for some countries and they affected adversely their ability to maintain economic stability and balance of payments equilibrium. Industrialization must be promoted to help in solving these problems, but not at the expense of curtailing or of failing to promote the "traditional" exports of primary commodities and if possible, also some of new products that can be sold competitively in world markets. Neglect to do so reduces the capability of less developed countries to finance the imports of great variety of goods, including capital goods and fuels, that may be required to enable them to achieve a desirable rate of economic growth. In this respect, Canada was setting an example for the Latin American countries. For she continued to expand her exports of primary products even though she had become one of the major industrial countries of the world.

Summary

In evaluating the state of economic growth in Canada and the ten Latin American countries under review over the decade 1955-1965, the following points must be stressed:

1. The over-all rate of economic growth for all countries, except Uruguay, ranged between 6.9 per cent for Peru and 3.8 per cent per annum in Argentina.

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2. Some countries such as Canada, Brazil and Peru have been growing much more rapidly than others such as Argentina, Bolivia and Paraguay. The main reasons behind the rapid rate of economic growth enjoyed by some of the countries were increasing international demand for traditional exports, stepped-up degree of industrialization and rapid development of the service sector.

3. There is no inverse relationship between the rate of population increase and the rate of economic growth. Brazil, Peru and Venezuela have had high rates in both; while Argentina and Uruguay have had low rates in both.

4. In relation to employment, the over-all picture for the ten Latin American countries was one of a predominately rural population operating an agricultural economy. An increasing proportion of the non-agricultural labour force was in the service sector.

5. One of the economic realities of the ten Latin American countries, with the exception of Venezuela, was the importance of agriculture which represented between one-fourth and one-third of the Gross Domestic Product. The contribution of agriculture to the Canadian economy was approximately 10 per cent which placed this country below any of the Latin American republics of the group, with the exception of Venezuela.

6. In general, agricultural production has lagged in

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relation to the increasing needs of the most industrialized countries of the Latin American group. This created inflationary pressures in some of the countries, particularly Brazil and Chile.

7. There was a wide difference between Canada and the ten Latin American countries in the yearly average Gross National Product in real terms per capita and per economically active person.

8. In the Latin American group of countries, major economic inequalities existed, not only among countries but also among individuals of the same nation. The differentials also existed in Canada but here social and fiscal policies had contributed to a greater degree to income redistribution than in the ten Latin American countries.

9. No definite correlation emerges between the rate of economic growth and the rate of price increases. In some of the Latin American countries, inflation appeared to act as a stimulus to economic growth, while in others inflation has been a major obstacle.

10. The deterioration of terms of trade affected adversely the sustained and rapid economic growth of some of the Latin American countries.

11. The prevailing political, social and economic attitudes and institutions were the main factor responsible for the low standard of living in the Latin American

republics, while in Canada, these factors contributed to better living conditions.

There were significant political differences between the ten Latin American countries and Canada. In Canada, a British type of parliamentary system exists with regular elections being held by law every 5 years but in practice every 4 years.

In the majority of the Latin American countries, a President is elected every 5 or 7 years. However, in actual fact only a small number of countries are governed on the basis of the principles of the Constitution, while in the other countries, governments are made up by Military Juntas with the President occupying the position of a quasi-dictator. As a result, policy formulations in the Latin American republics with governments not fully responsive to popular demand vary to a significant extent from the policies formulated in Canada where a democratically elected government is in power and is concerned with pursuing the type of policies which will be favourable to the electorship.

As far as the social aspects are concerned, these varied greatly between the ten Latin American countries and Canada mainly because of differences in income distribution patterns and differences in ethnic, religious, cultural and traditional factors which have already been mentioned in Chapters III and IV.

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In relation to the institutional aspects, Canada has more highly developed institutions than most of the ten Latin American countries. This applies mainly to governmental, educational and financial institutions.

CHAPTER VI

STRUCTURAL AND INSTITUTIONAL CHANGES

Introduction

Studies and discussions about developing countries usually include frequent references to the serious and complex problems created by the rapid increase of population. These problems were particularly acute in the ten Latin American countries under review, where the annual average rate of growth in population of 3 per cent over the decade 1955-1965 was the highest in the world.¹ The increase in the Canadian population averaged a yearly 2.4 per cent.

Population Problems

The economic and social effects of the high rate of population growth are various. This is a consequence of the manifest interdependence appearing between the level of economic growth and the population characteristics of a country or region. A considerable addition to the existing population in each time period necessitates an extraordinary

1.- See Table 2.

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investment effort to maintain the level of consumption of the starting population and to provide employment for the incremental population. If, owing to the rapid growth of aspirations, it is at the same time necessary to raise the level of economic satisfaction for the whole of the population, the effort required of the countries is doubly great, and their inability to fully accomplish it is one of the main causes for the frustration and discontent characteristic of the Latin American republics.

The high rate of population increase in the Latin American republics was a handicap in attaining a higher standard of living and it slowed the increase in the per capita Gross National Product.² These facts have served as the base of unfavourable forecasts for the Latin American region as a whole. This, however, represents an oversimplification of reality. For in some of the countries under review, trends appear to be of an opposite order. Brazil, Peru and Venezuela showed the highest rate of population increase, and at the same time, the highest rate of economic growth; while Argentina, Bolivia and Uruguay showed a comparatively slower rate in both increase in population and economic growth. This situation must be understood as a consequence of economic policies which enabled the first group of countries to cope with the population growth pro-

2.- See Tables 3, 4, 26 and 27.

blems, while the latter ones suffered as a consequence of inappropriate government economic decisions in the field of labour relations and social security.

The relationship between population increase and rate of economic growth must be studied referring to each specific country. Rapid population growth can sometimes represent an advantage for a specific country, but according to Professor Morris, this can happen only when one or more of the following conditions appear:

1. When an increase in the total demand for goods and services is met by increased productivity either by using idle resources or by increasing the available resources, at least, at the same rate as demand increases.

2. When a growing population allows a better division of labour, and at the same time, allows the required training and education.

3. When a growing population can afford economies of scale or business and national overheads can grow to a more economical size.

4. When the ratio of labour force to population is improved.

5. When the increase in population leads people to a greater effort.³

However, what often happens in any overpopulated⁴

3.- Morris, B.R., Economic Growth and Development, Pitman Publishing Corporation, New York, 1967, p. 164.

4.- Professor W.A. Lewis defines the term "over-population" in four different senses: First, when the country would have a larger output per head with a smaller population; Second, the term sometimes means no more than the population is larger than that can be fed without importing food; Third, when the country's population is so large relatively to its resources that a change in population would have no effect on total output; and Fourth, the term is used in a vague sense to indicate that a country is using up irreplaceable resources at an excessive rate. See Lewis, W.A., The Theory of Economic Growth, Richard D. Irwin, Inc., Homewood, Illinois, 1955, p. 320.

and less developed country as a consequence of excessive increase in population, is diminishing returns in the absence of other changes, such as better trained people, technological improvements and more capital investment. Professor Spengler has pointed out the necessity of a large amount of capital to start the process of economic growth when population increases at a rapid rate.⁵

Another immediate effect of a rapid rate of increase in population, mainly due to the rapid birth rates prevalent in the Latin American countries and to a lesser degree to the drop in the mortality rate, was the increase in the dependency ratio, that is, the number of dependents per economically active person. This population characteristic represents an extra handicap in the process of economic growth for the ten Latin American countries, because a high proportion of dependent population meant a low percentage of economically active persons.⁶

All of these facts made the Latin American nations well aware of the problem of the optimum size of population. The size of the population must be one that maximizes real income per capita under the prevailing techniques of production or as Professor Lewis says, one that maximizes

5.- Spengler, J.J., "Population as a Factor in Economic Development", edited by P.M. Hanser, Population and World Politics, The Free Press of Glencoe, New York, 1958, p. 175.

6.- See Tables 2 and 13.

output per head.⁷ However, this is only a partial answer which has an economic bias, and does not take into consideration interrelated political and sociological aspects, as well as traditional and cultural factors.

Labour Force and Employment Structure

In relation to the economically active population or labour force, there are complex problems of definition and measurement which make a comparative study among the countries difficult. The proportion of the population which is at working age determines the size of the potential labour force. Comparing Canada with the ten Latin American countries as a whole, there was an increasing trend in the labour force participation rate in Canada from 34 per cent of the total population in 1955 to 35 per cent in 1965; while the Latin American group showed a decline⁸ from 34.3 per cent to 32.5 per cent in the same period.

One of the main problems relating to the rapid increase in population arose as a consequence of the failure to provide sufficient employment opportunities to the increasing labour force. A rapid increase in the number of unemployed and underemployed appeared, as a consequence of a movement from the rural areas to the cities in search of

7.- Lewis, W.A., op. cit., p. 319.

8.- See Table 13.

better living conditions, and this was particularly apparent in the large Latin American cities.

Population affects the economy, but changes in the structure of the economy also influence population patterns. For example, Professor Leibenstein emphasizes the effect of rising incomes on inducing lower fertility.⁹

During the decade 1955-1965, the structure of employment was changing in Canada and the ten Latin American countries and two facts can be emphasized; first, the accelerated growth of the urban population; and second, the increasing volume of employment in the services sector.

This concentration of the population in the larger cities created vast problems such as pollution which frequently extended outside the field of economics.

The proportion of persons employed in services in the Latin American countries was similar to or even larger than in countries with a higher level of per capita income. This fact in Latin America was mainly due to the slow growth of the industrial sector. As a result, the expanding labour force in the cities shifted towards the services sector or other activities often with a low productivity.

Another feature of the Latin American group of countries which is shared by the less developed nations of the

9.- Leibenstein, H., Economic Backwardness and Economic Growth, J. Wiley and Sons, New York, 1957, pp. 160-162.

world, is the early age at which young people attempt to enter gainful employment, because of the pressure to increase the insufficient family income. This situation affects the level of education and training attained by the labour force.

The propensity of women to participate in the labour force depends on a large variety of factors, such as family financial situation, institutional conditions and employment opportunities. In Latin America, women usually combine household duties with work in family enterprises, such as on farms or in a shop. In Canada, the trend of female employment has been increasing, and many opportunities are available in light industry and in the services sector.

A high percentage of the economically active population of the ten Latin American countries was employed in the agricultural sector, with a comparatively smaller percentage employed in the industrial activities. The Latin American percentage of the labour force employed in manufacturing, mainly of artisan type, was rising over the decade, but the lag in the growth of employment opportunities in the industrial sector was one of the factors limiting economic growth opportunities.¹⁰

10.- See Tables 14, 15 and 16.

Agricultural Sector and Agrarian Reform

A large proportion of the population of the ten Latin American republics was employed in agricultural activities, and as a result, a substantial volume of seasonal unemployment, which is typical of this sector, was unavoidable.

Food shortages represented an important problem in some Latin American countries. Technology in more advanced countries, such as Canada, shows what can be done in the field of increasing productivity in agriculture. Professor Brahmananda points out how, "historically, agriculture has been usually visualized as a precaution against food shortages, arising as a result of population growth. It has rarely been recognized that agricultural investment is necessary because it sets into motion the development process".¹¹ Certainly what was lacking in these Latin American countries was technology and the incentive to increase productivity and new agricultural exploitations. Professor Powelson emphasizes how "economic development can be aggressively promoted, or seriously retarded, by the astute choice of agrarian systems".¹² This was particularly so in the ten

11.- Brahmananda, P.R., "Agricultural Versus Industrial Development", Edited by H.S. Ellis assisted by H.C. Wallich, Economic Development for Latin America, Macmillan & Co. Ltd., London, 1963, p. 421.

12.- Powelson, J.P., Latin America, McGraw-Hill Book Company, New York, 1964, p. 36.

Latin American countries where the agricultural sector is predominant, and the land tenure system consists of "large landholding units, inefficiently farmed in small plots".¹³

Institutions can promote or restrict economic growth. The necessity of agrarian reform in Latin America was widely accepted.¹⁴ However, the basic problem of agrarian reform as Professor Cole mentioned was how "to expropriate and split up part, if not all, of the large holdings without upsetting production and particularly without interfering with the production of crops for export".¹⁵

Agrarian reform in these countries must be extended far beyond land tenure, to include the provision for advanced forms of technology and services, such as agricultural credit and marketing. Professor Powelson suggested that more important than providing technology is the development of a mentality towards change¹⁶ or what Professor Lewis called the "spirit of adventure" or a greater willingness

13.- Gordon, W.C., The Political Economy of Latin America, Columbia University Press, New York, 1965, p. 21.

14.- See "The Act of Bogota", Elaborated during the Third Meeting of the Special Committee to Study the New Measures for Economic Co-operation, and approved by the Council of the Organization of American States at the meeting held in Bogota (Colombia) on October 11, 1960, reprinted by the Research and Policy Committee of the Committee for the Economic Development, Co-operation for Progress In Latin America, Committee for Economic Development, New York, 1966, pp. 50-56, and specially p. 51.

15.- Cole, J.P., Latin America, Butterworth, London, 1965, p. 99.

16.- Powelson, J.P., op. cit., pp. 66-67.

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to try new ways and to be willing to experiment.¹⁷

It will not be easy to implement a program of agrarian reform in Latin American countries. It is a costly process with many serious economic, social and political implications. One of the main problems, as Professor Gordon points out, is that "in the land reform proposals, too much attention has been given to the land ownership question and too little attention to the efforts to see that the standard of living of people working the land rises".¹⁸

Conclusion

The solution to the problem of the rapid increase in population for most of the countries under review, may not be birth control or family planning as is too often suggested, but rapid and sustained economic growth, which, in turn, will bring economic development and a higher standard of living.

The Economic Commission for Latin America has suggested how "the key to Latin American development in this respect is to frame the basic principles of a policy, for a proper utilization or combination of the capital-labour factors in relation to specific economic activities, so that maximum economic growth can be achieved conjointly with

17.- Lewis, W.A., op. cit., pp. 42-51.

18.- Gordon, W.C., op. cit., p. 27.

maximum labour absorption".¹⁹

In 1965, the World Population Conference emphasized that "the crux of the problem lay in promoting a rise in agricultural production within those countries which present food deficits... bringing new areas under cultivation or improving yields of crops and livestock".²⁰ This is the challenge for some of the countries, while for others it will be to make output grow, at least as fast as population expands and if possible, at a more rapid rate.

19.- Economic Commission for Latin America, The Economic Development of Latin America in the Post-War Period, United Nations Publication, New York, 1964, p. 31.

20.- Summary of the Highlights of the World Population Conference, World Population: Challenge to Development, Organized under the auspices of the United Nations and the Government of Yugoslavia, and held at Belgrade, Yugoslavia, from August 30 to September 10, 1954, United Nations Publication, New York, 1966, p. 11.

CHAPTER VII

CAPITAL INVESTMENT

Introduction

This chapter deals with the contribution which capital investment made to furthering economic growth in the group of countries selected for examination in this thesis. Adequate data on capital investment are practically non-existent for the period of time under study for most of the Latin American countries concerned. This deficiency makes it necessary to rely in the main on qualitative rather than quantitative analysis.

There is a certain amount of arbitrariness involved in selecting a particular definition of capital investment, depending upon the purpose at hand. According to Professor Byé, "if we mean by development the transition to a more productive structure, we must define capital as everything which increases the productivity of society".¹ For

1.- Byé, M., "The Rôle of Capital in Economic Development", reprinted in Economic Development for Latin America, Proceedings of a Conference held by the International Economic Association at Rio de Janeiro, Brazil, August, 1957, edited by H.S. Ellis and H.C. Wallich, MacMillan and Co. Ltd., London, 1963, p. 111.

Professor Denison, "the capital of a nation consists of the structures, equipment, and inventories available for use in domestic production, together with the nation's net claims upon other countries".² However, Professor Schultz among others, feels that this concept of capital is too narrow for studying economic progress since it does not include the gains in well-being and the satisfactions that people acquire.³

Economic growth is, among other factors, a function of the rate of new capital formation⁴, and Professor Kuznets adds that, "the interrelation of capital formation proportions, rates of growth of product and population, and changes in the capital-output ratios must be emphasized".⁵ Professor Furtado points out that, "the intensity of growth on an economy is a function of two relationships: the ratio of investment to income and the ratio of reproducible wealth employed in the productive process to income".⁶ The rate of

2.- Denison, E.F., Why Growth Rates Differ, The Brookings Institution, Washington, D.C., 1967, p. 117.

3.- Schultz, T.W., The Economic Value of Education, Columbia University Press, New York, 1963, pp. 46-50.

4.- According to Professor Stark "the most influential (factor) in Latin America's economic growth in the period 1950-57 was the volume of investment". See H. Stark, Social and Economic Frontiers in Latin America, W.M. C. Brown Company Publishers, Dubuque, Iowa, 1963, p. 198.

5.- Kuznets, S., Modern Economic Growth, Rate, Structure and Spread, Yale University Press, New Haven, Massachusetts, 1966, p. 261.

6.- Furtado, C., Development and Underdevelopment, University of California Press, Berkeley, California, 1967, p. 68.

economic growth depends upon the proportion of current income transformed into new productive capacity and the average product per unit of capital already invested in the economy.

Domestic Capital Formation

In most of the nations where rapid economic growth was occurring during the decade under review, domestic net capital formation was at least 10 per cent of the national income.⁷ In Canada, for example, one of the striking features of economic growth has been the relatively high proportion of national production devoted to investment.⁸ The percentages of Gross Domestic Capital Formation in relation to Gross National Product were in general too low to ensure rapid economic growth in the Latin American countries, except in Peru where, as in Canada, a relatively high percentage was devoted to Gross Domestic Capital Formation.⁹ That illustrates the important part played by this dynamic variable in the process of economic growth. Thus, a main concern for these Latin American countries was how to increase the rate of capital formation. According

7.- Report by a Group of Experts appointed by the Secretary-General of the United Nations, Measures for the Economic Development of Under-developed Countries, United Nations Publication, New York, 1951, p. 35.

8.- See Table 12.

9.- See Tables 1 and 12.

to Professor Lewis this was, "the central problem in the theory of economic growth... to understand the process by which a community is converted from being a 5 per cent to a 12 per cent saver with all changes in attitudes, in institutions and in techniques which accompany this conversion".¹⁰

Domestic Private Savings

During the decade 1955-1965, a large amount of capital equipment was needed in the ten Latin American countries in order to produce the goods and services required to meet the needs of the rapidly growing population. This capital equipment could be created by means of savings, that is through the production of goods and services that were not consumed immediately but which could be used to produce other goods and services. However, this was difficult, since at this time, the capacity of the Latin American nations to save was very low. Furthermore, to increase savings was not only a matter of attitudes and institutions, but also depended on taxation, and in certain circumstances, the level of inflation.

The institutions and attitudes of the people often are such that saving is not popular. People are influenced by numerous factors such as demonstration effect and social

10.- Lewis, W.A., The Theory of Economic Growth, R.D. Irwin Inc., Homewood, Illinois, 1955, pp. 225-226.

emulation. In order to achieve increased savings, people must acquire attitudes which make them want to save and to do this, the proper climate must be created. An atmosphere of general confidence and economic stability usually is helpful, including efforts to minimize inflationary pressures, one of the main concerns of the Latin American savers. Also, of primary importance, is the creation of reliable and responsible financial institutions which influence levels of saving.

The capacity of these Latin American countries to save was usually thought to be relatively low, but it is not certain that it was as low as sometimes believed. The well-known fact of capital outflow from these nations which is held or invested abroad supports this point of view.¹¹ Evidently, this situation relates to the higher income sectors of the population, which was and still is, a minority. The people in the lower and middle income brackets have a low standard of living and the typical situation is one of low productivity contributing to low income which is spent completely or almost so to meet the basic necessities of life.

This situation reflects the "vicious circle" mentioned

11.- According to J. Gerassi, "in European Banks alone, current Latin American deposits accounts hold \$ 10 billion... and flight capital now amounts to \$ 1.5 billion every year". See J. Gerassi, The Great Fear in Latin America, Collier Books, New York, 1967, p. 383.

by Professor Tinger¹²gen and many other economists. In other words, "the upper strata, consisting of about 5 per cent of the Latin American population, are responsible for nearly three-tenths of total personal consumption. At the opposite end of the social scale, 50 per cent of the population account for barely two-tenths of the total. Between these two extremes the middle income groups, comprising about 45 per cent of the population, represent approximately the remaining 50 per cent of total personal consumption... (while)... in advanced countries, consumption by the high income groups is not more than nine to ten times that of the lower strata."¹³ Thus, consumption on the part of the higher income groups must be reduced in order to achieve increased savings. However, the problem of speeding up the rate of economic growth would not be solved automatically by a reduction in consumption and an increase in savings, but would require that these additional savings are directed into appropriate forms of investment.

Moreover, as real incomes for the middle and lower strata have risen, there does not appear to have been any notorious increase in the propensity to save. This seemed to be the consequence of an increase in the size of the families, and also of the demonstration effect. Professor

12.- Tinbergen, J., Shaping the World Economy, The Twentieth Century Fund, New York, 1962, p. 14.

13.- Economic Commission for Latin America, Towards a Dynamic Development Policy for Latin America, United Nations, New York, 1965, p. 51.

Stark emphasizes now, "there exists today in Latin America a mounting pressure to expand consumption, a pressure which will compete directly with the requirements for capital formation".¹⁴

Furthermore, in the advanced countries, like Canada, the great bulk of the savings was done mainly by large and medium sized corporations. The lack of these corporations or the relatively small number in the Latin American countries, was another handicap which made it difficult to increase their volume of savings.

Some countries, such as Venezuela, have found an additional source of savings by taking advantage of an improvement in their terms of trade; while others, such as Argentina, created output by employing the unemployed to work on public utilities thus creating social capital. This was capital created without drawing on other output. Hence, it did not affect adversely the supply of goods and services available for total consumption. This experiment in Argentina of creating social capital, indicates one of the variety of means that had to be employed to create output devoted to public causes (government expenditures) without significantly contributing to inflationary pressures. However, there would be some such pressure to the extent that the expansion of public utilities required materials

14.- Stark, H., op. cit., p. 199.

and equipment from other sectors of the economy, this would add to demand elsewhere and thus affect the supply-demand relationship and the pressure on prices in these other sectors.

Taxation

Since Latin American countries did not generate sufficient private domestic savings to meet the requirements of their development programmes, it was necessary to depend on taxation as a means of financing social capital. In fact, for some of the countries one of the possible contributing factors to promote economic growth was the ability of the country to raise revenues through taxation. However, in practice, there were definite limitations to this method of increasing domestic capital formation by reducing consumption through taxation. The majority of the population in the Latin American countries have such a low standard of living that yields from taxation fell considerably short of requirements.

While using taxation as a means of raising funds is, in a way, an alternative to encouraging savings, the choice between either domestic savings or taxation depends on the specific characteristics of each country. The principle is that taxation promotes development only if it diverts funds from consumption to capital formation, or from a less desirable to a more desirable way of spending or investing. It

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is in this sense, that high taxes can be used to control luxury consumption, of which there exists a certain amount among the limited number of the really wealthy in the Latin American countries.

Some brief comments on the corporate tax practices which are employed in Canada and the ten Latin American republics follow.

For Canada, under the provisions of the Income Tax Act, the Federal Corporation Tax rates increased from 20 per cent on the first \$20,000 profits and 49 per cent on any excess of this amount in 1955; to 21 per cent on the first \$ 35,000 and 50 per cent on excess of that in 1965. This federal tax represented one of the largest sources of Federal tax revenue. In 1962, the return of taxing powers to all of the individual Provinces of Canada became effective, and these Provinces also levied a Corporation Income Tax which varied from 9 to 12 per cent.¹⁵

In the case of the ten countries of the Latin American group there were considerable disparities in the corporate income tax legislation. The average tax load for a manufacturer might vary as much as 30 per cent from one country to another. For example, Chile and Peru headed the list with a 53 per cent, Argentina had 50.8 per cent, Brazil

15.- Canadian Tax Foundation, The National Finances, 1966-67, Canadian Tax Foundation, Toronto, 1966, pp. 41-45.

46.8 per cent, Paraguay and Uruguay had 25 per cent, while Venezuela averaged the least with a 22.8 per cent. This average tax load must be treated with caution, since the rate within any country might vary according to the size of investment, the product manufactured, the intention to export and the location of the plant. Countries with lower tax rates easily offered additional incentives to compensate for operational difficulties. Countries such as Argentina and Brazil which had high tax rates, offered less difficulties in manufacturing because of better national overheads, a better trained labour force and larger markets.

An important feature was the increase in taxes as a whole over the decade, as governments required more and more revenue to finance social and economic development programmes.

The Committee for Economic Development stresses that "since taxation is the main revenue source, a sound and productive tax system obviously is a major requirement for the development of low income countries".¹⁶ An appropriate balance of the over-all structure of direct and indirect taxes and of the various specific taxes, will depend on the economic and social framework existing in each individual

16.- Research and Policy Committee of the Committee for Economic Development, How Low Income Countries Can Advance Their Own Growth, A Statement on National Policy, Committee for Economic Development, New York, 1966, p. 50.

country. Considering the many differences which exist among the ten Latin American nations, there is little possibility of tax harmonization for some time.

Inflation as a possible means of financing economic development is discussed in Chapter IX. But in this context, it can be stated that, over the long run, rapidly rising prices are apt to discourage savings and subsequent capital formation. Also, as domestic prices rise more rapidly in relation to international price levels, exports will fall and problems in the balance of payments will appear or further aggravate. In addition, inflation represents in fact an extra tax on the poor and those with fixed incomes, and this causes social discontent.

All of these factors contribute to formulate the conclusion that deliberate inflation is not an effective policy to promote long term economic growth for the developing countries of Latin America. In fact, a general consensus developed in the early 'sixties that inflation was harmful to economic development of Latin America.

Foreign Investment

As the level of domestic savings was low and taxation was not very productive, a tendency appeared in the Latin American countries to rely on foreign borrowing or aid as a source of financing the purchase and creation of capital

equipment, and "the part played by external funds was naturally larger than in any industrialized country".¹⁷ Foreign capital was considered essential in the process of starting economic growth, acting in the same way that Professor Hirschman saw as desirable, that is, as a means of starting out unbalanced growth by enabling these countries to undertake some of the large indivisible investments required to stimulate economic growth.¹⁸

In Canada, as a consequence of the high level of investment required, foreign capital has been essential to the process of continued growth; and scarcity of domestic capital has been supplemented by investment from external sources. Professor Firestone points out how, "although Canadian savings financed the bulk of Canada's economic growth, foreign financing has assumed at times a major role in speeding up the rate of economic growth as occurred in 1956 and 1957, and other times the role of replacing Canadian savings, such as the years of slow economic expansion as occurred in the period from 1958 to 1961".¹⁹

According to Professor Higgins, the United States assets and investments abroad at the end of 1961, amounted

17.- Economic Commission for Latin America, The Process of Industrial Development, United Nations, New York, 1966, p. 188.

18.- Hirschman, A.O., Strategy of Economic Development, Oxford University Press, New York, 1963, p. 205.

19.- Firestone, O.J., Problems of Economic Growth, University of Ottawa Press, Ottawa, 1965, p. 117.

to \$ 21,189 million in Western Europe; \$ 19,229 million in Canada, and \$ 14,374 million in Latin America; and he stresses how, "private investments in Western Europe exceeded those in all Latin American countries combined, and investments in Canada were nearly double those in Latin America".²⁰

Foreign capital could come from private sources, governments or supra-national agencies. Each of them brought both advantages and disadvantages. The two major problems associated with the use of foreign capital were: first, the existence of foreign pressures that appeared to affect the pattern of national economic development; and secondly, that when the capital was made available in the form of loans, these had to be paid back and unless such loans produced outputs before they were due, growth was ultimately handicapped in some instances. Moreover, borrowing for military purposes created serious economic problems for some Latin American countries.

Private foreign investment was made available mainly in the extractive industries such as oil, minerals, and agricultural products for export. Except for Brazil, private capital, in general, has not moved into sectors that the Latin American republics have considered the most desirable from their point of view, that is, investment in manufactures.

20.- Higgins, B., Economic Development, Problems, Principles and Policies, W.W. Norton & Company, Inc., New York, 1968, p. 568.

In Canada, private foreign capital to a significant extent has been invested in the manufacturing sector and as a result by 1963, 60 per cent of manufacturing was controlled abroad.²¹

The reasons why private investment was not devoted to the manufacturing industry in the Latin American nations were various. Domestic markets were undeveloped and often of small size. Social capital was not available of the type and extent required to facilitate the growth of manufacturing industries. Government policies such as controls, restrictions and nationalistic attitudes, were not conducive to encouraging foreign capital inflow. A report presented by a Group of Experts to the Secretary-General of the United Nations stated that, "the flow of private investment is partly a function of the amount which the governments of the under-developed countries spend on improving basic facilities, and on health and education. The bigger the public investment is, the bigger will be the private investment."²²

Some of the above mentioned obstacles, mainly government policies, failed to meet the conditions of stability, profitability and convertibility which were needed, so that private investors would be attracted into the foreign countries.

21.- See O.J. Firestone, Industry and Education, A Century of Canadian Development, University of Ottawa Press, Ottawa, 1969, p. 56.

22.- Report by a Group of Experts appointed by the Secretary-General of the United Nations, op. cit., p. 82.

Moreover, in these Latin American countries it was the general belief that private investment in primary production had little multiplier effect and few spread consequences on the economy. Consequently, these countries often felt that private foreign investment, at best, contributed little to speeding up the economic growth process. Also, as Professor Alexander points out, "the combination of very heavy dependance on markets on the highly industrialized nations and large investments from these nations in Latin America export agriculture and in the service industries supplying it constitutes what many Latin Americans call the 'semicolonial' aspect of their economy".²³

On occasion, private foreign investors interfered in domestic politics in the Latin American countries, and these countries suffered from these interferences.

The creation of an attractive climate for the inflow of foreign capital depends not only on the actions of the governments but also on the actions of foreign business already established, and it is necessary that "foreign business must, so far as possible, become identified with the community in which it operates. It must not be regarded as something from the outside that does something to or for the Latin America society, even if what is done is good".²⁴

23.- Alexander, R.J., Today's Latin America, Anchor Books, New York, 1968, p. 60.

24.- Committee for Economic Development, Cooperation for Progress in Latin America, Committee for Economic Development, New York, 1966, p. 43.

By using specific measures, governments can encourage the flow of foreign capital to move into such channels as would tie in more closely with the nation's development plans. One of the first set of measures to be adopted would be those designed to keep inflationary pressures within reasonable limits. Political stability, provision of essential social capital and non-discriminatory controls also contribute to serve the objective of continuous economic development. Professor Cairncross adds that, if there are markets, sooner or later, private foreign capital will come into the country and specifically move in to the manufacturing sector.²⁵

Foreign Aid

Foreign aid must be considered as a residual solution when some of the other means mentioned prove to be insufficient and/or ineffective. Foreign aid was made available to some limited extent to the ten Latin American countries reviewed in this thesis. This assistance took in the main the form of hard and soft loans. They were repayable in one of the widely acceptable currencies or in terms of currency of the borrowing country. In addition to long-term loans, the countries obtained short-term credits, technical assistance and counterpart funds through the sale of surplus

25.- Cairncross, A.K., Factors in Economic Development, G. Allen and Unwin, Ltd., London, 1962, p. 62.

products for local currency.

Long-term loans served mainly to financing projects undertaken by State enterprises. There were in the main two reasons for it: first, public agencies usually had easier access to funds drawn from foreign sources and international agencies, and second, the kind of activities promoted by the State, usually involved heavy investment that was slow to mature, like steel-making and basic chemical industries. Furthermore, an inflow of foreign capital was required until the moment that import substitution industries and increased exports permitted additional domestic savings. This foreign aid was the only way of financing costly national overheads or, to finance "what is now the government sector of the economy".²⁶

There existed a general agreement that foreign aid was crucial to stimulate economic growth in the Latin American countries since this aid was largely designed to create specific facilities which speeded up the rate and broadened the scope of economic development. The Report by the Group of Experts to the Secretary-General of the United Nations stressed the importance of foreign aid by saying that "it cannot be denied that most of the under-developed countries will find it extremely difficult to make progress in the initial stages without effective inter-

26.- Lewis, W.A., op. cit., p. 264.

national aid".²⁷ In relation to the Latin American countries the Economic Commission for Latin America pointed out that, "under present conditions, Latin America would be unable to accelerate its growth rate without external cooperation".²⁸ The Act of Bogota emphasized how, "the economic development of Latin America requires prompt action of exceptional breadth in the field of international cooperation and domestic effort...the need for loans on flexible terms and conditions, including...the possibility of repayment in local currency".²⁹

This foreign aid was given to the various countries following different criteria. Professor Kindleberger stresses how in making aid available, advanced countries frequently were guided by political objectives rather than by economic considerations.³⁰ This pattern characterizes largely the type of aid given by the United States of America to the Latin American republics.

A more effective criterion depends on how much capital the country requires to undertake a well-conceived

27.- Report by a Group of Experts appointed by the Secretary-General of the United Nations, op. cit., p. 88.

28.- Economic Commission for Latin America, Towards a Dynamic Development Policy for Latin America, United Nations, New York, 1963, p. 32.

29.- Act of Bogota, signed by members countries of the Organization of American States on September 13, 1960, reprinted by the Committee for Economic Development, op. cit., p. 54.

30.- Kindleberger, C.P., Economic Development, McGraw-Hill Book Co., Inc., New York, 1958, p. 300.

development programme and how capable it is to service its debts, that is, to meet payments of interest and repayment of the principal. Or as Professor Rosenstein-Rodan puts it: the criterion to give aid must be to judge the efforts of the borrowing country to aid itself.³¹ The purpose of foreign aid then is one of providing a positive incentive for the increasing national effort and popular enthusiasm for people to help themselves.

It is rather difficult to establish how much a country can safely borrow. The capacity to pay the servicing costs depends on the country's balance of payments which, in turn, depends on trends of its exports and imports of goods and services. According to the survey of the data ad hoc, the possibility of safely borrowing for the majority of the ten Latin American nations under review is far from being satisfactory.³²

According to Professor Vanek, "economic development calls for two key inputs: investment and imports... the former must equal the sum of savings and foreign resources (aid and foreign capital funds); the latter must equate the availability of foreign exchange composed of export earnings and foreign resources".³³ Then given the basic schema, the

31.- Rosenstein-Rodan, P.N., "International Aid for Under-developed Countries", Review of Economics and Statistics, May, 1961, pp. 107-109.

32.- See Tables 33, 34, 35 and 36.

33.- Vanek, J., Estimating Foreign Resource Needs for Economic Development, McGraw-Hill Book Company, New York, 1967, pp. 5-6.

problem of estimating the foreign resource requirements of economic development is, in theory, reduced to estimate the values of the mentioned parameters for the period for which an evaluation of the foreign resource requirements is sought. However, the application of this model is limited by the fact that it is in part a closed one in that two of the three inputs (savings, foreign resources and export earnings) are related to the level of economic development and Gross National Product. Savings depend on the level of national income among other factors, and export earnings of the country are linked to the level of development of the country and at the same time, to the conditions of foreign demand.

As a consequence of the many problems mentioned in reference to private and governmental foreign capital, it is being suggested that foreign aid must be given through international agencies. In this way, there would be less suspicion in relation to the true objectives of the aid and political considerations would be minimized. In accordance with this, the United Nations has decided to extend its aid to countries in a variety of ways through different agencies, such as the International Bank for Reconstruction and Development, the Food and Agricultural Organization, the World Health Organization, the United Nations Educational and Scientific and Cultural Organization.

Conclusions

As Professor Higgins emphasized, "it is highly unlikely that measures to increase voluntary savings alone — or even measures for voluntary and compulsory savings together — can provide all the financial resources needed for development".³⁴ The ten Latin American countries as opposed to Canada, did not succeed in attracting an increasing amount of foreign private funds towards their economies. However, the share of such capital allocated to manufacturing industries appears to have increased over the decade under consideration. Such investment was mainly concentrated in countries, such as Argentina and Brazil, where the domestic market appeared large enough to make possible economic production.

In a largely free enterprise economy such as is predominant in Canada and the ten Latin American countries, the government has direct control over only a portion of the nation's investment. However, through their control over the banking and the credit system, taxation and foreign exchange, governments have a considerable degree of indirect control over investment. To the extent that these devices are appropriately used, investment can be channelled into priority branches of activity that may assist in contributing to stimulating economic growth.

³⁴.- Higgins, B., op. cit., p. 511.

According to a Study prepared by the Institute of International Affairs of the University of Oregon at the request of one of the Committees of the United States Senate, the following were some of the most important fields into which investment must be directed if the Latin American economies are to develop at a desirable rate.³⁵ The amount of investment for each country will vary in accordance to various factors specific to each nation. To a large measure, the volume of capital needed to attain a given rate of economic growth must be related to a country's supply of natural resources. Other things being equal, a country with inadequate natural resources will require comparatively greater investment and probably greater aid from abroad.

In relation to electric power, the more industrialized countries of the Latin American group, such as Argentina, Brazil and Chile, suffered from a shortage and this affected adversely their economic growth.

The need for transportation is almost universal for the ten Latin American countries. The necessary investment in this field will expand agricultural production, opening new lands for cultivation and bringing to urban markets the

35.- Institute of International Studies and Overseas Administration, University of Oregon, Problems of Latin America Economic Development, A Study prepared at the request of the Subcommittee on American Republics Affairs of the Committee of Foreign Relations, United States Senate, February 11, 1960, United States, Government Printing Office, Washington, 1960, pp. 60-63.

production of isolated settlements.

In all of these countries, the high rate of population growth and the need to expand education and health facilities also requires a heavy investment in social capital.

Generally speaking, in many aspects the most urgent need is for investment in agriculture. The reason is that agricultural productivity is in general, low, and if the standard of living is to be raised, agricultural output per capita must increase. There is also a pressing need to diversify agricultural production not only for domestic consumption but also for export. At the same time, investment in agriculture must be accompanied by investment in the related activities such as storage facilities and processing plants.

The need for expanded investment in mining is dictated by the fact that this field generally represents an important part of the foreign earnings. While petroleum represented the most important export item of Venezuela, it was also the largest product in the import budget for such countries as Argentina and Brazil. As a consequence of the rapidly growing needs for fuel, these countries with reserves had to intensify their petroleum exploitation. The same can be said for most other minerals required to facilitate industrial development.

Finally, if the Latin American countries are to find

employment for their growing population, a large proportion of investment must go into secondary industries. This would involve a reversal of past trends. For during the period under review, public investment, infrastructure projects and social services, increased considerably, but the private sector's share in capital formation steadily declined. The investment coefficient, defined as the percentage relation between gross investment and Gross Domestic Product, for Latin America as a whole fell from 17.3 per cent in 1960 to 16.3 per cent in 1965.³⁶ The rate of economic growth achieved during the decade 1955-1965 was partly due to the expansion of infrastructure and partly due to the more intensive utilization of existing productive capacity. The most significant factor was the narrowing of the gap between potential and actual capacity of production of existing industry rather than the creation of a new industry.

In sum, "although foreign capital and technical aid is welcome in Latin America, the preference is for more trade. Most Latin American countries feel that if greater trading opportunities were open to them, they could take care of most of their capital needs themselves".³⁷

36.- Economic Commission for Latin America, Economic Survey of Latin America, 1965, United Nations, New York, 1965, p. 8. See also Table 12.

37.- Rijken van Olst, H., "Economic Development and Co-operation in Latin America", on J. Tinbergen, Shaping the World Economy, The Twentieth Century Fund, New York, 1962, p. 255.

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One of the main problems was how to boost private savings and subsequent investment and how to channel public investment in such a way that the economy as a whole receive the greatest share of new investments. Then, the remaining problem confronting countries where savings were insufficient to finance the minimum investment programme which economic growth required was how to obtain the balance abroad in the best possible conditions.

CHAPTER VIII

BALANCE OF PAYMENTS

Introduction

This chapter analyses the principal characteristics of the Balance of Payments of Canada and the ten Latin American countries under study.

The role of international trade as a significant factor contributing to economic growth and in turn greatly affected by it, is widely accepted in professional and non-professional literature. There appears to be consensus that international trade contributes "to a country's growth by permitting it to increase its productive efficiency through specialization and by acting as a transmitter of growth from one expanding sector to the rest of the economy and from one expanding center to the rest of the world".¹

The law of comparative advantage was at the base of the Classical theory that international trade will lead a country to development by promoting efficiency through division of labour. The emphasis in this case, was economic

1.- Morris, B.R., Economic Growth and Development, Pitman Publishing Corporation, New York, 1967, p. 355.

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efficiency based on the most efficient allocation of international resources. In this context, foreign trade can be described as an "engine of growth". Moreover, as a country starts to grow, it attracts investment. This process in turn substantiates what Professor Nurkse called the first law of development: "to those who have shall be given."²

Canada, like some other countries during the nineteenth century, developed partially because of European demand for its food-stuffs and raw materials. However, some of the underdeveloped countries, specifically the Latin American ones, felt that foreign trade in its current pattern during the decade 1955-1965 was a deterrent to economic growth. The basis for this belief was the continuous deterioration of terms of trade.

Analysis of Data

The present section deals with the analysis of trends in balance of payments of the countries under review.

In 1961, the "Goods and Services" accounts in the balance of payments of the Latin American countries showed a deficit except for Venezuela.³ This deficit for the Latin American group of countries as a whole amounted to over \$800 million. This total exceeded the Canadian deficit of

2.- Nurkse, R., Equilibrium and Growth in the World Economy, Harvard University Press, Cambridge, Massachusetts, 1961, p. 293.

3.- See Table 30.

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\$ 683 million in the same year.

In 1965, the ten Latin American nations as a whole recorded a surplus of over \$ 250 million in the "Goods and Services" accounts largely as a consequence of curtailment of imports by Argentina, Brazil and Uruguay.⁴ These countries showed a favourable total in this account. Venezuela continued in a creditor position, but experienced a reduction in her balance of payments surplus as a consequence of an increase in the volume and value of imports needed to boost her process of rapid industrialization. Canada continued to experience an increasing deficit which amounted to over \$ 850 million in that year.

Foreign Trade was an important factor in the economy of Canada as well as in the ten Latin American countries. In 1961, for example, exports as a percentage of Gross National Product ranged from a low of 8.7 per cent for Argentina to 34.9 per cent for Venezuela and 24.5 per cent for Peru, while the other Latin American countries averaged about 15 per cent and Canada 20.5 per cent.⁵

In 1965, the ratio of exports to Gross National Product in most of these countries changed little when compared with the ratio for 1961. However, in the case of Argentina, Bolivia, Chile and Uruguay, the export ratios rose notably, while those of Brazil, Peru and Venezuela

4.- See Table 31.

5.- See Table 32.

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decreased. In the former group of countries, the increase was probably due to the slowing down of internal growth; and for the latter group of countries, the decrease was due to the rapid domestic growth. In Canada, the ratio grew from 20.5 per cent in 1961 to 21.3 per cent in 1965.⁶

While the foreign sector played an influential role in individual Latin American economies, it has not made Latin America as a whole, a large force in world trade. Nevertheless, the area has been the major supplier in the world of some basic commodities such as coffee, bananas, nitrates and certain metals, as well as an important supplier of beef, rubber and petroleum. Argentina and Brazil, together with Venezuela which alone accounted for one-third of all the Latin American exports over the decade, have been the region's major trading countries. Canada was one of the largest export countries among the five leading nations of the world having as a proportion of commodity production, one-third of all goods produced exported, while one-third of all goods consumed were imported.⁷

One of the most striking aspects of Latin American countries' international trade was that the flow of goods

6.- See Table 32.

7.- See H.I. MacDonald, "Problems for Canada in the World Economy", reprinted in Economics: Canada, edited by M.H. Watkins and D.F. Foster, McGraw-Hill Company of Canada, Limited, Toronto, 1963, p. 176.

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among the countries of the region was quite small.⁸ This situation was due to the structure of production and the subsequent similar composition of exports. Despite the rapid industrialization that was taking place in some of the countries, the extractive sector (agriculture and mining) was dominant and during the decade 1955-1965, raw materials continued to represent a large proportion of total exports. According to Professor Gordon, "91 per cent of the total in 1962 (were) raw commodities. Petroleum alone runs some 27 per cent of the total and coffee 17 per cent."⁹ During the same period, there was a decline in the role of wheat and meat exports, which was in some degree a reflection of economic stagnation of Argentina and Paraguay.

The bulk of Canadian exports were also raw materials and foodstuffs, with only about 15 per cent of the total value of exports consisting of fully manufactured products. Foreign trade brought many benefits to the Canadian economy. At the same time, the heavy dependence on external demand and economic fluctuations abroad added to Canada's economic vulnerability. Variations in demand and fluctuations in prices contributed to increasing inflationary pressures in the mid 1960's and thereafter.

8.- Baerresen, D.W., Latin America Trade Patterns, The Brookings Institution, Washington, D.C., 1965, pp. 1-5.

9.- Gordon, W.C., The Political Economy of Latin America, Columbia University Press, New York and London, 1965, p. 295.

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A relationship exists between countries with a rapid rise in Gross National Product and an increase in export value, as for example, Peru and Venezuela.¹⁰ The smallest rates of increase of real Gross National Product are found in countries such as Uruguay where exports expanded more slowly.¹¹

In general, the rate of economic growth has tended to be slightly higher than that of exports, except in the cases of Peru and Brazil.¹²

In Peru, the rate of growth of exports was relatively rapid and the rate of economic growth was comparatively slow; while in Brazil the Gross National Product was increasing fairly rapidly and notwithstanding a contraction in the volume of exports. Peru is an example of an economy which behaved according to the pattern of an open growth process, while Brazil is an example of the exact opposite. However, there are other factors that should be taken into account in interpreting the relationship between the external sector and the Gross National Product, such as the amount and use of external financing.

The relatively small improvement in foreign exchange earnings from exports of merchandise and services after 1958 was also a characteristic in the balance of payments of most

10.- See Tables 1 and 36.

11.- Ibid.

12.- Ibid.

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of the Latin American countries.¹³ Receipts were constant over the period due to the stability or even fall in export prices.¹⁴ For example, Peru enjoyed a 12.1 per cent annual average rate of increase in the index of volume of exports; while only 3.3 per cent of yearly increase in the index of unit value.¹⁵

Imports in the ten Latin American countries have been a mixture of capital goods, industrial raw materials and non-durable consumer goods. "In 1962, machinery was 39 per cent of the total (imports); chemicals and other manufactures were 34 per cent (making a total of 73 per cent for manufactures); raw materials (including fuel) were 14 per cent; food was 11 per cent. However, 25 per cent, or so, of the imports of manufactures were probably intermediate or semiprocessed goods."¹⁶ Thus, about half of Latin American imports were finished manufactured goods. The proportion in the share of industrial raw materials and fuels in total imports also indicates that in planning economic growth, some of the countries gave little attention to creating industries on locally available raw materials.

The annual average rate of increase in imports for the ten Latin American countries as a whole was 1.0 per cent over the decade. This rather modest rate of increase is in

13.- See Tables 33, 34, 35 and 36.

14.- See Table 39.

15.- See Tables 37 and 39.

16.- Gordon, W.C., op. cit., p. 296.

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part explained by the imposition of import restrictions in some of the countries covered, including Argentina and Brazil. These nations attempted to reduce their balance of payments deficits by introducing import substitution programmes.¹⁷ Thus, in general, the index volume of imports presented a decreasing trend.¹⁸ However, in some countries such as Peru, the annual average rate of increase in the index volume of imports was 10.1 per cent as a consequence of the widespread need for capital goods in order to promote the sudden industrialization.¹⁹ Imports replaced by domestic production were exclusively for local consumption and the export base did not change significantly. The nationally protected high-cost industries were not able to reach international competitive levels.

In Canada, imports of goods and services increased in value at an annual average rate of 7.2 per cent over the decade,²⁰ and the bulk of Canada's imports were manufactured products. The effect of large amounts of imported manufactured goods was to slow-down domestic industrial growth. In this situation, the Canadian consumer enjoyed lower prices than would have existed in a more protected economy. However, employment levels in Canada suffered from the fact that imports provide jobs and incomes to the

17.- See Table 36.

18.- See Tables 38 and 40.

19.- See Table 38.

20.- See Table 36.

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people in other countries.

The condition of a Latin American country's balance of payments assumed greater importance because the industrial sector depended upon it. While the economic structures of some Latin American economies have changed and become more diversified, they also have become more rigid. Industrialization became the primary medium for economic growth in most of the countries and the focus was the foreign sector. Economic growth was circumscribed by the rate of expansion of exports, which according to Latin American opinion was generally weak, plus foreign investment and aid. Latin American countries therefore had to keep on earning steadily increasing quantities of foreign exchange in order to maintain growth of national product.

Deficits in current accounts were financed by autonomous and compensatory capital movements. Autonomous movements were comprised of private investment, long-term loans, official donations and short-term operations. Compensatory movements covered loans and gold and foreign exchange reserves used by monetary authorities.

Canada's balance of payments deficit was mainly financed through foreign capital inflow and gold production.²¹ Foreign capital had contributed to some extent to a more rapid and sustained rate of economic growth which

21.- See Tables 30 and 31. Also Tables 33, 34 and 35.

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would not have been possible if Canada had relied solely on her own savings. Moreover, the foreign capital that had come to Canada for direct investment was often accompanied by technological and managerial "know-how". Thus, the availability of foreign capital meant an increase in the standard of living for Canadians. Foreign capital for direct investment meant growing outside control of the Canadian industries. At times, major economic decisions were made abroad and these did not always serve Canada's national interest.

The amount of compensatory financing shows the unsatisfactory situation of the external accounts in many of the Latin American countries. These countries were compelled to resort to balance of payments loans and to draw on their own reserves, even when the prevailing policies were to reduce their imports.

The approximate contributions of the different sources supplying the total autonomous capital movement to the Latin American countries for the period under study, were as follows: "United States, 72 per cent; international financial organizations, 6 per cent; and other sources, mainly Western Europe and Japan, 22 per cent."²²

If current foreign exchange income and autonomous

22.- United Nations, The Economic Development of Latin America in the Post-War Period, United Nations, New York, 1964; p. 43.

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capital movements are considered together, aggregate external accounts of the Latin American group of countries tended to be somewhat more stable. However, monetary reserves decreased to a minimal level, imports restricted and the financial servicing represented a growing proportion of limited foreign exchange earnings.

The amount of income available for importing and for payments on services is determined by adding current earnings from the export of goods and services to net autonomous capital inflow and subtracting financial commitments. In the final analysis, however, the amount of foreign exchange available for imports depended only on export earnings, because, in fact, the inflow of autonomous capital was counterbalanced by financial commitments.

The ten Latin American countries, as well as Canada, were net debtors in respect to payments of direct foreign investment income. The servicing of foreign capital has either absorbed the surplus on the merchandise account of each country or exceeded it, according to the period concerned.

Accounts under the heading of freight and insurance on international shipments also showed a debit balance as a result of the underdeveloped state of the merchant fleets in most countries. However, the debit balance was decreasing over the decade as a result of the slower growth of imports in most of the Latin American countries and as a consequence

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of the introduction of development programmes for the merchant fleets in countries such as Argentina, Brazil, Chile and Colombia.

Transactions under the heading of "others services..." which covers government transactions not recorded in other balance of payments items, as well as miscellaneous services, presented a deficit, although not a large one. Minor surpluses occurred in some of the countries such as Peru in 1958; while Canada, Brazil and Venezuela recorded substantial deficits in the years under review.

Summing up, despite a curtailment of imports by most of the Latin American countries, the balance of payments recorded in general, a deficit in current accounts. As these deficits could not be wholly covered by autonomous capital movements, Latin American countries had to make use of compensatory financing.

One of the main factors behind the increase of these deficits was the fall in export prices. However, the index volume of exports from Latin America showed an annual average rate of increase varying from 12.1 per cent in Peru and 0.8 per cent in Bolivia.²³ A foreign exchange earnings only would have increased in the same proportion if export prices had remained constant.²⁴

23.- See Table 37.

24.- See Table 39.

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The balance of payments situation also deteriorated because of a rise in import prices.²⁵ In these circumstances, the inflow of capital was too small to make up for the deterioration in the terms of trade.²⁶

The situation was aggravated by the fact that the increase in financial commitments was not accompanied by an adequate increase in current foreign exchange earnings. As a result, monetary reserves declined and more current income had to be used for servicing purposes. The increase in the autonomous capital inflows added to the intensive use made of compensatory loans, and the accumulation of trade debts also augmented service payments on interest, amortization and profits. In these circumstances, the progressive reduction in gold and foreign exchange held by the respective monetary authorities of the Latin American countries, lessened their capacity to deal with possible new external payments crises. This reduction also gave the Latin American countries' external accounts an inflexibility aggravated over the short term by the rigidity of imports which could not be curtailed significantly without serious repercussions on the process of economic growth of the countries concerned.

In Canada and to some extent in the ten Latin American republics, the openness of their economies made the adjustment of their balance of payments dependent not only on domestic

25.- See Table 40.

26.- See Table 41.

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economic policies, but also on economic policies outside the country.

Foreign Trade

In reference to international trade, the role of the ten Latin American countries, along with the majority of other developing nations, was that of exporting primary goods and importing manufactured ones. According to these countries, this situation has not contributed sufficiently to their economic growth. In fact, they believed that in these circumstances the "backwash", that is, the unfavourable or growth-inhibiting effects, were stronger than the "spread", that is, the favourable or stimulating effects.

This view was advanced by Prebish²⁷ and Singer²⁸; and partially supported by Professors Myrdal²⁹ and Nurkse³⁰. Some of the limitations of this interpretation were pointed

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- 27.- Prebish, R., The Economic Development of Latin America and Its Principal Problems, United Nations, New York, 1950. Also, "Commercial Policy in the Underdeveloped Countries" on American Economic Review, Proceedings, May, 1959, pp. 251-273.
- 28.- Singer, H.W., "Distribution of the Gains Between Investing and Borrowing Countries" on American Economic Review, Proceedings, May, 1950, pp. 473-485.
- 29.- Myrdal, G., Rich Lands and Poor, Harper and Bros., New York, 1957.
- 30.- Nurkse, R., Equilibrium and Growth in the World Economy, Harvard University Press, Cambridge, Massachussets, 1961.

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out by Professors Meier³¹ and Cairncross³², among others.

The economists who completely subscribed to this view and those who partially supported it, recognized the validity of the law of comparative advantage. However, they believed that maximizing economic growth rather than current output, was the important thing. For these economists, production of primary commodities did not have this effect, and particularly Prebisch suggested industrialization as the primary objective.

Professors Meier and Cairncross among others believed that economic growth in certain countries was induced through foreign trade and that even unsteady growth through international trade was better than no growth at all.

For the ten Latin American countries, exports accounted for different proportions in relation to their Gross National Product.³³ Countries such as Peru and Venezuela whose export earnings were considerable had higher rates of economic growth than countries such as Argentina and Chile, whose export earnings remained at a low level or have increased slowly.

31.- Meier, G.M., Leading Issues in Development Economics, Oxford University Press, New York, 1964, pp. 371-376.

32.- Professor Cairncross mentioned explicitly the experience of Argentina where foreign trade still operated as an "engine of growth". See, Cairncross, A.K., Factors in Economic Development, F.A. Praeger, Inc., New York, 1962, p. 192.

33.- See Table 32.

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During the decade 1955-1965, the slow expansion of exports was one of the principal causes of the slow economic growth of some countries such as Colombia and Uruguay; while others such as Ecuador and Canada enjoyed higher rates of increase in both exports and economic growth.³⁴

The reasons for the slow expansion in exports in some countries of the Latin American group can be classified into two categories, internal and external.

Among the most important internal factors were inflation, rapid population growth and inappropriate economic policies such as over-valued currencies and high export taxes which injured sales abroad. Also, some countries which were rich in natural resources did not increase their exports, because their nationalist policies had not permitted development of those resources by foreign capital. This has been the case with iron-ore in Brazil and oil in Argentina and Brazil.

The external obstacles were mainly trade barriers, principally from the United States and countries members of the European Economic Community. These obstacles included quotas or import licences, high import duties, subsidies to internal production and exports and difficult health regulations. Agricultural protectionism in the advanced countries reduced the opportunities for trade of the less-

34.- See Tables 1 and 36.

developed countries. Other contributing factors included low-income elasticity of demand for food-stuffs and the influence of technological progress in the highly developed countries which reduced the quantity of raw materials that was required to substitute them either totally or in part.

Terms of Trade

According to Professor Snider, "the terms of trade are determined by the forces of international demand, in conjunction with internal costs conditions in each country and the equilibrium requirement that, in the absence of all economic relations other than commodity trade, the total value of each country's imports equal the total value of its exports".³⁵ Hence, to speak about terms of trade in general for a region such as the Latin American group of countries, which is not completely homogeneous, has only a relative value.

The main cause for the general deterioration of terms of trade was found in the relatively slow growth of world demand for primary commodities in comparison with that for industrial products. In other words, it presupposes that the rate of expansion of production exceeded that imposed by the slow growth of demand, otherwise, if production lagged behind demand, prices would tend to improve.

³⁵.- Snider, D.A., Introduction to International Economics, Richard D. Irwin, Inc., Homewood, Illinois, 1963, p. 44.

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Dr. Raul Prebisch strongly believed that the terms of trade for the Latin American countries has been declining and will continue to decline in the future.³⁶ His argument started with the statement that, in general, in the international division of labour, the underdeveloped countries (the periphery) have the task of being the suppliers of food and raw materials; while the advanced countries (the center) were to provide industrial products. The primary producing countries were supposed to share in the benefits of technological progress through international trade. As technological progress was experienced, the prices of industrial products should have fallen so that some of the gains would be diffused over the world. However, the reverse has taken place and the prices of industrial products did not fall in relation to those of primary products. The reason for this was that the bargaining power of the factors of production in the centers forced up their incomes more than the productivity increases allowed, and consequently prices have risen in the periphery. On the other side, the bargaining power of the factors of production in the periphery has been weak, and as a result, incomes have increased

36.- Prebisch, R., op. cit.. Also, Prebisch, R., "The Economic Development of Latin America and Its Principal Problems", Economic Bulletin for Latin America, Economic Commission for Latin America, United Nations, New York, February, 1962, pp. 1-22.

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less than productivity and has caused the prices to decline. Because of this, the centers have kept the total benefit of their technological progress, and at the same time, a part of that of the underdeveloped countries.

The problem of deterioration of terms of trade must also be examined in relation to the fundamental differences existing among the economic structures of the different countries. The most important difference was the industrial nature of exports from the developed countries which have a very high income elasticity of demand; while the agricultural production of the less-developed countries faced a demand that was quite inelastic as to income and price. At the same time, due to technological progress, as soon as demand for certain industrial products declined, new products or different types of existing goods appeared, acting as a continuous stimulant to the industrial product demand. This was not the case for the agricultural sector, where new products or varieties only appear rarely.

Another reason for the deterioration of the terms of trade lay in the weak bargaining power of the primary producing countries, which as small suppliers in comparison to the total world production had little opportunity to influence price levels, for their main problem was how to compete with other countries, particularly the major suppliers

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in world markets.³⁷

Agricultural production in the advanced industrial countries depended not only on the home market situation, but also on the world market conditions. The use of support prices, subsidies to exports and other economic policies designed to promote domestic agricultural production, adversely affected the growth pattern of demand for exports from the less-developed nations and at times contributed to a deterioration of the terms of trade.

Market prices did not provide an equitable solution to the problem of deterioration in the terms of trade. Various proposals have been offered to solve this problem. But many of these proposals did not meet the condition that an acceptable solution must be satisfactory to both sides, the developed and the less developed countries.

World opinion increasingly favoured free trade of basic commodities in order to promote economic growth; and a programme to liberalize trade, according to Romulo A. Ferrero, would take the following form:

a) Prompt removal of import duties, of quantitative restrictions, and of internal taxes on those agricultural primary products and raw materials that do not compete with the domestic production of importing countries.

37.- This point is emphasized by Swerling, B.C., "Some Interrelationships Between Agricultural Trade and Economic Development", Kiklos, No. 3, 1961, p. 382.

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- b) Reduction of agricultural protectionism granted by industrial countries to temperate-zone products, such as wheat and meat.
- c) Elimination of export subsidies on cotton, wheat, and other commodities produced in industrial countries.
- d) Disposal of surplus by multilateral action rather than unilaterally.
- e) Elimination of existing preferences given by some advanced countries to favoured groups of less-developed countries.
- f) Granting preferences to imports of manufactured goods originating in developing countries. These preferences should not be selective but should be general for all countries.

Then, Ferrero concluded his proposal adding that "these measures should be taken without asking for reciprocal concessions from less-developed countries".³⁸

Another possible solution with a moral and political bias has been suggested by the Economic Commission for Latin America. That was, "to retransfer to agricultural producers whatever income they may have lost through the operation of market forces whose action has been preventing the levelling-

38.- Ferrero, R.A., The International Trade of Latin America, The Committee for Economic Development, New York, 1968, pp. 9-10.

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up of their income with that of the centers".³⁹ Thus, the solution of the deterioration of terms of trade of the countries concerned, became a problem of international redistribution of income.

The procedure might be, as was suggested by the Economic Commission for Latin America, that the countries which were importers of primary commodities establish an import-duty, equivalent in amount to the decrease in prices, and that the revenue collected from this duty should be given to the producer countries.⁴⁰

The difficulties at arriving to such an agreement and the complexity of such procedures are undeniable; but as Dr. Emminger once said, "if there are institutions and social behaviour patterns which make the problems so complicated to solve, they are all man made. And man can remove the obstacles he has created, provided the problem is recognized and there is the necessary political will to reform".⁴¹

39.- Economic Commission for Latin America, Towards a Dynamic Development Policy for Latin America, United Nations, New York, 1963, pp. 84-85.

40.- Economic Commission for Latin America, International Co-operation in a Latin America Development Policy, United Nations, New York, 1954, pp. 15-16.

41.- Emminger, O., "Economic Growth Without Inflation", Lecture given at the Series of Lectures on Economic Growth, University of Madrid, Madrid, February, 1961, edited by the Organization for European Economic Cooperation, Series of Lectures on Economic Growth, Organization for European Economic Cooperation, Paris, 1961, p. 126.

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Also, Professor Haberler pointed out, "the excessive stress on terms of trade has deflected attention from more strategic points... Instead of learning to live with a certain amount of instability, making the economy flexible... hopelessly unworkable schemes of price stabilization are being proposed and discussed... What is needed... is a strengthening of the financial structure and a counter-cyclical manipulation of gold and dollar reserves."⁴²

Main Commodity Problems in Latin America

Since the difficulties which the Latin American countries found in world markets were previously mentioned, the section that follows deals with some of the problems that contributed to the instability of international prices and their effect on the terms of trade. The comments relate largely to some of the main commodities involved.

The price fluctuations for any commodity can have their origin on the supply as well as on the demand side. Climate conditions, elasticity of supply, and subsidies among other factors affect the former; while the latter is affected mainly by the international economic, social and political situation, and commercial policies. These factors influence each product differently and consequently, its

42.- Haberler, G., "Terms of Trade and Economic Development", edited by H.S. Ellis assisted by H.C. Wallich, Economic Development for Latin America, McMillan and Co. Ltd., London, 1963, pp. 296-297.

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country of production. Countries which were more susceptible to these factors were the ones exporting only one or two products.

Coffee, which was the second largest Latin American export after petroleum from Venezuela, presented by far the greatest commodity problem, according to the Committee for Economic Development.⁴³ Exports of coffee ran from 50 to 75 per cent of the total exports of Brazil and Colombia; and from 15 to 30 per cent of the exports of Ecuador during the decade under review. Consequently, any important decline in earnings from coffee had a notable effect upon the economy and the development of those countries.

After 1956, as a result of the high prices paid in previous years, the production of coffee was increasing rapidly. New land was devoted to growing coffee, and better cultivation and harvesting practices were introduced. Greater supply than demand caused world prices to decline and *pari passu* export earnings.

Since 1957, a sharp decline in the price was prevented by the withholding of a large quantity of coffee from the world market, mainly by Brazil who during the period 1959-1960 accounted for about 60 per cent of total world production. In the same period, total production exceeded

43.- Research and Policy Committee of the Committee for Economic Development, Cooperation for Progress in Latin America, Committee for Economic Development, New York, 1966, pp. 28-31.

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total consumption of coffee by about 50 per cent. In these circumstances, even if only current production, not the stocks, was offered on the world market, price and total value of sales would have sharply declined.

The solution adopted was an agreement among the principal Latin American producers to withhold coffee from world market. This arrangement was a temporary solution, until a more satisfactory manner of dealing with the problem could be found.

One conflict that was difficult to resolve in an effort to conclude an International Coffee Agreement, was that all producers of coffee must join the accord. While the existence of an agreement limiting exports in order to hold up the world price was an advantage to all of the countries concerned, it was even more to the advantage of an independent producer because he would be able to export as much as he was capable of doing, to some extent at the expense of other more responsible world suppliers. Thus concluding such an agreement involved not only a battle over the size of export quotas, but also efforts how to deal with attempts to evading quotas or staying out of the agreement.

Professor Kravis suggests the idea of an international tax on coffee to be paid by each producer.⁴⁴ This

44.- Kravis, J.B., "International Commodity Agreements to Promote Aid and Efficiency: The Case of Coffee", The Canadian Journal of Economics, I, No. 2, May, 1968, pp. 295-317.

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tax would keep the world price at a high level, and the subsequent revenue obtained from it would be the source of extra earnings to the producing countries.

There is a general consensus that a permanent and satisfactory solution must include a reduction in output, especially by the higher cost producers, with a corresponding reallocation of resources from coffee production to the production of other commodities.

In the case of cotton, this represented about 23 per cent of the total export earnings of Peru and an important part of those of Paraguay. The cotton policy of the United States, the leading producer in the world, was a source of instability and uncertainty for other producing countries. A solution to this situation might be advance consultations of the United States with the other producers about major decisions she may take from time to time to the extent that such decisions affect world markets.

In the case of copper, which represented approximately 66 per cent of the total export earnings of Chile, and tin about 62 per cent of those of Bolivia, a solution could take the form of purchases for an international buffer stock pile. Under such a scheme, an international authority would buy surplus supplies at the bottom of a predetermined range of prices, and sell it when the prices were high. This procedure has the advantage of not interfering with the production and exports of each country; but it presents a

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major problem of financing surpluses which presumably are purchased at the "right" prices. Also, considerable difficulties were likely to be encountered in reaching agreement as to what the "right" price for copper would be.

Concerning petroleum, which accounted for about 92 per cent of the total export earnings of Venezuela, the imposition of quotas on imports to the United States tended to reduce the possibilities of increasing production. One suggestion made was that these quotas should be steadily raised, and eventually eliminated. This would allow other countries to share in the growth of the United States market for petroleum. These quotas were instituted in order to protect domestic interests, but it was also recognized that domestic industry should not expect permanent protection from world market forces, especially when the given protection conflicted with national interests.

The solutions must be adapted to the specific situation of each country and each product concerned. In general, from the supply side, the procedure would be to try to raise productivity in the export sector, to try to expand and stabilize markets and to try to develop new products. Implementation of commodity agreements whose ability to cope with emergency situations was unquestionable, must be replaced in the long run by policies to balance production and consumption. Also, there must be export diversification, not only of agricultural products but of manufacturing goods.

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According to the Economic Commission for Latin America, the external bottleneck in the countries object of the present survey needed "to be combated on two convergent fronts; one, by promoting industrial exports to the rest of the world, especially to the developed countries, without neglecting to encourage the traditional exports to existing and new markets; and by safeguarding the terms of trade. Another similarly convergent line of approach will subsequently be considered, namely the Latin American common market."⁴⁵

On the demand side, there must be sustained growth and liberalization of international trade or freer trade. These steps should be accompanied by supplementary financing from the 'ad hoc' international institutions, that is, the International Monetary Fund and the World Bank. This, however, should only be a temporary assistance because if it was a permanent one, the problems would continue and the contributions would be required indefinitely and increasingly.

Import-Substitution Policies

The ten Latin American nations saw industrial development as a means to achieve the rate of economic growth

45.- Economic Commission for Latin America, Towards a Dynamic Development Policy for Latin America, United Nations, New York, 1963, p. 86.

necessary to close the economic gap existent between the highly developed countries and themselves. They felt that the existing pattern of international trade worked to the advantage of the former countries and tended to restrain industrial development in the less developed ones.

The economic growth process of Latin America can be divided in two stages: the phase of export-propelled growth which lasted from the middle of the nineteenth century until the Prebisch manifesto of 1949; and the next phase based on rapid growth of the domestic market, accompanied by extensive industrialization in a number of countries.

Dr. Prebisch in his well-known manifesto stated that, "industrialization has become the most important means of expansion".⁴⁶ He defended the promotion of domestic industry in Latin America on the assumption that exports cannot be expanded rapidly enough to provide the necessary imports. Therefore, it was necessary to develop import substitutes, especially for consumer goods, which he felt can be produced normally in spite of some initial inconveniences.⁴⁷

46.- Prebisch, R., The Economic Development of Latin America and Its Principal Problems, United Nations, New York, 1950, p. 6.

47.- Prebisch, R., "The Structural Crisis in Argentina and Its Prospect of Solution", edited by E. Nelson, Economic Growth, University of Texas Press, Austin, Texas, 1960, pp. 104-126. See also, R. Prebisch, "Commercial Policy in the Underdeveloped Countries", American Economic Review, Proceedings, May, 1959, pp. 251-273.

In the same way, Professor Nurkse recommended that besides expanding traditional exports where possible, countries must industrialize for home consumption seeking, at the same time, industrial exports. He emphasized that investment has been attracted only to the export sector because of the lack of a domestic market, which in turn was due to the failure to achieve balanced growth.⁴⁸

The argument for balanced growth stresses among other things, the relationship between investment incentives and the enlargement of domestic markets. For an imported product evidently a market already exists in the country. Hence import restriction would stimulate the domestic production of imports substitutes. If domestic purchasing power is to be increased, it is also necessary to promote a wide variety of efficient industries and to have a comparable advance in agriculture.

The importance of this last point, was stressed by Professor Lewis who stated that, "in practice in most backward economies, the sector which usually responds least well to growth in other sectors, and which therefore acts as a brake on all economic growth, is the agricultural sector

48.- Nurkse, R., Equilibrium and Growth in the World Economy, Harvard University Press, Cambridge, Massachusetts, 1961, pp. 221-236. See also, R. Nurkse, "International Trade Theory and Development Policy", edited by H.S. Ellis assisted by H.C. Wallich, Economic Development for Latin America, MacMillan & Co. Ltd., London, 1963, pp. 234-274.

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producing food for home consumption".⁴⁹ He also mentioned that "the rate of growth of agricultural productivity is one of the best indices of the extent and rate of economic growth".⁵⁰

Labour and capital, as is frequently claimed, are more productive in industry than in agriculture. Industry which promoted social change is said to bring into being more external economies and linkage effects. However, a strong agriculture helps to develop the industrial sector and often, as Professors Meier and Baldwin emphasize, "the trouble is not agriculture per se, but inefficient methods of agriculture".⁵¹

In promoting the industrial development as a way of partially solving the problem of unfavourable balance of payments, the Latin American countries were compelled to protect their developing industry by using various devices such as tariffs and exchange controls, or both combined. Occupying a prominent place in adopting such policies was the infant industry argument. Without discussing the overall validity of the argument, and mentioning Professor Viner as one of its most severe critics⁵², the infant economy

49.- Lewis, W.A., The Theory of Economic Growth, R.D. Irwin Inc., Homewood, Illinois, 1955, p. 279.

50.- Ibid., p. 334.

51.- Meier, G.M. and Baldwin, R.E., Economic Development; Theory, History, Policy, John Wiley & Sons, Inc., New York, 1957, p. 400.

52.- Viner, J., International Trade and Economic Development, The Free Press of Glencoe, New York, 1952, p. 59.

argument is based on the need to develop a national overhead structure, and to train the people for industry before any industry can become competitive. According to Professor Morris, "industry can get established only by getting started. Protection is necessary to establish those industries that will affect the level of skill and technology and change habits."⁵³

In 1963, the Economic Commission for Latin America warned about, "the possibilities of development based exclusively on traditional exports and on import substitution are rapidly being exhausted in the countries where the process of industrialization is most advanced... (and) ... in fact the stage of easy substitution is past".⁵⁴

A similar opinion was advanced by Professor Furtado who emphasizes how, "in Latin America... the phase of 'easy' development, through increasing exports of primary products or through import substitution has everywhere been exhausted".⁵⁵

Also in the same respect, Professor Hirshman added that, "not long ago, industrialization ranked high among the policy prescriptions which were expected to lead Latin

53.- Morris, B.R., Economic Growth and Development, Pitman Publishing Corporation, New York, 1967, p. 385.

54.- Economic Commission for Latin America, Towards a Dynamic Development Policy for Latin America, p. 69.

55.- Furtado, C., The Brazilian Economy in the Middle of the Twenty Century, Industrial Conference on Science in the Advancement of New States, Israel, 1960, (mimeo), p. 5.

America and other underdeveloped areas out of their state of economic, social and political backwardness. In the last few years, however, considerable disenchantment with this particular solution of the development problems has set in."⁵⁶

The import-substituting industrialization for the ten Latin American nations, in general, was something of the past. In recent years, the import-substitution policies were strongly criticized on the basis that the industry created was unable to move into export markets, and that after its first successes, it left the economy with some high-cost industries and with a more vulnerable balance of payments since imports now consisted of semifinished materials, spare parts, and machinery required for maintenance.

Another aspect worth mentioning, was the widespread disappointment with the process, which according to Professor Hirschman, was due to the fact that, "industrialization was expected to change the social order and all it did was to supply manufactures".⁵⁷

Conclusions

The ten Latin American countries experienced a

56.- Hirschman, A.O., "The Political Economy of Import-Substituting Industrialization in Latin America", The Quarterly Journal of Economics, Vol. LXXXII, No. 1, February, 1968, p. 1.

57.- Ibid., p. 32.

relatively small improvement in their foreign exchange earnings from exports of goods and services over the decade 1955-1965.

As a consequence of a great spurt in industrialization, in a number of the countries concerned, the composition of their imports was materially modified. Capital goods, fuels and semifinished goods assumed increasing importance over durable and non-durable consumer goods. This was particularly apparent in the case of countries such as Argentina, Brazil and Chile, the three countries undergoing the most rapid degree of industrialization among the ten Latin American republics reviewed.

The composition of imports became rigid, as the Economic Commission for Latin America pointed out, "since any sizable adjustment made at a later stage is bound to have a damaging effect on the current level of economic activity if fuels or intermediate goods diminish, or on the economy's development capacity if restrictions are placed on the imports of capital goods to be used for purposes of capital formation".⁵⁸

The deficits incurred on current accounts were usually financed by autonomous private investment, long and short-term loans, official donations and compensatory movements,

58.- Economic Commission for Latin America, The Economic Development of Latin America in the Post-War Period, United Nations, New York, 1964, p. 21.

such as foreign reserves and gold. A striking feature in the economy of those countries was the heavy burden on foreign earnings as a consequence of servicing the foresaid ways of financing the deficits.

It was vitally important for those countries as well as for Canada, to expand their export earnings by increasing not only the traditional exports, but also by increasing and enlarging exports in the field of manufactures, according to an optimum pattern of diversification. The latter was determined by such factors as the availability of natural resources and technology and these varied from country to country.

Some of the Latin American countries as well as Canada which enjoyed a certain degree of monetary stability, have to some extent avoided serious balance of payments difficulties and severe import and exchange restrictions. The opposite has been true for countries such as Argentina, Brazil and Chile which have had a high rate of inflation. The economic situation was in those cases, one in which inflation and balance of payments disequilibrium, import restrictions and devaluation, usually went hand in hand, since inflationary pressures tended to discourage the production of commodities for exports and to encourage imports. Internal and external equilibrium promote economic growth, while severe inflation and chronic balance of payments

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disequilibrium are usually accompanied by economic stagnation or a slow rate of economic growth.

If Canada as well as the ten Latin American nations are to attain a sound and viable international economic position, they must develop an efficient, competitive and adaptable economy within the international economic framework.

CHAPTER IX

STANDARDS OF LIVING AND INFLATION

Introduction

This chapter deals with inflationary problems in the countries under review, their causes, extent, effects and possible correctives. Although inflation did not represent a serious problem for Canada during the decade 1955-1965, for the ten Latin American republics with the exception of Venezuela, inflation ranked high on the list of national problems.

The contrast between the levels of national output per capita enjoyed by Canada and those enjoyed by the nationals of the countries of the Latin American group does not fully reflect the differentials in living standards which prevailed in each country.¹ For some of the Latin American countries, statistics available indicate the existence of a low level of per capita income. Major inequalities in income distribution exist within each of the Latin American nations as well as in Canada. One of the major factors contributing to wide disparities of incomes

1.- See Tables 3 and 4. Also See Tables 26 and 27.

were the substantial differences in educational attainments and opportunities, with these differences less marked in Canada than in the Latin American countries.

As a result, per capita income for a nation is only a broad indicator of the standard of living and the affluence or poverty of its population in general. This index must be supplemented, as suggested by Professor Beckerman,² by other explanatory factors.

In the Latin American countries, statistics in the fields of food and clothing consumption, housing, education and medical facilities are not available for the period under review. Because of this it is necessary to refer to other indicators reflecting changes in living standards, as are available, for example, energy production per capita. These indices show that the ten Latin American republics as a whole, and each of them individually, are considerably behind Canada, even though the gap has narrowed somewhat during the period under review.³

Inflation

Inflation has been a major problem in Latin America for many years, with special repercussions during the

2.- In relation to this point see Appendix C.

3.- See Tables 25.

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decade 1955-1965.⁴ In general, the countries which experienced a relative price stability in the years prior to the period under review, have continued to maintain it. Several other countries such as Bolivia, after a period of strong inflationary pressures during the 'fifties, have been able to reduce the rise in the cost of living to a more reasonable rate during the 'sixties. Also, since 1961, Paraguay has been able to achieve a reduction on the rate at which prices were rising. However, inflation has remained an urgent problem in Argentina, Brazil, Colombia, Chile and Uruguay, in spite of the fact that all of these countries, except Brazil, have developed widely applied anti-inflationary programmes with the support of international agencies.⁵ In this respect, each country has had its particular experience with inflation and the countries concerned formulated different policies to combat it.

Inflation can be defined as a persistent and rapid increase in over-all consumer prices. However, it is not necessary that all the prices rise for inflation to exist;

4.- There are two major works which form the background material for this chapter, besides the specific references. The first is Inflation and Growth, a six volume study prepared by the Economic Commission for Latin America, Santiago de Chile, 1961, (mimeographed), which describes the Latin American inflation experiences. The second group is composed of three Economic Survey of Latin America, years 1963, 1964 and 1965, by the Economic Commission for Latin America, United Nations, New York, 1964, 1965 and 1966 respectively.

5.- See Tables 28 and 29.

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some may even be falling. All that is required is a wide-spread upward trend in prices of important things which influence the money cost of living and producing.

According to Professor Tinbergen, inflation exists, "if prices rise more than is considered desirable",⁶ but he emphasizes, at the same time, the acceptance of moderate price increases as necessary, if a timid or excessively conservative economic policy is to be avoided as it should, since this would not encourage economic growth.

A more sophisticated interpretation of inflation can be credited to Professor Powelson, who defines inflation as "a condition in which the exercise of financial resources (e.g. money) to buy goods and services is greater than the value, at current market prices, of real resources available for purchase out of the Nation's production or other domestic trading".⁷ This definition implies three possible outcomes for inflation; first, the excess of financial resources may lead to price increases in the goods and services bought, second, this excess may also lead to an inflow of imports with a subsequent deficit in the balance of payments, and third, both could take place at the same time, the latter being the most frequent case.

6.- Tinbergen, J., Economic Policy: Principles and Design, North Holland Publishing Company, Amsterdam, 1956, p. 63.

7.- Powelson, J.P., Latin America, McGraw-Hill Book Company, New York, 1964, p. 166.

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Two of the most common kinds of inflation are:

a) The "cost push inflation" which occurs as a consequence of increasing wages and of the costs of other factors of production which lead to higher total costs which are passed on to the consumer in terms of higher prices.

b) The "demand pull inflation" which occurs when demand for goods and services exceeds the supply of them, causing a rise in prices, or when "too much money is chasing too few goods".

Inflation can be due to a wide variety of causes and circumstances; but the most important in relation to the Latin American countries, according to a study prepared by the Inter-American Council for Commerce and Production, were the following:⁸

1.- Large deficits financed by currency issued by the Central Bank. These fiscal deficits had different causes and among the most important were:

a) Deficits of state-owned enterprises due to inefficiency or the sale of goods and services below cost.

b) Government investment in excess over the amounts obtained from taxes and loans. Dr. Horowitz pointed out how, "the temptation to finance development by infla-

8.- Inter-American Council for Commerce and Production, Economic Development of Latin America, A Statement on Policy, September, 1966, edited by the Committee for Economic Development, New York, 1966, pp. 26-29.

tionary means is greatest in developing countries, which strive to achieve forced savings by deficit financing of government budgets and thus to acquire resources needed for investment".⁹

c) Excessive bureaucracy, in which jobs were given often for political reasons, leading to inefficiency and corruption.

d) Deficiencies in the tax structure and its administration.

2.- Salary and wage increase not in proportion to the increase in productivity.

3.- Defective social legislation passed without a careful study of its financial implications.

4.- Lack of incentives to increase agricultural production due, to a large extent, to a major emphasis on industrial development with food production not increasing at the pace required by the growing demand, and with food prices rising significantly.

5.- Excessive tariff protection to industry which in general averaged over 100 per cent, raising domestic prices, hampering exports, pushing up production costs and in sum, producing inflationary pressures. This point was emphasized by Santiago Macario when he explained that, "as long as the

9.- Horowitz, D., "The Control of Inflation in Conditions of Rapid Economic Growth", edited by E.A.G. Robinson, Economic Development, St. Martin's Press, New York, 1966, p. 196.

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Latin American countries continue to grant to their industries excessive and indiscriminate protection, any measures they may adopt to combat inflation will prove relatively inefficacious and even self-defeating, since the mere restriction of credit reduces the tempo of economic activity but does not bring down prices".¹⁰

6.- Distortions created by controls on prices, foreign trade and foreign exchange with price ceilings set on basic goods and services such as foodstuffs, electricity rates and transportation fares contributing to a decrease in the quality and quantity of goods and services produced.

7.- In some cases, if the tax burden (tax/national income rates) was excessive, costs and prices were affected. In some countries such as Argentina, Chile, Colombia and Peru, taxes represented at least 20 per cent of the national income. This tax burden was too high for countries with a small tax potential and often indirect and even direct taxes were shifted to consumers.

8.- Excessive expansion of bank credit at the request of businessmen faced with the alternatives of either restricting the credit to the private sector, which would slow down economic growth, or of allowing such expansion and thus increasing the inflationary pressures to maintain growth,

10.- Macario, S., "Protectionism and Industrialization in Latin America", in Economic Bulletin for Latin America, United Nations, New York, Vol. IX, No.1, March, 1964, p. 83.

but only until it was disturbed by inflation.

The Economic Commission for Latin America has pointed out that the social background of inflation in Latin America was the result of, "the power of certain social groups to exercise an arbitrary influence over the distribution of income".¹¹ This situation gave rise to factors which had a direct or indirect inflationary impact. The impact was direct, for example, when credit expansion was used as a means of meeting investment requirements instead of the restriction of consumption. The impact was indirect when the masses of the population had to bear the consequences of the existence of structural bottlenecks, such as the obstacles to increase agricultural production as a consequence of the prevailing form of land tenure.

The Inflationary Process

Professor Lewis said that inflation has "three contributing parts: wages, budgetary deficits, and devaluation",¹² as follows, "First comes the original cause, which starts the mechanism working. This may be a rise in

11.- Economic Commission for Latin America, Towards a Dynamic Development Policy for Latin America, United Nations, New York, 1963, p. 49.

12.- Lewis, W.A., "Closing Remarks" to the Conference on Inflation and Economic Growth, held in Rio de Janeiro, Brazil, January 2-11, 1963, reprinted on Inflation and Growth in Latin America, edited by Economic Growth Center, Yale University, Richard D. Irwin, Inc., Homewood, Illinois, 1964, p. 21.

the price of domestic foodstuffs, or a rise in import prices, or an increase in the quantity of money, or a rise in the price of exports, or anything you like, provided it is something which raises the cost of living. Then the mechanism starts. Wages rise, and this raises prices more, wages more, prices more, and so on. Secondly, in those countries where the marginal ratio of governments receipts to national income is below the average ratio, the price rise opens up a budget deficit, because government costs rise faster than government revenues. This gives an extra twist to the spiral. Then thirdly, the rise in prices forces devaluation, and this raises import prices proportionately to the devaluation and domestic prices in somewhat smaller proportion, so a third twist is given to the spiral. So what with wage pressures, budget deficits, and devaluation, prices may rise continuously and at a high rate for reasons which have nothing to do with the original cause."¹³

One of these reasons was that the Latin Americans expected prices to rise on the basis of their own experience over the past years. One of the first things to happen was that there was a struggle for foreign currency. As a result, the exchange reserves were soon nearing exhaustion. In these circumstances, a black market appeared and the price for foreign currency rose to an artificially high level.

13.- Ibid., pp. 21-22.

A factor which made inflation difficult to deal with, after it had already started, was the response of individuals and groups. In such a situation, there also existed a widespread conviction that saving did not pay because of the loss of the money value.

Another factor contributing to accentuate inflation was the efforts of the labour organizations to achieve incomes high enough to keep up with the general level of price increase, by using their bargaining power. This struggle went along with the rapid increase in prices, and was particularly striking in Argentina.

In considering all of these factors, it is difficult to single out particularly factors to explain the inflationary conditions observed, since an important part of what has happened was due to inflation itself rather than any of the primary causes previously mentioned.

Monetarists versus Structuralists¹⁴

The monetary and structural schools have different

14.- According to Oliveira Campos "to the "monetarists", views are ascribed that are close to those imputed to the International Monetary Fund, even though several of them dissent from the IMF in many respects. The "structuralists", on the other hand, claim to have support for their views in the studies of the Economic Commission of Latin America, even though official ECLA reports do not show the fatalistic view of the inflationary process in Latin America nor the degree of scepticism toward monetary and fiscal policies that is implied in the "structuralist" view." See, Oliveira Campos, R. de, "Two Views on Inflation in Latin America", in A.O. Hirschman, Latin American Issues, The Twentieth Century Fund, New York, 1961, p. 69.

views as to the possible relationship between inflation and economic growth.

The structural theoreticians felt that in developing economies, structural maladjustments may be responsible for imbalances which may cause unavoidable price increases. The attempt to restrain such price increases may result in unemployment and economic stagnation.

The monetary school stresses the control of inflation as one of the major goals of economic policy. And, in fact, they believe that price stability is a condition "sine qua non" for sustained economic growth, and that governments should give it high priority and take the necessary measures, in spite of difficulties, to control inflation.

Today, in light of previous experiences in Latin America, available evidence indicates that countries, such as Venezuela and Peru, with the greatest monetary stability were precisely those which have developed more rapidly, and those such as Argentina, Chile, Colombia and Uruguay, with the least monetary stability were those which developed at a slower pace.¹⁵

Brazil, until 1962, was one exception to the generalization, due to special circumstances such as substantial aid from abroad, and lack of strong demands by unions. After 1962, however, inflation affected not only the economy, but

15.- See Tables 1, 28 and 29.

also the social structure of Brazil.

Roberto Alemann in a study of Argentina prepared for the Committee for Economic Development stated that, "the period with which we are dealing (1945-1965) was marked by inflation... The result was that the economy was punished by recurrent jolts, and that great distortions occurred in its functioning... It is not possible to understand what happened during the period without a clear idea of the recurring inflation and of its cause, the large deficits of the national treasury financed by money issued by the banking system."¹⁶

The study on Chile prepared by S. Undurraga Saavedra for the same Committee pointed out that, "the internal conditions of the (Chilean) economy were influenced by a high degree of governmental intervention, by an erratic economic policy, and by continuous inflation. These three factors have had a negative influence on economic development. Their consequence has been economic instability, creating an atmosphere of uncertainty in business and impending long-range planning. The key factor to this situation is the country's long inflation".¹⁷

16.- Alemann, R., "Economic Development of Argentina", on Economic Development Issues: Latin America, edited by the Committee for Economic Development, New York, 1967, pp. 5-6.

17.- Undurraga Saavedra, S., "Key Factors in Chilean Economic Development", on Economic Development Issues: Latin America, edited by the Committee for Economic Development, New York, 1967, p. 71.

Hernan Echevarria examined the situation in Colombia and he observed that "aside from the social injustices it creates, inflation undoubtedly hinders economic development as well".¹⁸

In the same way, the study on Peru prepared by Romulo A. Ferrero indicated that, "it is no mere coincidence that the Latin American countries which have achieved a greater degree of economic growth in a sustained manner have been those that presented a higher degree of monetary stability".¹⁹

The Committee for Economic Development emphasized the same point and concluded that, "inflation is very damaging to economic development, and particularly it if is prolonged or intense. At one time among certain groups it was thought that inflation was tolerable or even favourable, but today a firm conviction prevails that inflation is the worst enemy of development".²⁰

In general, the harmful effects of inflation can be summarized as follows:

a) Unjust redistribution of national wealth and income prejudicial to the underprivileged classes and to the

18.- Echevarria, H., "Economic Development of Colombia", on Economic Development Issues: Latin America, edited by the Committee for Economic Development, New York, 1967, p. 159.

19.- Ferrero, R.A., "Economic Development of Peru", on Economic Development Issues: Latin America, edited by the Committee for Economic Development, New York, 1967, p. 234.

20.- Inter-American Council for Commerce and Production, op. cit., p. 24.

people whose incomes are fixed, or difficult and slow to adjust.

b) Discouragement of domestic savings.

c) Harmful diversion of investment into sectors where their true value is best protected, such as real estate, without creating new productive assets.

d) Balance of payments disequilibrium mainly due to the outflow of capital, rising import demand, loss of reserves and finally, devaluation.

e) Distortion of market and price structures.

f) Social and political unrest.

Furthermore, when an effort is made to avoid price repercussions and inflation is "repressed", other consequences may follow:

g) Insufficient production of goods and services when the prices are fixed at uneconomic levels in relation to items such as food and rent.

h) Depression of exports mainly due to exchange restrictions.

i) Import prohibitions lead to the stimulation of artificial substitutes at higher costs and subsequent misallocation of the nation's resources.

Comparative Analysis

In the case of the Latin American countries, there

were several common features which explain why prices were rising so rapidly, and why they have proved to be so difficult to bring under control. The consumer price and wholesale price indices together with the private consumption expenditures per capita trends are the best indicators of direct effects of price changes on households.²¹

The populations of these countries were characterized by a rapid rising level of aspirations, and Latin Americans have suddenly acquired expectations of continuously rising living standards. This fact mainly due to the demonstration effect, together with the low income per capita level and the rapid rate of population growth caused a continuous pressure for higher and increasing consumption levels, both in the private and the public sectors. A steady pressure against supplies appeared and consequently the prices rose accompanied by a strong tendency towards low saving levels.

This pressure was not uniform on all sectors of economic activity. The pressure was intense in two areas, foodstuffs for the domestic market and the external sector. With large and rapidly growing urban population and lagging agricultural production, any increase in the low levels of income, predominantly will result in a rising demand for foodstuffs. Since foodstuffs were in short supply in most of the Latin American countries, and at the same time,

21.- See Tables 26, 27, 28 and 29.

expenditures on food represented a large part of the average family budget, the pressure was placed on prices and as a result, the cost of living increased.²²

This case was more apparent in Chile, where lagging agricultural production has been associated with the long-term inflationary trend. In Argentina and Uruguay, the case of shortage of foodstuffs for domestic consumption was not so significant, given that foodstuffs were their major export items. However, the total agricultural production of both countries did not expand rapidly enough to meet the rising domestic demand and leave enough margin for an adequate export volume. Thus the problem remained one of lagging agricultural production for domestic consumption since, by subsidizing export prices, the domestic food prices rose.

For Brazil, the problem was not so serious and domestic agricultural production expanded at a moderate rate. However, as a consequence of the rapid urbanization, the pressure against food supplies was generally considered to be a contributing factor to the inflationary process.

In the external sector, the inflationary pressure was also intense, and this was due to the increasing relative scarcity of foreign exchange and to the growing inflexibility of imports as the industrial sector expanded. These have been important factors in the cases of Brazil, Colombia, Chile and Uruguay.

22.- See Tables 28 and 29.

At the same time, two further factors were associated with inflation, and worked together in the advancing spiral process. There were the impact of rising prices on the government budget and the economic behaviour of individuals and social groups.

Inflation tended to put pressure on the government budget, because, although expenditures rose more or less hand in hand with the general price level, receipts did not move in this way, because of the prevailing tax systems which tended to make taxes regressive. This was mainly due to the fact that taxes were collected after a substantial time lag. This feature was general for all countries which experienced severe inflation, except for Brazil where the tax system was reorganized in the late 'forties and provided a higher degree of flexibility.

Another contributing factor within the public sector was the rising deficits of public utilities, such as the railways. The situation was practically the same, that is costs rose with inflation and revenues lagged behind. In this aspect, Brazil was not better off than the other countries of the group, and Argentina faced a particularly serious situation.

For the comparative study of the inflationary process, the ten Latin American countries may be grouped into three categories:

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a) The five countries - Argentina, Brazil, Chile, Colombia and Uruguay - which have experienced severe inflation.

b) Bolivia, Ecuador, Paraguay and Peru, which have experienced moderate inflationary pressures; and,

c) Venezuela, where the prices have been relatively stable during the period under review.

The Venezuelan case must be explained in relation to petroleum, which is its principal export commodity. This product has not had any serious problem in the world markets and enjoyed over the decade favourable and steady prices. This situation in the external sector explains the success of Venezuela in avoiding major inflationary problems. In this country, it was possible to import everything, thus avoiding consumption bottlenecks. At the same time, government receipts from the external sector were large and increasing substantially over the period under review, so that public expenditures could expand. Within this framework, urbanization and industrialization were possible with a relative price stability.

In the countries which have been classified as experiencing moderate inflation, prices have fluctuated during the 'sixties at an annual rate of increase of 5 per cent.²³

Paraguay has been included in this group, because

23.- See Tables 28 and 29.

after prices had risen rapidly in 1960 and 1961, they appeared to be quite moderate in the next four years, although detailed information on price changes for those years has not been available.

The four members of the group can be subdivided into two homogeneous categories. One embraces Bolivia and Paraguay, which are quite similar. Both were small economies and their industrial sector was also small. Both, but Bolivia especially, experienced rapid inflation during the 'fifties as a consequence of difficulties in the external sector when world demand for non-ferrous metals decreased, and as a consequence of large budget deficits. The improvement made was particularly striking in the case of Bolivia, where the index numbers of consumer prices showed a decrease from 145.6 per cent annual average rate of increase over the years 1955 to 1960, to 5.6 per cent over the years 1960 to 1965.²⁴

In Ecuador and Peru, the situation was rather different. Both have large economies in the early stages of industrialization. They did not experience the pressures felt by countries in a more advanced stage of economic development. In addition, both countries, and especially Peru, experienced a relatively favourable development in the export sector and particularly in the cotton industry. Thus, price

24.- See Table 28.

increases were held within limits. Special mention must also be made of Ecuador which experienced an annual average decrease of 0.2 per cent in the consumer price index numbers over the period 1955-1960.²⁵

Of the countries which have experienced severe inflation, Colombia was a special case. The characteristics of her economy were similar to those of Peru, except that in the external sector, coffee exports were not favourable to Colombia. Particularly during the period 1960-1965, domestic prices rose rapidly, and this is an example of the importance of the external sector in the process of general price increases.

In Argentina, particularly during the period 1955-1962, prices have risen rapidly, with the rates varying from time to time, in part as the result of stabilization programmes undertaken in conjunction with international agencies. While these programmes did not achieve price stability, they prevented sustained price increases of greater proportions than would have occurred, had these programmes not been undertaken.

Inflation in Argentina was mainly due to the struggle among different social and economic groups for increases in wages and salaries, much beyond the level justified by increase in productivity. At the same time, the external sector was a major bottleneck and difficulties in this area

25.- See Table 28.

contributed to the slow growth of the economy. Export earnings from agriculture were increased by devaluating the national currency. But this raised the price of a number of foodstuffs which were important for domestic consumption and hence increased the cost of living. Also the higher import prices increased costs, principally in the industrial sector. All of these factors together contributed to higher prices.

Another aspect in the inflationary process of Argentina was the large government deficit for each year over the decade. The main cause of the deficit was not an increase in expenditures but a decline in income due mainly to the way of financing each year's previous deficit. The deficit was partially financed by non-payment of suppliers, and the notes which resulted from this practice, could then be submitted as means of payment of future taxes.

Efforts to eliminate the deficit, through reducing expenditures, achieved some success but this policy faced many serious obstacles. It depended chiefly on reducing the number of persons employed, or holding down wage levels, or both together. The importance of the labour organizations together with the growth of the labour force exerted considerable pressure in favour of new jobs, and in these circumstances to dismiss workers was even more difficult.

Argentina tried to restrict the inflationary spiral by limiting the money which was lent to the private sector

by banks. This became a serious obstacle to the normal functioning of the economy, leaving some industries short of funds and hence reducing production. At the same time, these restrictive measures were offset by a rise in the velocity of money with a subsequent decline in the propensity to save.

Uruguay was another country which experienced severe inflation with a 22.2 per cent annual average rate of increase in the index numbers of consumer prices.²⁶ The general economic structure of Uruguay was similar to the other countries of the group, in particular Argentina. Despite the fact that the country is relatively small, the manufacturing sector is quite developed following the economic philosophy of import-substitution. The manufacturing sector accounted for over 20 per cent of the Gross Domestic Product. This rate is similar to the one enjoyed by some of the most industrialized countries of the group such as Brazil and Chile. However, the ratio was below that of Argentina which was similar to that of Canada, about 30 per cent.²⁷

The export sector in Uruguay was an important factor contributing to the inflationary process. Export value declined and the import coefficient consequently followed the same trend. The result was a prolonged period of economic stagnation and the subsequent yearly decline over the

26.- See Table 28.

27.- See Tables 9, 10 and 11.

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period 1955-1965 in per capita income was 0.8 per cent.

In this context, inflation led to an increasing economic struggle and social tensions aggravated the situation. Uruguay's stabilization programmes were similar both in content and in results, to what Argentina did.

In Brazil, inflation was considerably more severe than in any other country of the group, with an annual average rate of 331.3 per cent increase in the index numbers of consumer prices over the decade.²⁹

Three important aspects of the inflationary process in Brazil may be emphasized: first, in virtually all of that period, no major stabilization effort was put into effect until 1964. Second, Brazilian inflation until 1962 occurred in an environment of rapid economic growth,³⁰ which made it easier to deal with the problem. And thirdly, the causes of inflation have been different.

The turning point of the Brazilian inflationary course was the coffee crisis from 1957 to 1961, when production was in excess of world demand and the policy of withholding stocks from the market to support world prices was implemented. The governmental funds which were paid to maintain this programme were large and this was a major factor in affecting adversely the balance in the public sector.

28.- See Table 3.

29.- See Table 28.

30.- See Table 1.

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In 1964, a programme was adopted to achieve a gradual deceleration of inflationary pressures with four major aspects of concern: reduction of the government deficit, removal of price controls, a policy of wage restraint, and a policy of credit restriction.

In Chile, prices rose at a rapid rate especially during the middle 'sixties and this country is usually given as a classical example of how lagging agricultural production has played a major role in inflation. Also, this country suffered from a severe bottleneck on the external sector as consequence of the decreasing world demand over the decade for its traditional exports, mining products. At the same time, another major contributing factor to the inflationary pressure was the substantial deficit in the government budget reflecting the fact that as the short-term debt grew, repayments tended to use an important part of the funds received.

Another aspect peculiar to Chile was that while stabilization became a major objective from 1955, the programme adopted was different than others in the area. Chile placed great emphasis on achieving a rapid rate of economic growth with the idea that this would contribute to price stability. The stabilization programme was a long-term project based on a large scale of open foreign borrowing. Unfortunately, little progress was made, as a consequence of the failure of agrarian reform and other measures designed

to stimulate agricultural production. In 1964, the Chilean government placed new emphasis on structural changes, some of the goals being to expand and diversify exports and institute agrarian and tax reforms.

General Evaluation

In summary, the persistent and intensive nature of inflation in some Latin American countries has been the origin of a wealth of experience in anti-inflationary policies.

The evolution of the inflationary process can be divided into three clearly differentiated stages, according to a survey presented by the Economic Commission for Latin America.³¹

The first covers a long period ending in the late 'fifties. This period was characterized by the adoption of emergency measures to prevent sudden increases in prices which were mainly due to international trade fluctuations.

The second stage covers the late 'fifties to the early 'sixties. It was characterized by the adoption of a more "orthodox" economic policy with stabilization as the main goal. A wide range of measures were instituted to restrain the over-all increasing demand.

31.- Economic Commission for Latin America, Economic Survey of Latin America, United Nations, New York, 1967, pp. 39-43.

The third phase began in the middle of the 'sixties and the pattern of action changes in both the goals envisaged and the means used. The exclusive preoccupation with stabilization was partially replaced by more complex objectives in terms of economic growth.

The changes in objectives have had repercussions on the instruments and means used:

a) More emphasis was placed on stepping up public receipts than on curtailing expenditures in the public sector.

b) Policy concerning money supply was designed in such a manner as not to play an active role either as an element of control or as a source of autonomous pressures.

c) An effort was made to coordinate salaries and wages with the general price level.

d) Price measures were taken which tended to combine direct control with the free play of market forces. This brought price movements into line with other economic objectives.

e) In relation to foreign trade and exchange policies, there was no general consensus in the adoption of economic policies, except for the aim of encouraging non-traditional exports.

The following measures were recommended to the Latin American countries by the Inter-American Council for Commerce and Production in order to achieve a reasonable and sustained rate of economic growth and maintain, at the same time, a

certain degree of monetary stability:

"a) Above all else, keep the proper balance between public expenditures and the tax capacity of the population.

b) Follow a sound monetary policy that does not yield to governmental or private pressures.

c) Keep credit expansion within limits compatible with the rise in a nation's economic production.

d) Adapt monetary, credit and financial policies to balance of payments conditions and to the general state of the economy.

e) Follow a wage and fringe benefits policy based on productivity.

f) Restrain tariff protection for industries.

g) Stimulate the production of basic goods and services (food, housing, transportation, electricity, etc.) ."³²

In reference to Canada, inflation over the decade under review was not a major problem. Prices rose at an annual average rate of 1.9 per cent in terms of the consumer price index, and 1.4 per cent in terms of the wholesale price index.³³

The Economic Council of Canada in its Second Annual

32.- Inter-American Council for Commerce and Production, op. cit., p. 30.

33.- See Tables 28 and 29.

Review recommended that one of the economic and social goals for the country was to obtain a reasonable stability of prices, stating that, "rates of change in prices and costs to 1970... should be contained within the limits of the ranges of movements over the decade from 1953 to 1963".³⁴

This statement can be taken as sufficient evidence of the relative degree of price and cost stability which was enjoyed by the Canadian economy during the decade 1955-1965.

34.- Economic Council of Canada, Towards Sustained and Balanced Economic Growth, Second Annual Review, Queen's Printer, Ottawa, 1965, p. 7.

CHAPTER X

ROLE OF GOVERNMENT

Introduction

This chapter deals with planning efforts of the ten Latin American republics and of Canada during the decade 1955-1965. Some of the common features are described, planning agencies and the developmental plans for each country are outlined, and their effectiveness are briefly examined.

In the middle of the 'fifties, most of the Latin American countries commenced to undertake comprehensive analyse of the state of their economies on a consistent and systematic basis, using similar planning techniques.

One characteristic common to all was the conviction that development was a single problem, with economic, social and institutional roots. Emphasis was placed on the inter-dependance of the economic and social problems and the urgent need for forward looking effective and integrated policies to deal with them.

The prevailing free enterprise system was, in theory, an efficient way of motivating and facilitating economic

activity. The major advantage of this system was that in theory at least it made possible an efficient allocation of resources and the maximization of current output of goods and services. Competition, at the same time, would assure maximum social welfare. However, this system in the Latin American nations has been characterized by an increasing number of barriers and economic bottlenecks, mainly due to monopolistic practices and inequality in economic power. As a consequence, each country, through government intervention, has endeavoured to serve the best national interest with what constitutes "national interest" differing for each country. In general, governments took the view that they had an important role to play in promoting economic growth, especially in the production of such goods and services which were of strategic importance in economic development. The intervention of governments also became necessary when investment took a relatively long time to produce the results expected. Jose Antonio Mayobre pointed out that, "if overall condition favourable to development are created, an increasingly rational utilization of the economy's resources will be naturally and spontaneously induced without need for the prior establishment of specific targets".¹

1.- Mayobre, J.A., "Global Programming as an Instrument of Economic Development Policy", edited by H.S. Ellis assisted by H.C. Wallich, Economic Development for Latin America, Mac Millan and Co. Ltd., London, 1963, p. 32.

There were various reasons why private enterprises were unwilling to some degree, to promote certain economic activities. Among these were, deficiencies of markets because of a lack of balanced growth (Nurkse)², the vicious circle of poverty (Myrdal)³, the necessity for a "big push" (Hirschman)⁴, the existence of inappropriate socio-cultural influences (Hagen)⁵, the non-existence of external economies to induce investment (Rosenstein-Rodan)⁶, the necessity for a "minimum critical effort" to overcome the growth depressing factors (Leibenstein)⁷, the failure to provide the savings necessary to growth (Lewis)⁸, the scarcity of possibilities for people and consequently limited choice for individuals (Eckstein)⁹, and the failure of governments to fulfill and develop their economic functions (Bhatt)¹⁰.

- 2.- Nurkse, R., Problems of Capital Formation in Under-Developed Countries, Oxford University Press, New York, 1953.
- 3.- Myrdal, G., Economic Theory and the Underdeveloped Region, G. Duckworth and Co., Ltd., London, 1957.
- 4.- Hirschman, A.O., The Strategy of Economic Development, Yale University Press, New Haven and London, 1965.
- 5.- Hagen, E.E., The Economics of Development, R.D. Irwin, Inc., Homewood, Illinois, 1968.
- 6.- Rosenstein-Rodan, P.N., "Notes on the Theory of the Big Push", in Howard S. Ellis and H.C. Wallich (ed.), Economic Development for Latin America, St. Martin's Press, New York, 1961.
- 7.- Leibenstein, H., Economic Backwardness and Economic Growth, J. Wiley and Sons, Inc., New York, 1963.
- 8.- Lewis, W.A., The Theory of Economic Growth, R.D. Irwin, Inc., Homewood, Illinois, 1955.
- 9.- Eckstein, A., "Individualism and Role of the State in Economic Growth", in Economic Development and Cultural Change, January, 1958, pp. 81-87.
- 10.- Bhatt, V.V., Employment and Capital Formation in Under-developed Economies, Orient Longmans, Bombay, 1960.

The conclusion is that a private enterprise system in the traditional sense, as it is known in North America, was not likely to produce satisfactory results of initiating or continuing a process of economic growth in Latin America. Government action on a broad front was desirable and necessary. The result was a mixed system in which the government determined the overall objectives and created an appropriated framework for economic development. This combination of government and private enterprise differed from country to country and a satisfactory interrelationship between private and public effort was not achieved without difficulties.

Development Planning

The ten Latin American countries considered economic planning essential in effort to determine what private enterprise and what government should and should not do. Economic planning became an instrument for coordinating national economic policies.

The term "plan" may be used in many different ways, of which four are the most common.¹¹ First, in some countries, plan refers to the making of a programme for public

11.- Report by a Group of Experts appointed by the Secretary-General of the United Nations, Measures for the Economic Development of Under-Developed Countries, United Nations, New York, 1951, pp. 61-68.

expenditure over a given period of time. Second, it may refer to the setting of production targets in terms either of inputs, outputs or both. Third, "plan" may mean a statement setting targets for the economy as a whole. This approach is usually called comprehensive planning. Its main purpose is to ensure that the different plans already made are consistent with each other and with the total resources available. Fourth, the word "plan" is sometimes used to describe the means which a government uses to bring private enterprise to work towards achieving the targets which have been previously determined.

A government has a choice between two methods to try to persuade private enterprise to carry out a proposed programme. One is a method of inducement and the other is one of direction. The first consists of persuading private enterprise through incentive taxation and/or through subsidies and/or through other fiscal devices to do the things programmed by the government. The second method involves for the government to direct private enterprises by means of licences, quotas and authorizations, to certain actions, considered to be in the national interest. Both methods have advantages and disadvantages, and each government must choose the appropriate combination that suits the conditions of its own economy and find sufficient public support to produce satisfactory results.

Among the different goals proposed in the plans, there appeared a marked emphasis in favour of "social" questions. This term refers in some instances to the expansion of investment in welfare services or infrastructure. In others, it is extended to such broader fields as the redistribution of income or the creation of employment opportunities.¹²

The main objective established by the different development plans, was the acceleration of the rate of economic growth, by means of increasing the key variables of the process in quantitative terms and by changing certain institutional factors which conditioned them. Thus, the plans combined quantitative analysis with the qualitative study of economic policies.

The coordination of the over-all plan with the sectoral plans and the national budget has not been achieved in most cases, and frequent misunderstandings appeared between the planning agencies and government.

Another point of concern was the frequent problems which arose from the status of state enterprises. These state enterprises "provide the bulk of the public services and in some countries carry out important industrial activities... by following an independent policy and behaving

12.- Economic Commission for Latin America, Economic Survey of Latin America, 1965, United Nations, New York, 1967, p. 34.

in relation to the plan as if they were private enterprises. Often each state enterprise formulates its own economic policy, in isolation from the Central Government, from other public enterprises and from the plan itself."¹³

The over-all development plans often consisted of different sections, and presented an analysis of the actual economic situation, projections and over-all goals, sectoral targets for public and private investment and the use of natural and human resources. To solve any possible differences that might exist between the long-term objectives and the situation at any moment, annual operational plans were often designed to include specific measures of economic policy.

The main problems hampering planning in the Latin American countries can be summarized under the headings institutional, organizational and technical.

The institutional problems were caused by economic policies that were adopted through a legal system which represented an earlier situation when there was no planning. Consequently, the planning agencies were not really part of the system and tended, with different degree of success, to act as advisors to the traditional departments.

In regard to the organizational problems, the main

13.- Economic Commission for Latin America, Economic Survey of Latin America, 1964, United Nations, New York, 1966, p. 330.

task was to establish a more coherent procedure of arriving at decisions.

The main technical problems arose from the lack of information and data, from the shortage of specialized staff, and from certain defects in the plans and their timing. For example, some of the plans were completed when part of the period they covered had already passed.

Despite all the difficulties and failures, in the last years of the decade 1955-1965, considerable progress was achieved in this field and by 1965, all the ten Latin American countries had established a planning office and were working out medium and/or long-term developmental plans.

Planning Agencies and Activities

Having described some of the common features, a summary of the planning organizations and activities follows. In proceeding in this manner, some repetition appears to be unavoidable since the review covers ten countries with similar objectives employing at times similar means to realize them.

The methodology employed for the different plans was based on the techniques set forth by the Economic Commission for Latin America.¹⁴ However, the peculiarities

14.- Economic Commission for Latin America, Analysis and Projection of Economic Development, Volume I and II, United Nations, New York, 1955. Also, Economic Commission for Latin America, Manual on Economic Development Projects, United Nations, New York, 1958.

of each country determined the actual pattern adopted, the key variables considered, and the method used to formulate appropriate dimensions and interrelationships. The main techniques used were the National Accounts and Input-Output models.

Argentina

In 1961, the National Development Council was created to advise the office of the President of the nation. The purpose was to define medium and long-term economic goals as well as to examine the results achieved by comparing targets with realization and establishing reasons for non-fulfilment when this occurred.

The Council was composed of an executive board presided by the Minister of Economic Affairs, and had at its disposal technical and administrative staff.

Its main achievement was to prepare the National Development Plan for 1965-1969 whose aims were to ensure a rate of economic growth compatible with the capacity to import, and to achieve a volume of investment sufficient to provide an adequate infrastructure, the lack of which had been one of the major bottlenecks retarding the country's economic development.

Further, Argentina created a Federal Investment Council established in 1959, charged with the responsibility to plan regional economic development.

Bolivia

In 1961, the National Economic and Social Development Council was founded with the President of the country as a chairman. The main tasks entrusted the Council was to guide in the formulation of sound economic policies serving the best interest of the nation.

The major achievements were the preparations of the Economic and Social Development Plan for 1962-1971, as well as the Two-Year plan for 1965-1966.

In the ten-year plan, the main objective was a rapid increase in consumption, of food in particular, as a way of raising the standard of living. Another of its aims was the attainment of a high level of internal savings to finance the development targets to an increasing extent from domestic capital sources.

Brazil

Brazil set up a Development Council in 1956 to prepare national development programmes. The Council activities were reduced in time, and in 1961, the National Planning Commission (COPLAN) was created. This organization was directly responsible to the President of the Republic, and besides taking on the tasks which were previously attributed to the Development Council, it had the responsibility of supervising their execution. COPLAN drew up the Government Programme of Economic Action for 1964-1967.

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The Department for the Development of the Nordeste (SUDENE) was set up in Brazil in 1959. This was a regional planning agency whose purpose was to coordinate the economic development of that region. This agency had the special status of administrative autonomy and full government authority. It also had guaranteed specific funds consisting of 2 per cent of the national tax revenue. SUDENE frequently used private and public enterprises for some of its projects, especially in the fields of geology, education and public health.

Colombia

In 1963, a Planning Office was established in Colombia. This agency was under the supervision of the President of the Republic. It was divided into three branches; a National Council on Economic Policy which determined the main lines of economic policy, the Planning Department which was responsible for the technical preparation of the plans, and the Economic Advisory Group which represented the views of the private sector.

Among the various activities of the Planning Office, a Four Year Plan was prepared covering the period 1961-1964. Comparing results in relation to the target laid down of an annual rate of increase of 5.7 per cent in the Gross Domestic Product, the estimates showed an annual rate of increase of

4.5 per cent for the closed period of 1960-1965.¹⁵

Chile

In 1964, a National Planning Office was established in Chile to advise the President of the nation. This Office was presided over by the Secretary General for Planning who maintained direct contact with the President and attended the meetings of the Cabinet.

In 1965, the National Planning Office, working on a national development programme, carried out extensive studies in certain economic sectors such as mining and manufacturing industries.

Ecuador

The National Board for Economic Planning was founded in 1954 to advise the President of Ecuador on matters of planning and to study the national budget.

The main achievement was the General Economic and Social Development Plan for 1964-1973, whose aims are focused on stabilizing wages and prices.

Paraguay

The National Council for Economic Coordination in Paraguay was founded in 1948 in order to formulate economic policy and planning. It was headed by the President of Paraguay and consisted of the Ministers of Finance and

15.- See Table 7.

Economic Affairs and the Chairman of the Bank of Paraguay. They were assisted by a Technical Office, which was established in 1962.

The main achievement of the Council was the Two-Year Plan for 1965 and 1966 whose aims were to increase agricultural production and exports, to raise the level of employment and to stabilize prices.

Peru

The present organization in Peru was set up in 1962 and was composed of the National Council for Economic and Social Development, the National Planning Institute and the Advisory Planning Council.

The National Council for Economic and Social Development provides the guiding patterns of planning and is headed by the President of Peru. The National Planning Institute, which is the technical agency, formulates the plans, supervising, at the same time, their implementation. The Advisory Planning Council is the agency through which the private sector participates in the preparation of the plan.

The main accomplishment of the National Planning Institute was the Development Plan for 1965-1969.

Uruguay

The Committee on Economic Research and Development was organized in 1961 for the purpose of formulating

development programmes. In 1963, an economic survey of the country was completed, and following this the preparation of medium and long-term plans was commenced.

Venezuela

The Central Office for Coordination and Planning was established in 1958 with the aim of preparing development targets. Its plans were supervised by the President of the Republic in the Council of Ministers, and the Constitution stipulates that in the yearly address of the President to Congress a broad outline of the National Economic and Social Development Plan must be included.

Venezuela's Plan for 1963-1966 proposed an annual average rate of increase of 7.9 per cent of the Gross Domestic Product. However, an increase of only 5.4 per cent was attained during the period 1960-1965.¹⁶

General Evaluation

Although the ten Latin American republics have started to work out their development plans, since the middle 'fifties, the systematic application of the plans started for most of the countries only by the end of the decade under review. Consequently, their partial or final achievements are not included in this thesis, even though some observations appear to be desirable in the light of

16.- See Table 7.

the statement made by the Economic Commission for Latin America:¹⁷

a) In general, the plans were satisfactory in setting out desirable goals. But in most instances, they failed in offering concrete programme proposals and suggestions for adequate machinery for implementation of policies considered desirable to realize stated goals.

b) Priority was given to the preparation of medium and long-term plans which were not tied in to yearly operational plans and programmes.

c) A common feature was the abundance of macro-economic projections, but there was a general failure in the identification and preparation of specific programmes and particularly special investment projects.

d) Often the objectives established were over-ambitious in relation to the available resources and organizations.

A common error in development planning was to project an unattainable rate of economic growth. The economic rate of growth cannot be very different at the end of a two or five-year plan than it was at the beginning, except in exceptional circumstances, such as the period of recovery after a disaster or, in some cases, after a period of

17.- Economic Commission for Latin America, Economic Survey of Latin America, 1964, United Nations, New York, 1966, pp. 345-381.

recession. The reason is that the rate of economic growth is constrained by factors which are not easily changed over a short or medium period of time.

The usual procedure followed to initiate a development plan involves undertaking "a survey of current economic conditions".¹⁸ The main reason, of course, is that in determining the size of a programme, the basis should be what can be done using available resources, both domestic and foreign. "Needs" can be guided as to what is wanted but not as a basis for formulating plans without regard to what is advisable given the constraint of resources and management capacity, the latter encompassing both private initiative and political leadership.

Another important element in deciding how large a development plan should be, is to look at the effects of the plan on the annual budget.

Institutional reforms in the fields of taxation, land tenure and education, were not carried out with the speed required. Consequently, the plans were subject to long delays in their practical realization.

Planning also requires a strong, incorrupt and competent administration, with trained staff, who are able to act efficiently and rapidly. The Economic Commission for

18.- Lewis, W.A., Development Planning, Unwin University Books, London, 1966, p. 13.

Latin America pointed out that, "if Latin American private enterprise is lagging behind the requirements of development, it is not surprising that the same is true of the public administration",¹⁹ and how only a few countries in Latin America had an effective civil service. "Quantity rather than quality is the basis of staffing, and the poor salaries... drive away the most able and disorganize the whole system".²⁰

Some inconsistencies among the objectives were appearing in relation to some of the plans. Programmes were undertaken to achieve, simultaneously, increased consumption and high level of investment, along with decreased foreign assistance and better conditions of work, such as a decrease in working hours without an increase in productivity. This set of simultaneous goals violated what Professor Tinbergen called the "overall balance equation";²¹ that is, national product plus foreign assistance must equal consumption plus investment.

There appears to be a general difference in the results obtained in comparing the growth rates projected in some of the plans and those recorded on the data presented in terms of Gross Domestic Product. In some cases, the two

19.- Economic Commission for Latin America, Towards a Dynamic Development Policy for Latin America, United Nations, New York, 1963, p. 56.

20.- Ibid., p. 57.

21.- Tinbergen, J., Central Planning, Yale University Press, New Haven, 1964, p. 44.

rates were quite similar, but differences that appeared in the growth rate of some of the economic sectors, offset one another in relation to the total rate of growth.

Canada

The process of development planning in Canada had its own characteristics considering the different economic, political and social features of this country. In Canada, the basis for development, as Professor Firestone pointed out, required "cooperative planning" or, "a process that will make for a more effective working of democratic institutions in the economic area with fuller participation of the Canadian people and their elected representatives, reflecting adequately the great variety of diverse interest and legitimate aspirations of Canadians in every major region of their country".²²

To meet this requirement, the Economic Council of Canada was established by Act of Parliament (12 Elizabeth II, Chapter 11) assented to on August 2, 1963.

The Council is an economic advisory body with broad terms of reference. The central feature of the Council's duties is "to advise and recommend ... how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high

22.- Firestone, O.J., Problems of Economic Growth, University of Ottawa Press, Ottawa, 1965, p. 53.

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and consistent rate of economic growth and that all Canadians may share in rising living standards; to recommend what government policies ... will best help to realize the potentialities of growth of the economy; to consider means of strengthening and improving Canada's international financial and trade position; ... to study how national economic policies can best foster the balanced economic development of all areas of Canada; ..."²³

Outside of its responsibilities to study and advise on the problems and potential of the Canadian economy, the Economic Council of Canada Act sets out certain additional duties of the Council, designed to promote productivity gains in all sectors of the economy. In addition, Parliament made provision for the Council to undertake special studies at the request of the Government in areas that fall within the purview of its general terms of reference.

In establishing the Council as a separate Crown Corporation, with a widely diversified membership from the private sectors of the economy and with the right to publish without prior concurrence of the Government, Parliament has conferred a large degree of independence on the Council. The Council does not have any operational responsibilities.

23.- Economic Council of Canada Act, Act of Parliament (12 Elizabeth II, Chapter 11) assented to on August 2, 1963, on Economic Council of Canada, Annual Report, Fiscal Year 1968-69, The Queen's Printer, Ottawa, 1969, p. 24.

It does not implement or administer any policies or programmes.

The Council consists of up to twenty-eight members appointed by the Governor in Council. These include a chairman and two directors who serve full time in their professional capacity and up to twenty-five members who are selected from industry, labour, finance and commerce, agriculture and other primary industries, and the general public. The Council is therefore a mixed body rather than an expert professional body, although it is served in its deliberations by an expert staff. There are no government members appointed to the Council.

Provisions of the Act enable the Council to carry out a most vital function, namely, the dissemination of information to the public as a means of stimulating informed appraisal and discussion of economic problems and policies.

From its inception, the Council has attempted to further articulate and clarify the basic economic and social goals implicit in its Act. These basic economic and social goals were stated as follows in the First Annual Review published by the Economic Council of Canada: "Full employment; a high rate of economic growth; reasonable stability of prices; a viable balance of payments; and, an equitable distribution of rising incomes."²⁴ By defining and clarify-

24.- Economic Council of Canada, Economic Goals for Canada to 1970, First Annual Review, Queen's Printer, Ottawa, 1964, p. 1.

ing these goals as medium-term objectives to be simultaneously attained, the Council has sought to portray the potential of the Canadian economy over a number of years ahead, and to assess the performance and actual progress of the economy towards its potential.

In carrying out its research and policy advisory functions, the Council maintains very close working relationships with various federal departments and agencies. It has also maintained contacts with provincial economic advisory bodies, and with officials in provincial governments. Since the Council is attempting to define a policy planning framework which has relevance not only for the public sector but for the private sector as well, it has developed extensive contacts with industry and other private groups.

The Economic Council was established by Parliament as an institutional response to the recognized need for strengthening the base of information and advice relevant to the achievement of challenging national economic and social goals. This is no easy task, especially in a country such as Canada, with its wide regional differences, its highly decentralized system of private decision-making, and its constitutional system in which very important economic policy powers are divided between the federal and provincial governments. But the Council has sought to provide the kinds of information and analyses that would lead to a better

understanding of our economic system and enable decision-makers in many parts of the economy to plan more effectively.

From the beginning of its work, the Council has been centrally concerned with problems associated with growth and change. Growth essentially involves change, and technological change has been, and will continue to be, an important factor in the longer-term growth and development of Canada.²⁵

Summing up, national cooperative planning, in the sense of assessing national goals and the respective policies to attain them, is required not only by Canada but by most of the countries. The obstacles to development and progress arising from the economic, political and social environment can be reduced or made to disappear by establishing economic policies which encourage an atmosphere favourable to economic growth.

25.- Brief to the Special Committee on Science Policy of the Senate of Canada, February 1969, Submitted by Arthur J.R. Smith, Chairman, Economic Council of Canada.

CHAPTER XI

CONCLUSIONS

Economic growth is a complex process resulting from the interaction of many factors, both internal and external.

The study of the process of economic growth in the ten Latin American countries during the decade 1955-1965, yields three main findings:

First, there is a direct relationship between the rate of population growth and the rate of economic growth;

Second, countries which have increased exports rapidly have been experiencing faster economic growth; and,

Third, countries with a high level of inflation have been those with slower rate of economic growth, with the exception of Brazil.

The conclusion drawn from these results is that an important factor in promoting economic growth in the case of the ten Latin American republics has been the type of economic policies which these countries have followed. This assertion does not mean that other factors like availability and utilization of natural resources, level of education or existence of national overheads were of little

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importance. They were significant, but the point this thesis enhances is that during the decade 1955-1965, these factors have been less decisive in affecting the rate of economic growth of the ten Latin American countries than the role played by government in steering the countries concerned on a growth path designed to maximize national welfare.

As in the Latin American countries, the same three factors affected the situation in Canada during the decade under review. Canada enjoyed a relatively high rate of population increase and also a satisfactory rate of economic growth.¹ Canadian exports of goods and services as a percent of Gross National Product increased from 20.5 per cent in 1961 to 21.3 per cent in 1965, and the export value of merchandise increased at an annual average rate of 8.4 per cent during the decade 1955-1965.² Also, over the decade, Canada enjoyed a high level of monetary stability which contributed greatly to her economic growth.³

Comparing economic growth in the Latin American countries with that of Canada, it can be said that Canada relied to a lesser extent on government to stimulate economic development than did the Latin American countries.

The economic policies which have had the greatest

1.- See Tables 1 and 2.

2.- See Tables 32 and 36.

3.- See Tables 28 and 29.

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importance in the economic growth of the Latin American countries, and which often have been interdependent, include the following:

- a) Agrarian policy;
- b) Balance between agriculture and industrial development;
- c) Monetary stability;
- d) Fiscal policies;
- e) Export policies;
- f) National infrastructure;
- g) Policies affecting foreign capital; and,
- h) Latin American Common Market.

Agrarian Policy

Agriculture, although backward, made the greatest relative contribution to Gross Domestic Product in the majority of the ten Latin American countries.

This sector represented the most important potential market for industrial goods. However, the extent of this market was limited by the low productivity and consequently, the low level of incomes of the people in the agricultural sector. Agricultural development was also essential to satisfy the increasing food requirements of a population which was expanding at a fairly high rate every year. Increasingly, efforts were directed to meet food requirements from domestic sources replacing to some extent food imports.

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Agricultural development was also necessary to increase exports for these, in part, supplied the foreign earnings required to pay for imports essential to furthering economic growth.

The structure of land-ownership did not contribute effectively to economic growth. Land reforms became a primary goal of the governments concerned. In order to improve the conditions of the agricultural population, agrarian policies were formulated to serve three objectives: increasing the area under cultivation, raising productivity, and implementing land tenure reform where necessary and to the extent possible.

Furthermore, additional investment in the farm sector was designed not only to expand agricultural production, but also to achieve improvements in other sectors. As Professor Brahmananda explained: "The rate of development of the non-agricultural sectors is initially determined by the rate and pattern of agricultural investment."⁴ In other words, investment in agriculture is part of the "big push"; thus other economic sectors do benefit from it.

Balance Between Agricultural and Industrial Development

Agriculture for most of the Latin American countries

4.- Brahmananda, P.R., "Agricultural Versus Industrial Development", Edited by H.S. Ellis assisted by H.C. Wallich, Economic Development for Latin America, Macmillan & Co. Ltd., London, 1963, p. 421.

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was the most important sector of the economy in terms of volume, value and number of people employed, and provided a large variety of products for sale to world markets.

Some of the Latin American countries neglected agriculture and concentrated their efforts in developing secondary industries with little regard to costs involved. Agriculture, in general, had a low productivity and there was a wide margin for improvement by means of technology. In Canada, technological improvements in the farm sector produced more encouraging results than in Latin America because agricultural technology has given the Canadian farmer access to such benefits as higher yielding crop varieties, improved methods of weed and pest control and a wide range of sophisticated equipment.

According to the Economic Commission for Latin America, industrialization must be regarded as one of the basic factors in achieving rapid economic growth.⁵ However, the marginal returns of the factors of production must be equal if the distribution of production factors between agriculture and industry are balanced.

Monetary Stability

The data available show that countries with the

5.- Economic Commission for Latin America, The Process of Industrial Development in Latin America, United Nations, New York, 1966, pp. 1-5.

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greatest monetary stability were those which have enjoyed rapid economic growth. For example, Canada, Peru and Venezuela, have had both comparative monetary stability and a high rate of economic growth while Argentina, Chile, Colombia and Uruguay had the opposite experience. Brazil was an exception until 1962. There were reasons why this country did better than several other Latin American nations, mainly because of lesser wage pressures and substantial inflow of economic aid from abroad. The latter reduced, somewhat, the balance of payments problems which Brazil might have had to face during this period.

In sum, inflation has damaged the process of economic growth, and to restore continuing economic growth a reasonable degree of monetary stability is a first requirement.

Fiscal Policies

The existing tax systems in most of the ten Latin American countries proved to be inadequate to cope with the problems of economic growth. Considerable changes were needed affecting both the effectiveness and the equity of the fiscal system in use in the Latin American countries. "It cannot be emphasized too strongly that the efficiency of the tax system is not just a matter of appropriate tax laws but of the efficiency and integrity of tax administra-

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tion."⁶ A tax system must be characterized by its simplicity, clarity, elasticity, flexibility, progressiveness, easy application and equity. Equity, in other words, implies that those with a higher income are able to contribute more to economic and social causes and thus they should pay more.

Export Policies

The statistics presented indicate the existence of some relationship between rates of economic growth and exports, and that applies both to Canada and the ten Latin American countries.

The export policies followed by each country have varied and their effectiveness depended, among other things, on the specific commodity sectors involved and the working of world markets and their accessibility to the countries which are subject to analysis in this thesis.

In general, the neglect of primary production, industrialization at any cost, exchange controls, overvalued currencies and nationalism were some of the internal factors that had damaging effects on exports. Among the external factors which adversely affected Latin American exports were

6.- Kaldor, N., "The Role of Taxation in Economic Development", Edited by E.A.G. Robinson, Problems in Economic Development, Proceedings of a Conference held by the International Economic Association, University of Vienna, Vienna, September, 1962, St. Martin's Press, New York, 1966, p. 189.

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mainly demand changes and price fluctuations on world markets.

National Infrastructure

By 1965, every Latin American government was committed to a programme of economic and social development with the main emphasis on creating and developing a national infrastructure and expanding secondary industries.

The major reason for governmental participation in the economic development of the countries concerned was that there was a shortage of capital resources in the private sector necessary for economic growth. As Professor Alexander points out, "Governments have done so, for reasons of necessity rather than because of any ideological bias".⁷

The principle, except in special cases, was that governments should only engage in economic activities in which the private sector is not willing to act.

Policies Affecting Foreign Capital

Policies affecting foreign capital differed substantially from country to country.

In general, interest in attracting direct foreign investment found its concrete expression through different but often interrelated economic policies, such as reduction

7.- Alexander, R.J., Today's Latin America, Anchor Books, Garden City, New York, 1968, p. 75.

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or abolition of exchange controls, removal of obstacles to capital movements and interest and dividend payments, tax concessions and other incentives.

Broadly speaking, Latin Americans agreed that private foreign capital was necessary. But they argued that foreign funds should be invested in accord to the directions given by the government of each country. Some Latin Americans also preferred to borrow from international agencies where possible, rather than to use available private foreign capital.

Summing up, a high level of investment, both foreign and domestic, was desirable and necessary, and there was a need for both types of capital in order to stimulate economic growth.

Latin American Common Market

The ten Latin American countries have traditionally been exporters of agricultural and mineral products, and importers of manufactured goods. Dr. Prebisch stressed the disadvantages of such a trade pattern by making the point that one of the consequences was a continuous deterioration of the terms of trade. The solution suggested was industrialization so that the countries concerned would no longer be dependent on imports for the major part of the manufactured goods. Domestically produced consumer goods would substitute imported consumer goods, and Latin American

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countries could use the earnings of their exports to buy the necessary capital equipment to further increase and sustain economic growth.

Dr. Prebisch also stressed the need to widen and deepen a country's markets so that sufficient large firms could be established to benefit from the economies of scale. Many of the countries had domestic markets too small to sustain economically efficient industries. Hence, they depended to some extent on their ability to export. The solution to the problem of benefiting from the economies of scale was to create an integrated market covering all the Latin American countries. Such a course, if wisely evolved, would provide strong stimulus to increasing industrialization in all the member nations.

The adoption of the Montevideo Treaty in 1960, establishing the Latin American Free Trade Area (LAFTA), was the first step in this direction. The signatory countries agreed to a gradual reduction in tariffs among themselves. However, the many escape clauses and the long discussions involved in obtaining the reductions contributed to a sense of discouragement among the LAFTA members.

To try to revitalize this organization, President Frei of Chile asked four leading economists, Dr. Prebisch being one of them, to serve as a committee to recommend changes in LAFTA. This committee recommended the establishment of a Latin American Common Market with a common

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external tariff. As a result, the presidents of the mentioned countries and of the United States met in April 1967 at Punta del Este in Uruguay, and they decided to establish progressively a Latin American Common Market beginning in 1970 and to have it in full operation by 1985.

They believed that the opportunity to sell in a broader market would attract a greater volume of foreign capital, just as the creation of the European Economic Community has attracted capital from outside. This foreign capital acting as a "big push", would contribute to increase the rate of economic growth for the Latin American countries as a whole.

Most of the Latin American countries have achieved substantial rates of economic growth, comparable to, and in some cases greater than the Canadian rate of economic growth during the decade 1955-1965.

However, the rapid growth in the Latin American population requires a higher rate of economic growth if a satisfactory rise in its standard of living is to take place, and also if the gap between the standard of living of the Canadian people and that of Latin Americans is to be reduced significantly.

A rapidly and continuously growing economy requires an increasing volume of capital investment and imports. Thus, a major conclusion is that sustained economic growth of an adequate rate will require an increasing effort to

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promote international trade and a larger inflow of private and public funds to the ten Latin American countries. Both of these factors have already brought beneficial results to the Canadian economy.

APPENDIX A

This appendix contains all of the data used for
the statistical analyses in the previous Chapters.¹

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- 1.- In interpreting the data, the reader must keep in mind the possible bias which exists as a consequence of the method employed in calculating annual average rates.

Table 1

GROSS NATIONAL PRODUCT AT MARKET PRICES IN TERMS OF CONSTANT NATIONAL CURRENCY,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.

YEAR BASE COUNTRY (1)	COUNTRY	CURRENCY	1955	1960	1965	Annual Average Rate of Increase - Percent		
						1955-1960	1960-1965	1955-1965
1957	CANADA	Million Can.\$	28.977	34.193	44.647	3.6	6.1	5.4
1960	ARGENTINA	Thou.Mill.Pesos	820	957	1.129	3.4	3.6	3.8
1963	BOLIVIA	Million Pesos	4.761 ⁽²⁾	5.000	6.348	1.7 ⁽³⁾	5.4	4.1 ⁽⁴⁾
1953	BRAZIL	Thou.Mill.Cruzeiros	497	654	829 ⁽⁷⁾	6.3	5.3	6.6
1961	CHILE	Million Escudos	4.288	5.264	6.460	4.5	4.5	5.1
1958	COLOMBIA	Million Pesos	18.770	22.787	28.061	4.3	4.6	5.4
1960	ECUADOR	Million Sucres	11.200 ⁽⁵⁾	13.742	16.948	4.5	4.6	5.1
1962	PARAGUAY	Million Guaranies	34.729 ⁽⁶⁾	39.065 ⁽⁶⁾	48.957 ⁽⁷⁾	2.4	5.0	4.0
1963	PERU	Thou.Mill. Soles	52	64	89	4.6	7.7	6.9
1961	URUGUAY	Million Pesos	16.586	16.751	17.546	0.2	0.9	0.5
1960	VENEZUELA	Million Bolivares	23.417	25.620	33.297	3.1	6.0	5.3

Source: Data for all countries except Venezuela from Year Book of National Accounts Statistics: 1966, United Nations, New York, 1967. Data for Venezuela from Economic Survey of Latin America: 1965, United Nations, New York, 1967, p. 270.

- (1) Reflects the value of the currency in the year which has been used to translate current prices into constant prices.
 (2) Data for the year 1958.
 (3) Average based on period 1958-1960.
 (4) Average based on period 1958-1965.
 (5) Estimate for this year adjusted to conform to United Nations definition of GNP, adopted by Ecuador in 1960.
 (6) Estimate for this year adjusted to conform to United Nations definition of GNP, adopted by Paraguay in 1962.
 (7) Special estimate based on "Economic Survey of Latin America: 1965", United Nations, New York, 1967, p. 14.

Table 2
POPULATION, CANADA AND TEN LATIN AMERICAN COUNTRIES,
1955⁽¹⁾, 1960⁽¹⁾ AND 1965⁽¹⁾
(In Thousands)

COUNTRIES	1955	1960	1965	Annual Average Rate of Increase - Percent		
				1955-1960	1960-1965	1955-1965
CANADA	15.736	17.909	19.604	2.6	1.8	2.4
ARGENTINA	18.893	20.669	22.352	1.8	1.6	1.8
BOLIVIA	3.225	3.453	3.697	1.4	1.4	1.4
BRAZIL	60.855	70.967	82.222	3.5	3.1	3.5
CHILE	6.791	7.689	8.591	2.9	2.3	2.6
COLOMBIA	13.172	15.416	18.068	3.4	3.4	3.7
ECUADOR	3.752	4.352	5.150	3.1	3.6	3.7
PARAGUAY	1.565	1.751	2.030	2.3	3.1	2.9
PERU	8.790	10.025	11.650	2.8	3.2	3.2
URUGUAY	2.363	2.536	2.715	1.4	1.4	1.4
VENEZUELA	6.089	7.349	8.722	4.1	3.7	4.3
TOTAL 10 L.A.C.	125.495	144.207	165.197	2.98	2.92	3.0

Source: Demographic Yearbook: 1966, United Nations, New York, 1967
pp. 122-123-124-125.

(1) As of mid-year.

Table 3

GROSS NATIONAL PRODUCT PER CAPITA AT MARKET PRICES IN TERMS OF CONSTANT NATIONAL CURRENCY,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.

YEAR BASE (1)	COUNTRY	CURRENCY	1955	1960	1965	Annual Average Rate of Increase - Percent		
						1955-1960	1960-1965	1955-1965
1957	CANADA	Can. \$	1.842	1.910	2.278	0.7	3.8	2.3
1960	ARGENTINA	Arg. Pesos	43.402	46.301	50.465	1.3	1.8	1.6
1963	BOLIVIA	Bol. "	1.416 ⁽²⁾	1.448	1.717	0.7 ⁽³⁾	3.7	2.6 ⁽⁴⁾
1953	BRAZIL	Cruzeiros	8.166	9.215	10.082	2.5	1.9	2.3
1961	CHILE	Escudos	631	684	751	1.6	1.9	1.9
1958	COLOMBIA	Col. Pesos	1.424	1.543	1.553	1.6	0.1	0.9
1960	ECUADOR	Sucres	2.985	3.155	3.291	1.1	0.9	1.0
1962	PARAGUAY	Guaranies	22.191	22.310	24.116	0.1	1.6	0.8
1963	PERU	Soles	5.802	6.384	7.639	2.0	3.9	3.1
1961	URUGUAY	Uru. Pesos	7.019	7.393	6.462	1.0	-2.8	-0.8
1960	VENEZUELA	Bolivares	3.845	3.486	3.817	-2.0	1.9	-0.1

Source: Calculations based on Tables 1 and 2.

(1) Reflects the value of the currency in the year which has been used to translate current prices into constant prices.

(2) Data for the year 1958 (population, 3,360,000).

(3) Average based on period 1958-1960.

(4) Average based on period 1958-1965.

Table 4
GROSS NATIONAL PRODUCT PER ECONOMICALLY ACTIVE PERSON AT MARKET PRICES
IN TERMS OF CONSTANT NATIONAL CURRENCY,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.

YEAR BASE (1)	COUNTRY	CURRENCY	1955	1960	1965	Annual Average Rate of Increase - Percent		
						1955-60	1960-1965	1955-1965
1957	CANADA	Can. \$	5.402	5.061	6.506	-1.2	5.7	2.0
1960	ARGENTINA	Arg. Pesos	111.276	121.833	136.501	1.9	2.4	2.2
1963	BOLIVIA	Bol. "	3.050 ⁽²⁾	3.170	3.955	1.9 ⁽³⁾	4.9	4.2 ⁽⁴⁾
1953	BRAZIL	Cruzeiros	24.974	28.530	31.507	2.8	2.0	2.6
1961	CHILE	Escudos	1.804	2.112	2.449	3.4	3.1	3.5
1958	COLOMBIA	Col. Pesos	4.439	4.829	5.283	1.7	1.8	1.9
1960	ECUADOR	Sucres	8.478	9.596	10.513	2.6	1.9	2.4
1962	PARAGUAY	Guaranies	66.024	65.217	71.890	-0.2	2.0	0.9
1963	PERU	Soles	17.925	20.265	25.043	2.6	4.7	3.9
1961	URUGUAY	Uru. Pesos	19.264	17.412	16.475	-1.9	-1.0	-1.4
1960	VENEZUELA	Bolivares	11.581	10.823	12.233	-1.3	2.6	0.5

Source: Calculations based on Tables 1 and 11.

(1) Reflects the value of the currency in the year which has been used to translate current prices into constant prices.

(2) Data for the year 1958 (Economically Active Population, 1,561,000).

(3) Average based on period 1958-1960.

(4) Average based on period 1958-1965.

GROSS NATIONAL PRODUCT AT MARKET PRICES IN CURRENT U.S. \$,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.
(In Millions of U.S. Dollars)

COUNTRIES	1955	1960	1965	Percent Distribution		
				1955	1960	1965
CANADA	27.136	36.318	68.368	-	-	-
ARGENTINA	12.251	11.566	17.967	33.9	26.6	27.8
BOLIVIA	390 ⁽¹⁾	376	606	1.0 ⁽¹⁾	0.9	0.9
BRAZIL	10.323	11.685	23.108	28.6	26.9	35.7
CHILE	1.629	4.649	4.972	4.6	10.8	7.6
COLOMBIA	3.161	3.619	3.213	8.8	8.4	4.9
ECUADOR	618	786	1.117	1.7	1.8	1.7
PARAGUAY	210	273	414	0.5	0.7	0.6
PERU	1.522	2.074	4.277	4.2	4.8	6.6
URUGUAY	1.252	1.228	1.400	3.4	2.8	2.2
VENEZUELA	4.773	7.084	7.692	13.3	16.3	11.9
TOTAL 10 L.A.C.	36.129	43.340	64.766	100.0	100.0	100.0
CANADA as PERCENT OF TOTAL 10 L.A. COUNTRIES	-	-	-	75.1	83.7	74.6

Source: Data for the Gross National Product of all countries, except Brazil year 1965, from the Yearbook of National Accounts Statistics: 1966, United Nations, New York, 1967.

Data for Brazil, year 1965, special estimate based on Economic Survey of Latin America: 1965, United Nations, New York, 1967, p. 14.

Data for the Currency Exchange rates from Statistical Abstract of Latin America: 1965, Latin America Center, University of California, Los Angeles, 1966, pp. 115-116.

(1) Data for year 1958.

Table 6

ANNUAL AVERAGE GROWTH RATES OF GROSS DOMESTIC PRODUCT BY SECTORS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955-1960.
(Percent)

COUNTRY	Agriculture Forestry Hunting & Fishing	Mining and Quarrying	Manu- facturing	Con- struction	Elec- tricity Gas and Water	Other Sectors	TOTAL
CANADA	-0.3	9.2	3.1	3.3	11.8	4.1	3.6
ARGENTINA	-0.4	14.3	3.8	4.3	6.1	2.8	2.7
BOLIVIA	2.8	-6.8	-5.0	7.5	(1)	0.5	-0.3
BRAZIL	3.7	14.9	10.3	7.2	10.8	4.6	5.9
CHILE	2.3	3.5	3.2	1.4	3.5	3.7	4.3
COLOMBIA	3.5	6.8	6.1	-0.2	11.7	3.5	3.9
ECUADOR	4.5	4.7	5.6	10.6	5.8	3.7	4.6
PARAGUAY	1.8	0.0	1.2	10.5	11.0	2.3	2.2
PERU	3.8	11.9	6.1	-2.0	(1)	4.1	4.7
URUGUAY	-3.6	(2)	0.9	0.1	4.7	0.2	-0.1
VENEZUELA	6.1	6.6	4.1	1.1	18.1	6.0	6.7

Source: Data for all countries, except Canada, from Economic Survey of Latin America: 1965, United Nations, New York, 1967, pp. 22-23.
Data for Canada, Yearbook of National Accounts Statistics: 1966, United Nations, New York, 1967.

(1) Included under "Other Sectors".

(2) Included under "Manufacturing".

Table 7

ANNUAL AVERAGE GROWTH RATES OF GROSS DOMESTIC PRODUCT BY SECTORS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1960-1965.
(Percent)

COUNTRY	Agriculture Forestry Hunting & Fishing	Mining and Quarrying	Manu- facturing	Con- struction	Elec- tricity Gas and Water	Other Sectors	TOTAL
CANADA	3.2	6.5	8.4	5.3	9.5	4.9	6.0
ARGENTINA	2.1	7.9	4.1	2.0	12.0	1.9	2.8
BOLIVIA	2.0	5.9	6.0	9.3	7.6	5.3	4.8
BRAZIL	6.9	11.1	4.9	2.8	9.7	3.6	4.9
CHILE	3.1	5.0	6.7	4.6	7.4	5.6	3.5
COLOMBIA	3.0	4.4	5.9	1.9	9.2	5.2	4.5
ECUADOR	2.9	3.0	6.3	3.6	8.6	2.9	3.8
PARAGUAY	4.0	8.5	5.9	2.2	4.7	4.0	4.3
PERU	5.9	2.6	7.4	13.3	(1)	6.1	6.3
URUGUAY	1.9	(2)	0.2	-9.1	4.7	0.5	0.4
VENEZUELA	6.6	3.7	9.4	7.9	12.0	4.6	5.4

Source: Data for all countries, except Canada, from Economic Survey of Latin America: 1965, United Nations, New York, 1967, pp. 22-23.
Data for Canada, Yearbook of National Accounts Statistics: 1966, United Nations, New York, 1967.

(1) Included under "Other Sectors".

(2) Included under "Manufacturing".

Table 8

ANNUAL AVERAGE GROWTH RATES OF GROSS DOMESTIC PRODUCT BY SECTORS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955-1965.
(Percent)

Country	Agriculture Forestry Hunting and Fishing	Mining and Quarrying	Manu- facturing	Cons- truction	Electricity Gas and Water	Other Sectors	TOTAL
CANADA	1.4	9.3	6.4	4.7	13.5	5.6	5.4
ARGENTINA	1.2	18.2	6.0	2.0	12.4	3.1	3.7
BOLIVIA	2.1	1.2	2.1	8.3	(1)	3.1	3.5
BRAZIL	5.4	13.6	6.1	3.2	8.3	3.6	5.7
CHILE	1.7	16.0	4.0	8.1	13.1	5.5	5.3
COLOMBIA	3.6	6.9	7.6	1.0	16.3	5.4	5.0
ECUADOR	4.6	3.7	7.9	11.0	10.8	4.9	5.5
PARAGUAY	3.5	13.4	3.1	11.5	9.7	4.5	4.0
PERU	5.1	7.3	5.3	8.4	(1)	4.7	5.1
URUGUAY	-0.4	(2)	0.9	2.2	5.5	0.6	0.4
VENEZUELA	7.7	6.3	11.7	1.2	18.3	7.5	7.4

Source: Yearbook of National Accounts Statistics: 1966, United Nations,
New York, 1967.

(1) Included under "Other Sectors".

(2) Included under "Manufacturing".

Table 9
DISTRIBUTION OF GROSS DOMESTIC PRODUCT BY SECTORS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955.
(Percent)

Country	Agriculture Forestry Hunting & Fishing	Mining and Quarrying	Manu- facturing	Con- struction	Elec- tricity Gas and Water	Other Sectors
CANADA	10.8	4.4	28.4	6.4	3.3	47.7
ARGENTINA	19.6	0.8	29.7	3.9	1.1	44.9
BOLIVIA	26.4	17.4	13.1	2.5	(1)	40.6
BRAZIL	31.0	0.3	18.9	1.1	0.6	48.1
CHILE	12.8	6.9	18.8	3.1	0.8	57.6
COLOMBIA	35.2	3.5	15.4	4.5	0.7	40.7
ECUADOR	36.1	2.4	15.0	3.1	1.1	62.3
PARAGUAY	39.4	0.1	18.1	1.7	0.6	40.1
PERU	23.8	6.4	16.6	4.5	(1)	48.7
URUGUAY	22.7	(2)	19.8	5.0	1.2	51.3
VENEZUELA	7.3	27.0	9.4	5.0	0.9	50.4

Source: Data for all countries, except Canada, from Economic Survey of Latin America: 1965, United Nations, New York, 1967, pp. 24-25.
Data for Canada, Yearbook of National Accounts Statistics: 1966, United Nations, New York, 1967.

(1) Included under "Other Sectors".

(2) Included under "Manufacturing".

Table 10

DISTRIBUTION OF GROSS DOMESTIC PRODUCT BY SECTORS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1960.
(Percent)

Country	Agriculture Forestry, Hunting and Fishing	Mining and Quarrying	Manu- facturing	Construction	Electricity, Gas and Water	Other Sectors
CANADA	10.6	5.5	27.8	6.3	3.2	46.6
ARGENTINA	16.8	1.4	31.3	4.2	1.3	45.0
BOLIVIA	30.6	12.4	10.2	3.9	1.1	41.8
BRAZIL	28.3	0.5	23.4	1.2	0.8	45.8
CHILE	12.2	7.0	18.7	2.8	0.8	58.5
COLOMBIA	34.6	4.0	17.0	3.7	0.9	39.8
ECUADOR	36.0	2.4	15.7	4.1	1.2	40.6
PARAGUAY	38.8	0.1	17.3	2.4	0.8	40.6
PERU	22.9	9.0	17.7	3.2	(1)	47.2
URUGUAY	19.3	(2)	21.2	5.2	1.5	52.8
VENEZUELA	7.2	27.3	10.7	3.9	1.5	49.4

Source: Data for all countries, except Canada, from Economic Survey of Latin America: 1965, United Nations, New York, 1967, pp. 24-25.
Data for Canada, Yearbook of National Accounts Statistics: 1966, United Nations, New York, 1967.

(1) Included under "Other Sectors".

(2) Included under "Manufacturing".

Table 11
DISTRIBUTION OF GROSS DOMESTIC PRODUCT BY SECTORS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1965.
(Percent)

Country	Agriculture Forestry, Hunting and Fishing	Mining and Quarrying	Manu- facturing	Construction	Electricity Gas and Water	Other Sectors
CANADA	9.5	5.6	30.4	6.2	3.6	44.7
ARGENTINA	16.2	1.7	33.2	4.1	1.9	42.9
BOLIVIA	26.9	13.1	10.8	4.8	1.3	43.1
BRAZIL	31.0	0.6	23.4	1.1	1.0	42.9
CHILE	10.9	6.8	19.9	2.7	0.9	58.8
COLOMBIA	32.2	4.0	17.3	3.4	1.1	42.0
ECUADOR	35.7	2.3	17.7	4.1	1.5	38.7
PARAGUAY	38.2	0.2	18.6	2.2	0.9	39.9
PERU	22.5	7.6	18.7	4.5	(1)	46.7
URUGUAY	20.8	(2)	21.0	3.2	1.8	53.2
VENEZUELA	7.7	25.2	12.9	4.4	2.0	47.8

Source: Data for all countries, except Canada, from Economic Survey of Latin America: 1965, United Nations, New York, 1967, pp. 24-25.
Data for Canada, Yearbook of National Accounts Statistics: 1966, United Nations, New York, 1967.

(1) Included under "Other Sectors".

(2) Included under "Manufacturing".

Table 12

GROSS DOMESTIC CAPITAL FORMATION AS PERCENTAGE OF GROSS
NATIONAL PRODUCT AT MARKET PRICES IN TERMS OF CONSTANT NATIONAL CURRENCY,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.

YEAR BASE	COUNTRY	CURRENCY	1955	1960	1965
1957	CANADA	Can. \$	24.1	23.7	25.6
1960	ARGENTINA	Arg. Pesos	17.8	22.7	19.8
1963	Bolivia	Bol. Pesos	13.4 ⁽²⁾	14.1	18.9
1953	BRAZIL	Cruzeiros	12.4 ⁽³⁾	14.3 ⁽³⁾	11.9 ^{(3) (4)}
1961	CHILE	Escudos	10.6	10.9	12.7
1958	COLOMBIA	Col. Pesos	22.0	20.8	17.1
1960	ECUADOR	Sucres	(5)	15.6	14.0
-	PARAGUAY	Guaranies	(5)	(5)	(5)
1963	PERU	Soles	23.0	20.3	24.7
1961	URUGUAY	Ur. Pesos	19.0	16.8	13.7
-	VENEZUELA	Bolivares	(5)	(5)	(5)

Source: Calculations based on data from Yearbook of National Accounts Statistics: 1966, United Nations, New York, 1967; and Table 1.

- (1) - Reflects the value of the currency in the year which has been used to translate current prices into constant price
 (2) - Data for the year 1958.
 (3) - Reflects the gross Domestic Fixed Capital Formation as percentage of Gross National Product.
 (4) - Data for the year 1964.
 (5) - Not available.

Table 13

TOTAL AND ECONOMICALLY ACTIVE POPULATION, CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.⁽¹⁾
(In Thousands)

COUNTRY	TOTAL POPULATION			ECONOMICALLY ACTIVE POPULATION					
				NUMBER			PERCENT		
	1955	1960	1965	1955	1960	1965	1955	1960	1965
CANADA	15.736	17.909	19.604	5.364	5.965	6.862	34.0	33.3	35.0
ARGENTINA	18.893	20.669	22.352	7.369	7.855	8.271	39.0	38.0	37.0
BOLIVIA	3.225	3.453	3.697	1.548	1.577	1.605	48.0	45.7	43.4
BRAZIL	60.855	70.967	82.222	19.900	22.923	26.312	32.7	32.2	32.0
CHILE	6.791	7.689	8.591	2.377	2.492	2.638	35.0	32.4	30.7
COLOMBIA	13.172	15.416	18.068	4.229	4.718	5.312	32.1	30.6	29.4 ⁽²⁾
ECUADOR	3.752	4.352	5.150	1.321	1.432	1.612	35.2	32.9	31.3
PARAGUAY	1.565	1.751	2.030	526	599	681	38.6	34.2	33.5
PERU	8.790	10.025	11.650	2.901	3.158	3.554	38.0	31.5 ⁽³⁾	30.5
URUGUAY	2.363	2.536	2.715	861	962	1.065	36.4	37.9	39.2 ⁽⁴⁾
VENEZUELA	6.089	7.349	8.722	2.022	2.367	2.722	33.2	32.2	31.2
TOTAL 10 L.A. COUNTRIES	125.495	144.207	165.197	43.054	48.083	53.772	34.3	33.3	32.5

Source: Data for Canada and ten Latin American Countries on Population are from Demographic Yearbook: 1966, United Nations, New York, 1967, pp. 122-123-124-125. Data on percentage of Economically Active Population to Total Population for all countries are from Yearbook of Labour Statistics: 1961, 1962, 1963, 1964, 1965, 1966, 1967, International Labour Office, Geneva, 1961, 1962, 1963, 1964, 1965, 1966, 1967, 1968. For years for which ratios were not available, special estimates were prepared on the basis of trend analysis. Estimates of the number of Economically Active Population are based on applying percentage data to Total Population. Data for Canada for 1955 and 1960 are from The Labour Force (Supplement to March 1965 Report), data for 1965 are from The Labour Force Monthly Survey, July 19 Dominion Bureau of Statistics, Ottawa. The data relate to "persons employed" which comes close to the persons employed in Latin American Countries under the description "Economically Active Population".

- (1) As of mid-year.
(2) Ratio applicable to 1964.
(3) Ratio applicable to 1961.
(4) Ratio applicable to 1963.

Table 14

ESTIMATED STRUCTURE OF EMPLOYMENT IN MANUFACTURING,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1960. (1)

COUNTRY	Total Employment in Manufacturing (Thousands of Persons)	PERCENT	
		Factory Sector	Artisan Sector
CANADA	1,496	- (2)	- (2)
ARGENTINA	1,720	38.	42.
BOLIVIA	185	12.	88.
BRAZIL	2,850	56.	44.
CHILE	447	54.	46.
COLOMBIA	748	34.	66.
ECUADOR	251	20.	80.
PARAGUAY	82	22.	78.
PERU	536	38.	62.
URUGUAY	210	71.	29.
VENEZUELA	295	60.	40.
TOTAL 10 LATIN AMERICAN COUNTRIES	7,324	43.	57.

Source: Data for all countries, except Canada, from The Process of Industrial Development in Latin America, Economic Commission for Latin America, United Nations, New York, 1966, p. 75.
Data for Canada relate to the 3 month average May-July 1960 from The Labour Force Monthly, July 1962, Dominion Bureau of Statistics, Ottawa.

(1) As of mid-year.

(2) Not available.

Table 15

INDEX NUMBERS OF INDUSTRIAL EMPLOYMENT,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.
(BASE: 1958 = 100)

Country	1955	1960	1965	Annual Average Rate of Increase - Percent		
				1955-1960	1960-1965	1955-1965
CANADA	97	99	115	0.4	3.2	1.8
ARGENTINA	102	89	73 ⁽¹⁾	-2.5	-5.9 ⁽²⁾	-3.5 ⁽³⁾
BOLIVIA	- (4)	- (4)	- (4)	- (4)	- (4)	- (4)
BRAZIL	103	107	102 ⁽⁵⁾	0.7	-1.1 ⁽⁶⁾	-0.1 ⁽⁷⁾
CHILE	98	102	106 ⁽¹⁾	0.8	1.3	1.0 ⁽³⁾
COLOMBIA	91	107	109 ⁽⁸⁾	3.5	1.8 ⁽⁹⁾	3.2 ⁽¹⁰⁾
ECUADOR	- (4)	102	113	- (4)	2.1	- (4)
PARAGUAY	- (4)	- (4)	- (4)	- (4)	- (4)	- (4)
PERU	89	117	123 ⁽⁸⁾	6.2	5.1 ⁽⁹⁾	6.3 ⁽¹⁰⁾
URUGUAY	82	106 ⁽¹¹⁾	- (4)	7.3 ⁽¹²⁾	- (4)	- (4)
VENEZUELA	84	94	126	2.3	6.8	5.0

Source: The Growth of World Industry: 1938-1961, United Nations, New York, 1963.
The Growth of World Industry: 1953-1965, United Nations, New York, 1967.

- (1) Applies to 1963.
- (2) Covers 1960-1963.
- (3) Covers 1955-1963.
- (4) Not available.
- (5) Applies to 1964.
- (6) Covers 1960-1964.
- (7) Covers 1955-1964.
- (8) Applies to 1961.
- (9) Covers 1960-1961.
- (10) Covers 1955-1961.
- (11) Applies to 1959.
- (12) Covers 1955-1959.

Table 16

INDEX NUMBERS OF EMPLOYMENT IN MANUFACTURING,
CANADA AND SIX LATIN AMERICAN COUNTRIES
SELECTED YEARS, 1956-1965. (1)
(BASE: 1958= 100)

COUNTRY	1956	1957	1959	1960	1962	1964	1965
CANADA	105	105	101	100	103	106	116
ARGENTINA	102	101	96	88	81	70	(2)
CHILE	(2)	106	102	100	102	108	(2)
COLOMBIA	98	100	104	107	112	113	113
ECUADOR	100	100	101	102	107	112	(2)
PERU	96	120	106	118	139	(2)	(2)
VENEZUELA	(2)	(2)	106	109	104	117	122

Source: Statistical Yearbook: 1966, United Nations, New York, 1967.

(1) Mid-year.

(2) Not available.

Table 17

INDICES OF AGRICULTURAL PRODUCTION, 1954-1964,
AND OF MANUFACTURING PRODUCTION, 1958-1964,
CANADA AND TEN LATIN AMERICAN COUNTRIES.

Country	AGRICULTURAL PRODUCTION (BASE: 1954 = 100)		MANUFACTURING PRODUCTION (BASE: 1958 = 100)	
	1964	Annual Average Rate of Increase Percent	1964	Annual Average Rate of Increase Percent
CANADA	127	2.7	143	7.1
ARGENTINA	122	2.2	91	-1.5
BOLIVIA	160	6.0	- (1)	- (1)
BRAZIL	131	3.1	157	9.5
CHILE	122	2.2	144	7.4
COLOMBIA	135	3.5	163	10.5
ECUADOR	195	9.5	146	7.7
PARAGUAY	117	1.7	95	-0.8
PERU	136	3.6	144	7.4
URUGUAY	110	1.0	- (1)	- (1)
VENEZUELA	176	7.6	162	10.3

Source: Data for all countries except Canada, from How Low Income Countries can advance their own Growth, Committee for Economic Development, New York, 1966, pp. 68-69.
 Data for Agricultural Production of Canada, from Statistical Yearbook, 1965, United Nations, New York, 1966.
 Data for Manufacturing Production of Canada, from The Growth of World Industry: 1953-1965, United Nations, New York, 1967.

(1) Not available.

Table 18

INDEX NUMBERS OF INDUSTRIAL PRODUCTION,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.
(BASE: 1958 = 100)

COUNTRY	1955	1960	1965	Annual Average Rate of Increase Percent		
				1955-1960	1960-1965	1955-1965
CANADA	92	111	157	4.1	8.2	7.0
ARGENTINA	94	92	102 ⁽¹⁾	-0.9	10.8 ⁽²⁾	1.4 ⁽³⁾
BOLIVIA	- (4)	- (4)	- (4)	- (4)	- (4)	- (4)
BRAZIL	76	126	138 ⁽⁵⁾	13.1	2.3 ⁽⁶⁾	9.0 ⁽⁷⁾
CHILE	93	112	152	4.0	7.1	6.3
COLOMBIA	87	118	149 ⁽⁵⁾	7.1	6.5 ⁽⁶⁾	7.9 ⁽⁷⁾
ECUADOR	81	126	145 ⁽⁸⁾	11.1	7.5 ⁽⁹⁾	11.2 ⁽¹⁰⁾
PARAGUAY	- (4)	- (4)	- (4)	- (4)	- (4)	- (4)
PERU	77	129	203 ⁽⁵⁾	13.5	14.3 ⁽⁶⁾	18.1 ⁽⁷⁾
URUGUAY	94	99	101	1.0	0.4	0.7
VENEZUELA	78	115	146	9.4	5.4	8.7

Source: The Growth of World Industry: 1938-1961, United Nations, New York, 1963.
The Growth of World Industry: 1953-1965, United Nations, New York, 1967.

- (1) Applies to 1961.
- (2) Covers 1960-1961.
- (3) Covers 1955-1961.
- (4) Not available.
- (5) Applies to 1964.
- (6) Covers 1960-1964.
- (7) Covers 1955-1964.
- (8) Applies to 1962.
- (9) Covers 1960-1962.
- (10) Covers 1955-1962.

Table 19

INDEX NUMBERS OF MANUFACTURING PRODUCTION,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1958, 1960 AND 1965.
(BASE: 1958 = 100)

COUNTRY	1958	1960	1965	Annual Average Rate of Increase Percent		
				1958-1960	1960-1965	1958-1965
CANADA	100	109	155	4.5	9.2	7.8
ARGENTINA	100	98	120	-1.	4.4	2.8
BOLOVIA	100	- (1)	- (1)	- (1)	- (1)	- (1)
BRAZIL	100	125	157 ⁽²⁾	12.5	8.0 ⁽³⁾	9.5 ⁽⁴⁾
CHILE	100	112	153	6.0	8.2	7.5
COLOMBIA	100	117	150 ⁽²⁾	8.5	8.2 ⁽³⁾	8.3 ⁽⁴⁾
ECUADOR	100	125	145 ⁽⁵⁾	12.5	10.0 ⁽⁶⁾	7.5 ⁽⁷⁾
PARAGUAY	100	- (1)	- (1)	- (1)	- (1)	- (1)
PERU	100	125	178 ⁽²⁾	12.5	13.5 ⁽³⁾	13.1 ⁽⁴⁾
URUGUAY	100	99	102	-0.5	0.6	0.2
VENEZUELA	100	121	191	10.5	14.0	13.0

Source: The Growth of World Industry: 1953-1965, United Nations, New York, 1967.

- (1) Not available.
- (2) Applies to 1964.
- (3) Covers 1960-1964.
- (4) Covers 1958-1964.
- (5) Applies to 1962.
- (6) Covers 1960-1962.
- (7) Covers 1958-1964.

Table 20

INDEX NUMBERS OF AGRICULTURAL PRODUCTION,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.
(BASE: 1955 = 100)

COUNTRY	1955	1960	1965	Annual Average Rate of Increase Percent		
				1955-1960	1960-1965	1955-1965
CANADA	100	106	118	1.2	2.2	1.8
ARGENTINA	100	99	123	-0.2	5.1	2.3
BOLIVIA	- (1)	- (1)	- (1)	- (1)	- (1)	- (1)
BRAZIL	100	131	148	6.2	2.6	4.8
CHILE	100	114	125	2.8	1.9	2.5
COLOMBIA	100	108	129	1.6	3.9	2.9
ECUADOR	- (1)	- (1)	- (1)	- (1)	- (1)	- (1)
PARAGUAY	- (1)	- (1)	- (1)	- (1)	- (1)	- (1)
PERU	100	112	120	4.5	1.4	2.0
URUGUAY	100	90	103	-2.0	2.9	0.3
VENEZUELA	100	133	182	6.6	7.3	8.2

Source: Statistical Yearbook: 1966, United Nations, New York, 1967.

(1) Not available.

Table 21

INDEX NUMBERS OF MINING PRODUCTION,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1958, 1960 AND 1965.
(BASE: 1958 = 100)

COUNTRY	1958	1960	1965	Annual Average Rate of Increase Percent		
				1958-1960	1960-1965	1958-1965
CANADA	100	113	150	6.5	7.4	7.1
ARGENTINA	100	165	238 ⁽¹⁾	32.5	26.3 ⁽²⁾	27.6 ⁽³⁾
BOLIVIA	100	- (4)	- (4)	- (4)	- (4)	- (4)
BRAZIL	100	142	179 ⁽¹⁾	21.0	12.3 ⁽²⁾	15.8 ⁽³⁾
CHILE	100	113	141	6.5	5.6	5.8
COLOMBIA	100	120	136 ⁽⁵⁾	10.0	4.0 ⁽⁶⁾	6.0 ⁽⁷⁾
ECUADOR	100	- (4)	- (4)	- (4)	- (4)	- (4)
PARAGUAY	100	- (4)	- (4)	- (4)	- (4)	- (4)
PERU	100	132	247	16.0	23.0	21.0
URUGUAY	100	- (4)	- (4)	- (4)	- (4)	- (4)
VENEZUELA	100	112	128	6.0	3.2	4.0

Source: The Growth of World Industry: 1953-1965, United Nations, New York, 1967.

- (1) Applies to 1963.
- (2) Covers 1960-1963.
- (3) Covers 1958-1963.
- (4) Not available.
- (5) Applies to 1964.
- (6) Covers 1960-1964.
- (7) Covers 1958-1964.

Table 22

STEEL PRODUCTION,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1956, 1960 AND 1965.
(In Thousand Metric Tons)

COUNTRY	1956	1960	1965	Annual Average of Rate Increase Percent		
				1956-1960	1960-1965	1956-1965
CANADA	4809	5270	9098	2.3	14.5	9.9
ARGENTINA	202	277	1360	9.2	78.1	63.6
BOLIVIA	- (1)	- (1)	- (1)	- (1)	- (1)	- (1)
BRAZIL	1375	1843	2896	8.5	11.4	12.3
CHILE	381	422	441	2.6	0.9	1.7
COLOMBIA	90	157	204	18.6	5.9	14.1
ECUADOR	- (1)	- (1)	- (1)	- (1)	- (1)	- (1)
PARAGUAY	- (1)	- (1)	- (1)	- (1)	- (1)	- (1)
PERU	7 ⁽²⁾	60	81	378.5 ⁽³⁾	7.0	151.0 ⁽⁴⁾
URUGUAY	- (1)	10	13	- (1)	6.0	- (1)
VENEZUELA	- (1)	47	625	- (1)	245.9	- (1)
TOTAL 10 LATIN AMERICAN COUNTRIES	2055	2816	5620	9.2	19.9	19.2

Source: Statistical Yearbook: 1965, 1966, United Nations, New York, 1965, 1966.

(1) Not available.

(2) Applies to 1958

(3) Covers 1958-1960

(4) Covers 1958-1965.

Table 23

CEMENT PRODUCTION,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1956, 1960 AND 1965.
(In Thousands of Tons)

COUNTRY	1956	1960	1965	Annual Average Rate of Increase Percent		
				1956-1960	1960-1965	1956-1965
CANADA	4.638	5.338	7.644	3.7	8.6	7.2
ARGENTINA	2.040	2.612	1.827	7.0	-6.0	-1.1
BOLIVIA	33	25	60	-6.0	28.0	9.0
BRAZIL	3.245	4.442	4.077	9.0	-1.7	2.8
CHILE	771	835	1.040	2.0	4.9	3.8
COLOMBIA	1.220	1.384	1.549	3.3	2.3	2.9
ECUADOR	151	200	271	8.0	7.0	8.8
PARAGUAY	13	14	24	1.9	14.2	9.4
PERU	551	599	828	2.1	7.6	5.5
URUGUAY	348	393	431	3.2	1.9	2.6
VENEZUELA	1.451	1.487	1.178	0.6	-4.1	-2.0
TOTAL 10 LATIN AMERICAN COUNTRIES	9.823	11.991	11.285	5.5	-1.1	1.6

Source: Data for all countries, except Canada, from Statistical Bulletin for Latin America, Vol. III, No. 1, United Nations, New York, 1966.
Data for Canada, from Statistical Yearbook, 1966, United Nations, New York, 1967, pp. 298-299.

Table 24

ELECTRICAL ENERGY PRODUCTION,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1958, 1960 AND 1965.
(In Thous. Million of K.W.H.)

COUNTRY	1958	1960	1965	Annual Average of Rate Increase Percent		
				1958-1960	1960-1965	1958-1965
CANADA	97.468	114.378	144.274	8.6	5.2	6.8
ARGENTINA	9.418	10.457	14.700	5.5	8.1	8.0
BOLIVIA	443	446	568	0.3	5.4	4.0
BRAZIL	19.765	22.865	30.128	7.5	6.3	7.4
CHILE	4.145	4.591	6.131	5.3	6.7	6.8
COLOMBIA	3.050	3.750	6.000	11.4	12.0	13.8
ECUADOR	323	398	590	10.0	10.4	11.8
PARAGUAY	82	95	188	7.9	19.5	18.4
PERU	2.011	2.645	3.808	15.7	8.7	12.7
URUGUAY	1.236	1.244	1.649	0.3	6.5	4.7
VENEZUELA	2.250	4.651	8.171	53.3	15.1	37.5
TOTAL 10 LATIN AMERICAN COUNTRIES	42.723	51.132	71.933	9.8	8.1	9.7

Source: Data for all countries, except Canada, from Statistical Bulletin for Latin America, Vol. IV, No. 1, United Nations, New York, 1967.
Data for Canada, from Statistical Yearbook 1966, United Nations, New York, 1967.

Table 25

PRODUCTION⁽¹⁾ OF ELECTRIC POWER, TOTAL, PER CAPITA AND PER ECONOMICALLY ACTIVE POPULATION,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1965.

COUNTRY	TOTAL PRODUCTION ⁽²⁾ (In Thous.Mill. K.W.H.)	PER CAPITA CONSUMPTION (In K.W.H.)	PER ECONOMICALLY ACTIVE PERSON CONSUMPTION (In K.W.H.)
CANADA	144.274	7.355	21.025
ARGENTINA	14.979	670	1.811
BOLIVIA	0.554	149	345
BRAZIL	30.128	366	1.145
CHILE	6.131	715	2.324
COLOMBIA	6.544	362	1.231
ECUADOR	0.572	111	354
PARAGUAY	0.136	66	199
PERU	3.839	329	1.080
URUGUAY	1.975	727	1.854
VENEZUELA	8.241	944	3.027
TOTAL 10 L.A. COUNTRIES	73.099	443	1.359

Source: World Energy Supplies: 1962-1965, United Nations, New York, 1967.

(1) Covers hydro and nuclear power.

(2) Equals consumption of electric power in all cases except Canada where a small net imports of 13 million kilowat hours have to be added to production to arrive at total consumption.

Table 26

PRIVATE CONSUMPTION EXPENDITURE PER CAPITA AT MARKET PRICES IN CURRENT U.S. \$,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.

COUNTRY	1955	1960	1965	Annual Average Rate of Increase - Percent		
				1955-1960	1960-1965	1955-1965
CANADA	1.106	1.320	1.525	3.8	3.1	3.7
ARGENTINA	476	390	558	-3.6	8.6	1.7
BOLIVIA	98 ⁽¹⁾	92	125	-3.0 ⁽²⁾	7.1	3.4 ⁽³⁾
BRAZIL	120	114	315	-1.0	35.5	16.3
CHILE	194	500	449	31.5	-2.0	13.1
COLOMBIA	184	178	137	-0.6	-4.6	-2.5
ECUADOR	(4)	132	162	(4)	4.5	(4)
PARAGUAY	(4)	(4)	(4)	(4)	(4)	(4)
PERU	130	143	264	3.0	16.9	10.3
URUGUAY	419	383	460 ⁽⁵⁾	-1.7	4.0 ⁽⁶⁾	0.9 ⁽⁷⁾
VENEZUELA	(4)	703	548	(4)	-4.4	(4)

Source: Calculation based on data for Private Consumption Expenditure of all countries from the Yearbook of National Accounts Statistics: 1966, United Nations, New York, 1967. Data for Population from Demographic Yearbook: 1966, United Nations, New York, 1967. Data for the Currency Exchange rates from Statistical Abstract of Latin America: 1965, Latin American Center, University of California, Los Angeles, 1966, pp. 115-116.

(1) Data for the year 1958.

(2) Average based on period 1958-1960.

(3) Average based on period 1958-1965.

(4) Not available.

(5) Data for the year 1964.

(6) Average based on period 1960-1964.

(7) Average based on period 1955-1964.

Table 27

PRIVATE CONSUMPTION EXPENDITURE PER CAPITA AT MARKET PRICES IN TERMS OF CONSTANT NATIONAL CURRENCY,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.

YEAR BASE (1)	COUNTRY	CURRENCY	1955	1960	1965	Annual Average Rate of Increase Percent		
						1955-1960	1960-1965	1955-1965
1957	CANADA	Can. \$	1.162	1.251	1.454	1.5	3.2	2.5
1960	ARGENTINA	Arg. Pesos	27.682	32.328	36.118	3.3	2.3	3.0
1963	BOLIVIA	Bol. Pesos	1.284 ⁽²⁾	1.222	1.425	-2.4 ⁽³⁾	3.3	1.2
1953	BRAZIL	Cruzeiros	5.964	6.580	(5)	2.0	(5)	(5)
1961	CHILE	Escudos	508	565	597	2.2	1.1	1.7
1958	COLOMBIA	Col. Pesos	1.087	1.111	1.182	0.4	1.2	0.8
1960	ECUADOR	Sucres	(5)	3.325	2.460	(5)	1.2	(5)
-	PARAGUAY	Guaranies	(5)	(5)	(5)	(5)	(5)	(5)
1963	PERU	Soles	4.254	4.309	5.444	0.2	5.2	2.7
1961	URUGUAY	Ur. Pesos	5.425	5.100	4.961 ⁽⁶⁾	-1.1	-0.6 ⁽⁷⁾	-0.9 ⁽⁸⁾
1960	VENEZUELA	Bolivares	(5)	1.907	1.937 ⁽⁶⁾	(5)	0.3 ⁽⁷⁾	(5)

Source: Calculations based on data for Private Consumption Expenditure of all countries except Venezuela from the Yearbook of National Accounts Statistics: 1966, United Nations, New York, 1967. Data for Venezuela from the Economic Survey of Latin America: 1964, United Nations, New York, 1966, p. 114. Data for Population Table 2.

(1) Reflects the value of the currency in the year which has been used to translate current prices into constant prices.

(2) Data for the year 1958.

(3) Average based on period 1958-1960.

(4) Average based on period 1958-1965.

(5) Not available.

(6) Data for the year 1964.

(7) Average based on period 1960-1964.

(8) Average based on period 1955-1964.

Table 28

INDEX NUMBERS OF CONSUMER PRICES,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.
(BASE: 1958 = 100)

COUNTRY	1955	1960	1965	Annual Average Rate of Increase Percent		
				1955-1960	1960-1965	1955-1965
CANADA	93.0	102.3	110.9	2.0	1.6	1.9
ARGENTINA	54.0	272.0	771.0	80.7	36.6	132.7
BOLIVIA	16.2	134.2	172.0	145.6	5.6	90.0
BRAZIL	60	185.0	2,048.0	41.6	201.4	331.3
CHILE	40	155.0	515.0	57.7	46.4	118.7
COLOMBIA	71.1	111.3	199.3	11.3	15.8	18.0
ECUADOR	102.7	101.5	123.4	-0.2	4.3	2.0
PARAGUAY	66.9	120.3	152.2 ⁽¹⁾	15.9	26.5 ⁽²⁾	12.7 ⁽³⁾
PERU	81.8	122.4	156.3	9.9	5.5	9.1
URUGUAY	69.5	193.2	224.2	35.6	3.2	22.2
VENEZUELA	96.7	108.7	109.0	2.4	0.05	1.2

Source: Yearbook of Labour Statistics, 1965, 1966,
International Labour Office, Geneva, 1966, 1967.

(1) Applies to 1961.

(2) Covers 1960-1961.

(3) Covers 1955-1961.

Table 29

INDEX NUMBERS OF WHOLESALE PRICES,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.
(BASE: 1958 = 100)

COUNTRY	1955	1960	1965	Annual Average Rate of Increase Percent		
				1955-1960	1960-1965	1955-1965
CANADA	96	101	110	1.0	1.7	1.4
ARGENTINA	61	270	767	68.5	36.8	115.7
BOLIVIA	- (1)	- (1)	- (1)	- (1)	- (1)	- (1)
BRAZIL	67	181	1.925	34.0	192.7	277.3
CHILE	34	137	429	60.5	42.6	116.1
COLOMBIA	63	114	201	16.1	15.2	21.9
ECUADOR	98	97	112	-0.2	3.0	1.4
PARAGUAY	- (1)	- (1)	- (1)	- (1)	- (1)	- (1)
PERU	82	145	147 ⁽²⁾	15.3	0.6 ⁽³⁾	11.3 ⁽⁴⁾
URUGUAY	- (1)	- (1)	- (1)	- (1)	- (1)	- (1)
VENEZUELA	107	103	122	-0.7	3.6	1.4

Source: Statistical Yearbook: 1965-1966, United Nations, New York, 1966, 1967.
Tables 176 and 177 respectively.

(1) Not available.

(2) Applies to 1962.

(3) Covers 1960-1963.

(4) Covers 1955-1962.

Table 30

BALANCE OF PAYMENTS, CREDITS AND DEBITS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1961.
(IN MILLIONS OF U.S. DOLLARS)

COUNTRY	GOODS AND SERVICES		TRANSFER PAYMENTS		CAPITAL AND MONETARY GOLD				Net Error and Omissions	
	Credit	Debit	Credit	Debit	NON-MONETARY SECTORS		MONETARY SECTORS		C	D
					Credit	Debit	Credit	Debit		
CANADA	7380	8063	122	315	1036	-	-	94	-	-
ARGENTINA	1195.0	1768.0	6.0	18.0	390.0	-	124.0	-	71.0	-
BOLIVIA	68.3	96.9	22.7	0.5	13.7	-	-	0.5	-	6.8
BRAZIL	1540.0	1816.0	32.0	17.0	333.0	-	-	121.0	49.0	-
CHILE	521.1	823.0	24.2	0.6	170.9	-	130.3	-	-	22.9
COLOMBIA	578.1	720.7	11.4	2.8	64.9	-	78.4	-	-	9.3
ECUADOR	141.7	169.9	7.5	0.4	8.2	-	15.1	-	-	2.2
PARAGUAY	49.6	62.8	5.3	0.3	7.5	-	-	1.1	1.8	-
PERU	571.1	587.5	8.4	0.3	18.6	-	-	34.9	24.6	-
URUGUAY	220.8	243.5	5.4	0.9	30.5	-	-	22.0	9.7	-
VENEZUELA	2562.0	2005.0	-	84.0	-	428.0	31.0	-	-	76.0
TOTAL 10 L.A. COUNTRIES	7447.7	8293.3	122.9	124.8	1037.3	428.0	378.8	179.5	156.1	117.2

Source: Balance of Payments Yearbook, Vol. 18, International Monetary Fund, Washington, D.C., 1967

Table 31

BALANCE OF PAYMENTS, CREDITS AND DEBITS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1965.
(IN MILLIONS OF U.S. DOLLARS)

COUNTRY	GOODS AND SERVICES		TRANSFER PAYMENTS		CAPITAL AND MONETARY GOLD				Net Error and Omissions	
	Credit	Debit	Credit	Debit	NON-MONETARY SECTORS		MONETARY SECTORS			
					Credit	Debit	Credit	Debit	C	D
CANADA	10.314.0	11.170.0	233.0	374.0	718.0	-	279.0	-	-	-
ARGENTINA	1.562.0	1.438.0	4.0	6.0	-	102.0	-	122.0	2.0	-
BOLIVIA	126.0	165.5	16.4	0.4	35.2	-	-	13.5	1.8	-
BRAZIL	1.742.0	1.544.0	75.0	10.0	155.0	-	-	448.0	30.	-
CHILE	787.4	835.7	12.8	3.6	61.1	-	-	54.2	32.2	-
COLOMBIA	708.5	725.6	15.9	4.0	-	0.2	-	48.9	54.3	-
ECUADOR	200.2	226.0	7.6	0.2	14.1	-	11.5	-	-	7.2
PARAGUAY	66.5	75.5	4.8	0.6	10.2	-	-	4.8	-	0.6
PERU	776.2	942.6	17.1	1.0	200.4	-	-	21.7	-	28.4
URUGUAY	252.8	184.0	4.3	1.1	38.8	-	0.5	-	-	111.3
VENEZUELA	2.565.0	2.484.0	9.0	95.0	71.0	-	14.0	-	-	80.
TOTAL 10 L.A. COUNTRIES	58.886.6	8.620.9	166.9	121.9	585.8	102.2	26.0	713.1	120.3	227.5

Source: Balance of Payments Yearbook, Vol. 18, International Monetary Fund, Washington, D.C., 1967.

Table 32

EXPORTS OF GOODS AND SERVICES AS A PERCENT OF GROSS NATIONAL PRODUCT
AT MARKET PRICES IN CURRENT U.S. \$,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1961 AND 1965.

COUNTRY	1961	1965	Annual Average Rate of Increase Percent
			1961-1965
CANADA	20.5	21.3	0.9
ARGENTINA	8.7	9.2	1.4
BOLIVIA	16.6	20.7	6.1
BRAZIL	14.1	7.5	-11.7
CHILE	10.0	15.8	14.5
COLOMBIA	17.2	22.0	6.9
ECUADOR	16.9	17.9	1.4
PARAGUAY	15.5	16.0	0.8
PERU	24.5	18.1	-6.5
URUGUAY	14.0	18.0	7.5
VENEZUELA	34.9	33.3	-1.1

Source: Data for G.N.P., year 1961, from Yearbook of National Accounts Statistics: 1966, United Nations, New York, 1967.
Data for Exchange Rates, year 1961, from Yearbook of Labour Statistics: 1965, International Labour Office, Geneva, 1966.
Data for G.N.P., year 1965, from Table 4.
Data for Exports of Goods and Services, years 1961 and 1965, from Tables 28 and 29 respectively.

Table 33

BALANCE OF PAYMENTS BY TYPES OF MAJOR FLOWS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1958.
(In Millions of U.S. Dollars)

COUNTRY	Merchandise (Including non-monetary gold)		Freight and Insurance on Merchan- dise	Invest- ment Income	Other Services and Private Transfer Payments	Central Govern- ment Transfer Payments	Non-Monetary Sectors Capital		Monetary Sectors' Capital		Net Errors and Omission
	Exports	Imports					Private	Central Govern- ment	Private Institu- tions	Central Institu- tions	
	f.o.b.	f.o.b.									
CANADA	5.426	-5.387	-19	-489	-642	-55	1.080	163	-77		-
ARGENTINA	494	-1.233	33	-31	-22	-	7	37	-	214	1
BOLIVIA	51	-74	-11	- 7	- 3	29	8	-	1	3	3
BRAZIL	1.244	-1.179	-117	-114	-110	3	276	-23	7	193	-180
CHILE	364	-427	11	-55	14	16	42	-8	-6	28	21
COLOMBIA	539	-384	-2	-62	-30	2	-70	4	-11	15	-1
ECUADOR	138	-102	-14	-22	-13	4	6	-2	-	-2	7
PARAGUAY	34	-45	-6	-1	1	2	13	-1	1	-	2
PERU	292	-331	-46	-32	12	6	102	4	-1	13	-19
URUGUAY	139	-151	1	-4	3	1	14	-4	1	14	-14
VENEZUELA	2.508	-1.512	-191	-606	-322	-	-4	-274	-13	396	12
TOTAL 10 L.A. COUNTRIES	6.303	-5.438	-332	-928	-470	63	394	-267	-21	874	-168

Source: Balance of Payments Yearbook, Vol. 12-18, International Monetary Fund, Washington, D.C., 1961, 1967.

Table 34

BALANCE OF PAYMENTS BY TYPES OF MAJOR FLOWS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1960.
(In Millions of U.S. Dollars)

COUNTRY	Merchandise (Including non-monetary gold)		Freight and Insurance on Merchan- dise	Invest- ment Income	Other Services and Private Transfer Payments	Central Govern- ment Transfer Payments	Non-Monetary Sectors' Capital		Monetary Sectors' Capital		Net Errors and Omissions
	Exports f.o.b.	Imports f.o.b.					Private	Central Govern- ment	Private Institu- tions	Central Institu- tions	
CANADA	5.978	-5.872	-59	538	-732	-63	1.184	54	7	41	-
ARGENTINA	1.079	-1.249	55	-57	-33	1	524	7	25	-175	-177
BOLIVIA	54	-68	-10	1	-8	13	20	-1	1	3	-3
BRAZIL	1.270	-1.293	-95	-194	-222	17	194	-47	16	344	10
CHILE	480	-558	12	-65	-34	34	53	-13	-	45	46
COLOMBIA	495	-496	7	-40	-50	5	35	-4	9	-	44
ECUADOR	146	-110	-16	-23	-17	6	3	11	-2	4	-2
PARAGUAY	37	-45	-5	-2	2	3	7	-	-	3	-
PERU	445	-327	-46	-66	-2	4	28	-9	4	-33	2
URUGUAY	129	-188	-26	-7	16	1	19	14	2	28	12
VENEZUELA	2.384	-1.145	-148	-522	-172	-	-199	49	-1	110	-354
TOTAL 10 L.A. COUNTRIES	6.519	-5.479	-272	-975	-522	84	684	2	52	329	-422

Source: Balance of Payments Yearbook, Vol. 12-18, International Monetary Fund, Washington, D.C., 1961, 1967.

Table 35

BALANCE OF PAYMENTS BY TYPES OF MAJOR FLOWS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1965.
(In Millions of U.S. Dollars)

COUNTRY	Merchandise (Including non-monetary gold)		Freight and Insurance on Merchan- dise	Invest- ment Income	Other Services and Private Transfer Payments	Central Govern- ment Transfer Payments	Non-Monetary Sectors' Capital		Monetary Sectors' Capital		Net Errors and Omissions
	Exports f.o.b.	Imports f.o.b.					Private	Central Govern- ment	Private Institu- tions	Central Institu- tions	
CANADA	8.558	-8.133	-39	-784	-520	-85	835	-113	423	-142	-
ARGENTINA	1.493	-1.199	64	-53	-85	2	-142	-40	58	-180	2
BOLIVIA	116	-127	-19	-4	-5	15	16	19	-1	-13	3
BRAZIL	1.596	-941	-65	-258	-18	29	65	90	10	-458	30
CHILE	688	-625	25	-118	-8	-1	-50	111	-16	-39	33
COLOMBIA	591	-424	15	-79	-116	8	-33	33	17	-66	54
ECUADOR	181	-155	-18	-25	-6	5	11	3	-2	13	-7
PARAGUAY	61	-53	-7	-3	-6	3	7	3	2	-7	-
PERU	685	-660	-83	-86	-18	11	135	65	-7	-14	-28
URUGUAY	196	-123	-13	-15	24	4	40	-1	7	-7	-112
VENEZUELA	2.436	-1.324	-175	-716	-227	1	58	13	-8	22	-80
TOTAL 10 L.A. COUNTRIES	8.043	-5.631	-276	-1.357	-545	77	107	376	60	-749	-105

Source: Balance of Payments Yearbook, Vol. 12-18, International Monetary Fund, Washington, D.C., 1961, 1967.

Table 36

IMPORTS AND EXPORTS OF MERCHANDISE,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1955, 1960 AND 1965.
(In Millions of U.S. Dollars)

COUNTRY	1955		1960		1965		Annual Average Rate of Increase - Percent					
	IMPORTS EXPORTS		IMPORTS EXPORTS		IMPORTS EXPORTS		1955-1960		1960-1965		1955-1965	
	c.i.f.	f.o.b.	c.i.f.	f.o.b.	c.i.f.	f.o.b.	Imports	Exports	Imports	Exports	Imports	Exports
CANADA	4.628	4.386	5.655	5.554	7.986	8.107	4.4	5.3	8.2	9.1	7.2	8.4
ARGENTINA	1.173	929	1.349	1.079	1.200	1.493	1.2	3.2	-0.7	7.6	0.2	6.0
BOLIVIA	81	76	69	51	122	107	-2.9	-6.5	15.3	21.9	5.0	4.0
BRAZIL	1.306	1.423	1.462	1.269	1.096	1.596	2.3	-2.1	-5.0	5.1	-1.9	1.2
CHILE	376	475	500	490	604	688	6.5	0.6	4.1	8.0	6.0	4.4
COLOMBIA	669	580	519	466	454	539	-4.4	-3.9	-2.5	3.1	-3.2	-0.7
ECUADOR	95	114	100	144	152	148 ⁽¹⁾	1.0	5.2	10.4	0.6 ⁽²⁾	6.4	3.3 ⁽³⁾
PARAGUAY	29	35	32	27	44	57	2.0	-4.5	7.5	22.2	5.1	6.2
PERU	300	268	373	431	719	669	4.8	12.1	18.5	11.0	13.9	14.9
URUGUAY	229	184	244	129	151	191	1.3	-5.9	-7.6	9.6	-3.4	0.3
VENEZUELA	942	1.873	1.060	2.432	1.201	2.784	2.5	5.9	2.6	2.9	2.7	4.8
TOTAL 10 L.A. COUNTRIES	5.200	5.957	5.608	6.518	5.943	8.272	1.5	1.8	0.5	5.3	1.0	3.8

Source: Yearbook of International Trade Statistics, 1963 and 1965, United Nations, New York, 1965 and 1967.

(1) Applies to 1964.

(2) Covers 1960-1964.

(3) Covers 1955-1964.

Table 37

INDEX OF VOLUME OF EXPORTS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1958, 1960 AND 1965.
(BASE: 1958 = 100)

COUNTRY	1960	1965	Annual Average Rate of Increase Percent		
			1958-1960	1960-1965	1958-1965
CANADA	108	162	4.0	10.0	8.5
ARGENTINA	102	136	1.0	6.6	5.1
BOLIVIA	97	106	-1.5	1.8	0.8
BRAZIL	125	151	12.5	4.1	7.2
CHILE	107	130	3.5	4.2	4.2
COLOMBIA	114	124	7.0	1.7	3.4
ECUADOR	123	139	11.5	2.6	5.5
PARAGUAY	97	175	-1.5	16.0	10.7
PERU	147	185	23.5	5.1	12.1
URUGUAY	81	117	-9.5	8.8	2.4
VENEZUELA	110	131	5.0	3.8	4.4

Source: Data for all countries, except Canada, from Statistical Bulletin for Latin America, Vol. IV, No. 1, United Nations, New York, 1967.
Data for Canada, from Yearbook of International Trade Statistics, 1965, United Nations, New York, 1967.

Table 38

INDEX OF VOLUME OF IMPORTS,
CANADA AND TEN LATIN AMERICAN COUNTRIES; 1958, 1960 AND 1965.
(BASE: 1958 = 100)

COUNTRY	1960	1965	Annual Average Rate of Increase Percent		
			1958-1960	1960-1965	1958-1965
CANADA	109	152	4.5	7.8	7.3
ARGENTINA	106	107	3.0	0.2	1.0
BOLIVIA	88	159	-6.0	16.1	8.4
BRAZIL	112	77	6.0	-6.2	-3.2
CHILE	126	150	13.0	3.8	7.1
COLOMBIA	142	121	21.0	2.9	3.0
ECUADOR	107	156	3.5	9.1	8.0
PARAGUAY	- (1)	- (1)	- (1)	- (1)	- (1)
PERU	94	171	-3.0	16.3	10.1
URUGUAY	167	107	33.5	-7.1	1.0
VENEZUELA	73	78	-13.5	1.3	-3.1

Source: Data for all countries, except Canada, from Statistical Bulletin for Latin America, Vol. IV, No. 1, United Nations, New York, 1967.
Data for Canada from Yearbook of International Trade Statistics, 1965, United Nations, New York, 1967.

(1) Not available.

Table 39

INDEX OF UNIT VALUE OF EXPORTS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1958, 1960 AND 1965.
(BASE: 1958 = 100)

COUNTRY	1960	1965	Annual Average Rate of Increase Percent		
			1958-1960	1960-1965	1958-1965
CANADA	102	110	1.0	1.5	1.4
ARGENTINA	106	107	3.0	0.2	1.0
BOLIVIA	- (1)	- (1)	- (1)	- (1)	- (1)
BRAZIL	83	107	-8.5	5.7	1.0
CHILE	115	127	7.5	2.0	3.8
COLOMBIA	86	83	7.0	-0.7	2.4
ECUADOR	- (1)	- (1)	- (1)	- (1)	- (1)
PARAGUAY	- (1)	- (1)	- (1)	- (1)	- (1)
PERU	104	120(2)	2.0	3.8(3)	3.3(4)
URUGUAY	- (1)	- (1)	- (1)	- (1)	- (1)
VENEZUELA	102	98(5)	1.0	-1.3(6)	-0.4(7)

Source: Yearbook of International Trade Statistics, 1965, United Nations, New York, 1967.

(1) Not available.

(2) Applies to 1964.

(3) Covers 1960-1964.

(4) Covers 1958-1964.

(5) Applies to 1963.

(6) Covers 1960-1963.

(7) Covers 1958-1963.

Table 40

INDEX OF UNIT VALUE OF IMPORTS,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1958, 1960 AND 1965.
(BASE: 1958 = 100)

COUNTRY	1960	1965	Annual Average Rate of Increase Percent		
			1958-1960	1960-1965	1958-1965
CANADA	99	112	-0.5	2.6	1.7
ARGENTINA	96	94	-2.0	-0.4	-0.8
BOLIVIA	- (1)	- (1)	- (1)	- (1)	- (1)
BRAZIL	97	117	-1.5	4.1	2.8
CHILE	95	94	-2.5	-0.2	-0.8
COLOMBIA	99	93	-0.5	-1.3	-1.0
ECUADOR	- (1)	- (1)	- (1)	- (1)	- (1)
PARAGUAY	- (1)	- (1)	- (1)	- (1)	- (1)
PERU	104	106 ⁽²⁾	2.0	0.4 ⁽³⁾	1.0 ⁽⁴⁾
URUGUAY	- (1)	- (1)	- (1)	- (1)	- (1)
VENEZUELA	97	105 ⁽⁵⁾	-1.5	2.7 ⁽⁶⁾	1.0 ⁽⁷⁾

Source: Yearbook of International Trade Statistics, 1965, United Nations, New York, 1967.

(1) Not available.

(2) Applies to 1964.

(3) Covers 1960-1964.

(4) Covers 1958-1964.

(5) Applies to 1963.

(6) Covers 1960-1963.

(7) Covers 1958-1963.

Table 41

TERMS OF TRADE INDEX,
CANADA AND TEN LATIN AMERICAN COUNTRIES, 1958, 1960 AND 1965.
(BASE: 1958 = 100)

COUNTRY	1960	1965	Annual Average Rate of Increase Percent		
			1958-1960	1960-1965	1958-1965
CANADA	103	98	1.5	-0.9	-0.2
ARGENTINA	112	121	6.0	1.6	3.0
BOLIVIA	103	189	1.5	16.6	12.7
BRAZIL	85	81	-7.5	-0.9	-2.7
CHILE	123	140	11.5	2.7	5.7
COLOMBIA	97	100	-1.5	0.6	0.0
ECUADOR	86	88	-7.0	0.4	-1.7
PARAGUAY	- (1)	- (1)	- (1)	- (1)	- (1)
PERU	100	115	0.0	3.0	2.1
URUGUAY	127	140	13.5	2.0	5.7
VENEZUELA	86	65	-7.0	-4.8	-5.0

Source: Data for all countries, except Canada, from Statistical Bulletin for Latin America, Vol. IV, No. 1, United Nations, New York, 1967. Data for Canada, Yearbook of International Trade Statistics: 1965, United Nations, New York, 1967.

(1) Not available.

APPENDIX B

QUANTUM AND UNIT VALUE INDICES

The quantum indices — exports and imports — were obtained by dividing the aggregate values at constant prices for each year by the corresponding aggregates for the base year (1958).

The quantum index is Laspeyres type:

$$\frac{\sum P_0 Q_n}{\sum P_0 Q_0}$$

where,

P_0 , unit value of each item in the base year.

Q_0 , quantity of each item in the base year.

Q_n , quantity of each item in the given year.

The index of unit value of exports and imports shows the average price of the aggregate merchandise exports and imports respectively.

The terms of trade index is equal to the ratio of the price index of total exports to the price index of total imports; and it can also be obtained, by dividing the export unit value index by the corresponding import unit value index.

APPENDIX C

REAL INCOME

Professor Wilfred Beckerman in his book International Comparisons of Real Incomes proposed a new method of estimation of the relative real incomes per head in various countries.¹

Dr. Beckerman's "Modified Non-monetary Indicator Method" attempts "to find the 'best' statistical relationship, on the basis of intercountry comparisons for such countries for which independent estimates of relative real income or consumption levels exist, between relative real income or consumption and selected non-monetary indicators for which data are readily available in most countries, and then to use these statistical relationships to predict, from data on the non-monetary indicators, the relative real income levels of all countries for which such data exist".²

The theory behind the method is quite simple. From the number of items which are closely correlated with total

1.- Beckerman, W., International Comparisons of Real Incomes, Development Centre of the Organization for Economic Co-operation and Development, Paris, 1966.

2.- Ibid., p. 27.

consumption, it is reasonable to assume that, for a few items, the relationship is more or less insensitive to differences in the relative price of the item concerned in different countries. At the same time, the relatively greater availability of data on non-monetary indicators than on national accounts aggregates is a main reason to justify the importance of Beckerman's new method.

The non-monetary indicators used as "explanatory" variables in the final computations are the following:

No.	Variable and Unit (per head volume)
X_2	Apparent steel consumption in kilograms per annum
X_3	Cement production (in metric tons X^{10}) per annum
X_4	Number of domestic letters sent per annum
X_5	Stock of radio receivers (X^{10})
X_6	Stock of Telephones (X^{100})
X_7	Stock of road vehicles (domestic and commercial X^{100})
X_8	Meat consumption in kilograms per annum

Thus, with X_1 per capita private consumption, Professor Beckerman obtained estimates of

$$X_1 = f(X_2), f(X_3) \dots f(X_8)$$

$$X_1 = f(X_2, X_3), f(X_2, X_4) \dots f(X_2, X_8); f(X_3, X_4) \dots f(X_3, X_8)$$

$$X_1 = f(X_2, X_3, X_4), f(X_2, X_3, X_5) \dots$$

covering all combinations of the seven explanatory variables

listed above.

Then, five types of equations were tried:

- 1) $x_1 = a_2 x_2 + a_3 x_3 \dots + a_n x_n$ (linear)
- 2) $\log x_1 = b_1 + b_2 \log x_2 + b_3 \log x_3 \dots + b_n \log x_n$
(double-log)
- 3) $1/x_1 = c_1 + c_2 \log x_2 + c_3 \log x_3 \dots + c_n \log x_n$
(inverse-log)
- 4) $x_1 = d_1 + d_2 \log x_2 + d_3 \log x_3 \dots + d_n \log x_n$
(semi-log)
- 5) $x_1 = e_1 + \frac{e_2}{x_2} + \frac{e_3}{x_3} \dots + \frac{e_n}{x_n}$

Experimenting, with the aid of a computer, with the five forms of equations and with all possible combinations of indicators, irrespective of their order, Professor Beckerman obtains results for nearly 1,000 equations, from which he selected "according to the availability of data concerning the non-monetary indices was therein, those which gave the 'best fifty' in terms of the standard error of the regression coefficients (all adjusted for degrees of freedom)".³ He did this in order to estimate real per capita consumption in about 60 countries (among them, eight in which we are interested). The ones selected as "best" equations for predictions with the modified non-monetary indicator method, were the following:

3.- Ibid., p. 31.

Double log equation

$$A) \quad Y = 0.273 + 0.295x_2 + 0.261x_6 + 0.102x_7 \quad \bar{R}^2 = 0.974$$

(0.045) (0.060) (0.044)

This is used for all cross section predictions except for the cases below.

$$B) \quad Y = 0.053 + 0.341x_2 + 0.372x_6 \quad \bar{R}^2 = 0.966 \quad \text{Uruguay}$$

(0.046) (0.046)

$$C) \quad Y = 0.920 + 0.141x_3 + 0.231x_5 + 0.324x_6 \quad \bar{R}^2 = 0.948$$

(0.069) (0.076) (0.072)

Bolivia, Ecuador, Paraguay.

The equations gave the final predictions for the year 1960 which are compared in the table below.

PREDICTED INDICES OF "REAL" PRIVATE CONSUMPTION PER HEAD FROM "MODIFIED NON-MONETARY INDICATOR METHOD", UNITED STATES, CANADA AND SEVEN SELECTED LATIN-AMERICAN COUNTRIES, 1960.

(United States in 1960 = 100)

RANK AMONG THE 60 COUNTRIES COMPARED	COUNTRY	INDEX BASED ON
		PROPOSED METHOD
1	U.S.A.	100.0
3	Canada	77.0
21	Argentina	23.8
26	Venezuela	18.9
28	Chile	16.9
29	Uruguay	16.2
36	Brazil	12.1
37	Colombia	11.4
43	Peru	8.1

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