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Survey of Economic Conditions in Argentina
By Ernest C. Olson 2 pages

Latin - American Exchange and Import Controls
and Other Measures to Influence the Balance of Payments
By Harry A. Gillis, Jr. 9 pages

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SURVEY OF ECONOMIC CONDITIONS IN ARGENTINA

Ernest C. Olson

Argentina emerged from the war with large sterling and dollar balances accumulated during the war as a result of substantial export surpluses. By the middle of 1946 official gold and foreign exchange reserves had reached a level of \$1.8 billion, nearly four times the amount held in 1939. Since the end of the war, however, a substantial part of these reserves has been utilized for the retirement of Argentina's external public debt and the purchase of French and British-owned railways as well as U.S.-owned telephone facilities. As imports again became available from the United States, dollar reserves were rapidly depleted to satisfy war-deferred demand for a wide variety of goods as well as new demand for capital goods required for economic development projects under the Five-Year Plan. By the latter part of 1948, Argentina's international resources amounted to less than \$650 million or about 35 per cent of their postwar peak. As of October 1949, Argentine reserves amounted to \$766 million, much of which is believed to be gold and hard currencies. Some of Argentina's postwar purchases appear to have been ill-considered in terms of their importance to the Argentine economy, such as certain war surplus vehicles, while others appear to have been obtained at premium prices for early delivery.

Foreign Trade

In an effort to halt the decline in its dollar reserves, Argentina has reduced its imports from the United States drastically during the past year and a half. Payments of outstanding commercial obligations were postponed, with the result that a substantial backlog of commercial payments was built up, estimated at the present time to amount to more than \$100 million. This balance is being liquidated gradually through the allocation of 30 per cent of Argentina's current dollar receipts for this purpose. Exports to Argentina from hard-currency areas are now generally on a cash-in-advance basis.

The war precipitated significant changes in Argentina's international trade relationships. Argentine surpluses with third countries can no longer be freely used to finance deficits with the United States. Argentina's postwar trade has also been characterized by the negotiation of several bilateral trade and financial agreements, primarily with European countries. Because these countries were unable to pay for Argentine products in cash or goods, these agreements generally involved the extension of substantial credits by Argentina.

World-wide shortages of foodstuffs, which were particularly acute in the devastated areas of Europe, encouraged Argentina to withhold supplies and to charge exorbitantly high prices for its exports, especially for meat and grain. The agency which carried out this policy was the Argentine Institute for the Promotion of Trade (IAPI), a state trading monopoly,

through which virtually all important Argentine exports were channeled. Prices paid to producers by this agency, on the other hand, were so low that production declined; moreover, agricultural labor, responding to higher wages and other benefits established by the government for industrial workers, migrated to urban areas. Cattle raising, which requires less labor than the raising of crops, has shown a tendency to increase, but the area planted to wheat, corn, and flaxseed, the three most important export crops, has declined. During the last two years the world food situation improved to such an extent that the Argentine trading monopoly, caught with stocks it had been hoarding for high prices, has had to liquidate at much lower prices than anticipated. The decline in both production and in export prices thus places Argentina in a much less favorable position than it formerly enjoyed. In recognition of the importance of such exports to the Argentine economy the government announced last October that its emphasis on industry would be shifted to agriculture and that a three-year program beginning this year would be inaugurated for agricultural expansion and development.

Changes in the Domestic Economy

Since the end of the war Argentina's internal economic situation has also undergone significant changes. Expanded government activities, including the creation of various specialized agencies such as the Argentine Institute for the Promotion of Trade, and the prosecution of the Five-Year Plan of economic development, have exerted great pressure on the resources of the Argentine economy. Much of the financing of these activities as well as those of private interests was accompanied by a large increase in the volume of central bank credit which considerably more than offset the contractionary influence of the decline in foreign exchange balances. While the government has attempted to control inflation through various price and rent controls, on the basis of extremely limited information it appears that the cost of living has continued to rise and is now nearly four times its 1939 level. Most of the increase has taken place since the end of the war. These factors, together with problems raised by the general currency devaluations of last September, have caused Argentina to revise its multiple exchange rate system and to effect a general devaluation of the peso.

Several of the above problems have recently been under consideration by a joint Argentine-U.S. committee which was convened in Washington last September at the request of the Argentine Government. This committee, the U.S. members of which represented the Departments of Agriculture, Commerce, State and Treasury, gave special consideration to improving commercial relations between the two countries, and considered among other topics not only problems of international trade but also methods of increasing tourist traffic and of improving conditions which affect financial transactions. The studies of this committee were concluded in December 1949. Further pursuit of the committee's work is to be undertaken by an Argentine commission in consultation with the United States Embassy and the United States Chamber of Commerce in Buenos Aires.

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LATIN AMERICAN EXCHANGE AND IMPORT CONTROLS,
AND OTHER MEASURES TO INFLUENCE THE BALANCE
OF PAYMENTS.

Harry A. Gillis, Jr.

The International Monetary Fund has advocated consistently, among other things, (1) "the elimination of foreign exchange restrictions which hamper the growth of world trade" and (2) measures "to shorten the duration and lessen the degree of disequilibrium in the international balances of payments". Many countries, particularly those in Latin America, have found it desirable or even unavoidable to override the first of these goals in order to achieve the second. In fact, in many of the Latin American countries the degree of disequilibrium in the international balances of payments has been magnified, and, accordingly, the trend toward more restrictive controls has been accelerated. The following notes summarize very briefly this trend and outline some of the control-techniques which have been adopted, citing actual practices in certain representative countries.

Postwar Developments

Although most of the Latin American republics retained some sort of exchange control throughout the war and early postwar period, in actual practice the primary function of such controls in most instances was reduced to statistical surveillance over outflows of foreign exchange. In general, the controls were not applied in such a manner as to affect significantly the volume or character of the outflows. This was due almost solely to the achievement of record export levels while import levels rose much less rapidly, and in many cases even declined from the pre-war values. Until about 1946, however, imports were limited because of shortages of goods, and not because of the inability of Latin American importers to obtain exchange.

As a result of current account surpluses in the balances of payments during this period, the Latin American republics accumulated large gold and foreign exchange reserves. These countries had hoped that these surpluses would make possible the realization of their long-cherished plans for industrialization and financial independence. However, little was done in the way of giving precise form to such programs and their financing. Moreover, inflationary pressures developed as a result of the balance-of-payments surpluses, expansionary bank credit policies, and government deficit financing. Import demand rose substantially both because of the high level of money incomes and because of the rise in prices which in most Latin American countries was far greater than in the United States.

Accordingly, as goods for export became available in ever-increasing volume in the United States and Europe, Latin America provided a ready market during and after 1946. Unfortunately, the goods becoming available were primarily consumer goods, in many cases luxury goods, rather than capital equipment for which the governments had planned to use their accumulated foreign exchange reserves. In the absence of well-conceived programs of economic development and in the face of difficulties in obtaining the goods and equipment necessary for such programs, neither the respective governments nor private groups were able to utilize any substantial part of the reserves for such developmental purposes. Although exports continued at record levels, previously

accumulated foreign exchange assets rapidly dwindled (and in some cases were almost completely dissipated). This impairment of Latin America's prospective ability to finance its own economic development caused deep concern, especially since the imbalance on current account took on the appearance of a more or less permanent fundamental disequilibrium.

Assuming a condition of continuing maladjustment, an examination needs to be made of the appropriateness of the existing exchange rates. Two criteria may be applied for such an appraisal. The rate should be favorable enough to exporters of the country concerned to permit them to compete in the world market with competitive products of other countries, and it should be unfavorable enough to importers to restrict the flow of imports to such volume as the country can afford. The exchange rates of many Latin American countries have been able to meet the first of these tests but not the second. In view of this mixed success, it is not surprising to find that outright devaluation has not been widely accepted as a corrective but that emphasis has been placed more on other measures designed to husband the outward flow of foreign exchange and to screen carefully the purposes for which such exchange is used. More recently increasing efforts have been made to increase and control the receipts of foreign exchange more effectively.

Measures to Curb Exchange Payments

The outward remittance of exchange in payment for merchandise imports may be restrained directly by the imposition of controls involving either import licenses or exchange permits. An import license simply grants permission to import a specific quantum or value of goods, while an exchange permit is an authorization to purchase a given amount of exchange, generally for a specified purpose (i.e., imports, remittance of profits, etc.). It should be noted, however, that import licenses involve control over but one type of debit transaction in the balance of payments, while exchange permits imply supervision of both inward and outward exchange movements.

Although no country in Latin America has instituted simultaneously a system of both exchange control and import control, some countries at a later date have supplemented one such system with the other. In those countries having both exchange and import controls, the concurrent application has often reflected conflicting pressures in governmental administration. In general, exchange controls have been directed principally toward managing the balance of payments, while direct import controls have frequently been an instrument of protectionism.

The selective techniques adopted by Latin American countries to conserve foreign exchange holdings have been of various types and have usually been found in varying degrees of combination:

- 1) Complete prohibition of the importation of a growing number of luxury and non-essential goods, or the establishment of quotas on the amounts of such goods which may be imported.

2) The denial by the banking system of access to foreign exchange holdings to cover payments for such goods or the establishment of exchange quotas for the importation of these goods.

3) Measures designed to increase the cost of foreign products, usually non-essentials, in terms of domestic currency. These measures include changes in tariff schedules, general depreciation, and the imposition or increased incidence of exchange taxes and multiple exchange rates.

4) Measures designed to immobilize importers' capital, thereby limiting the ability of importers to finance imports.

5) Measures designed to control the outflow of exchange for purposes other than imports, such as capital exports, remittances, funds for travel or maintenance abroad, etc.

1. Direct control over quantity imported. Chile and Mexico are among the countries which have established lists of luxury goods, the importation of which is absolutely prohibited. Bolivia, Nicaragua, and Peru have import licensing systems under which certain import goods may be forbidden entry simply by the refusal of the authorities to grant an import license. Since February 1948, Brazil has required that the importation of virtually all goods be subject to a prior import license, such license being granted on the basis of three categories of essentiality. ^{1/} Uruguay also requires a prior import license and the importation of commodities may be refused on an ad hoc basis. On July 3, 1947, this system was extended to all imports, thereby giving the exchange authorities the power to screen and exclude any goods, the importation of which is judged undesirable.

2. Limitations on access to exchange. Several countries do not permit the purchase of exchange from bank reserves for the purpose of importing goods declared to be non-essential. Others severely limit the amount of exchange obtainable from this source for such purposes by allocating exchange according to an estimated exchange budget. In practice, this system closely resembles the direct trade controls mentioned above.

During 1949, about one-third of Chile's total foreign exchange receipts was converted at a preferential "banking market" rate of 43 pesos per dollar, such exchange arising principally from "subsidized" exports. From September 1949 to January 1950, the Chilean authorities required that all exchange purchased by commercial banks at the "banking market" rate be allocated to the financing of three newly-established categories of "less-than-essential" imports, all of which were charged the "banking market" selling rate. The allocation was in percentages of 60, 30, and 10, respectively. The purpose of this practice was to confine the use of exchange for these semi- and non-essential imports to a limited amount of exchange which could be distributed discriminatorily according to a diminishing degree of essentiality.

^{1/} The classification for import licensing is not identical with the classification for exchange licensing.

A number of other countries have adopted a system of allotting exchange quotas to different categories of imports in order to discriminate against non-essential goods. Since September 3, 1947, Argentina has granted exchange permits only for the importation of selected items and the Central Bank exercises rather strict control over the volume of such permits authorized. These controls were made increasingly more restrictive; control was established not only over the commodities which might be imported but also over the country or monetary area from which the import might originate. In Bolivia, the Minister of Finance established quarterly exchange quotas both for various categories of imports and for each registered importer. However, importers may also use any dollar resources of their own which they may already happen to hold (for example, from the sale of gold certificates), but, legally, they may not acquire such exchange in the free market.

Following a two-year period of increasing exchange and import control, Brazil adopted regulations on March 29, 1949 which require that all "scarce currency" exchange be sold to or for the account of the Bank of Brazil (very recently sterling exchange has been added to the list). At the same time, the Bank was vested with sole authority to grant exchange for outward remittances. All applications for such exchange remittances are directed to the Bank which then allocates exchange chronologically for approved applications among five categories covering all types of payments (not just imports exclusively). At the present time, most of the available exchange appears to be allocated to the first of the five categories. This first category consists of articles the importation of which is essential and "in the national interest".

3. Measures increasing domestic cost of imports. (a) Tariffs. In the third quarter of 1947, Chile raised its tariff duties on 1,106 items. The duties on 669 of these items were raised by about 80 per cent over rates previously in effect, and the duties on the remaining 437 items were increased by one-third over existing rates.

At the ITO Conference in Geneva, Brazil obtained approval to raise specific tariffs on items covered by trade agreements. This increase, effective August 1, 1948 and amounting to about 40 per cent, was allegedly to compensate for the depreciation of the cruzeiro since the original fixing of the specific rates.

In early 1948, Mexico put into effect a compound tariff system to replace the former specific tariff schedule. In July and August 1948, the specific rates were raised for hundreds of commodities by varying amounts, and since that date similar revisions have continued to take place.

(b) Exchange rates. Colombia and Mexico devalued their currencies, thereby increasing the cost of imports in terms of national currency, and thus relieving to some extent pressures exerted on their respective balances of payments. On December 17, 1948, Colombia raised the official selling rate from 1.76 to 1.96 pesos per dollar. The effect of this measure was to increase the peso costs of remittances for most import payments and some service payments by about 11 per cent. Mexico's authorities removed their support to the Mexican peso and permitted the currency to depreciate in two stages from 4.86 pesos per dollar, on

July 21, 1948, to 8.65 pesos per dollar on June 17, 1949. These changes resulted in peso import prices increasing over the year by 78 per cent. On October 3, 1949, Argentina announced adjustments in its exchange rate system which, in general, devalued the peso in terms of the dollar by about 30 per cent.

Other countries in Latin America have achieved effects similar to those of devaluation through the use of multiple exchange rates, and by requiring import operations to be transacted at less favorable exchange rates. It may be noted that the equivalent of multiple exchange rates can be achieved by levying taxes, by granting bonuses, or by permitting "compensation transactions" (i.e., permitting certain export proceeds to be the only source of exchange for the payment of certain imports).

Simultaneously with the announcement of devaluation, Argentina reclassified the import rates applicable to various commodities, with the result that the effective range of devaluation in terms of dollars was from 18 to 43 per cent. On October 6, 1949, Uruguay established a new import rate of 2.45 pesos per dollar, a rate nearly 29 per cent higher than the existing import rate. This new rate is applied to the least essential 20 per cent of total imports. On November 5, 1949, Paraguay announced that its exceedingly complex system of "compensated" import transactions had been replaced by four fixed import exchange rates each of which is applicable to a different import category, depending upon the degree of essentiality.

The exchange control systems of Colombia and Ecuador are similar in that each has three import categories. In Colombia, exchange for import payments is sold at the official rate, but there are exchange taxes of 10, 16, and 30 per cent applicable to the respective import categories. These taxes also apply to various transactions on the free market, which is used for most non-trade remittances and for some import payments in excess of the basic quotas granted exchange at the official rate. The usefulness of a somewhat similar system of taxes and surtaxes in Ecuador as an administrative instrument of control is lessened by the fact that classification of import items cannot be changed except by legislative action.

In February 1948, Chile established a "banking market" rate of 43.10 pesos per dollar for the payment of imports not deemed essential. This rate was about 39 per cent higher than the rate of 31.10 pesos per dollar which was applicable to essential imports. In addition, some luxury imports might be imported through resort to "compensation exchange", that is, exchange arising from the sale abroad of a few products whose export was particularly encouraged.

4. Measures immobilizing importers' capital. A system of deposits against import licenses or exchange permits has been in effect in several countries with the objectives of guaranteeing the utilization of the permit and of discouraging applications for exchange in excess of the applicant's actual needs. In two countries, however, the requirement serves principally to immobilize importers' capital and thereby reduce their ability to finance imports.

As early as October 1945, Nicaragua required a deposit in cordobas equal to 100 per cent of the value of the import order. The contractionary impact of this requirement was considerably vitiated, however, in practice, by

permitting the deposit to be deferred until notification was received that the merchandise had been shipped. During 1946 the required amount of the deposit was reduced (by successive stages of 10 per cent) to 60 per cent, at which point it remained until April 1949. At that time a newly established Exchange Control Commission published lists of importations into Nicaragua, classifying them as essential, semi-essential, or non-essential. At the same time, the Commission required, when payment is on sight draft terms, that the following cordoba deposits be made when the import permit is approved: a 25 per cent deposit for articles on the essential list, 50 per cent for those on the semi-essential list, and 100 per cent for those on the non-essential list.

Costa Rica, upon the advice of a mission sent by the International Monetary Fund, established a series of deposit requirements in December 1947 discriminating among three classes of "less-than-essential" imports. At the present time, a 10 per cent deposit is required against goods in the first category, 40 per cent for goods in the second category, and 60 per cent for those in the third category. The cash deposit in colones is to be made prior to, or at the time of, the application for exchange.

5. Measures controlling remittances other than imports. (a) Capital remittances. Of the thirteen Latin American republics having some form of exchange control, only Venezuela does not have any regulations regarding the remittance of capital, or the interest, dividends, or other earnings thereon.

On June 22, 1948, Argentina eased, on paper at least, the more rigid regulations in effect since July 8, 1947. Investment capital entering the country after January 1, 1948, in a "freely disposable currency" may be repatriated at any time, subject to the availability of controlled free market exchange. Annual service remittances on capital which entered the country between July 8 and December 31, 1947, however, is limited to amounts ranging from 6 to 12 per cent of the original investment. No clearly defined provision is made for foreign capital in the country prior to July 8, 1947. The term "capital" in all cases has been redefined to include capital gains and any accumulated interest, profits, or dividends.

In Bolivia, capital which is invested in the country according to contracts made at the time of entry with the Ministry of Finance is guaranteed the right to leave the country under the contract terms. No provision is made for capital which is not under contract.

Since June 3, 1947, Brazil has limited annual remittances for service payments to 8 per cent of the invested capital and for amortization payments to 20 per cent. These remittances are in the second of the five general categories of exchange allocation. Any remittances in excess of the stated maximum are classed in the lowest or fifth category, to which is allocated only a small portion, at best, of total exchange holdings. This has given rise to a considerable accumulation or backlog of approved exchange applications.

The system which was in effect in Chile until January 1950 provided that approved foreign investments might be remitted at the "banking market" rate upon authorization from the National Foreign Trade Council. All other capital and service remittances were forced over into the curb market.

In Ecuador, since June 7, 1947, remittances of capital from approved foreign investments may be made up to at least 15 per cent per year at the official rate of 13.50 sucres per dollar. All other remittances are through the free market where the current rate is over 18.00 sucres.

In Colombia, service payments on capital which is to be invested for at least five years in activities meeting with the approval of the Minister of National Economy may be made at the official market rate, and after the end of the agreed period of investment, the capital may also be taken out at the official rate. All other capital remittances are effected through the free market.

Capital remittances from the other countries (except Venezuela) require the approval of the respective control authorities, and in the case of Nicaragua of the President of the Republic as well.

(b) Travel, maintenance, etc. Many Latin American republics either have severely curtailed the amount of exchange available for travel, immigrant's remittances, and other comparable non-trade items on current account, or have made the domestic cost of such remittances nearly prohibitive.

Since November 1948, Argentina has suspended all sales of exchange for travel and family aid with the exception of those denominated in Spanish pesetas and of unusual cases which require the special approval either of the National Economic Council or of the Central Bank. In May 1949, Brazil similarly suspended all personal service and unilateral payments which are denominated in a currency which the Bank of Brazil defines as "scarce".

Chile has limited the aggregate amount of exchange used for travel and maintenance abroad by allocating a certain percentage of expected receipts for that purpose; additional exchange for such purposes must be acquired in the curb market. In Costa Rica and Uruguay such exchange must be purchased entirely in the free market, and in the case of the latter country, which has a controlled "free" market, such purchases may be limited greatly or even prohibited. Honduras, Nicaragua, and until recently Peru have required the approval of the exchange control authorities before such purchases could be made in the official market. If application for exchange was rejected by Peruvian authorities, resort could still be made to the free market, where the rate fluctuated between 15 and 20 soles to the dollar in comparison to the official market rate of 6.50 soles. The new exchange rate system, which was adopted on November 14, 1949, consists of a fluctuating unitary rate, and therefore no longer affords the above type of discrimination.

Measures to Increase Exchange Receipts

In contrast to all of the above measures which are designed to curtail the outward movement of exchange, particularly by limiting the import trade, other selective measures have been adopted increasingly by Latin American countries to increase their receipts of foreign exchange, primarily through the encouragement of export trade. This has been done by (1) reducing export taxes or duties and (2) devaluing or allowing the exchange proceeds to be sold partially or wholly at a premium.

1. Reduction of export duties - Mexico abolished its 12 per cent "aforo" system on exports, effective January 1, 1948, and put through a general revision of its other export duties. While the duties were for the most part revised upward, the end result of the modifications was to give the exporter a larger return in terms of national currency. In August 1948, following the fall in the value of the peso from 4.85 to 6.85 pesos per dollar, the authorities imposed a 15 per cent surtax on all exports. Provision had been made, however, that certain export articles, at the discretion of the authorities, might be exempt from this tax. Since the establishment in June 1949 of a new par value of 8.65 pesos per dollar, the surtax on exports has been reduced by varying amounts.

In June 1947, Bolivia reduced export taxes on tin produced by miners with small operating capacity. The purpose of the reduction was to compensate the small mining firms for the rise in operating costs which had affected them more than the large firms.

2. Granting of exchange rate premia - A larger number of countries have promoted exports by granting direct bonuses or subsidies, either by partial devaluation through shifts to more favorable exchange rates for exports, or by outright devaluation. Argentina and Uruguay have special fixed preferential rates at which export exchange proceeds may be sold. In addition to a preferential rate which has been in existence for some time, Argentina established a new buying rate on June 22, 1948, for products manufactured from Argentine raw materials. The new buying rate is really a "hardship" rate because it is higher than any of the selling rates. In addition, when Argentina readjusted its rates on October 3, 1949, following the sterling devaluation, still another export rate was established (bringing the total number of export exchange rates to four), and a few commodities were shifted from one rate classification to another thereby granting some exporters even greater benefits.

Until recently, Uruguay had a second means of promoting exports, namely through permitting varying percentages of the exchange proceeds to be sold in the free market. (In practice, however, this second means was not frequently used and probably was not so important a subsidy as the fixed preferential rate, because the spreads between rates were such that about 70 per cent of the proceeds had to be sold at the free rate in order to make the subsidy equivalent to that afforded by the fixed preferential rate.) In any event, on October 6, 1949, these "mixing" transactions were abolished, the three preferential rates were consolidated into one rate, and a new rate was established for exports. The new rate, applicable to 20 per cent of total exports, gives exporters a 25 per cent greater return in national currency than the best preferential rate previously existing.

Until November 5, 1949, Paraguay had a system of permitting varying percentages of export proceeds to be sold in the free market. On the above date, however, two fixed export rates were announced. Bolivia and Chile both have preferential official buying rates. The Bolivian authorities permit the exchange proceeds from certain agricultural and animal products to be sold in the preferential market. The same privilege is extended to any extraordinary production of the tin mines over fixed basic quotas. In practice, this privilege has apparently been granted only when the exchange proceeds are in dollars. Chile

required that export exchange proceeds be sold in part at the official basic rate; the balance might be sold at the preferential "banking market" rate. The exchange arising from a very few exports might be sold, under "compensation transactions", in the illegal but tolerated curb market.

On December 17, 1948, Colombia devalued its basic rate by 10.5 per cent. Since then, Colombia has required the proceeds of all important export commodities to be delivered to the authorities at the official buying rate; the proceeds of all other exports are exchanged for a certificate which is freely negotiable on the free market where the rate is currently about 65 per cent higher than the official buying rate.

Mexico allowed the peso to depreciate during July 1948 from 4.85 to 6.85 pesos per dollar, and on June 17, 1949 established a new par value of 8.65 pesos per dollar. These successive depreciations represented a total devaluation of the peso within one year by about 44 per cent (or an increase in exporters' peso returns of about 78 per cent).

In addition to the efforts to boost the volume and value of exports, some countries, particularly Argentina, Brazil, Colombia, Ecuador, and Peru, have tried to encourage capital imports by establishing regulations either guaranteeing the re-export of foreign capital and dividends or attempting to create a "favorable climate" for foreign investment. Such regulations have had little visible effect, however, in encouraging capital imports.