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REVIEW OF FOREIGN DEVELOPMENTS

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THE OEEC "INTERIM REPORT ON THE EUROPEAN RECOVERY PROGRAM" -- A SUMMARY

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(The "interim report" published by the Organization for European Economic Cooperation on December 30, 1948, constitutes a first preliminary report on the long-term programs and prospects of the E.R.P. participating countries. This summary was prepared for use by ECA in connection with its presentation of its second-year program to Congress. A critical appraisal of the long-term program is planned for a subsequent article in this Review).

The European Recovery Program is based on the belief that, with an adequate amount of aid from the U.S., the participating countries will become independent of extra-ordinary outside assistance at the end of a period set at approximately 4 years. From the beginning of the ERP an effort was therefore made to draw up long term programs of action for the future individual participating countries and for the ERP area as a whole. These programs were to give a measure of the magnitude of the task ahead, of the U.S. aid required to fulfill it; and of the pattern of production, consumption, and trade necessary for assuring self-support after the termination of the aid program.

The first effort at visualizing the long term goal of the ERP was made by the Committee of European Economic Cooperation (CEEC) in 1947. The countries that had convened in Paris to formulate a joint recovery program, attempted to forecast their industrial and agricultural production goals and their balance of payments for every year from 1948 to 1951. The CEEC drew together the country estimates. In view of the shortness of the time available and of the novelty of the task, these programs were only rough outlines. The CEEC, in drawing them together, lacked the power to amend them substantially in the light of any inconsistencies which it would discover among them. The work accomplished did, however, have its usefulness for it confirmed the conviction that the goal of eventual self-support could be reached provided a strenuous effort was made to expand production and exports. Furthermore, the experience gained from this first attempt proved very useful when a second attempt at long term forcasting was undertaken.

From the beginning of ECA and OEEC operations, it was realized that an approximate idea as to the desirable future pattern of development of the European economy was essential for the making of every day policy decisions. High priority was therefore given to the preparation of a new set of long term programs far more comprehensive in scope than those that were submitted to the CEEC. Instructions were sent by OEEC on the preparation of the long term program in the summer of 1948 together with instructions for the 1949-50 program. These instructions directed the participating countries to provide a general statement setting out their plans of action by means of which they intended to maintain their economy in 1952-53 without extra-ordinary external assistance. Specifically the individual countries were asked to submit a description of the targets for industrial and agricultural production; of the amount of investment required to carry out these targets; of the financial policy to be followed to make financing of this investment consistent with monetary stability; of the standard of living that will be reached; of the balance-of-payments position that will result in 1952-53 from these programs; and of the conditions necessary for their achievement.

The OEEC has prepared an Interim Report on the Long Term Program which draws together and analyzes the programs of the participating countries. As specifically stated in the report it does not present an integrated program for the ERP area as a whole with all internal inconsistencies removed. Rather, it sets itself the preliminary task of setting out the results of the country programs, of examining them critically, and of pointing up the major problems and difficulties arising from the overall picture obtained. At the same time, the report indicates the direction in which the European countries will have to look for a solution of these difficulties.

In the following a short summary is given of the main features of the interim report. Some emphasis will be laid on the comments and criticisms of OEEC. This ought not to give the impression that the OEEC has nothing good to say about the country submissions, but obviously the criticisms made by OEEC provide ECA and the U.S. Government with a particularly useful starting point for its own evaluation and for the formulation of its own policies.

A. Production

1. Industry

Excepting Western Germany whose output is still abnormally low, the average increase in total industrial production planned by the participating countries amounts to about 25 per cent over the next 4 years. The planned increase above prewar for all countries amounts to 30 per cent. The following table shows output goals for key products.

TABLE 1

Production Already Attained and Development Schemes in Various Industries 1/

(1935-8 = 100)

Metropolitan Territories	1947	1948-1949 Programme	1949-1950 Programme	1952-1953 Programme
Coal	80	91	97	111
Electricity	148	166	180	222
Crude oil (throughput) 2/	98	174	231	480
Steel (raw)	69	102	115	129 3/
Steel (finished)	74	107	121	140 3/
Aluminium	89	120	141	210
Nitrogenous fertilizers	113	149	177	239
Potash	96	123	136	176
Soluble phosphates	101	136	174	196
Textiles (Total consumption of fibres)	84	99	108	122
Machine Tools	73	85	105	139
Equipment including Machine Tools	--	115	125	145
Motor vehicles (Commercial)	108	152	155	180
Motor vehicles (Private passenger)	49	67	--	116

1/ This Table, and most of the subsequent Tables in the Report relating to OEEC countries, do not include figures for Switzerland.

2/ This item reflects the large increase in refining capacity which is planned. The increased crude oil throughput is accompanied by a reduction of imports of refined petroleum products.

3/ Omitting the Bizone the figures become: Raw Steel 158, Finished Steel 171.

OEEC comments in particular on the following points:

(a) The combined four-year program provides for more than doubling the prewar consumption of oil, while hard coal consumption is due for an increase of only 13 per cent above prewar. While the OEEC Report recognizes the need for increased motor transport, it is critical of large-scale substitution of oil for coal.

(b) Investment in electrical power generating equipment is planned in the amount of $2 billion for the four-year period. The OEEC Report acknowledges the importance of achieving an increase in generating capacity, but points to the necessity of curtailing other investment projects if an outlay of this magnitude is to be achieved.

(c) The planned advance in textile production does not seem to have taken sufficiently into account reduced marketing possibilities as a result of industrialization. Provision for textile equipment is considered over-generous.

(d) As a result of various raw material or plant shortages, doubt is expressed as to the possibility of achieving the indicated output goals for steel, non-ferrous metals except aluminum, sulphuric acid, and woolen textiles.

2. Agriculture

The national agricultural programs add up to a rate of increase of about 15 per cent with respect to 1935-38. This is lower than the progress planned for industrial production with respect to prewar, but in view of the lag of agricultural behind industrial recovery in the postwar period, a considerable improvement in agricultural output is planned for the next 4 years. The following table shows production goals for the whole ERP Area.

TABLE 2

Output of Miscellaneous Agricultural Products and Livestock Numbers
(1935-8 = 100)

	1947-1948	1948-1949 Programme	1949-1950 Programme	1952-1953 Programme
Bread grains	60	93	97	114
Coarse grains	82	95	101	116
Potatoes	93	125	116	131
Sugar	81	111	112	134
Oils and Fats	77	80	92	115
Meat	67	70	78	106
Milk	76	84	91	111
Timber	93	100	100	95
Cattle	98	98	101	110
Sheep	88	90	93	101
Pigs	60	64	76	109
Poultry	81	90	98	112
Farm Horses	92	91	90	90

The increase in production above prewar is mainly due to the considerable expansion programs of France, the U.K. and Turkey. All other countries plan to return substantially to the prewar level of harvests with the exception of high yield crops such as potatoes and sugar beets for which expansion of 33 per cent is contemplated. As to livestock, cattle and sheep are expected to increase about 10 per cent above present levels while a 70 per cent increase is planned for pigs.

Large increases in food production are foreseen for the overseas territories, with most stress being laid on vegetable oil, sugar and rice. Development of agriculture is to be pushed principally by additional mechanization, particularly in France and the U.K., and by almost doubling the application of fertilizers with respect to prewar. OEEC's comments on the agricultural programs are the following:

(a) The French plan of turning France into a large-scale agricultural exporter of bread grains and meat to other European countries is considered as of fundamental importance to the participating countries because of the dollar saving of about $200 million it will make possible. The report injects a note of caution, however, by stating that "its success depends on mechanization, the availability of manpower, a very substantial increase in the use of fertilizers, and the adoption of modern agricultural techniques by a large agricultural population composed largely of small farmers."

(b) European productive facilities for agricultural machinery should be better utilized through standardization, regular provision of spare parts and similar methods.

(c) In spite of increased mechanization and application of fertilizers, the report is somewhat skeptical as to the possibility of improving agricultural yields to the extent envisaged.

(d) Attention is called to the importance of pest and crop disease control and to the potential contribution of agricultural education and advisory services. The desirability of providing incentives to agricultural output by guaranteeing markets, particularly in conjunction with the expansion of agricultural production in the overseas territories, is also emphasized.

(e) In view of stationary timber production in Western Europe and the uncertainty surrounding the volume of timber imports from Eastern Europe, "further attention needs to be paid to the economy in the use of timber, to a greater use of steel in replacing timber, and to the provision of other raw materials for pulping."

(f) With respect to agricultural development in the overseas territories, attention is directed to the advisability of developing large-scale production of corn, millets and other coarse grains to replace imports from the Western Hemisphere. Stress is also to be placed on the cultivation of cocoa, which is an important "dollar earner", and of rice and other indigenous foods to obviate the needs of imports into the overseas territories from the Western Hemisphere.

3. Transportation

The shipbuilding program of the participating countries calls for bringing the combined merchant fleet almost back to prewar. Construction of tankers is given priority over dry cargo. With respect to present total tonnage the program implies an increase of 20 per cent, which is fully endorsed by the OEEC report in view of its potential contribution to European balance of payments.

Rail transportation is not expected to be expanded substantially. The effort of the participating countries will consist mainly in increasing efficiency and electrification of existing lines. With respect to the latter, the report points to the considerable cost of the electrification projects as an offset to the economy in coal which is achieved.

4. Manpower and Productivity

With the exception of Italy and Western Germany where unemployment is expected to remain a problem, all country programs provide for full employment of the laboring force. They do not, however, envisage an absorption of immigrants on a large scale. The OEEC report is not satisfied with this reluctance on their part and "intends to discuss this problem further, since it appears that there may be countries where programs can be more easily achieved by absorbing some of the surplus manpower available in other countries."

Output per man hour during the next 4 years is scheduled to increase by 15 per cent. The OEEC report is doubtful of the prospects of achieving this goal and discusses longer hours and an increase of the labor force employed in the vital sectors of the economy as substitutes.

B. Balance of Payments with the Outside World

The risk of different countries' projects being inconsistent with each other is much greater in the field of trade than in that of production. For instance, it is only to be expected that France will plan to export in 1952-53 to Belgium a different amount from what Belgium independently expects to import from France during the same period. For this reason, the OEEC report, which has only scattered (though valuable) comment to offer with respect to the production targets, really comes into its own in the chapter on trade and balance of payments. It is here that the need to reconsider basic policies of the participating countries is discovered as a result of a thorough examination of the aggregate country programs.

In adding up the projected imports and exports of the participating countries to the outside world, the following picture is obtained:

TABLE 3

Sources of OEEC Countries' Imports from Outside World
And Direction of OEEC Countries' Exports to Outside World

(Excluding Dependent Overseas Territories)

(Billions of dollars (1948-9 Prices))

	1938		1947		1952-1953 Programme	
	Imports	Exports	Imports	Exports	Imports	Exports
North & Central America	4.1	1.45	7.3	1.05	3.8	2.1
South America	1.7	1.0	1.7	0.75	2.1	2.0
Non-participating Sterling Area	2.9	1.9	2.0	2.0	3.3	3.1
Eastern Europe 2/	3.0	2.5	0.9	0.75	2.2	2.0
Other Countries	1.3	1.1	0.6	0.85	1.4	1.4
Total	13.0	7.95	12.5	5.4	12.8	10.6
	% of 1938					
North & Central America	100	100	179	72	93	146
South America	100	100	97	73	122	192
Non-participating Sterling Area	100	100	69	104	116	165
Eastern Europe 2/	100	100	30	30	73 1/	80
Other Countries	100	100	46	77	108	127
Total	100	100	96	68	99	133

1/ The inclusion of Eastern Germany in Eastern Europe makes it difficult to compare imports in pre-war and post-war years. It has been assumed that, in 1938, 30 per cent of the imports of the participating countries from Germany came from Eastern Germany. Imports of Western Germany from Eastern Europe have been assumed to be 65 per cent of total German imports from Eastern Europe. No allowance has been made for interzonal trade.

2/ It has been assumed that in 1938, 35 per cent of the exports of participating countries to Germany went to Eastern Germany. Exports of Western Germany to Eastern Europe have been assumed to be 70 per cent of total German exports to Eastern Europe. No allowance has been made for interzonal trade. On this basis planned exports to Eastern Europe in 1952-3 represent 30 per cent of the 1938 volume. Calculations on other equally plausible assumptions suggest, however, that they may represent one third more than the 1938 volume.

The principal contribution to the "viability" of the participating countries in 1952-53 is to come from increased exports via increased production. A further contribution is to derive from the invisible items, especially shipping services and tourist trade, which are expected to result in a total net surplus of \$1.2 billion in 1952-53. This compares with a surplus of \$2.0 billion in 1938, but the progress is considerable with respect to 1947 when invisible balance of the participating countries was negative to the extent of \$750 million. The report underlines the ambitious character of the target for invisibles, but reserves its main criticism for the aggregate import and export targets revealed by the country programs.

The participating countries plan to hold total imports approximately constant; while imports from North American sources are to be reduced, purchases from non-dollar sources (including South America) are to be expanded substantially. This is the first point with which the OEEC report takes serious issue. In its opinion, availabilities in these areas have been over-estimated to the extent of about \$1 billion out of a total import program of \$12.8 billion. The commodities concerned are mainly cotton and non-ferrous metals from South America, wool from the sterling area, grain and timber from Eastern Europe and fats and oils from the Far East. As a result of these probable shortfalls, either the import program would have to be curtailed or the dollar deficit of the ERP area will not decrease as scheduled because of the continuation of imports of these commodities from North America.

OEEC's criticism of the export goals is even more serious. Combined exports have been projected for 1952-53 at 133 per cent of 1938 and at 194 per cent of 1947. In relation to prewar the planned expansion of exports is particularly marked in relation to South America and the sterling area. With respect to the 1947 performance, more than doubling of export volume is hoped for in relation to North America and South America and Eastern Europe.

After a searching analysis of potential markets, the report comes to the conclusion that, should present policies be continued, total exports in 1952 to the outside world are likely to be over \$2 billion smaller than the estimated \$10.6 billion. This pessimistic conclusion still allows for an expansion of exports by nearly 57 per cent above the 1947 experience and by over 7 per cent above the prewar level. The reasons for the lower figures projected by OEEC are essentially industrialization in the non-participating sterling area and South America; the commercial ties that those areas have developed over the past ten years with non-European suppliers; and, in general, the stagnation which has marked, over the past thirty-five years, the volume of world trade in manufactures. Should OEEC's forecast be correct, the balance-of-payments equilibrium in 1952-53 could be achieved only by a cut of 25 per cent in the proposed import program.

But the OEEC report does not resign itself to this bleak prospect. Having come to its pessimistic conqlusions, it discards the assumption (continuation of present policies) on the basis of which the conclusion was reached. This means that "drastic changes in present policies are made", that "European goods will become competitive in every sense", that "There is an immediate drive" to re-establish and widen trade ties. Even if these policies are carried out, the OEEC still foresees a balance-of-payments gap of about $1.5 billion in 1952-53. But the magnitude of the problem will have changed decisively. A reduction of 10-15 per cent will be painful but no longer represent an unmanageable task fraught with great social and political dangers.

In the final section, which is permeated by a remarkable sense of the urgency and the magnitude of the task ahead, the OEEC report indicates the measures that are required for a solution. The European countries are requested to take action in three fields:

1. Development of new sources of supply, particularly in overseas territories and resumption of imports from Eastern Europe.

2. Economy in imports from the outside world. This is necessary in view of OEEC analysis of world availabilities as well as because of the limitation of the export drive even under the more optimistic assumptions. In particular, European agricultural production is believed capable of further expansion and the planned import increases of oil, textiles, copper, and timber are again criticized.

3. The main reliance is to be placed on a vigorous drive to increase earnings. An aggressive sales policy is to be adopted throughout the world and a cut in the terms of trade must be taken to assure its success. This trend implies a condemnation on the part of OEEC of any attempts to solve balance-of-payments problems through monopolistic and discriminatory manipulation of the terms of trade. If the proper policies are adopted the report is not pessimistic about prospects of European sales in the U.S. It points out that Western European exports of manufactured goods to the United States are only 1 per cent of the total U.S. market for manufactures whereas other markets are already largely supplied by Western European exporters.

The report also makes a strong plea for exploring all possibilities for the earning of dollars in third markets. Here again the report is much more optimistic than most previous analyses of the subject. The developments during 1948 indicate that this optimism may be justified. During the first 9 months of 1948, Australia, New Zealand, India, Pakistan, Ceylon, Burma, South Rhodesia and Iraq achieved a trade surplus of $44 million with the United States and Canada as against a deficit of $428 million in 1948. The report repeatedly stresses the necessity of starting the export drive immediately in the interest of re-establishing trade ties. Any further delay would be permanently harmful to the prospect of European recovery because potential foreign customers are evermore looking to their own industries or to industries in third markets to replace European products.

Finally, the report emphasizes the necessity of a far greater measure of European cooperation than has been achieved. Measures which would enlarge the European market will result in cost cutting, which is essential to the export drive, and in a more efficient utilization of resources in the participating area as a whole. In the subsequent chapter on cooperation, particular stress is laid in this connection on the necessity to coordinate investment plans so as to prevent duplication and errors of location. It is recognized that investment plans cannot be coordinated meaningfully in the absence of a valid and stable system of exchange rates and a measure of comparative price stability throughout the participating countries. For this, as well as for many other reasons, a strong case must be made for cooperation is in the financial and monetary fields as well as in production and trade policies.

C. Intra-European Trade and Payments

The participating countries have planned to expand their inter-trade by about 50 per cent from 1947 to 1952-53. This expansion would bring the volume of this trade back to its prewar level. As far as intra-European trade is concerned, exports for one participating country are imports for another; since the OEEC countries are in general endeavoring to expand exports while restricting imports, the failure of this trade to expand above prewar levels is easily explained and possibly justified. Nobody wishes to foster intra-European trade in isolation and at the possible expense of European exports to the outside world.

Far more preoccupying are the inconsistencies which are revealed among the plans of the individual countries. The report shows that these discrepancies are due not only to random errors, naturally to be expected when 17 countries draw up independent estimates of their inter-trade, but also, in at least two instances, to mutually incompatible economic policies.

In their trade with the other continental countries, the Benelux countries and the Bizone expect to have a surplus of $257 and $209 million, respectively, while the other continental participating countries only plan on a net deficit of $52 million. The surplus of Belgium and the Bizone figure importantly in the plans of these two countries for eventual self-support since they expect to finance the largest part of their remaining dollar deficit through their earnings in intra-European trade. These plans may run into serious difficulties; for with the one exception of Sweden, the other continental countries do not expect to earn dollars in the Western Hemisphere in excess of their imports from it.

The second problem relates to trade between the continental countries and the sterling area. The U.K. which, before the war, was a large scale net importer from the continent now plans a small surplus for 1952-53; it expects the continent to finance independently its traditional large scale purchases in the rest of the sterling area and plans to use part of its own surplus with the sterling area for the financing of its remaining dollar deficit. This policy, if successfully carried out, would make it possible for continental countries to earn, as in the prewar period, sufficient sterling for financing their deficit with the rest of the sterling area (as planned, e.g., by France) or for covering their dollar deficit (as planned, e.g., by Denmark). The U.K. has indicated its willingness to make reasonable adjustments in its plans, but insists on achieving its triple aim of balance with the dollar area, continuation of some debt redemption, and resumption of some overseas investment.

The underlying difficulty in both problems is the impoverishment of Europe which causes most countries to restrict imports of non-essential and luxury goods from other participants. In view of the importance of these goods for Europe's exports drive in general, the OEEC report takes a stand against excessive stifling of this trade even among European countries. A solution should be found, rather, through an expansion of the production of essential commodities in the participating countries for export to other participants. It appears that the Colonial development plans and France's intention to become an agricultural exporting country have not been fully taken into account by the import plans of the European countries.

In any event, the difficulties of arriving at an all round satisfactory pattern of intra-European trade and the need for balance in dollar accounts should not drive Western Europe into unnecessary bilateralization. The OEEC report recommends following up the payments scheme by a gradual relaxation of exchange controls and trade restrictions.

D. Investment, Stability, and Consumption

The gross national product of almost all participating countries is expected to be higher in 1952-53 than in 1938. On the whole, the increase assumed by the countries appears to be of the order of 20 per cent as compared with 1938 and approximately 35 per cent as compared with 1947. In view of the previously mentioned necessary balance-of-payments adjustments, the OEEC puts the probable increase with respect to 1938 at no more than 10 to 15 per cent. The contemplated increases in national income and in output are to be made possible by a continuous process of investment which in most countries is expected to absorb in 1952-53 as much as 20 per cent of the total production. This high percentage immediately poses the problem of monetary stability.

At the present time and throughout the aid program, American aid makes possible a much larger investment effort than would otherwise be compatible with monetary stability. The additional investment deriving from foreign aid will, however, decrease as the ECA program advances and will have to be replaced by domestic forms of savings if investment is to be maintained at a high level. The participating countries do not expect that individual savings (including sometimes depreciation allowances) will amount to more than from 8 to 13 per cent of national income. The remainder of the investment task will have to be accomplished either by corporate savings or by a surplus in the budget. The OEEC report has some interesting comments on the limitations of the latter policy; taxation is not necessarily an addition to savings since it may absorb incomes that would otherwise have been saved rather than spent; high levels of taxation may be damaging to incentives; and in some countries taxes are considered an integral part of the cost of living, and with wages geared to the latter, taxation cannot fulfill its task of curtailing income and expenditure.

Inflation results from too high an investment program in relation to government expenditures and to the level below which living standards should not or cannot be compressed. The OEEC report paints a full picture of the internal and ex ernal distortions resulting from inflation, whether open or suppressed. It recognizes the value of specific price and rationing and controls certain circumstances; but it comes to the conclusion that, in the coming years, the major part in the fight against inflation must be played by overall fiscal, monetary, and investment policy. Fiscal reform is in order in several countries. The report is less positive with respect to the possibilities of cutting budgetary expenditures, mainly because of the uncertainties of the international situation.

When fiscal reform is a long term task and when consumption levels cannot be cut, the only course remaining open to fight inflation is the reduction of investment expenditures. On this alternative the OEEC report has the following comments:

> "The most urgent need of Western Europe today is an increase and a modernization of its capital equipment, the greater competitive power that such modernization will give, and the higher standards of life that may eventually flow from the greater investment. To cut down the plans of investment is to accept defeat. There will always be those in any country to whom such a course, with the immediate easements that it appears to offer, seems welcome. But there is no satisfactory long-term solution other than increased productivity. None the

less, there may be circumstances in which the recognition that the task proposed is beyond a country's physical capacities may be inescapable. It may be better to proceed in an orderly fashion with a limited investment programme, than to see a larger planned programme frustrated and delayed because inflation prevents adequate resources from becoming available. A cruel dilemma may thus confront certain countries."

The OEEC will undertake a more detailed examination of the individual investment programs. It appears even now that the planned expansion of oil refining and of textile production might result in a wasteful duplication of resources. The investment programs also have to be re-examined in the light of OEEC's judgment about the limitations of material supplies from the outside world.

Consumption levels vary widely from one European country to the other, both in absolute terms and in relation to prewar. On the average it is estimated that consumption was in 1948 still about 20 per cent below prewar. A return to substantially the prewar level is aimed at by the country programs for 1952-53. The OEEC report takes the more realistic view that a level of consumption in 1952-53 of from 5 to 10 per cent above that of 1948 may be all that is consistent with independence of external aid. In line with this general suggestion, the report invites the participating countries to reconsider their food consumption plans which call for substantial increases in meat consumption and to continue the emphasis on bread grains.

E. Cooperation

The interim report on the long term program is in itself the highest expression of the cooperation that has been achieved so far by the participating countries. The last chapter of the report roughly outlines further progress that the organization expects to achieve.

First place is given to the coordination of investment policies and plans. The obstacles interferring with this task are numerous: inflation, monetary instability and artificial exchange rates makes cost comparisons difficult and the control which the various governments have over the amount and description of investments varies widely from country to country. Nevertheless, mutual consultation is essential if the limited resources available are to be used to the best advantage of the ERP area as a whole.

A similar effort of coordination must be undertaken with respect to current production. In this field, much useful groundwork is already being laid by the technical committees of the OEEC.

A considerable cooperative effort must be accomplished with respect to employment, manpower and migration policy. The unemployment problems of Italy and Germany cannot be solved by action of these countries alone.

Standardization and other technical projects are being extended in view of their potential contribution to increased productivity.

Finally, the report mentions its continuing work toward the liberalization of trade and payments, and reports on the ways at further progress for the Customs Union Study Group.

THE IMPACT OF ARGENTINA'S DOLLAR SHORTAGE ON THE OTHER LATIN AMERICAN REPUBLICS

Harry A. Gillis, Jr.

Spokesmen for the Latin American republics have expressed disappointment in the small magnitude of purchases effected in their area through ECA dollar authorizations to OEEC countries. When the record of such authorizations and purchases is examined and compared with earlier estimates, however, it is found that only in the case of Argentina do actual dollar receipts fall considerably short of the amount which could have been expected before ECA began its operations. 1/ The question arises as to whether other Latin American countries might have suffered indirectly from Argentina's failure to acquire ECA dollars.

An examination of Argentina's trade relations with the other Latin American republics reveals that only the six countries located nearest to Argentina (Bolivia, Brazil, Chile, Paraguay, Peru and Uruguay) have important trade relations with Argentina. No other Latin American country has received as much as 5 per cent of its total imports from Argentina, nor has shipped to that country as much as 5 per cent of its total exports. 2/ Although Argentina is not the major trading partner of any of the six countries cited above, with the possible exception of Paraguay, it supplies a significant portion of the imports of all six countries. The Argentine market is particularly important to the exports of Paraguay and Brazil.

1/ Argentina's failure to sell more for dollars to the OEEC countries is due to several factors, including the price policy of the Argentine state-trading corporation, the "surplus" provisions of the ECA Act, and more recently, a general improvement in the world grain situation.

2/ Excluding abnormal trade under temporary wartime conditions.

TABLE I

Importance of Argentina to Trading Partners

	Imports from Argentina as Percentage of Total Imports			Exports to Argentina as a Percentage of Total Exports		
	1946	1947	1948 (6 months)	1946	1947	1948 (6 months)
Bolivia	21.3	18.4	n.a.	3.4	1.8	n.a.
Chile	13.7	15.9	8.5	3.5	5.1	3.9
Paraguay	52.5	53.0	n.a.	21.8	32.5	n.a.
Peru	12.2	10.9	20.1	3.5	3.0	4.7
Uruguay	9.9	11.7	6.9	2.1	3.5	3.1
Brazil	6.7	6.1	7.6	8.4	9.3	8.7

Note: "n.a." signifies not available.

With the exception of Brazil, Argentina's major trading partners in Latin America normally incur trade deficits with her. Thus, in the absence of a dollar shortage of their own, Bolivia, Chile, Paraguay, Peru and Uruguay, would not feel very appreciable adverse effects from Argentina's dollar scarcity. All of these countries have a dollar problem of their own in varying degrees, however, and may be adversely affected if Argentina's dollar problem, especially as aggravated by her failure to obtain the expected ECA dollars, makes her unwilling or unable to extend credits to those countries with whom she normally has trade surpluses. As indicated below, failure to obtain credit from Argentina has already resulted in Chile and Uruguay reducing, during 1948, their imports from Argentina. Peru, however, has greatly increased its imports from Argentina. There is as yet no clear evidence that the trade of Bolivia and Paraguay has in any way been adversely affected. In any case, Brazil is the only country whose trade problems with Argentina arise strictly from Argentina's own dollar scarcity, since Brazil is the only one of the six countries normally having a trade surplus with Argentina.

In the early postwar period, the five countries incurring trade deficits with Argentina were willing to dispose of their dollar holdings in settling their deficits with Argentina, and Argentina was willing, when necessary, to accumulate currencies of these countries. In July and August of 1947, however, Argentina in order to bolster its dollar receipts insisted that its exports to Bolivia, Chile, Paraguay, Peru and Uruguay be paid for in dollars. These countries were unwilling, given their own dollar problem, to settle deficits with Argentina in this manner, and by the latter half of 1948 trade and payments agreements were being negotiated by Argentina with each of the five countries.

The possibility of receiving financial aid under the agreements depends to a large extent upon Argentina's ability to extend such credit, and such ability is considerably weakened by Argentina's tight foreign exchange position. Nevertheless, Argentina may still be willing to make limited credit advances for any one of the following considerations. Firstly, Argentine grain exports are meeting increasing competition in the world market. Argentina may prefer to sell on credit in order to maintain its past export level rather than accumulate domestic surpluses. Secondly, if Argentina assumes that its scarcity of dollars will be more or less permanent, it may be willing to extend or increase its short-run credits in order that natural resources of a debtor country may be developed, thereby enabling a shift of Argentina's long-run import needs to that country. Thirdly, Argentina's political aspirations include the formation of a "bloc of the Southern Americas", and it can use its neighbors' deficits as a bargaining lever toward increasing the economic and political ties. It may be felt that such political advantages more than offset the economic consequences of an extension of credit.

An examination of the five negotiated agreements show, however, that there were credit provisions only with Chile, Bolivia, and Peru. The Chilean Congress refused to ratify the agreement on the grounds that the political and economic dependence upon Argentina, implicit in the agreement, was contrary to Chile's own nationalistic aims. The Bolivians, according to confidential sources, are considering revoking the agreement, probably more for political than economic reasons. The agreement with Peru, which has yet to become effective, provides for credits through deferred Peruvian exports of oil in exchange for earlier shipments of Argentine grain.

The alternatives to credit are an increase in exports to Argentina or a decrease in imports from that country. As for the former course, the countries apparently were unable to increase their export production and were unwilling to divert their other exports, presumably from dollar-paying areas. 1/ The last course of action, therefore, would be to reduce imports from Argentina.

It is still too early to determine whether Argentina will, in fact, provide (and the other countries accept) credits to these deficit countries. It is already apparent, however, that some of the countries are reducing their imports from Argentina. Chile reduced its imports from Argentina from almost 16 per cent of its total imports in 1947 to less than 9 per cent in the first half of 1948; Uruguay shows a comparable reduction from 12 per cent to 7 per cent. As a result, the trade deficits of these countries with Argentina were substantially reduced. 2/

1/ It may also be noted that a recent Argentine measure requires its importers to obtain import permits prior to placing orders in the deficit countries. However, this is probably for purposes of surveillance, since restrictive action would be anomalous.

2/ Uruguay is one Latin American country which has appreciable non-trade transactions with Argentina. It is reported that receipts from Argentine tourists often nearly offset the trade deficit with Argentina. If this is so, the reduction of imports may not be due to the necessity of reducing a trade deficit.

TABLE II

Argentine Trade with Selected Latin American Countries
(millions of Argentine paper pesos)

	Imports from Argentina		Exports to Argentina		Balance	
	1947	1948 (6 months)	1947	1948 (6 months)	1947	1948 (6 months)
Bolivia	35.7	16.6	6.2	2.7	-29.5	-13.9
Chile	144.2	35.5	58.1	24.6	-86.1	-10.9
Paraguay	39.2	22.9	28.3	15.4	-10.9	- 7.4
Peru	61.2	59.2	18.7	14.6	-42.5	-44.6
Uruguay	84.6	20.3	23.1	13.2	-61.5	- 7.1
Brazil	249.4	164.2	439.3	188.1	+189.9	+23.9

Note: (-) indicates deficit with Argentina; (+) indicates surplus.

On the other hand, Peru's 1948 annual rate of imports from Argentina is double, in both absolute and relative terms, the 1947 import value. 1/ Argentina more recently has also acted to reduce its exports to these countries. As of November 1948, exports to these five deficit countries no longer received a preferential rate but were transacted at the usual buying rate. The loss of this preferential rate is equivalent, in effect, to an export tax of almost 16 per cent.

Brazil, the only Latin American country having an important amount of trade and a consistent trade surplus with Argentina, is clearly affected adversely by the Argentine dollar scarcity since Argentina is unable to settle its deficit in dollars. Under a payments agreement of 1941, Brazil was to receive an annual settlement of its surplus in dollars. This settlement has not been made in recent years, and Brazil in mid-1948 revoked the agreement, apparently not desiring to accumulate any further "blocked peso" balances. However, Argentine trade is important to Brazil; during the first half of 1948, almost 9 per cent of Brazil's total exports went to Argentina, and almost 8 per cent of its imports came from that country. Because of these conditions, Brazil was willing in September 1948 to accept Argentine overtures to negotiate a new agreement. The old agreement was re-instated to be effective during the period of negotiations, which are continuing, apparently, as of February 1949.

Principal obstacles to complete accord are reported to be Brazil's insistence upon some settlement of the accumulated debt and its dissatisfaction with some of the Argentine export prices. It is further reported that the new agreement strives toward minimizing Brazil's current surpluses through an increase of Brazilian imports from Argentina, rather than any extensions of credit, authorized or forced, or any reduction in Brazilian exports. During the first half of 1948 there had occurred a substantial reduction in Brazilian exports to Argentina, and the agreement would presumably secure a more balanced position at a higher

1/ Since there was explicit credit agreement between Argentina and Peru during 1948, it may be assumed that Argentina was willing to accumulate further balances of Peruvian soles.

level of trade.

In conclusion, it appears that Argentina's dollar scarcity as yet has had no appreciable adverse affects on the other Latin American countries, with the exception of Brazil. Thirteen of the Latin American republics normally trade little with Argentina. Although Chile and Uruguay reduced their imports from Argentina, this cannot be attributed to the Argentine dollar problem alone.

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