

LAT
341.181812
G891



PC-A111-0-2
ISBN 78070
REPRINT 89

AID:HC 355.27

The Alliance for Progress



Invisible Hands in Inflation and Growth

by JOSEPH GRUNWALD

LAT

341.181812 The Brookings Institution, Washington, D.C.
G891 The Alliance for Progress. and
Invisible hands in inflation and growth.
Joseph Grunwald. 1965.

1 v.

Reprint no. 89.

OFF-SITE

I. Alliance for Progress - LAT. 2. Inflation (Finance) -
LAT. 3. Economic development - LAT. I. Grunwald, Joseph.
II. Title. III. Inflation and growth in Latin America.

THE BROOKINGS INSTITUTION WASHINGTON DC 1965

T.Y.D.
Reference Center
Room 1656 NS

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FOREWORD

It may seem strange to combine two such seemingly unrelated essays under one cover. One is an address to an educated lay audience on a general subject; the other is a paper presented at a conference of economists on a specific problem. There is, however, a significant link between the two articles. One of the main themes of the address on the Alliance for Progress is that while there is a growing awareness of the importance of combining economic with social and political factors in the formulation of public policy, there are enormous difficulties in doing this on a professional and scientific plane. In the present state of affairs, economic reasoning cannot readily take into account noneconomic variables, nor can social and political factors be reduced to terms amenable to being handled by the economist's kit of tools.

In a certain sense, the article on inflation and growth may be viewed as a case study of this problem. The "structural" concept of inflation, with which the second paper is concerned, embodies a series of noneconomic elements in addition to economic ones. These include—besides population growth, urbanization, and changing tastes—definite conceptions about the aspirations of people, what is and what is not politically feasible, and other noneconomic matters. They are the "invisible hands" that coerce public policy.

The "monetarists," on the other hand, focus primarily on the economic relationship between inflation and the supply of money. Their policy conclusions, therefore, concentrate on the application of monetary tools to control inflation. The "structuralists" do not deny the existence of a relation between the supply of money and the price level, but hold that, in a developing economy, there are structural rigidities, and thus monetary policies alone can bring price stability only at the risk of prolonged economic stagnation. According to that school, profound structural changes are necessary

in order to eliminate the basic maladjustments and lead to long-run stability with vigorous economic growth.

Controversy between the "structuralists" and "monetarists" arises when the "monetarists" view the "structuralist" position as a strictly economic one. The failure in communications in large part lies with the structuralists who insist on couching their viewpoint only in economic terms. On the other hand, the monetarists are guilty, like so many economic purists, of drawing policy conclusions with social and political implications which go far beyond what can be derived from the purists' impeccable but narrow economic analysis.

The inflation paper deals primarily with the structuralists' problem and shows that, when confronted only with economic facts, the structuralist position tends to break down. It is valid, however, when it is stripped of semantic obscurities and noneconomic factors are specifically taken into account.

Joseph Grunwald

Washington, D. C.
December 1964

THE ALLIANCE FOR PROGRESS

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WHEN the Alliance for Progress was assigned to me as a topic, I had two alternatives. I could speak as a professional economist and analyze the amounts of financial assistance given to Latin American countries and conjecture about the impact on Gross National Product or other economic variables. Or I could speak as a person who is comparatively well informed about Latin American affairs and venture out into the wilderness of the non-economic world and try to present my general impressions of the Alliance. Although fully aware of my limitations, I have opted for the second alternative with the excuse that my interest often runs along the lines of *political* economy.

I

It does not seem possible to discuss the Alliance for Progress without being concerned about the success or failure of this experiment and today the tendency is to think in terms of failure. I want to address myself to this concern.

I view the Alliance for Progress as a double experiment—an experiment in U.S. foreign policy and an experiment in the social sciences. In respect to the former, it represents an attempt by the United States to change her image in Latin America which, because of rather narrow economic policies, seriously suffered in earlier years. At this point it is not particularly relevant whether the true purpose of this change was purely humanitarian or whether it was designed to make Latin American countries more responsive to our policies. The interpretation of this change, however, is important.

Before the Act of Bogotá, which preceded the Alliance by more than a year, U.S. aid to Latin America was clearly guided by U.S. foreign policy but was not directly related to basic reforms within the recipient country. Rather significant changes in governments

and attitudes in Latin America (as well as in the rest of the world) induced a sharp adjustment of the U.S. financial assistance policy. The United States wanted to impress upon the people of the south that she was quite aware that problems of social justice in addition to purely economic ones have to be resolved before one can speak of economic development. Thus, without any prior foreign experience in this field, the United States has become an advocate of social (and, to some extent, even political) revolution and has tried to use financial assistance as a tool in this process.

With respect to the social science experiment, the Alliance for Progress represents the first massive effort to combine economic with non-economic factors in a policy for development. Economists know fairly well what to prescribe in order to increase economic growth, provided that we can say *ceteris paribus*; in other words, social, political, and psychological variables would be assumed to be constant. We would have the choice, then, of a variety of solutions, from pure *laissez faire*, perhaps prodded by monetary, tax, and fiscal policies, to the recipe for a government-controlled and regulated economy. Depending on the values assumed for the non-economic variables, there will be an optimal solution. I do not need to belabor the point here; the fact of the matter is that not only are these variables changing, but that we know little about their values at any given time. Perhaps this problem is not so serious in our own country and in some other developed industrial countries with which we have certain cultural affinities, because we know something about ourselves. The problem does become very serious, however, when we deal with foreign cultures which find themselves in the throes of trying to emerge from abject poverty.

Thus, as a social science experiment, the Alliance for Progress represents the recognition that, in order to attain sustained economic growth, certain conditions will have to exist which would make the national environments in Latin America more amenable to dynamic development. Therefore, we urge changes from pre-capitalist to capitalist situations in land tenure, increases in disposable government funds through tax reform, a more productive and viable labor force through education and health measures, and so forth. The Alliance for Progress also recognizes that social justice is a worthy objective in itself and that there-

fore a greater relative equality in the distribution of income and wealth is desirable for this reason, if not for economic ones. Furthermore, a democratic political system is to be fostered because, on the basis of our own experience, it is more conducive to the attainment of these changes.

If one now tries to evaluate the Alliance for Progress from the point of view of these two experiments, one must reluctantly come to the conclusion that the foreign policy experiment has failed so far. The outcome of the experiment in the social sciences is much more ambiguous at this time. But there is a good chance that eventually it will succeed if there is sufficient perception and patience for an extended period of trial and error.

II

Before reviewing the reasons for this evaluation let us look briefly at the dozen or so goals of the Alliance as expressed in the Charter of Punta del Este of August 1961:

- (1) Per capita growth in income sufficiently high to assure "self-sustaining" development and lessen the gap between Latin America and the industrialized nations. A per capita growth rate of at least 2.5 per cent is deemed necessary in order to achieve these objectives.
 - (2) A more equitable distribution of income in order to make the benefits of economic progress available to all economic and social groups.
 - (3) A more balanced diversification of the economy, so that dependency on exports of a few products would be lowered.
 - (4) Acceleration of rational industrialization.
 - (5) Increase in the level of agricultural productivity.
 - (6) Encouragement of programs of agrarian reform.
 - (7) Elimination of adult illiteracy; for each school-age child, access to six years of primary education; and modernization of educational facilities in general.
 - (8) Increase in the life expectancy at birth by a minimum of five years and general improvement of individual and public health.
 - (9) Increase in the construction of low-cost housing for low-income families.
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- (10) Price stability compatible with an adequate rate of economic growth.
- (11) Economic integration for expansion and diversification of trade among the Latin American countries.
- (12) Cooperative programs to stabilize foreign exchange earnings from exports of primary products.

All this is to take place within a democratic framework and within a ten-year period. National economic and social development plans are to aid in this process, based upon the principle of self-help combined with external financial assistance. The principle of self-help necessitates the strengthening of public and private institutions for a more effective use of domestic resources. Administrative and fiscal reforms thus become basic conditions. The Charter also speaks of increasing competition and of promoting the flow of foreign investments.

The United States assured the Latin American countries that external financing would be available; the Charter included the figure of twenty billion dollars for the ten-year period. Of this sum—according to a statement at the time of the Punta del Este conference by the U.S. Secretary of the Treasury—some eleven billion dollars would be U.S. government financing, three billion dollars would represent U.S. private investment, while another three billion would be foreign—principally European—investments, and the rest would come from the international lending agencies.

III

Returning now to that aspect of the Alliance for Progress which is represented by the foreign policy experiment (that is, the attempt to change the U.S. image abroad) one finds that the Alliance has never been completely accepted in Latin America. This is so in spite of the fact that the Charter of Punta del Este was officially subscribed to by all the Latin American governments (Cuba excepted, of course) and that it meets the strongest aspirations of the people.

The failure to attain wholehearted acceptance is due to more than the U.S. public relations breakdown to which it is often

ascribed. After all, it is natural that the Alliance for Progress would not be welcomed by those who would inevitably be harmed by it: the large landowners, the tax evaders (or avoiders), and all those who feel that their wealth and incomes are in jeopardy because of the strong emphasis on economic and social reforms. And many of these people are still in positions of political power.

On the Left, there are, first of all, obvious political reasons for not accepting the Alliance for Progress. No matter how fully the Alliance meets the Leftist platforms, the Latin American Left cannot afford to embrace what is looked upon as a United States-conceived program. After all, anti-Yankeeism has been one of the principal political props, not only of the Left, but of Latin nationalism.

But there has also been a genuine and widespread concern as to whether the Alliance for Progress represents traditional U.S. foreign policies under a new guise and whether it will be used as a tool for U.S. political and economic objectives which might not necessarily be in the best interests of Latin America. There is a certain apprehension that the true objective might be "alliance" rather than progress, particularly since the picture given is one of a "North-South axis"—the United States and the countries to the south. Thus, while Europe is implicitly included in the financial aspects of the Alliance, she was excluded from directly participating in the formation of the Charter of Punta del Este, as she is, quite naturally, from the Inter-American system. Latin Americans do not wish to be tied to any particular axis but want to be able to deal freely, without moral or other restraints, with all countries. And this includes Europe as well as the communist bloc.

Latin Americans are very conscious of the economic ties attached to much U.S. aid. They wonder why a long-term loan from the U.S. government Export-Import Bank, which is classified as U.S. foreign aid, should not be considered aid to U.S. business, when that loan, as it always is, is designed to purchase U.S. products. If the aid is to be genuine and if the United States believes in competition and free enterprise, why should not Latin American countries be permitted to transport goods at the lowest freight costs and to buy wherever the price or specifications are right? Of course, the United States is not the only

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nation that ties her loans; the restrictions on European loans are often greater.

When there are other economic and non-economic strings attached to aid, Latin sensitivities naturally run higher. These strings may be played loudly and noisily, such as the insistence on monetary stability, fiscal and administrative reforms and the protection of U.S. business interests, or, more subtly, such as "moral suasion" to vote in international bodies in accordance with U.S. wishes.

The Latin impression of aid as a tool of U.S. economic and political foreign policy is strongly supported in the U.S. Congress, the U.S. press, and by the pronouncements of some U.S. officials. When we relate to U.S. aid our worries about increased communist strength in the recipient countries, or "unfriendly" acts toward U.S. business firms, or the expansion of the economic role of government, or the extension of the off-shore national sovereignties, and so forth, we are confirming the Latin impression of the U.S. aid function.

Even the U.S. concern with social and economic reforms is questioned. There is a sneaking suspicion among Latin intellectuals that if this social revolution which the United States professes to want for Latin America should really take place with the desired speed, there would not only be bitter outcries of "socialism" and even "communism" from the United States, but there is also the possibility of direct U.S. intervention to prevent this change.

In short, the basic motivations for the Alliance for Progress are mistrusted by large segments of the Latin American population. This attitude could lead to the charge that the new U.S. aid program is "interventionist." While this charge is not universally made in Latin America, it is a nationalist sentiment which cuts across political divisions. Under these circumstances it is impossible for the United States to utilize the Alliance for Progress fruitfully as a mechanism in her foreign policy and at the same time effectively change her image in Latin America.

We have not been insensitive to Latin American feelings. We have tried frantically to impress upon Latin America that the Alliance for Progress is not a bilateral arrangement between the United States and individual countries nor is it a U.S. program for Latin America, but rather that it is *their* program for *their*

development. Thus, we have recently helped to establish an Interamerican Committee for the Alliance for Progress which is to assist in the coordination and distribution of foreign aid for Latin America. In this committee (CIAP as it is called by its Spanish initials), which is part of the system of the Organization of American States, each Latin American country is represented (though not Cuba, of course). With the exception of the U.S. member, each of the seven delegates represents several countries. The President is stationed in Washington, the seat of CIAP, and is the only full-time working member. (CIAP has three advisers, the Coordinator of the Committee of Nine, the President of the Inter-American Development Bank, and the Executive Secretary of the UN Economic Commission for Latin America, all of whom are Latin Americans.)

It is too early to say how far CIAP can go in "multilateralizing" the Alliance for Progress, since it had its organizational meeting only last March. But CIAP functions only in an advisory capacity and we cannot expect that the United States will entrust the determination of needs for U.S. financial assistance, its distribution, and disbursement to a body outside the U.S. government without imposing severe restrictions.

IV

Turning now to the social science experiment, to promote development through economic, social, and political objectives, the first impression one gets is that of failure in respect to the political desiderata. The list of disappointments is long. Since the Charter of Punta del Este, democratic and constitutional processes have broken down in Argentina, Peru, Guatemala, the Dominican Republic, Ecuador, Honduras, and, more recently, in Brazil, although in some of these countries, notably Argentina and Peru, they have already been formally re-established by the military which engineered the coup d'état. Perhaps we have been naive in setting as a condition a democratic framework in the likeness of our own under which economic and social development would take place. It certainly takes more than wishing for such an objective in order to attain it, particularly in environments where one cannot speak of representative government, because a large part of the population is illiterate and millions

of people who exist outside the market economy have no political voice.

We have ignored the need for what my political scientist colleagues call political development, without which a democratic economic and social development is not possible. This implies essentially that people must be trained in modern citizenship in general and in modern political leadership in particular.

The second impression one gets is one of failure to reconcile what appear as internal contradictions in the goals of the Alliance for Progress. The basic inconsistency seems to be the inability to harmonize short- or medium-term with the long-term goals of the Alliance for Progress.

Thus, for instance, the Alliance looks for a minimum rate of economic growth as soon as possible. This requires a maximum investment effort in undertakings which will be quickly productive. On the other hand, the goals of long-run economic and social development require a heavy investment in education now. This means that there are competing demands on scarce resources, which implies that if the emphasis is too great on promoting current economic growth, sound and sustained long-run growth might be jeopardized. If, on the other hand, a major part of the resources are devoted to education now, the effects of increased productivity of the labor force will not be realized until some time from now; perhaps the full impact will not be felt until after the ten-year Alliance program, particularly if the aim is also to increase economic and social mobility. Similar considerations apply to other aspects of the Alliance, such as the goals in respect to health, sanitation, and the like.

The concern with the short run versus the long run is, of course, an old problem in economics. On a theoretical plane we have learned to cope with it. We have difficulties, however, in applying these principles in the real world, especially in the underdeveloped areas. It is difficult enough for economists to agree on policy in the application of a purely economic problem. How much more difficult must it be to have clear ideas about what to do for the short and long run when one must add socio-political considerations as well.

A third group of problems is related to the strategy of reforms, or "reformmongering," as one distinguished colleague has put it. Essentially we are dealing here with a "vicious cycle" proposi-

tion: certain reforms are difficult, if not impossible, without basic changes in social structure, but deep-going social changes require reforms and take time unless we are talking about violent revolution. Also it is difficult to institute reforms in a stagnating or chaotic economy, as recent Brazilian history has shown. Yet basic reforms seem to be necessary in order to sustain rapid economic growth.

Too much ado about reforms can have detrimental effects. If land reforms, for instance, are loudly announced and debated without being instituted for a long time, the immediate effects would be to discourage private agricultural investment. Landowners will hold off making improvements until they know what is in store for them and they cannot know that until the reform is formally instituted. Reform talk may also have a negative effect on foreign private investment.

When some of my Latin friends want to indicate the serious difficulties inherent in undertaking the reforms implied in the Alliance for Progress, they like to refer to the problems we recently had in legislating a tax cut in the United States, which, although it can hardly be considered "reform," may indicate the great extent of the obstacles that should be expected in introducing tax-raising reforms in Latin America. And some of the more fundamental social reforms to be instituted in that region often are likened to our own civil rights revolution which has been going on for over a century and appears only now to be coming to a head. What is deemed necessary in Latin America is nothing less than a reweaving of the very fabric of society.

It is obvious, of course, that one cannot speak of a strategy of reform. First of all there are different kinds of reforms, some more, some less deep-going. Then there are at least twenty different national situations in Latin America and within most countries there are important diversities. But just as the United States cannot have twenty distinct foreign policies in Latin America, it would be equally absurd for an international document such as the Charter of Punta del Este to specify scores of separate avenues for achieving the goals of the Alliance for Progress. As in the application of any generalization, flexibility is needed. As yet, however, there is no clear vision as to how to utilize the various disciplines in the social sciences in a strategy or strategies for reforms.

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V

There is also a confusion about the objectives of a given reform because of the interplay of economic, social, and political factors. Let us take the concept of "land reform," for instance. It may mean a change in the tenure structure, such as the redistribution of land, or it may mean colonization, a new system of agricultural taxes, and the introduction of massive extension services. All of these are tools for either economic, social, or political aims.

Because agricultural production has been lagging in most Latin American countries and has been considered a bottleneck in the economic growth of some of them, it is not surprising that land reform has been looked upon primarily as a problem of increasing the output of land. From this purely economic point of view, the redistribution of land is not of great urgency in many regions of Latin America. As a matter of fact, redistribution is likely to decrease productivity in some places where large-scale farms have proved quite efficient. In many areas production can be raised more effectively through extension services and the introduction of new techniques, better market information, and improved transport facilities, rather than through land redistribution. Of course, it can be argued that redistribution, while not immediately increasing agricultural production, could result in an increase of purchasing power and thus constitute a stimulus to industrial production.

Even from the point of view of social justice, land redistribution does not appear to be a pressing matter in some parts of Latin America. Argentina, for example, not only has the smallest proportion of its population on the land in Latin America, but a large section of the rural population is relatively comfortable.

On the other hand, looking at land redistribution from the political vantage point, the picture is different. In large parts of Latin America, political, if not economic and social power is still vested in the relatively few large landholders. If, in order to release the forces for development, it is necessary to change the existing power structure and this becomes an objective of land reform, then land redistribution may make sense even in a place such as Argentina, where it might not be efficient from a socio-economic point of view.

As seen in this light, there are not many countries in Latin

America where some land redistribution would not be useful—either for economic, social, or political objectives, or a combination of the three. The trouble is that some of the most enthusiastic advocates of land reform in Latin America often argue redistribution in terms of productivity aims, even though, subconsciously perhaps, they may have other objectives in mind. Thus U.S. economists are often led astray in evaluating reforms. When we are given to understand that land reform is necessary in order to increase output, we are puzzled when this reform is supposed to consist of land redistribution, because in some cases we can foresee a decrease in agricultural production if this would take place. We do not recognize that what is really meant, perhaps, is not the goal of an immediate rise in the output of the land, but the much broader one of laying the base for sustained economic growth.

VI

We can generalize and say that the problem of communication between the Latin professionals and officials and their U.S. counterparts has been a serious stumbling block in the Alliance for Progress. Latin American intellectuals are sophisticated. Some of them have been in close contact with the industrial societies and have adopted the professional language of these societies. Thus they speak in terms of "optimal resource allocation" in order to maximize economic development, which is not only a jargon which we understand, but which also gives us the impression that the problems of Latin American countries are not too different from ours. We are also often led to believe that the reactions of their people to certain policy measures will be similar to those in the developed countries.

For these reasons we have accepted the notion that Latin American leadership is primarily concerned with the goal of accelerating economic growth. And we are perplexed when Latin American behavior runs counter to the logic for achieving this goal. Why redistribute land when other measures apparently could increase agricultural production more efficiently? Why build a steel plant in country X when the marginal productivity in another sector is obviously higher? Why not welcome with open arms the foreign private investor in the exploitation of the

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country's petroleum resources? Why not increase bus fares, telephone, electric power rates, and such, in order to raise investment and output of public utilities? The enumeration of our puzzlements is long.

To say simply that the answer lies in poor leadership, lack of administrative abilities, and demagoguery, is patently absurd, although these things might have certain validity in isolated cases. The answer lies rather in the fact that we have misunderstood the Latin American priority system. Maximizing the rate of economic growth is not at the top of the list despite the pronouncements of Latin American policy-makers to the contrary.

Even on a professional economic plane, misconceptions arise. It is no secret that many Latin American economists are not held in too high esteem in U.S. academic circles. Why? Because some of our Latin colleagues, speaking the language of economics and thus giving us the impression that they are interested in optimizing resource allocation for economic development, do not follow through with the logic required by this case. Not only do they break the assumption of *ceteris paribus* and introduce non-economic factors into the problem which makes rigorous analysis in the U.S. style difficult, if not impossible, but their basic values are quite different from ours. Thus the economic objective may not rank first in their priority system, although they may not be aware of this fact. Obviously I am not talking about the intellectually dishonest person, but about the Latin American professional who, having adopted the terminology of Western economics, is not conscious of using it in non-economic problems. Of course, we cannot be mind readers, but as social scientists we can, and should be perceptive of the enormous interplay of economic and non-economic forces. Naturally, this interplay exists in every society, but it is overwhelming in Latin America compared to its lesser role in the industrially advanced countries.

Most likely, what the Latin American community wants to maximize is some sort of concept of socio-economic welfare which not only includes the rate of economic growth but also a more equal distribution of income and wealth, a broadening of the political base of governments, and, particularly, a sense of nationalism. While conflicting tensions must be reconciled in every country, they are much more severe in developing nations which undergo profound structural changes. Furthermore, it is becom-

ing increasingly difficult for the ruling classes in Latin America to maintain large segments of the population politically disenfranchised, and governments are forced to become more responsive to popular pressures.

Nationalism is one of the factors with which it is very difficult to deal in our conception of socio-economic development. Like other emotions, nationalism is not always a "rational" force for economic and often even less for social objectives. But it is there and must be included in the consideration of policies for economic growth or social development. On the other hand, nationalism can be a powerful tool of government in the process of development. After all, it is one of the basic unifying forces in modern society and can be efficiently used to create dynamism in a community's development effort.

VII

In short, regarding the social science experiment, it can be said that, despite all good intentions, we have not yet learned how to combine successfully economic with non-economic factors in order to promote development in all its ramifications. Economists have a more or less neat kit of fairly sharp tools, but when it comes to application to an environment of deep structural change, the kit gets broken and the tools become widely scattered and very dull.

The concept of trying to bring to bear social and political elements on the process of overall growth, in addition to the economic ones, is obviously sound. But when the mechanism, if not the understanding, for achieving this is missing, it is natural for frustration to set in. Furthermore, we have become impatient about the results of the Alliance for Progress because we tend to have short-run expectations while the program is a long-run one. Structural changes take time and, barring the use of force, a shortcut does not seem to exist.

The next step is to react with impatience and frustration and to return to more familiar territory. Many persons in the United States have again tended to demote the importance of non-economic reforms and want to go back to where we started before the Act of Bogotá in 1960. The emphasis once more seems to be on fomenting productivity increases and economic efficiency.

These are objectives for which we believe we know the tools. Many U.S. private citizens and public officials have never been happy about this reform business anyway and feel much more at home with the immediate goal of raising production, preferably through the private sector.

I myself am not as discouraged as some about the Alliance for Progress. In spite of the ignorance about how to handle economic, social, and political factors in one bag, the Alliance for Progress as of now is not an unqualified failure but a qualified success, to use the words of one observer. Of the nineteen countries, eleven have achieved the minimum per capita growth target of two and a half per cent. (Unfortunately, the eleven include very few of the larger countries in the region.) Institutional changes for better resource mobilization have taken place throughout the hemisphere. Beginnings have been made in land reforms, although they have been relatively modest in most cases. While some relapses must be expected, the process toward economic and social reforms is irreversible.

Even regarding the many political setbacks in Latin America which we have witnessed since 1960, it can be argued that the new military dictatorships seem to have been milder, more progressive, and more responsive to the populace than the ruthless dictators of before. This should not be taken as a rationalization for the overthrow of constitutional government, but to all appearances the nature of political change in many Latin American countries is quite different from what it was in the past. And, of course, there is still the shining example of Venezuela, which seems to have emerged from the political dark ages within a comparatively short time.

The Alliance for Progress should be viewed as a bold new program for a very special area of the world. Obviously, it cannot be compared with the Marshall Plan for Europe of some fifteen years ago. The latter was designed for short-run returns in a region which already was economically, socially, and politically advanced. While Latin America is backward in these respects, it is far ahead of other so-called underdeveloped areas. Average incomes are much higher than in the developing countries of Africa and Asia and the rate of economic growth was fairly satisfactory up to the end of the nineteen-fifties. Of course, the growth record has not been as good on a per capita basis because

Latin America's population has been increasing at a faster pace than elsewhere.

If we go beyond the averages we find that the differences in Latin American living levels are enormous. The poorest countries in the hemisphere are not far above the poorest nations of Africa and Asia, while the richest approach the income levels of some European industrial nations. Income differentials within one country are, of course, greater.

Despite the generally much higher levels of development compared to other underdeveloped regions, the socio-economic pressures are much more severe in Latin America. Latin aspirations and ambitions seem much stronger and more firmly entrenched in public thinking because ethnically and culturally Latin America has great affinity with Europe and therefore also with North America. The population is not only more exposed to the motivations and material rewards of the industrial countries than Afro-Asia, but also the Latin people better appreciate these rewards. This is why the so-called "demonstration effect" is generally more relevant in this hemisphere than in the emerging regions of Africa and Asia. Social restlessness is bound to increase in Latin America if the people see the income gap widen between them and the industrial nations of the world, while the structure of economic, social, and political power essentially remains the same.

VIII

It would be a pity, therefore, to abandon the social science experiment inherent in the Alliance for Progress. Ignorant, frustrated, and impatient as policy-makers may be in trying to combine social reforms with measures to increase production, reconcile the short with the long run, and manage all the problems that arise in this effort, it would certainly be unwise to give up now. It is a crass oversimplification to think that one needs to concentrate on quickly productive investments only, and social change and the rest will take care of themselves. One should know better from past experience.

While the matter of reforms is a strictly Latin American affair and must be left to Latins to be worked out, the United States in its aid policy under the Alliance for Progress should by all

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means foster the principle of development in its full sense: social and political as well as economic. The new CIAP committee can be of great help in applying this principle on a multilateral basis. The experiment must go on. And in the absence of any clear orientation, this experiment, like any other, will just have to be based on constant, careful, and patient probing, and trial and error.

Regarding the foreign policy experiment, I believe that aid, at best, is an imperfect tool indeed. I do not think that it is very useful for limited objectives such as influencing the recipient country's cold war attitude, and protecting or extending business interests. Aid is not even helpful in making friends. The matter is different, however, if we are willing to paint our aims with a broad brush for the long run. Then aid becomes essentially a humanitarian effort—there is no reason to blush in using this term—and the objectives of the two experiments about which I have been talking become one: the closing of the gap in the levels of living between the poor and the rich countries so that tensions will be lessened and people can live in peace.

INVISIBLE HANDS IN INFLATION AND GROWTH¹

Joseph Grunwald

THE STRUCTURALIST ARGUMENT

The essence of the "structuralist" debate with the "monetarists" is whether monetary expansion has been a necessary by-product of structural changes in most of Latin America. Increases in the supply of money and price increases are obviously related, and while this relation is not perfect because of velocity and other changes, no structuralist will deny that it exists. The monetarist answer to the question of why the money supply has increased revolves around the notion of financial irresponsibility, while the answer of the structuralist is that the hands of the authorities are forced by exogenous circumstances. The structuralists then proceed to show what these exogenous factors are and why and how "invisible hands"² have led most governments in Latin America into policies that have

¹There are three major works which form the background material for this paper. The first is "Inflation and Growth," a six-volume study prepared by ECLA (1961) (mimeographed), representing essentially a structural analysis of Latin-American inflation experiences. Also the article by Dudley Seers in the *Oxford Economic Papers* of June, 1962, "A Theory of Inflation and Growth in Underdeveloped Economies Based on the Experience of Latin America," which constitutes a rigorous statement of the structuralist position.

The second is a detailed study of Chile's recent economic development by the Instituto de Economía of the University of Chile, entitled "La Economía Chilena en el Periodo 1950-1961" (preliminary draft of October, 1962 [mimeographed]), and also a previous book by the Instituto de Economía, "El Desarrollo Económico de Chile 1940-1956" (Santiago: Editorial Universitaria, 1957).

The third is a set of three articles which appeared in *Latin American Issues*, a volume edited by Albert O. Hirschman for the Twentieth Century Fund, (New York, 1961): "Two Views on Inflation in Latin America," by Roberto de Oliveira Campos, "An Alternative View of the 'Monetarist-Structuralist' Controversy," by David Felix, and "The 'Structuralist' School on Price Stability and Development: The Chilean Case," by Joseph Grunwald.

²In this paper the term "invisible hands" is used as nearly synonymous with "exogenous factors."

made inflation inevitable. In many cases these have been policies of inaction.

The fundamental exogenous force, according to the structuralists, is the collapse of export earnings in Latin America after 1929.³ Exports have not yet recovered in many countries of the area. The decline is measured either in terms of per capita export earnings, or purchasing power of exports,⁴ or exports as a ratio of gross domestic product. (See Tables 1-13.) In at least two countries, Argentina and Chile, the decrease was also in absolute terms (Tables 2 and 3). As can be seen from the tables, the decrease can be attributed almost exclusively to the great depression of the 1930's. Since then, there has been a steady increase in exports in most of the countries, although some have again experienced significant declines in their export purchasing power in recent years.

The "Inflation and Growth" study by ECLA shows very eloquently the structural problems introduced by this development. We shall not repeat this analysis here but indicate only its broad outline. The nucleus of the argument is that in those countries where a process of import substitution has been "forced" upon them by the collapse in the capacity to import, the supply structure was not sufficiently flexible to adopt itself readily to increases and changes in the composition of demand.⁵ Changes in the demand structure are based upon a set of factors among which the most important are, first, a rapidly growing population, second, the process of urbanization, which is accelerated as industrialization proceeds, third, increased per capita consumption due to rising incomes, and, finally, changes in tastes.⁶ One of the important reasons for changes

³See chap. v, section A of ECLA, *op. cit.*

⁴The concept of the "purchasing power of exports" takes into consideration the terms of trade by deflating current export values by an import price index.

⁵The industrialization was imposed not only by foreign exchange shortages but also by the difficulties in obtaining the needed supplies from abroad during the war and immediate postwar period, when foreign reserves accumulated.

The ECLA study divided Latin America into those countries which maintained a gold or gold exchange standard even after the Great Depression of the 1930's, and the countries that had to abandon these standards. The more relevant aspect of this distinction, however, is that the nongold standard countries generally were also those which industrialized most rapidly and therefore developed the greatest bottlenecks and structural problems. It is obvious that they were usually the South American countries (with the major exception of Venezuela) where a sufficiently large market permitted significant import substitution. In some of these countries industrialization already had progressed substantially before the depression.

⁶Changes in tastes are usually taken as a separate function of time (See D. Seers, *op. cit.*, p. 176), but they are implicit in the urbanization process and in the consumption effects of rising incomes, if income elasticities are calculated from time series rather than from cross-section data.

in demand composition is that the increase in per capita consumption of different commodities will vary widely because of different income elasticities.

These changes will put pressure on the structure of production, and the question as to where the bottlenecks will emerge depends on the relative elasticities of supply of various sectors. The population movement from the country to the city will have a particularly strong effect on agriculture and the production in that sector will have to grow very fast even though the income elasticity for food is low.⁷ Demand for intermediate goods and certain manufactured goods also will increase sharply because of high-income elasticities, urbanization, and changes in tastes.

On the supply side, the structural problems arise out of certain rigidities. Among the important ones is the land-tenure system, characterized by a highly unequal distribution of land, inefficiency on the minifundia level, and a low land utilization on the latifundia level. Land ownership and cultivation are often several steps removed. A second important factor is a low labor mobility, principally because of the lack of education and training and also because of social barriers. Thus, acute labor shortages arise side by side with an abundant supply of unskilled (and much "unemployable") labor. While, for similar reasons, there may also exist a low mobility of entrepreneurs, enterprise is enormously complicated by a low perception of investment opportunities⁸ and a very rudimentary capital market (which usually implies a monopolistic market). Monopolistic conditions in many sectors of the economy, particularly in manufacturing and wholesale distribution, add to the inelasticity of supply. In addition to all this, a deficient government revenue and rigid expenditure system limits the possibilities of needed investment in the country's economic infrastructure.⁹

⁷For instance, if the population increase is 3 percent and the proportion of urban population increases from 50 to 51 percent of the total population, then there are about 3 percent more people to be fed through market channels (the assumption is that the nonurban population consumes on the farm). Even if the income elasticity of food is only 0.6 and per capita incomes increase by 2 percent, it means that agricultural output has to grow by about 6.2 percent to keep up with demand—a rather large order, even for countries where agriculture is dynamic. (See also David Felix, *op. cit.*, p. 87).

⁸Another way of saying this is that entrepreneurs seem to have a sharply declining marginal utility of money and a very low, or negative, or sharply declining marginal utility of risk-taking.

⁹The problem of needed investments for modernization of equipment for publicly owned utilities is a different problem, since this question revolves around government price policies for transportation and other public or semipublic enterprises.

Of course, inelasticities of supply become a problem only because of limitations in the capacity to import. If there were no balance of payments difficulties and imports could be obtained in unlimited amounts, no problems would emerge from the existence of structural factors. As it is, foreign exchange shortages have been a fact of life of recent Latin-American economic history¹⁰ and therefore it does matter whether domestic production can or cannot expand with some facility. The question that remains is whether and to what extent the demand changes and supply rigidities are policy-induced.

The Chilean Case

In regard to agriculture, it would be absurd to talk about a bottleneck for internal consumption in certain countries such as Argentina. Even though domestic output may not meet foreign demand requirements, export of food products can be varied and may be decreased in order to augment domestic supply.¹¹ In many of the industrializing countries, however, neither agricultural production increased fast enough nor were there edible exports which could be curtailed while, as is always assumed in the structural argument, import possibilities were limited due to the balance of payments problem. Chile is the classic case in point here.

The Chilean case in the first half of the 1950's seems to satisfy both the structuralist and monetary explanations. In the early part of the period there was a considerable increase in industrial production (27 percent in 1951 and 12 percent in 1952),¹² while agricultural output increased almost imperceptibly. From 1940 to 1952, agricultural production increased by about 1 percent per year, which is not much more than half of the population growth during that time. Since 1952 agricultural production has risen by nearly twice the rate of population increase.¹³

On the other hand, there was a sharp increase in government expenditures without adequate financing. This was reflected in the expansion of bank credit on government accounts (44 percent in

¹⁰The present paper always views these shortages as relative to the needs as they arise from a desired growth path.

¹¹At the cost of foreign exchange earnings for vital capital goods imports, of course.

¹²Instituto de Economía, *op. cit.*, Table 196.

¹³Livestock production grew at a considerably lower rate and even showed a slight decrease in the first half of the 1950's, accompanied by an increase in prices of about 50 percent. (*Ibid.*, Tables 167-70 and 174.)

1950, 59 percent in 1951, 74 percent in 1952).¹⁴ Private credit expansion, while much less, was substantial (20 percent, 29 percent, and 39 percent for 1950, 1951, and 1952, respectively) and wages and salaries rose significantly.¹⁵ Yet prices increased at rates considerably less than public and private credit expansion (17 percent, 22 percent, 22 percent for 1950, 1951, and 1952, respectively). Thus the increase in the money supply was accompanied by greater liquidity of the system; there was a decrease of both income and circulation velocity. Monetary restriction played an important role in putting the brakes on inflation in 1950, and a dramatic increase in imports restrained price increases in 1951 and 1952 (imports increased by over 41 percent in 1951 and an additional 8 percent in 1952).¹⁶

In the following years there was a decline in total supply because of a fall in the capacity to import but, at the same time, government spending rose.¹⁷ Monetary policy for the private sector tended to be passive, permitting the financing of rising wage and material costs. When prices reached an all-time high in 1955, a recovery of exports probably contributed to prevent an even stronger inflation.

Price increases in the second half of the 1950's are more difficult to explain on economic grounds. Of course, it is always possible to say that the expansion in the supply of money¹⁸ permitted the price increases during that period but, in the absence of any serious demand pressures, this is not a very useful statement. There were no particular bottlenecks in the manufacturing sector. Thus it would be stretching the imagination to talk about supply inelasticities in the existing Chilean manufacturing industry from about 1956 to 1962. During this period excess capacity existed side by side with a substantial rate of inflation.¹⁹

¹⁴*Ibid.*, Table 253.

¹⁵*Ibid.*, pp. 979-80.

¹⁶*Ibid.*, p. 980. While exports did not increase by similar amounts, there was a greater proportion of foreign exchange returned to the country by the mining companies, principally in the form of taxes and wages.

¹⁷*Ibid.*, pp. 902, 909, 923.

¹⁸Between 1956 and 1960 the money supply increased at an average annual rate of 33.3 percent, while consumer prices increased at an annual rate of 34.1 percent (*ibid.*, p. 885).

¹⁹A sample survey of Chile's manufacturing industry undertaken in 1958 by Chile's Development Corporation ("Corporación de Fomento") in collaboration with the Chilean Association of Manufacturers ("Sociedad de Fomento Fabril") showed that industry operated at less than 50 percent of capacity while consumer prices increased by about 20 percent from 1957 to 1958 and by about 30 percent from 1958 to 1959. Even after allowing for a normal rate of operation of 80 percent of capacity, production could have still been increased by one half with-

The structuralists will point out that the decline in production levels in Chile after 1955 was due to monetary restrictions introduced as part of the stabilization program in 1956.²⁰ It is also indicated that the curtailment of cost of living wage adjustments in the same program cut purchasing power. Yet here was no structural problem in the strict sense because, if there was insufficient purchasing power and excess capacity, from where did the price pressure come? In that period even agriculture could not have been the bottleneck because the relative prices of agricultural products (not including livestock) had declined since 1952²¹ and, as already indicated, production had increased significantly faster than population. Agricultural output per capita (including livestock production) was about the same in the late 1950's as it was in the early 1940's.²²

Two sets of factors might assist in explaining the inflation during this period. One was connected with rising costs, the other with psychological forces. There was a significant increase in labor costs. First of all, wages and salaries continued to rise, although they were kept below the previous year's consumer price increases during most of this period. More important, however, was the burden of the employers' social security contributions. Another cost factor was the low efficiency of operations because, as already noted, production was far below capacity during this period. This problem was aggravated by the fact that the internal terms of trade went against domestic industry. Because the rate of exchange was kept at a constant level for imports (1.053 escudos per dollar) from January, 1959 to the end of 1962 in spite of rising internal costs, prices of imported

out adding to capacity. (CORFO, "Programa Nacional de Desarrollo Económico 1961-1970" [Santiago, Chile, 1961], pp. 38 ff.).

It could be argued that elasticity of supply was low, in spite of vast excess capacity, because of the shortage of skilled labor. Much of the increase in capacity derived from the installation of new machinery during the inflation boom of the mid-fifties and specialized manpower was needed to operate this equipment. But in the case of Chile this was not a seriously limiting factor for increasing the rate of utilization of existing capital stock.

²⁰This program was based upon the recommendation of a United States consulting firm which was contracted for by the Chilean government. (See "El Programa de Estabilización de la Economía Chilena y El Trabajo de la Misión Klein & Saks," Santiago, Chile, May, 1958.)

²¹With 1940 = 100, the index of "real" agricultural prices excluding livestock (nominal agricultural prices deflated by the wholesale price index) declined from 137.4 in 1952 to 90.2 in 1959. Livestock prices, which had been lagging, increased sharply until 1954 but dropped dramatically after that. Thus the total agricultural price index in "real" terms (including livestock) declined from a high of 138.6 in 1954 to 97.5 in 1959. (See Instituto de Economía, *op. cit.*, Table 174.)

²²*Ibid.*, p. 533.

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goods became cheaper relative to domestic products. As the weakest firms were forced out of business, industry became less competitive and thus any increase in costs was immediately translated into higher prices.

Psychological factors, which perhaps could fit into the structuralist classification scheme as "propagation" factors, seem to have played a much more important role in the Chilean inflation picture since the mid-fifties than economists are usually willing to ascribe to them. In spite of a relatively vigorous stabilization program and reduced purchasing power and economic activity, it just was not possible for businessmen to adjust their price expectations radically downward after 1955, a year when inflation reached a rate of 84 percent. After a nearly continuous price acceleration during the first half of the decade, businessmen continued to advance their prices in anticipation of any cost increases until they were stopped by a concerted governmental campaign of moral suasion in the late 1950's. Thus, the inflation of the second half of the 1950's was neither "monetary" nor "structural" unless one wants to stretch the concept of "structural" to include cost push and psychological aspects.

By the end of the decade there was a sharp slowing down of price increases. Consumer prices rose by about 5 percent in 1960 and by less than 10 percent in 1961. What finally put the brakes on inflation? The explanation lies principally with the balance of payments and with noneconomic factors. Monetary restraints also played a role. But most important was an impressive expansion of imports in 1960. Because of the artificially maintained rate of exchange, imports became relatively cheap. The demand for foreign goods could be satisfied in part through an increase in the country's foreign indebtedness.

On the other hand, the high labor costs made labor-saving investment more attractive. Thus, labor-saving capital goods were imported and output per man-hour increased. Improvement in efficiency was also forced upon domestic production through the competition of foreign goods.

In addition to the halting of the rise in costs, inflation was dramatically curtailed by a forceful effort to exert moral pressures. At the end of the fifties, a committee for the defense of the consumer was organized, under semipublic auspices ("Comité para la Defensa del Consumidor"), which made it morally very difficult for businessmen to raise prices because they would be publicly denounced in the press, radio, and air-borne loudspeakers. To the



surprise of many economists, this undertaking seems to have had a high degree of success. Only at the end of 1961, when it became obvious that devaluation was inevitable, did price increases commence to accelerate again, principally because of higher cost anticipations by the business community.

In a summary fashion it can be said that in the decade of the fifties inflation in Chile tended to be demand-induced until about 1956, when pressures on agricultural supply were particularly strong. Since then, with agricultural production expanding and imports easing but labor costs weighing more heavily in industrial production, inflation has tended to be more cost-induced²³ (although occasionally cost increases were imaginary, so that price rises were generated by expectations rather than actual increases in costs).

The Recovery of Imports in Latin America

As has already been pointed out, the key event in generating structural problems in Latin America, according to the structuralists, is the great depression of the thirties. The collapse in export earnings after 1929 was truly dramatic in some countries, such as Chile, and the lack or slowness of recovery to predepression levels is made out to be a significant point.²⁴ The crucial question from the point of view of the structural discussion is not what happened to exports and their purchasing power but rather what was the course of the volume of imports which could be used to supplement domestic supply and to correct structural bottlenecks. Here there are important differences between the rates of recuperation of export earnings and of imports since the depression.

In most of the countries considered in the ECLA study, imports recovered considerably faster than export earnings, even after taking account of the terms of trade effect. Table 1 shows that for all of Latin America the rate of growth of imports was about 50 per-

²³From this point of view the "structuralist school" could be related more easily to the "demand pull" classification of inflation rather than the "cost push" type although, because of its policy implications and other obvious reasons, structuralist thinking has commonly been more associated with "cost push" inflation.

²⁴It hardly need be pointed out that the reliability of the data diminishes the further back one goes, and some doubt might arise about the comparability of current foreign trade statistics with 1929 data. In the ECLA study (*op. cit.*), 1929 is used as the principal bench mark year for the predepression period and the question might be raised as to how representative this year is for some countries. However, some data are available for other years for a few of the countries. At any rate, the post-1929 figures leave no doubt about the severity of the depression.

cent higher than the growth of the purchasing power of exports since the beginning of World War II. Even during World War II, the quantum of imports²⁵ increased faster than the purchasing power of exports in Chile, Colombia, Mexico, and Peru among the nine countries listed in Tables 2 through 10.

In the following paragraphs, the foreign trade trends since the depths of the depression will be briefly indicated for nine Latin-American countries.

Argentina. Argentina had difficulty maintaining her imports during the war years—imports dropped during both World War II and the Korean War—but the growth of imports in the immediate postwar periods more than made up for the previous declines (Table 2). While the purchasing power of Argentina's exports decreased somewhat since 1940, physical imports increased by almost as much as gross domestic product. From Table 11 it can be seen that the importance of exports in GDP declined very sharply since the mid-forties. On the other hand, the import coefficient index almost doubled.²⁶

Brazil. Brazil is one of the few countries where the current volume of both exports and imports exceed the predpression levels, (Table 3), although on a per capita basis foreign trade is significantly lower. There was a sharp recovery in the immediate postwar period which lasted until the early fifties, and imports increased at more than twice the rate of GDP. Imports sagged, however, in the mid-fifties, principally because of an acceleration of import substitution and a decline in coffee prices. At the end of the decade imports were far below the peak levels reached during the Korean War, although purchases of capital goods from abroad increased substantially. Yet, over the whole period, since the beginning of World War II, import quantum grew more than twice as fast as the purchasing power of exports, exceeding even the growth rate of GDP (Tables 3 and 11).

Chile. The picture was not too dissimilar in Chile. Since 1940, imports grew at a faster rate than the purchasing power of exports, surpassing somewhat the growth of population, (Table 4). Most of this increase is accounted for by capital goods imports which rose at an average annual rate of 6.6 percent per capita during this pe-

²⁵The "quantum of imports," which is equivalent to the terms "volume of imports" or "physical imports," is the index of import value deflated by an index of the unit value of imports.

²⁶The indices of import and export coefficients are represented by the quantum indices of exports and imports respectively divided by an index of gross domestic product in constant prices.

riod, reflecting the needs of the industrialization effort. The importance of exports relative to GDP not only did not recover pre-depression levels but in the fifties remained below the magnitudes reached during the depression in the mid-thirties. On the other hand, the import coefficient is about the same now as it was then (Table 11).

Colombia. Colombia is the only country of the nine under consideration whose import quantum since 1940 grew at a somewhat lower rate than the purchasing power of its exports (but nearly twice as much as its physical exports). Even so, the growth of real imports about equalled the growth of GDP in this period and they would have grown much faster had there not been a sharp drop in the second half of the 1950's, partly because of a decline in the purchasing power of exports due to the fall in coffee prices, and partly because of the acceleration of import substitution (Tables 5 and 12).

Ecuador. El Salvador. As one would expect, both exports and imports recovered rapidly in Ecuador and El Salvador, which were listed in the ECLA study among the countries without significant structural problems until recently (Tables 5 and 6). While in these countries also there was a significant decline in foreign trade after 1929, by the end of the 1940's the purchasing power of exports and import quantum exceeded predepression levels. In both countries the terms of trade operated in their favor and imports increased at a considerably faster rate than GDP. Also in both countries, the export coefficient has declined since the mid-forties while the index of imports as a percentage of GDP has risen sharply (Table 12). In the second half of the last decade, problems arose in Ecuador as the terms of trade suddenly worsened. A decline in import volume resulted and the country is now facing a period of readjustment.

Mexico. In Mexico, per capita imports at the end of the 1950's were considerably above predepression levels despite sharp drops in exports. Imports in physical terms increased much faster than exports or their purchasing power in the postdepression period (Table 8). Since the depression also, imports have grown more rapidly than GDP while the export coefficient has declined steadily ever since 1929 (Table 13).

Peru. Some early information is not available for Peru but export data indicate that the effect of the depression was comparatively mild in that country. In any case it is evident that although the purchasing power of exports did not keep up with the growth in GDP in the two decades between 1940 and 1960, the import

quantum increased much more than GDP. Only toward the end of the fifties was there a slowing down of import growth, primarily because of a deterioration in the terms of trade, but even then imports rose faster than the purchasing power of exports (Tables 9 and 13).

Venezuela. While in Venezuela the quantum of exports did not decline significantly after 1928, there, too, export prices collapsed as in other Latin-American countries.²⁷ It is interesting to note that in Venezuela, which falls into the "nonbottleneck" category of ECLA, the volume of imports remained depressed until the end of World War II.²⁸ After the war, imports shot up for well-known reasons, reaching nearly five times the 1928 level in 1957. Imports declined somewhat after that in the face of a continued rise of exports, reflecting the initiation of a process of import substitution. From the early forties until the end of the fifties here also imports increased more rapidly than the purchasing power of exports and exceeded by far the country's rate of growth of GDP which was the highest in Latin America during the period (Table 10).

Summary. From about 1940 to 1960 in all of the nine countries considered here (and also singled out in the ECLA study), the import quantum grew more rapidly than population, and in eight of the nine countries the import volume grew faster than the purchasing power of exports.²⁹ In all countries except Chile the import quantum grew at least as fast as real GDP and in most countries it grew much faster in this period. The same picture appears for Latin America as a whole. In most of the countries, as well as for all of Latin America, imports (quantum) constituted a higher ratio to GDP (in constant prices) at the end of the period than at the beginning. The reverse is true of the export volume.

In examining the 20-year period in more detail, one finds that the growth of imports in the majority of the countries under consideration was more rapid in the decade of the forties than in the fifties. This was a reflection, in part, of a reversal of the postwar trend in the terms of trade which for many countries became adverse after the Korean War. On the other hand, in the industrializing countries, while imports expanded at a faster rate than GDP in the earlier dec-

²⁷ECLA, *op. cit.*, Statistical Appendix Table X-V.

²⁸ECLA, *op. cit.*, Statistical Appendix Table X-VII. The import quantum index fell to one fourth of the 1929 level in 1935 and, after a slight recovery, declined again during the war. In the case of Venezuela, however, it might be misleading to take 1929 as a bench mark, since imports were unusually high in that country in that year.

²⁹Even in Colombia, the only exception, this was true up to the mid-fifties.

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ade, in the fifties GDP grew faster than imports. This in turn was in part a reflection of an acceleration of import substitution in some of these countries. Nevertheless, even in the fifties, the volume of imports grew considerably faster than the purchasing power of exports in all countries except Chile.

Is There an Import Bottleneck?

It can be seen that in the postdepression recovery period the slowly growing purchasing power of exports failed to effectively curtail a faster import expansion. The countries found other means than exports to increase needed imports. Part of the gap was filled by foreign investment, increased United States aid, earnings from services (tourist trade in Mexico, for instance) and, in a few countries, by decreasing an export surplus.

There is no doubt, however, that most of the additional imports in excess of export growth were financed by increased foreign indebtedness. Table 14, which includes seven of the nine countries considered, (Ecuador and El Salvador are excluded),³⁰ shows that United States private investment was more than offset by profit and interest remittances since 1950, so that United States investors received from these countries nearly \$4 billion more than the new money they put into them.³¹ United States aid after interest and debt repayments could not offset this outflow in most years of this period. Of course, Table 14 should be read only within the current balance of payments situation and must not be interpreted as revealing any magnitudes of the contributions of United States private or public investors to the Latin-American economies. The table does show, however, that the bulk of the "excess growth" of imports over exports could not have been financed through the inflow of foreign investments and aid, but must have been obtained through foreign loans and credits from international agencies, private banks, and also on private account.³²

From this vantage point it is difficult to conceive of the balance

³⁰The seven countries account for almost 90 percent of Latin America's foreign trade and gross domestic product.

³¹Venezuela received the major part of United States direct investment in Latin America during that period, over \$700 million for the purchase of oil concessions in 1957 alone, which not only enabled the country to increase its imports by about 40 percent in that year but also made this the only year since 1950 in which the investment inflow exceeded the remittance outflow in the seven countries. Venezuela also accounted for almost three quarters of the profit and interest remittances in the seven-country total.

³²Almost 60 percent of the net United States aid shown on Table 14 was in the form of interest-bearing loans rather than grants.

of payments as the principal bottleneck, as is implicit in the structural argument. Experience has shown that the countries can increase merchandise imports in spite of balance of payments difficulties. The question remains whether imports would have increased significantly had the purchasing power of exports risen faster. One can only speculate about this, but there is some doubt as to whether credit from international agencies, official loans, and grants from the United States Government would be available or would be used to the same extent had exports been growing more vigorously. Therefore it is quite possible that not much more would have been imported with greater export earnings.

Of course, a lasting export boom would unquestionably result in higher imports but, judging from past experience, the increases probably would be in response to consumer demands rather than to the needs of increased productivity and industrialization. On the other hand, when the capacity to import is more limited, a country will tend to ration its imports, orienting them more directly toward the requirements of economic growth. In the problem countries where detailed data are available, there is clear evidence that there has been a shift in the composition of imports in favor of capital and intermediate goods.³³ Thus it might very well turn out that with a more rapid growth in export earnings imports would be less geared toward eliminating the structural bottlenecks in the economy (even though the import total may be higher) than when low export earnings limit the use of foreign exchange.

In any case, Latin America managed to obtain imports over and above what export growth would have warranted. No "invisible" hands were at work because this has been purely a matter of government policy. Whether the price was too high relative to what was accomplished through these additional imports is another thing and is of no concern here. The fact of the matter is that in spite of increasing per capita imports the structural problems have persisted throughout the period, as manifested by continuing inflation (and/or economic stagnation).

STRUCTURAL PROBLEMS AND ECONOMIC GROWTH

There are three general explanations for the failure to achieve stability with growth despite the relatively rapid growth of imports since the beginning of the war. One is that imports were not high enough to permit the elimination of bottlenecks nor were they suf-

³³See Tables 3 and 4. Also Table III-52 on p. 264 of ECLA, *op. cit.*

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ficiently oriented toward this end. Another is that it takes time to effect structural changes and that a 20-year period is not long enough for the necessary adjustments to work themselves out. The third interpretation is that structural adjustment cannot be expected to come mainly via the balance of payments, but must be based primarily on fundamental reforms deriving from within the economy.

In respect to the first point, it already has been pointed out that unlimited imports can resolve a lot of problems, including inflation³⁴ and also, given enough time, structural maladjustments. This, however, is not a basis for any realistic argument because imports can never be expected to grow sufficiently fast to maintain stability and correct imbalances at the same time. After all, even United States aid is limited. It was also shown that imports generally have been oriented in the "right" direction, with the share of machinery and equipment increasing. Perhaps with more vigorous and better coordinated policies consumer goods imports could have been reduced even more in some cases, but it is unlikely that this would have produced basic changes.

It seems that the heart of the problem lies with the other two points mentioned, namely, that structural adjustments take time, and that they must come from within the economy. The foreign sector can provide the means for holding action to permit the necessary changes to be effected. This, essentially, has been the function of foreign trade in the industrializing countries of Latin America in the recent past. It is clear that the more rapidly an economy grows, the more readily and faster can the necessary structural changes be carried out. In the meantime, imbalances will persist and, therefore, it is likely that this process will be accompanied by financial instability.

It is also self-evident that, just as stability does not insure rapid economic growth, inflation in itself is not a sign of economic dy-

³⁴Strictly speaking, it is the size of the import surplus rather than just the size of imports which is the relevant concept in relation to inflation. As was pointed out in the case of Argentina, in a country where the principal export products form a significant part of domestic supply, a curtailment of exports (relative to imports) will increase supply and thus have a dampening effect on inflation. In the mineral exporting countries, however, the import surplus has less relevance to price change than the growth in imports. In the discussion on Chile it was indicated that the very high increases in imports of 1960 and 1961 kept the rate of inflation to below 10 percent in each year despite the much greater expansion in the money supply. Carlos Massad of the Instituto de Economía has shown in an as yet unpublished study that there is a high correlation between the rate of change of imports and the rate of inflation in Chile.

namism. It is best to separate the forces of growth and inflation, although there are obvious interconnections.⁸⁵ The countries which have shown the fastest economic growth in recent years, such as Brazil, have also had the greatest possibilities for import substitution. In some of these countries, such as Colombia, this process commenced comparatively recently. Most of them have started their rapid growth experience from very low per capita income levels and their labor movements are still weak.

Industrialization through import substitution in countries with a highly unequal distribution of income is principally geared to the middle income groups.⁸⁶ In large countries, such as Brazil for instance, the inequality of the income distribution matters less because the absolute size of the middle groups will be large, and therefore the import substitution process can proceed vigorously for a longer period of time. Since the market in these economies does not depend very much on the purchasing power of labor, even a decline in real wages will not dampen the sales potential of enterprises, but, to the contrary, will increase profit margins and therefore provide incentives to private investment.

On the other hand, in the smaller of the industrially more advanced countries of Latin America, notably Chile, the income distribution matters much more. The process of import substitution of consumer goods has just about come to an end there. For almost a decade now, the Chilean economy has grown not much more than its population, while the basic imbalances have continued to produce one of the highest inflation rates in the region. It is very unlikely that, in the absence of a significant change in the income distribution and the size of its market, this economy could sustain an acceleration in its rate of growth for an extended period of time.

The complicating factor in the case of Chile is a relatively balanced distribution of power among its major social sectors. Labor has achieved certain economic status and strength, both through a comparatively strong labor union movement and through political representation. The white collar sector, including small business and the professions, has become firmly entrenched since the advent of the "popular front" government in 1939. The larger business in-

⁸⁵Mr. Geoffrey Maynard addresses the major part of his recent book to this particular question ("Economic Development and The Price Level" [London, MacMillan & Co., Ltd., 1962]).

⁸⁶The lower income groups will be largely out of the market and the upper income groups will tend to orient their demand toward imports whenever possible, including making purchases during trips abroad.

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terests and landholding classes still have great economic and political power.

What this adds up to is that the continuing struggle of these sectors for the economic pie adds fuel to the inflation while at the same time it dampens profit expectations and, therefore, incentives to invest. Enterprise finds its labor costs to be high, not only because of constant cost of living wage adjustments, but also because of heavy social security contributions and other nonwage payments. It is difficult in Chile for prices to run away from wages for any length of time, contrary to the experience in other countries where this factor is one of the basic elements in recent economic growth.

In Argentina there has also existed a balance of power, although of a somewhat different nature than in Chile, but government policies have played a much more important role in that economy's semistagnation than in Chile.⁸⁷

Countries like Colombia, Peru, and Venezuela can still go a long way in carrying forward industrialization on the basis of consumer goods import substitution, which they have begun comparatively recently. Eventually, however, economic development in the "old" and "new" industrial countries of Latin America will depend upon a widening of the markets. In a normal process of industrialization, this should come naturally as a by-product of development, but in most of the Latin-American countries severe obstacles will have to be overcome before a basic improvement in the distribution of income can be achieved. This is part of the economic significance of such fundamental measures as land, tax, and educational reforms. This is also the rationale of the striving toward a common market in Latin America which would make capital goods import substitution an economic feasibility even in the smaller countries.

Thus, whether a country grows or not depends primarily on factors other than the existence of inflation. Nevertheless, inflation can have important effects on economic development through its influence on savings and investment decisions. Its effects will not be detrimental as long as price increases do not exceed the range which the (business) community continues to anticipate and does not deem severe enough to compel the government to introduce effective stabilization measures.⁸⁸ It is obvious that these limits would be much higher in Chile than, say, in the United States.

⁸⁷See of ECLA, *op. cit.*, Vol IV.

⁸⁸Of course, anti-inflation policies can have beneficial effects upon investment decisions through instilling in the business community a sense of confidence in governmental "soundness." There is evidence that investment of the largest
(Continued on next page)

CONCLUSION

The notion of balanced growth which is implicit in the structuralist argument is rather utopian if taken at face value. To obtain a structure of production sufficiently elastic to meet without friction the demand changes inherent in economic development is too big an order to fill. By the nature of "underdevelopedness" one cannot expect the developing countries to accommodate the shifts in demand through their internal production. It is natural, therefore, that the responsibility would be shifted to imports to meet these new needs and the balance of payments becomes of primary importance.

Thus we have come full circle regarding the position of the balance of payments in the structural model: the basic problem arises because of the collapse in export earnings due to the depression of the 1930's and the unreliability and long-term deterioration in the commodity markets for Latin-American exports. This has led to an industrialization effort through import substitution which in turn has created the imbalances that are the core of the structural problems. And now we return to the balance of payments in order to resolve these.

While one cannot seriously question the primary role of the balance of payments as the initiator of the structural process, its second emphasis in the model as a cure-all seems to divert attention from the heart of the matter: the resolution of the imbalances is essentially an internal problem. Assistance from the balance of payments in this effort is often very important but, as pointed out, it will always be limited, given real world conditions. At best it can help to achieve certain stability, particularly in prices, as in Chile in 1960 and 1961, which may be an important factor in the process of making structural adjustments. But since this process takes time, even this function may be lost (as in Chile) unless imports can be sustained not merely at a high level but at a fast-growing pace for an extended period.

It has been shown here that imports are not as limited by export

manufacturing enterprises increased in Chile in 1956 and 1957 after the introduction of a strong stabilization policy. But the absence of vitality of the Chilean economy soon reversed businessmen's expectations despite the continuance of stabilization efforts and by 1960, when price increases fell to the lowest point in about three decades, private net capital formation was close to zero. Investment of small business enterprises fell immediately after the introduction of effective anti-inflation measures, because of their dependence on credit which was restricted. (See Instituto de Economía, *op. cit.*, and "Formación de Capital en las Empresas Industriales," Santiago, Chile, 1961 [with English summary].)

earnings as has been claimed. Yet our argument states that imports cannot resolve structural imbalances, but that these adjustments are essentially a thing of internal policy. This policy might be circumscribed somewhat by external factors, such as an anticipated censure by other countries, but this cannot be too important in a sovereign country. On the other hand, social and institutional barriers impose a policy limitation only if they are assumed to be absolute. But it is just one of the fundamental tasks in correcting the imbalances to modify the institutional framework, and institutional change is a matter for internal policy decisions. It is clear that to change institutions and social structure takes time. That is why it will take time to eliminate the imbalances in order to achieve long-run growth with long-run stability.

If one goes deeper in analyzing the "invisible hands" question, it becomes apparent that even the initiation of the process which results in the structural imbalances is at least implicitly policy-based. While the balance of payments problem is the starting point, the process of import substitution must be built upon explicit or implicit policy decisions to industrialize. Tariff protection, foreign exchange and other subsidies, import quotas, etc., are just a few manifestations of such policies. Thus, the fundamental assumption underlying the structural model is the existence of economic aspirations of the community to maintain an accustomed rate of growth (or to accelerate it). The aspirations must be strong enough to be translated into government policies which are at least permissive, if they do not directly foster industrialization.

The aspirations of the community and the policies based on them are not an exogenous matter, although it may be claimed that there is very little the government can do but act upon them. In economically advanced countries where the balance of payments is important, like the United Kingdom, a severe drop in export earnings will either be compensated for by a shift of resources to nonexport industries or, as in the lesser-developed countries, result in unemployment and a decline in income. In the latter case, the retrenchment until the recuperation of exports, or until resources can be transferred to other sectors, can be endured more easily than in the developing countries, where income levels of large population groups are close to subsistence and where, because of low factor mobility, the retrenchment period is likely to last much longer.

How much the hands of the policy makers are tied in reacting to the economic aspirations of the developing countries is a matter of debate. Perhaps they can do no more than be permissive regarding

the expansionary pressures, which fact alone may lead to inflation. There is no doubt that the social and political, as well as the economic, forces are very powerful, and the policymaker may feel that his range of action is therefore severely circumscribed. But to treat permissive or expansionary policies as completely exogenously determined is too easy a rationalization. It does not take a Christlike leader to be able to exact sacrifices from the population in a poor country. Recent Latin-American history is full of cases where large segments of the lower income groups have suffered stagnation or even deterioration in their real incomes without going to the barricades.³⁹

There is no doubt that in the long run the generally small countries of Latin America existing in semi-isolation from one another cannot individually fulfill the aspirations for dynamic economic growth. There is nothing exogenous about the need for supranational economic integration, and policies toward this end are based upon endogenous decisions and national efforts.

This boils down to the fact that the only major "invisible hand" in the structural model is the initial export decline. But it is conceivable that structural problems may arise without any exogenous factors. Even in the absence of an export decrease, government policy, either acting upon its own initiative or upon the basis of community aspirations, may, in an effort to accelerate economic growth, embark the country on the path of industrialization through import substitution. Whether this will actually lead to imbalances or not will depend upon the size of the growth effort relative to the economy's capabilities. Under the heading of "capability" we must include not only the magnitude of factor endowments but also all the things that go into the concept of "elasticity of supply," such as various types of factor mobility, feasible rates of technological adaptation, the flexibility of agricultural production, the possibilities for the government to provide the necessary infrastructure, and, not least, the economy's capacity to import. No matter how fast exports grow, there can always be a rate of desired growth in GDP for which exports would become a bottleneck sector.⁴⁰

³⁹In spite of the growing power of labor, there is evidence that the lower income groups would willingly make sacrifices for future economic betterment if the government had their confidence. (For instance, the Christian Democratic labor movement in Chile included wage restraints in its policy pronouncements in connection with the 1958 presidential campaign.)

⁴⁰If a certain growth in exports is anticipated, then the desired growth rate can be pushed up to outdistance the possibilities of getting sufficient imports to support the required industrialization process. However, if export growth is not anticipated but does occur, then the additional (windfall) imports could be oriented to achieve some degree of structural adjustment.

The balance of payments alone does not make for structural problems. The structural inflation problem is rooted in the desire to grow and industrialize faster than the present structure of the economy can accommodate.

The emphasis of this paper in placing the responsibility for structural adjustments on internal policy does not mean that the situation is hopeless. If the hitherto remarkable social tranquility in Latin America can last a decade or so longer there might be time to remove the obstacles to accelerated growth with relative stability before the social breaking point is reached. There exists already the germ of a free-trade area in Latin America. Most countries in Latin America have now passed initial legislation for land and other reforms. No one claims that inflation can be cured through agricultural reform but reform does constitute a basis upon which to build for future development with greater stability. Of course, some of this present legislation may be insincere and may represent only an ineffectual token to satisfy United States aid requirements. However, it is a significant beginning, no matter how small, and has put in motion a process which will be difficult to stop.

The oligarchies are still in existence in Latin America, but their political power has waned noticeably since the war. While they may yet win temporary victories, they are fighting a losing rear guard battle. This is the challenge for the exogenous hand of United States aid. It can be applied to prolong the rear guard action, or it can be applied to help in the acceleration of basic structural changes and to lessen the sacrifices which become necessary in this revolution.

TABLE 1
 LATIN AMERICA: ANNUAL COMPOUND RATES OF GROWTH OF EXPORTS AND
 IMPORTS, GROSS DOMESTIC PRODUCT, AND THE CONSUMER PRICE INDEX
 1928-1960

| | Export Quantum | Purchasing Power of Exports ^a | Import Quantum | Gross Domestic Product in 1955 Prices |
|----------------------|-------------------|--|-------------------|---|
| 1928/30-1940/42..... | -1.9 | -5.9 | -6.7 | 3.0 ¹ |
| 1940/42-1944/46..... | 4.7 | 6.8 | 4.9 | 4.25 |
| 1944/46-1949/51..... | 0.7 | 5.7 | 11.6 | 5.1 |
| 1949/51-1954/56..... | 2.8 | 2.3 | 2.3 | 4.55 |
| 1954/56-1958/60..... | 5.35 ² | 0.95 ³ | 7.6 ³ | 4.6 ³ |
| 1940/42-1958/60..... | 2.9 ⁴ | 4.3 ⁴ | 6.45 ⁴ | 4.7 ⁴ |
| 1949/51-1958/60..... | 3.5 ⁴ | 1.9 ⁴ | 3.8 ⁴ | 4.6 ⁴ |
| 1928/29-1959/60..... | 0.7 ⁵ | -0.2 ⁵ | 0.4 ⁵ | 4.0 ⁵ |

¹1929/30-1940/42

²1954/56-1957/58

³1954/56-1957/59

⁴1940/42-1958/59

⁴1940/42-1957/58

⁴1949/51-1957/58

⁴1949/51-1957/59

⁵1928/29-1957/58

⁵1929- 1958/59

Source: ECLA, "Inflation and Growth," 1961, statistical appendix and respective country study chapters.

^aIndex of export value deflated by the index of unit value of imports.

TABLE 2
 ARGENTINA: ANNUAL COMPOUND RATES OF GROWTH OF EXPORTS AND IMPORTS,
 GROSS DOMESTIC PRODUCT, AND THE CONSUMER PRICE INDEX
 1928-1960

| | Export Quantum | Purchasing Power of Exports* | Import Quantum | Gross Domestic Product in 1955 Prices | Consumer Price Index |
|----------------------|-------------------|------------------------------------|-------------------|---|----------------------------|
| 1928/30-1940/42..... | -3.0 | -2.9 | -6.0 | 1.9 ¹ | 2.65 ¹ |
| 1940/42-1944/46..... | 2.2 | 2.7 | -6.85 | 4.1 | 6.5 |
| 1944/46-1949/51..... | -6.3 | -3.0 | 16.4 | 4.3 | 20.6 |
| 1949/51-1954/56..... | 1.15 | -4.8 | -3.7 | 1.55 | 17.0 |
| 1954/56-1958/60..... | 4.7 | 5.8 ² | 5.04 ² | 1.7 | 38.0 |
| 1940/42-1958/60..... | .. | -0.7 ³ | 2.6 ³ | 2.9 | 19.8 |
| 1949/51-1958/60..... | 2.7 | -0.9 ⁴ | -0.5 ⁴ | 1.6 | 25.8 |
| 1928/29-1959/60..... | -1.55 | -2.0 ⁵ | -1.2 ⁵ | 2.3 ⁵ | 13.2 ⁵ |

¹1929/30-1940/42²1954/56-1958/59³1940/42-1958/59⁴1949/51-1958/59⁵1928/29-1958/59⁶1929- 1959/60

Source: See Table 1.

*Index of export value deflated by the index of unit value of imports.

TABLE 3
 BRAZIL: ANNUAL COMPOUND RATES OF GROWTH OF EXPORTS AND IMPORTS,
 GROSS DOMESTIC PRODUCT, AND THE CONSUMER PRICE INDEX
 1928-1960

| | Export Quantum | Purchasing Power of Exports* | Import Quantum | Capital Goods Imports Quantum | Gross Domestic Product in 1955 Prices | Con- sumer Price Index |
|---------------------|-------------------|------------------------------------|-------------------|--|---|---------------------------------|
| 1928/30-1940/42.... | 2.0 | -2.6 | -3.95 | .. | 3.3 ¹ | 5.4 ¹ |
| 1940/42-1944/46.... | 4.0 | 11.2 | 9.3 | .. | 3.3 | 17.8 |
| 1944/46-1949/51.... | -0.2 | 5.9 | 13.7 | .. | 6.4 | 10.8 |
| 1949/51-1954/56.... | -2.1 | 0.75 | -0.9 | -6.65 | 4.5 | 17.8 |
| 1954/56-1958/60.... | 3.1 | -2.6 ² | 2.7 ² | 16.0 ² | 5.85 | 23.2 |
| 1940/42-1958/60.... | 0.9 | 4.0 ³ | 6.3 ³ | .. | 5.1 | 17.0 |
| 1949/51-1958/60.... | 0.2 | -0.5 ⁴ | 0.4 ⁴ | 1.5 ⁴ | 5.1 | 20.2 |
| 1928/29-1959/60.... | 1.8 | 0.9 ⁵ | 1.5 ⁵ | .. | 4.4 ⁵ | 12.4 ⁵ |

¹1929/30-1940/42²1954/56-1958/59³1940/42-1958/59⁴1949/51-1958/59⁵1928/29-1958/59⁶1929- 1959/60Sources: See Table 1. Capital goods imports calculated on the basis of data, ECLA, *op. cit.*, Vol. IV, p. 47.

*Index of export value deflated by the index of unit value of imports.

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TABLE 4
CHILE: ANNUAL COMPOUND RATES OF GROWTH OF EXPORTS AND IMPORTS, GROSS DOMESTIC PRODUCT, AND THE CONSUMER PRICE INDEX
1928-1960

| | <i>Export Quantum</i> | <i>Purchasing Power of Exports*</i> | <i>Import Quantum</i> | <i>Import Quantum Per Capita</i> | <i>Capital Goods Imports Quantum</i> | <i>Capital Goods Imports Quantum Per Capita</i> | <i>Gross Domestic Product in 1955 Prices</i> | <i>Consumer Price Index</i> |
|----------------------|---------------------------|---|---------------------------|--|--|---|--|-------------------------------------|
| 1928/30-1940/42..... | 0.9 | -4.35 | -4.6 | .. | .. | .. | 1.9 ¹ | 7.8 ¹ |
| 1940/42-1944/46..... | -0.25 | -2.8 | 0.1 | -2.1 | 2.6 | 1.5 | 5.8 | 15.45 |
| 1944/46-1949/51..... | -1.45 | 1.5 | 4.7 | 3.0 | 18.2 | 15.6 | 3.2 | 19.8 |
| 1949/51-1954/56..... | 1.7 | 4.3 | -0.4 | -2.6 | 3.3 | 2.3 | 3.6 | 42.0 |
| 1954/56-1958/60..... | 3.8 | -0.5 | 6.5 | 3.7 | 9.25 ² | 6.3 ² | 2.8 | 33.0 |
| 1940/42-1958/60..... | 0.8 | 1.75 | 2.6 | 0.4 | 8.8 ² | 6.6 ² | 3.8 | 27.5 |
| 1949/51-1958/60..... | 2.6 | 3.9 | 2.6 | 0.2 | 6.4 ⁴ | 3.8 ⁴ | 3.2 | 38.0 |
| 1928/29-1959/60..... | 0.6 | -1.5 | -0.3 | .. | .. | .. | 3.0 ⁴ | 19.4 ⁴ |

¹1929/30-1940/42

²1954/56-1958/59

³1940/42-1958/59

⁴1949/51-1958/59

⁵1929- 1959/60

Sources: See Table 1. Also, Instituto de Economía, 1962, "La Economía Chilena en el Período 1950-1961," and "Desarrollo Económico de Chile 1940-1956, Santiago, 1957; Banco Central de Chile, *Boletín*, August-September, 1962.

*Index of export value deflated by the index of unit value of imports.

TABLE 5

COLOMBIA: ANNUAL COMPOUND RATES OF GROWTH OF EXPORTS AND IMPORTS,
GROSS DOMESTIC PRODUCT, AND THE CONSUMER PRICE INDEX

1928-1960

| | Export Quantum | Purchasing Power of Exports ^a | Import Quantum | Gross Domestic Product in 1955 Prices | Consumer Price Index |
|----------------------|-------------------|--|---------------------|---|----------------------------|
| 1928/30-1940/42..... | 1.35 | -3.3 | -3.0 | 3.7 ¹ | .. |
| 1940/42-1944/46..... | 6.7 | 7.8 | 8.1 | 3.5 | 12.7 |
| 1944/46-1949/51..... | -0.2 | 10.6 | 7.55 | 4.4 | 13.5 |
| 1949/51-1954/56..... | 2.4 | 5.2 | 10.2 | 5.1 | 5.2 |
| 1954/56-1958/60..... | 2.0 | -6.9 ² | -14.05 ² | 3.4 | 9.9 |
| 1940/42-1958/60..... | 2.5 | 5.1 ³ | 4.3 ³ | 4.2 | 10.2 |
| 1949/51-1958/60..... | 2.25 | 0.5 ⁴ | 0.4 ⁴ | 4.35 | 7.3 |
| 1928/30-1959/60..... | 2.4 | 1.3 ⁵ | 0.6 ⁵ | 4.1 ⁵ | .. |

¹1929/30-1940/42²1954/56-1958/59³1940/42-1958/59⁴1949/51-1958/59⁵1928/29-1958/59⁶1929-1959/60

Source: See Table 1.

^aIndex of export value deflated by the index of unit value of imports.

TABLE 6

ECUADOR: ANNUAL COMPOUND RATES OF GROWTH OF EXPORTS AND IMPORTS,
GROSS DOMESTIC PRODUCT, AND THE CONSUMER PRICE INDEX

1928-1960

| | Export Quantum | Purchasing Power of Exports ^a | Import Quantum | Gross Domestic Product in 1955 Prices | Consumer Price Index |
|----------------------|-------------------|--|--------------------|---|----------------------------|
| 1928/30-1940/42..... | 0.55 | -1.8 | -2.1 | .. | .. |
| 1940/42-1944/46..... | 5.5 | 11.8 | 8.4 | 4.2 | 13.1 |
| 1944/46-1949/51..... | -1.9 | 7.5 | 10.1 | 7.4 | 19.2 |
| 1949/51-1954/56..... | 7.6 | 13.2 | 15.6 | 6.2 | 2.4 |
| 1954/56-1958/60..... | 7.3 | -0.95 ¹ | -3.15 ¹ | 3.6 | .. |
| 1940/42-1958/60..... | 4.4 | 9.2 ² | 9.6 ² | 5.5 | 8.65 |
| 1949/51-1958/60..... | 7.5 | 8.95 ³ | 9.9 ³ | 5.0 | 1.3 |
| 1929/30-1959/60..... | 3.1 | 4.3 ⁴ | 4.4 ⁴ | .. | .. |

¹1954/56-1957/58²1940/42-1957/58³1949/51-1957/58⁴1928/29-1957/58

Source: See Table 1.

^aIndex of export value deflated by the index of unit value of imports.

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TABLE 7
EL SALVADOR: ANNUAL COMPOUND RATES OF GROWTH OF EXPORTS AND IMPORTS,
GROSS DOMESTIC PRODUCT, AND THE CONSUMER PRICE INDEX
1928-1960

| | Export Quantum | Purchasing Power of Exports ^a | Import Quantum | Gross Domestic Product in 1955 Prices | Consumer Price Index |
|----------------------|-------------------|--|-------------------|---|----------------------------|
| 1928/30-1940/42..... | -0.05 | -1.9 | -3.7 | .. | .. |
| 1940/42-1944/46..... | 2.7 | 6.5 | 5.45 | .. | 13.0 |
| 1944/46-1949/51..... | 4.7 | 12.2 | 14.1 | 10.3 ¹ | 6.5 |
| 1949/51-1954/56..... | 1.5 | 8.8 | 12.6 | 5.3 | 5.1 |
| 1954/56-1958/60..... | 15.0 ² | 6.25 ² | 6.7 ² | 5.1 ² | 0.5 |
| 1940/42-1958/60..... | 4.4 ³ | 8.9 ³ | 10.5 ³ | 6.9 ³ | 6.1 |
| 1949/51-1958/60..... | 5.2 ³ | 8.0 ³ | 10.9 ³ | 5.2 ³ | 3.0 |
| 1929/30-1959/60..... | 2.6 ⁷ | 3.7 ⁷ | 3.8 ⁷ | .. | .. |

¹1945/46-1949/51²1954/56-1957/58³1954/56-1958/59⁴1940/42-1957/58⁵1949/51-1957/58⁶1949/51-1958/59⁷1928/29-1957/58⁸1945/46-1958/59

Source: See Table 1.

^aIndex of export value deflated by the index of unit value of imports.

TABLE 8
MEXICO: ANNUAL COMPOUND RATES OF GROWTH OF EXPORTS AND IMPORTS,
GROSS DOMESTIC PRODUCT, AND THE CONSUMER PRICE INDEX
1928-1960

| | Export Quantum | Purchasing Power of Exports ^a | Import Quantum | Capital Goods Imports Quantum | Gross Domestic Product in 1955 Prices | Consumer Price Index |
|---------------------|-------------------|--|-------------------|--|---|----------------------------|
| 1928/30-1940/42.... | -5.9 | -5.0 | -1.1 | .. | 6.2 ¹ | .. |
| 1940/42-1944/46.... | 2.0 | 10.2 | 19.4 | 22.4 | 6.55 | 19.6 |
| 1944/46-1949/51.... | 5.7 | 7.4 | 3.4 | 5.1 | 6.5 | 10.0 |
| 1949/51-1954/56.... | 6.1 | 3.5 | 4.4 | 6.5 | 6.1 | 8.0 |
| 1954/56-1958/60.... | 1.55 ² | -4.3 ² | 7.4 ² | 6.1 ² | 5.0 | 7.0 |
| 1940/42-1958/60.... | 4.35 ³ | 5.3 ³ | 8.0 ³ | 9.75 ³ | 6.1 | 10.8 |
| 1949/51-1958/60.... | 4.8 ⁴ | 1.2 ⁴ | 5.2 ⁴ | 6.4 ⁴ | 5.6 | 7.5 |
| 1929/30-1959/60.... | -0.4 ⁵ | 0.4 ⁵ | 3.1 ⁵ | .. | 6.1 ⁵ | .. |

¹1929/30-1940/42²1954/56-1957/58³1940/42-1957/58⁴1949/51-1957/58⁵1928/29-1957/58⁶1929-1959/60Sources: See Table 1. Capital goods imports calculated on the basis of data in ECLA, *op. cit.*, Vol. V, p. 72.^aIndex of export value deflated by the index of unit value of imports.

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TABLE 9

PERU: ANNUAL COMPOUND RATES OF GROWTH OF EXPORTS AND IMPORTS,
GROSS DOMESTIC PRODUCT, AND THE CONSUMER PRICE INDEX

1928-1960

| | Export Quantum | Purchasing Power of Exports* | Import Quantum | Gross Domestic Product in 1955 Prices | Consumer Price Index |
|----------------------|-------------------|------------------------------------|-------------------|---|----------------------------|
| 1928/30-1940/42..... | -0.2 | .. | .. | .. | 1.3 ¹ |
| 1940/42-1944/46..... | 6.8 | 2.0 | 5.6 | .. | 12.1 |
| 1944/46-1949/51..... | -5.7 | 5.75 | 9.3 | 4.3 | 18.4 |
| 1949/51-1954/56..... | 9.1 | 4.7 | 6.5 | 5.3 | 7.4 |
| 1954/56-1958/60..... | 6.2 | 0.7 ² | 1.6 ² | 2.6 ² | 8.2 |
| 1940/42-1958/60..... | 3.7 | 4.0 ² | 6.2 ² | 4.5 ² | 11.6 |
| 1949/51-1958/60..... | 7.8 | 3.95 ⁴ | 4.65 ⁴ | 4.6 ⁴ | 7.7 |
| 1929/30-1959/60..... | 2.1 ³ | .. | .. | .. | 7.4 ³ |

¹1929/30-1940/42²1954/56-1958/59³1940/42-1958/59⁴1949/51-1958/59⁵1929- 1959/60⁶1928/29-1958/59⁷1944/46-1958/59

Source: See Table 1.

*Index of export value deflated by the index of unit value of imports.

TABLE 10

VENEZUELA: ANNUAL COMPOUND RATES OF GROWTH OF EXPORTS AND IMPORTS,
GROSS DOMESTIC PRODUCT, AND THE CONSUMER PRICE INDEX

1928-1960

| | Export Quantum | Purchasing Power of Exports* | Import Quantum | Gross Domestic Product in 1955 Prices | Consumer Price Index |
|----------------------|-------------------|------------------------------------|-------------------|---|----------------------------|
| 1928/30-1940/42..... | 2.3 | -4.6 | -5.1 | 2.6 ¹ | .. |
| 1940/42-1944/46..... | 14.5 | 13.3 | 15.0 | 8.9 | 7.9 |
| 1944/46-1949/51..... | 9.9 | 19.4 | 21.8 | 7.0 | 6.6 |
| 1949/51-1954/56..... | 7.9 | 7.6 | 6.1 | 8.8 | 1.0 |
| 1954/56-1958/60..... | 6.9 | 3.6 ² | 8.5 ² | 7.0 | 1.95 |
| 1940/42-1958/60..... | 9.7 | 11.55 ⁴ | 13.0 ² | 7.9 | 4.2 |
| 1949/51-1958/60..... | 7.5 | 6.1 ⁴ | 7.0 ⁴ | 8.0 | 1.4 |
| 1928/29-1959/60..... | 7.2 | 5.0 ³ | 5.0 ³ | 5.9 ³ | .. |

¹1929/30-1940/42²1954/56-1958/59³1940/42-1958/59⁴1949/51-1958/59⁵1928/29-1958/59⁶1929- 1959/60

Source: See Table 1.

*Index of export value deflated by the index of unit value of imports.

TABLE 11

LATIN AMERICA, ARGENTINA, BRAZIL, AND CHILE: INDEX OF RELATION OF EXPORTS AND IMPORTS TO GROSS DOMESTIC PRODUCT

(Index Numbers of Three-Year Averages, 1928-1960, 1955 = 100)*

| | Latin America | | Argentina | | Brazil | | Chile | |
|----------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Export Quantum GDP | Import Quantum GDP | Export Quantum GDP | Import Quantum GDP | Export Quantum GDP | Import Quantum GDP | Export Quantum GDP | Import Quantum GDP |
| 1928-1930..... | 248 | 285 | 390 | 291 | 24 ¹ | 15 ¹ | 222 | 322 |
| 1934-1936..... | 193 | 92 | 351 | 169 | 220 | 114 | 152 | 124 |
| 1939-1941..... | 141 | 93 | 223 | 140 | 216 | 97 | 165 | 143 |
| 1944-1946..... | 137 | 81 | 196 | 58 | 190 | 103 | 144 | 102 |
| 1949-1951..... | 111 | 106 | 131 | 114 | 139 | 144 | 107 | 100 |
| 1954-1956..... | 100 | 100 | 100 | 100 | 100 | 110 | 100 | 100 |
| 1958-1960..... | 99 ¹ | 100 ¹ | 129 | 101 | 90 | 102 ¹ | 102 ¹ | 127 ¹ |

¹1957-59²1929-31³1957-59⁴1959-61Source: ECLA, *op. cit.*, statistical appendix.

*Three-year average of quantum index as indicated divided by three-year average of GDP.

TABLE 12

COLOMBIA, ECUADOR, EL SALVADOR

INDEX OF RELATION OF EXPORTS AND IMPORTS TO GROSS DOMESTIC PRODUCT

(Index Numbers of Three-Year Averages, 1928-1960, 1955 = 100)*

| | Colombia | | Ecuador | | El Salvador | |
|--------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Export Quantum GDP | Import Quantum GDP | Export Quantum GDP | Import Quantum GDP | Export Quantum GDP | Import Quantum GDP |
| 1928-30..... | 158 ¹ | 086 ¹ | .. | .. | .. | .. |
| 1934-36..... | 141 | 075 | .. | .. | .. | .. |
| 1939-41..... | 128 | 074 | 140 | 049 | .. | .. |
| 1944-46..... | 138 | 065 | 148 | 056 | 134 | 57 |
| 1949-51..... | 110 | 076 | 094 | 063 | 110 | 72 |
| 1954-56..... | 097 | 096 | 098 | 094 | 100 | 100 |
| 1958-60..... | 089 | 058 ² | 116 | 087 ³ | 107 ⁴ | 95 ⁴ |

¹1929-1931²1957-1959³1956-1958⁴1957-1959Source: ECLA, *op. cit.*, statistical appendix.

*Three-year average of quantum index as indicated divided by three-year average of GDP.

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TABLE 13
 MEXICO, PERU, VENEZUELA:
 INDEX OF RELATION OF EXPORTS AND IMPORTS TO GROSS DOMESTIC PRODUCT
 (Index Numbers of Three-Year Averages, 1928-1960, 1955 = 100)*

| | Mexico | | Peru | | Venezuela | |
|--------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Export Quantum GDP | Import Quantum GDP | Export Quantum GDP | Import Quantum GDP | Export Quantum GDP | Import Quantum GDP |
| 1928-30..... | 445 ¹ | 158 ¹ | .. | .. | 78 | 141 |
| 1934-36..... | 308 | 089 | .. | .. | 76 | 34 |
| 1939-41..... | 126 | 088 | 108 ² | 55 ² | 66 | 63 |
| 1944-46..... | 099 | 132 | 106 | 71 | 98 | 61 |
| 1949-51..... | 096 | 115 | 91 | 87 | 105 | 108 |
| 1954-56..... | 095 | 106 | 100 | 100 | 100 | 100 |
| 1958-60..... | 089 ³ | 108 ³ | 123 | 86 | 98 | 96 |

¹1929-1931

²1956-1958

³1941-1943

Source: ECLA, *op. cit.*, statistical appendix.

*Three-year average of quantum index as indicated, divided by three-year average of GDP.

TABLE 14
 ARGENTINA, BRAZIL, CHILE, COLOMBIA, MEXICO, PERU, VENEZUELA
 SEVEN COUNTRY TOTAL: BALANCES OF PAYMENTS EFFECTS OF NET NEW U.S. DIRECT INVESTMENT AND U.S. OFFICIAL AID AND
 REMITTANCE

(U.S. \$ Million, Except Per Capita Imports)

| | A | B | C | D | E | F | G | H |
|-----------|---|--|--|-----------------------------------|--|---|---|---|
| | <i>Net New U.S. Direct Investment</i> | <i>Profit and Interest Remittances on U.S. Direct Investment</i> | <i>Net New U.S. Direct Investment Less Remittances (A-B)</i> | <i>Total Net U.S. Aid</i> | <i>Official U.S. Debt Repayments</i> | <i>Interest on Debt to U.S. Govt.</i> | <i>Total Net U.S. Aid Less Debt Repay- ments and Interest (D-E-F)</i> | <i>Imports Millions \$</i> |
| 1950..... | \$ 27 | \$399 | \$ -372 | \$ 87 | \$ 29 | \$13 | \$ 45 | \$3,991 |
| 1951..... | 150 | 495 | -345 | 126 | 32 | 13 | 81 | 6,026 |
| 1952..... | 344 | 454 | -110 | 97 | 36 | 13 | 48 | 5,799 |
| 1953..... | 132 | 475 | -343 | 399 | 41 | 16 | 342 | 4,874 |
| 1954..... | 27 | 494 | -467 | 103 | 64 | 27 | 12 | 5,515 |
| 1955..... | 134 | 635 | -501 | 141 | 104 | 30 | 7 | 5,581 |
| 1956..... | 537 | 712 | -175 | 182 | 109 | 30 | 43 | 5,879 |
| 1957..... | 1,051 | 784 | 267 | 247 | 122 | 30 | 95 | 6,925 |
| 1958..... | 215 | 571 | -356 | 611 | 132 | 39 | 440 | 6,283 |
| 1959..... | 119 | 549 | -430 | 389 | 156 | 57 | 176 | 5,885 |
| 1960..... | 85 | 632 | -547 | 262 | 168 | 65 | 29 | 6,290 |
| 1961..... | 144 | 675 | -531 | 740 | 158 | 71 | 511 | 6,612 |

Sources: U.S. Department of Commerce, AID, IMF.

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