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Louisiana State University and Agricultural & Mechanical College

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A COMPARISON: UNITED STATES ECONOMIC RELATIONS
WITH ARGENTINA AND BRAZIL, 1947-1960

A Dissertation

Submitted to the Graduate Faculty of the
Louisiana State University and
Agricultural and Mechanical College
in partial fulfillment of the
requirements for the degree of
Doctor of Philosophy

in
The Department of Economics

by
Louis J. Rodriguez
B.A., Rutgers University, 1955
M.A., Louisiana State University, 1957
June, 1963
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ABSTRACT

Latin America is assuming greater importance for the United States as a result of increasing American dependence on foreign markets and external sources of raw materials and because of the current world ideological conflict. The two most important South American nations from a viewpoint of land area, population, natural resources and economic potential are Brazil and Argentina. Developments in these two nations will to a great degree determine the future course of evolution of the whole of Latin America and are of vital importance to the well-being of the United States.

The purpose of this study is to examine United States economic relations with Brazil and Argentina from 1947 through 1960. Specific objectives are to identify, describe, analyze and contrast the economic factors underlying these relationships. It is hoped that this investigation will provide the basis for improved understanding of economic relations between the United States and Argentina and Brazil. Expectations are that improved understanding will lead to a formulation of United States policy which will help fulfill American ambitions for economic growth of these two countries within the framework of democratic institutions.
Methodologically, the procedure utilized has been to describe Argentina and Brazil in reference to: (1) their economic development prior to 1947; (2) trade with the United States since 1947; (3) the amounts and significance of United States direct investment in the postwar period; (4) the role of the balance of payments in economic development and in relations with the United States, and (5) United States economic policy. The information presented for Argentina and Brazil is compared and analyzed at the conclusion of each chapter. Data utilized have been obtained primarily from reliable secondary sources such as United Nations and United States Government publications.

Several conclusions are reached. (1) Brazil has a greater economic potential than Argentina. (2) The economic development of both countries has been greatly influenced by external economic factors. Both nations have balance of payments disequilibrium, but Brazil's problems are more serious as a result of a large deficit in the investment income account and weakness in the transportation and service sector. (3) Argentine and Brazilian relations with the United States have been greatly governed by economic factors, while United States relations have been motivated by political aspects. (4) Economic exchange with the United States has been more important for Brazil than for Argentina. (5) The policy change by the United States in 1959 placing emphasis on Argentina instead of Brazil was not in the
national interest of the United States. (6) Brazil should be the cornerstone of United States economic policy in Latin America. (7) Argentina is primarily a decapitalized nation, while Brazil is more an underdeveloped one. (8) United States capital can help ease the period of economic transition through the industrial revolution in these two countries. (9) The degree of excessive inflation has been a detriment to economic development in Argentina and probably also in Brazil. (10) A program of United States economic assistance to these nations should: (a) be based on enlightened self-interest; (b) be in the form of low interest, long term loans; (c) obtain economic reforms as a prerequisite for assistance; (d) stress education as the focal point.

The excellent resource potentials of Argentina and Brazil give hope that the economic expectations of these two countries will be realized with time and United States economic assistance.
INTRODUCTION

Latin America is assuming increasing importance for the United States as a result of increasing American dependence on foreign markets and on external sources of raw materials, and because of the current world ideological conflict. The two most important South American nations from a viewpoint of land area, population, natural resources and future promise are Brazil and Argentina. These two countries occupy 49 and 16 per cent of the land mass of South America respectively.\(^1\) A world-wide comparison places Brazil fifth\(^2\) and Argentina eighth in territorial dimensions among the family of sovereign states.\(^3\) Demographic estimates for 1960 indicate that 67 million persons were living in Brazil and 21 million in Argentina.\(^4\) The combined


\(^4\)Benham and Holley, op. cit., p. 13.
populations of these two nations represent 44 per cent of the inhabitants of Latin America and 63 per cent of the people living in South America. Brazil has rich and diverse resources, including iron ore, zirconium, hydroelectric power, cobalt, manganese and nickel, which give it the possibility of becoming a powerful industrial nation. Argentina's resources, although not as extensive as Brazil's, consist of the Pampa, the largest, most fertile plain of Latin America; petroleum; and the most educated and skilled population of the South American countries.

Developments in these two nations will to a great degree determine the future course of evolution of the whole of Latin America and are of vital importance to the well-being of the United States. Past relations between the United States and Argentina and Brazil have not always been harmonious. Economic exchanges between nations are key factors which influence all relations between them. It is partly out of these relationships that arise friendships, dependence of one nation upon another, and mutual benefits for the parties involved. Out of economic relationships, however, may also arise conflicts, claims of exploitation, distrust and adverse political as well as economic relations. Argentina and Brazil present a particularly intriguing study along these lines. Brazil typifies a situation where trade with the United States tends to be complementary, while Argentine-United States trade is competitive in many
OBJECTIVES, SCOPE AND METHOD

The purpose of this study is to examine United States economic relations with these two Western Hemisphere neighbors. A description and comparison of the role of the United States in the economic development of these two Latin countries is presented. Specific objectives are to identify, describe, analyze and contrast the economic factors underly­ing these relations. Developments causing changes in the climate of relations and quantitative breakdowns of trade and investments are presented for the period 1947 to 1960. It is hoped that this investigation will provide the basis for improved understanding of economic relations between the United States and Argentina and Brazil. Possible future avenues whereby the United States may be able to fulfill better its ambitions of economic growth in Argentina and Brazil within the framework of democratic institutions are enumerated.

This study is confined to the post-World War II period during which many important developments such as the "cold war," "revolution of rising expectations," and post-war international trade adversities for Argentina and Brazil have taken place. Extension of the time period under analysis would present too great a burden for research of this nature. Since one of the objectives of this study is to
present and analyze factors which may be of assistance in comprehending and solving current problems, the time period chosen provides coverage of the origin of many of today's difficulties. At the same time an opportunity is afforded to scrutinize changes in policy and the role played by economic factors in these changes; furthermore, the period chosen is not so lengthy as to defy adequate coverage. Emphasis is placed on the external relations of the nations involved; this does not, however, exclude an appraisal of internal problems, such as economic development and fiscal and monetary policy, which play a significant role in external economic relations.

PLAN OF ORGANIZATION

This study is divided into six parts. Part I deals with the economic development of Argentina and Brazil through 1946. Areas discussed are natural resources, forms of government, extent of economic development, foreign investment, the role of international trade and economic relations with the United States. A comparison between Argentina and Brazil in these areas is undertaken. This part is not intended to be exhaustive in its coverage, but to serve as a foundation for the more detailed presentation of the post-World War II period.

In Part II, a study of the trade of the two Latin
American nations with the United States is presented. Specific areas covered are composition of trade, magnitudes, problems and trade restrictions. A comparison between Argentina and Brazil is made concerning the importance of this trade, degree of diversification, sources of trade conflicts and trends in the post-World War II period.

United States private direct investments in Brazil and Argentina are treated in Part III. Types, volumes, problems encountered, and the role of these external resources in economic development are enumerated. Investments by the United States in these two nations are contrasted in relation to magnitudes, areas of investment, contribution to economic development and investment climate. Trends and changes in investment such as the apparent shift from Brazil to Argentina are analyzed.

The balances of payments of Argentina and Brazil are brought under scrutiny in Part IV. Magnitudes, areas of difficulty, restrictions, importance to economic development and the role of the United States are examined. Developments in the balances of payments of Argentina and Brazil are compared. Specific comparisons include the degree of problems presented by balance of payments difficulties, restrictions imposed, importance to economic development and the influence of the United States in this area.

Part V deals with United States economic policy toward Argentina and Brazil. Although economic factors are
stressed, a brief excursion is made into political and other institutional determinants. A comparison of United States policy toward the two South American states is undertaken; factors motivating economic policy are examined and contrasted. Trends in American policy are described and the impact of United States actions on Argentina and Brazil evaluated.

A summary of major findings and conclusions is attempted in Part VI. Some specific proposals which may serve as guides to future United States economic policy toward Argentina and Brazil are presented. These proposals are substantiated by this research.

The data utilized was obtained primarily from reliable secondary sources such as United Nations, United States Government, and Brazilian Embassy publications.
CHAPTER I

RESOURCES AND ECONOMIC EVOLUTION OF ARGENTINA AND BRAZIL TO 1947

It is virtually impossible to comprehend fully the current economic problems of a nation without some appreciation of its resource base and institutional evolution. As a background to the study of the post-World War II economic relations of the United States with Argentina and Brazil, an examination of the resources and historical development of these nations becomes imperative. The procedure used will be first to consider Argentina in reference to: (1) resources; (2) forms of government; (3) economic development; (4) receipts of foreign investments; (5) the role played by international trade, and (6) economic relations with the United States. The same procedure will then be applied to Brazil followed by a comparison of the two countries in the enumerated areas. At times the analysis is extended to several years past 1947; this is done when the nature of the data available necessitates such an undertaking in behalf of clarity and comparability.
ARGENTINA

Resources

Argentina covers an area of 1,079,965 square miles; its greatest length, north to south, is 2,100 miles and its maximum width from the Andes to the Atlantic Ocean is about 900 miles. These dimensions make the country the second largest of South America and the eighth largest in the world. It is approximately one-third the size of the United States, and five times larger than France. For the most part Argentina is situated in the temperate zone and is the possessor of large, fertile plains, long seacoasts, and good inland waterways. The Pampa, a great central plain, covers 250,000 square miles and in this grassy, treeless area is contained much of the best agricultural land in South America. About one-third of the territory of Argentina is cultivable and traditionally agriculture has been the backbone of the nation's economy.

The population in 1960 was estimated at 21,000,000 persons, and since 1937 the average rate of growth has been...
approximately 2.4 per cent annually. In 1954, about 5,900,000 of the inhabitants were located in the greater Buenos Aires area, with 3,799,000 in the city proper. Approximately 81 per cent are native born of European descent; 16 per cent are European by birth, and 3 per cent are Indian and non-Caucasian. Since 1875, about 80 per cent of all immigrants have been Italians and Spaniards. Of the total labor force in 1954, 23.3 per cent were in agriculture, stock raising, and forestry; 22.4 per cent in manufacturing, construction, and mining; 16.2 per cent in trade and finance, and 38.1 per cent in domestic and related services.

Minerals have posed a serious problem in Argentina. Although the production of petroleum, coal, iron ore, salt, bismuth, lime, lead, zinc, gold, silver, copper, and tungsten is carried on, it has not been in significant amounts. This fact has presented a serious obstacle to the nation's industrialization hopes; for example, in 1959, only approximately 50 per cent of the fuel needs were obtained domestically. The necessity to import such large quantities of

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fuels has been a contributing factor to balance of payments difficulties. Since the Frondizi government came into power in 1958, the picture in petroleum has improved markedly. Private development of oil fields has been permitted since 1958 with the results that Argentina nearly became self-sufficient in 1961 and became a small-scale exporter of petroleum by 1962. Argentina, however, still imported about $50 million worth of specialty oils and other petroleum products during 1962. Oil production in 1960 was 37 per cent greater than the 1959 output and the 1961 output exceeded the 1960 volume by 32 per cent. This development will have great beneficial significance to the Argentine economy and means a savings of about $200 million per year in imports. Attempts are now being made to develop the nation's iron ore and coal deposits, but the outlook is not very optimistic because these resources appear to be of inferior quality and insufficient in quantity. Water power appears to be a great natural resource that has not been sufficiently developed, from all indications. Argentina's Iguazú Falls have tremendous potential along these lines. Unfortunately, the task of transmitting the power from this area 800 miles to Buenos Aires, the only large market for electricity, remains largely unsolved. Under Frondizi's

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regime new attempts were made to harness this potential power and high hopes are now held for success. Table I gives mineral production in Argentina during the 1951 to 1959 period. The data reveal that Argentina has not been an important mineral producing country.

TABLE I

MINING PRODUCTION IN ARGENTINA, 1951-1959

(In thousands of tons)\(^1\)

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<td>82</td>
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<td>133</td>
<td>152</td>
<td>206</td>
<td>264</td>
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<td>Petroleum(^2)</td>
<td>3.4</td>
<td>3.6</td>
<td>4.1</td>
<td>4.2</td>
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<td>4.4</td>
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<td>Zinc Ore</td>
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<td>Tin Ore</td>
<td>241</td>
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\(^1\)Thousands of tons of metal content for lead, zinc, and tin.

\(^2\)Millions of crude.

\(^3\)Data for 1959 from "Supplemento Estadistico," Boletin Economico de America Latina, V (Noviembre 1960), 34-35.

Forests cover about one-third of Argentina and from them comes quebracho, which is used primarily for extract, but also for timbers, railroad ties, and posts. Other important products of the forests are woods that are used for
fuel, boxes, flooring, furniture, and charcoal. Approximately 350 sawmills process these forest products with average annual production being approximately 2,000,000 railroad ties, 1,000,000 posts, 500,000 fine rails, 1,000,000 tons of charcoal and 300,000 tons of construction wood. Yerba mate is produced in quantities and is very extensively used in Argentina, Brazil, and Uruguay. Over-all, the nation is not self-sufficient in these items and imports such materials as paper, cardboard, and newsprint.

Government

Argentina was discovered by the Spanish navigator Juan Diaz Salis in 1515, and remained under Spanish control until 1816 when independence was declared. There followed a period of four decades of anarchy, civil war, and secession which prevented the unification of the nation until the middle of the nineteenth century. Buenos Aires, the most important and powerful province, sought to institute a unitarian form of government, but the interior provinces desired a federalist type. After much warfare among the chieftains of the provinces and the harsh rule of Juan Manuel de Rosas, Governor of Buenos Aires for twenty-three

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years, the federalists triumphed with the adoption of a constitution in 1853. This new constitution provided for a federal, republican, representative form of government.

The plague of political instability, which has been so common in Latin America, was not escaped by Argentina. By 1890 political unrest reached a peak as a result of widespread corruption, the non-existence of political liberty and the chaotic financial status of the country. A political revolt occurred in 1890 under the Union Civica Radical which overthrew the old regime and espoused a drive toward more responsible government. In 1910, with Dr. Roque Sáenz Peña's election to the office of President, widespread reforms were introduced. He worked forcefully for free suffrage, honest elections and the political representation of minorities. The Sáenz Peña Law was passed in 1912 which made suffrage "free, secret, and obligatory." Democratic ways prevailed until 1932, when a coup d'état brought by financial and political problems was executed.

The new provisional government was headed by Jose F. Uriburu, who resorted to dictatorial governmental action. Uriburu suppressed labor unions, nullified elections won by the opposition party in the provinces, imposed censorship on the press and attempted to change the existing constitution and the Sáenz Peña Law. In 1933 the nation returned

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to democratic ways by electing Agustin P. Justo, who apparently proved to be an able leader. Roberto M. Ortiz became President in 1937 and when he became ill in 1940 his Vice-President Ramon S. Castillo took over. Castillo's suppression of democratic elements set the basis for a popular revolt.

On June 4, 1943, the armed services forced Castillo's resignation and instituted a provisional government. Juan Peron began a rapid rise within the provisional government, which culminated with his election to the Presidency in 1946 with the support of the Partido Laborista. Once in power he granted labor most of its requests, and wages, pension benefits, paid holidays and vacations increased rapidly. These increases, which were made without consideration of productivity increases, led to a period of inflation, but convinced labor that Peron was truly interested in their well-being. Peron and his wife, Eva, were believed by the working class to be moved with compassion for the cause of "los descamisados," or "shirtless ones."

Under Peron, the hand of the state reached everywhere. Newspapers were bought and controlled, 2,000 university faculty members who opposed his election were removed from their jobs and replaced with persons whose chief qualifications consisted of allegiance to Peron. Colonels were made Generals, army pay for officers became the highest in the world, and the rolls of government workers were swelled.
These moves kept possible opposition either happy or silent. Judges were replaced with pro-Peron followers; it was now the will of Peron and not the law of the Constitution. The state rigidly controlled trade as well as many internal areas of production such as public utilities, petroleum, shipping and industrial plants.\textsuperscript{11}

Peron finally overstepped his bounds. He set himself up as a god, being compared in public speeches with Christ, Mohammed and Buddha. A movement was started to canonize his wife, Evita, before her death and this movement continued until Peron lost power. She had been presented in 1951 as "Our Lady of Hope" and Peron at this meeting proclaimed a new holiday, "Saint Evita Day." He attempted to eliminate religious processions, legalize divorce and separate the church and state. This gave different movements which were against him a common cause on which to unite. Also, at this time in 1955, Argentina was feeling the impact of Peron's suicidal economic policies. The economic downfall was to a great degree the result of the recovery of Europe to a point where the demand for Argentina's commodities had been greatly reduced. These factors, plus the tiring on the part of the military of the corruption and fraud in the Peron government led to his overthrow in September, 1955.\textsuperscript{12}

\textsuperscript{11}Scully, op. cit., p. 88. \textsuperscript{12}Ibid., p. 89.
After the fall of Peron a Provisional Government took office until May, 1958. In 1956 this government annulled the constitution which the Peron government had adopted in 1949 and reinstated the Constitution of 1853, which greatly resembles that of the United States. A Constitutional assembly met in 1957 and modified parts of the 1853 Constitution. The present Constitution provides for a federal union of provinces which retain all powers not specifically delegated to the federal government by the Constitution. There is a separation of powers between the executive, legislative and judicial branches. The executive branch consists of the President, eight Ministers and twelve Secretariats. Secretaries of state have the same rank as the Ministers except that they cannot countersign executive documents nor represent the Executive before Congress.

Legislative power is vested in a bicameral congress made up of the Senate and the Chamber of Deputies. Laws may originate in either chamber or through the President, and members of both of these houses are publicly elected. The Judicial Branch consists of the Supreme Court, the national tribunals in the Federal Capital and the national tribunals with seats in the provinces; judges are appointed by the President and confirmed by the Senate. Each of the provinces has its own constitution in accordance with the principles, rights and guaranties of the National
Constitution.¹³

Economic Development

Forces of the world economy in the period of rapid world expansion prior to the depression of the 1930's produced a vast experiment in Argentina's agriculture. All the factors needed for large scale production were brought together. There was an abundance of well-situated, fertile land and there was no old established agrarian population that had been cultivating it with traditional methods merely for its own subsistence.¹⁴ These conditions, when combined with a favorable climate, led to migration from Europe and opened an attractive area for foreign investment. Thus a capitalistic agricultural system grew without restrictions of any type. It was capitalistic because it demonstrated ability to adapt to the best methods of cultivation and livestock raising, adjusted itself to the changing circumstances of the market and had great mobility of the factors of production. Farmers motivated by profits changed from the raising of cattle, to crops, to livestock and back again depending on the economic returns. The mobility of Argentina's agriculture was demonstrated by international as well


as domestic aspects. Before World War I, large numbers of workers came every year from southern Europe to help harvest the crops and then returned to Europe with sizeable savings. These favorable conditions in agriculture led to a rapid development of Argentina's economy up to the 1930 economic crisis. This period not only ended expansion, but indicated to Argentina that its agricultural productive capacity was greater than world demand.

During the 1930's a better balance between agriculture and manufacturing was achieved in Argentina. The agriculture sector no longer needed to increase its labor force because of the lack of need to expand production and the mechanization of the farms. Argentine workers could now enter manufacturing outlets without putting pressure on the agriculture labor supply. Thus, as manufacturing expanded, it did not hinder agriculture. During World War II, however, the mechanization of agriculture in Argentina was greatly hindered. In the immediate postwar period there was not sufficient incentive to make up for the lack of farm capital replacement during the war period. This was the result of exchange control and state trading systems which discriminated against agriculture. The balance worked out after the war between industry and agriculture was one which was unfavorable to the farm sector. Available foreign exchange was allocated to purchase industrial capital goods. Also the state trading system purchased agriculture products
at low prices and sold them in world markets at high levels. It may be noted that industrialization which had tended to alleviate the disequilibrium in the balance of payments during the 1930's now created the opposite effect. This development occurred as a result of the decline in agricultural exports because of lack of farm equipment and incentive to stimulate output.

The above is not to say that there was over-industrialization in Argentina. It appears that the only way a nation such as this could have moved forward economically was in the direction it did. Argentina wished to reduce its vulnerability to external influences; however, problems presented themselves to render the successful conclusion of this objective extremely difficult. To accomplish these purposes, capital goods had to be imported for industrial development and improvements were needed in transportation and production of power. Unfortunately, these enumerated needs were accompanied by a necessity to re-equip the agriculture sector.

An insight into the value of Argentina's agricultural production and its stagnation over the twenty-year period from the late 1920's to the late 1940's is presented in Table II. This table reveals several facts: in 1925-29 the leading items by value were wheat, meat, maize, linseed and wool; by 1945-48 the rank was meat, wheat, wool, maize and sunflower. Over a span of approximately twenty years
the total value of Argentina's agricultural production increased only approximately five per cent and within this over-all picture there was a decline of 17 per cent in grain values. This decline was offset primarily by an increase in meat and wool values of 22 and 56 per cent respectively. In addition there occurred a sharp rise in the less significant group of industrial agricultural crops. The industrial group was led by yerba mate and cotton with increases of 487 and 231 per cent respectively.

Industrial development in Argentina gained its importance to a great degree from an attempt to reduce the vulnerability of the nation to external factors. Data is very scant on industrial development prior to 1935; however, it is apparent that growth in industry up to the 1930's was very slow. For example, the 1914 census revealed 362,000 persons engaged in manufacturing and this number by 1935 had increased to only 463,000, a rise of barely 28 per cent or 1.3 per cent per year. In comparison, between 1935 and 1940, the number employed in manufacturing rose to 710,000, a 35 per cent increase. Nevertheless, this start, though slow, was of considerable help at a time when the serious decline in exports and the terms of trade reduced the level of imports which Argentina could maintain.

\[15\text{Ibid., p. 10.}\]
TABLE II

VALUE OF ARGENTINA’S AGRICULTURAL PRODUCTION

1925-29 AND 1945-48 AVERAGES

(In thousands of 1925-29 pesos)

<table>
<thead>
<tr>
<th>Products</th>
<th>Yearly Averages in Thousands of Pesos</th>
<th>Per Cent of Change Since 1925-29</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1925-29</td>
<td>1945-48</td>
</tr>
<tr>
<td>Grains &amp; Meats</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grains</td>
<td>2,605,889</td>
<td>2,488,325</td>
</tr>
<tr>
<td>Wheat</td>
<td>1,758,583</td>
<td>1,457,563</td>
</tr>
<tr>
<td>Maize</td>
<td>894,274</td>
<td>669,426</td>
</tr>
<tr>
<td>Linseed</td>
<td>480,440</td>
<td>309,868</td>
</tr>
<tr>
<td>Sunflower</td>
<td>285,075</td>
<td>114,421</td>
</tr>
<tr>
<td>Oats</td>
<td>183</td>
<td>148,037</td>
</tr>
<tr>
<td>Maize</td>
<td>57,169</td>
<td>52,387</td>
</tr>
<tr>
<td>Rice</td>
<td>15,300</td>
<td>40,096</td>
</tr>
<tr>
<td>Rice</td>
<td>1,852</td>
<td>28,807</td>
</tr>
<tr>
<td>Meat</td>
<td>847,306</td>
<td>1,030,762</td>
</tr>
<tr>
<td>Wool</td>
<td>231,008</td>
<td>361,038</td>
</tr>
<tr>
<td>Industrial Crops</td>
<td>138,060</td>
<td>265,801</td>
</tr>
<tr>
<td>Sugar Cane</td>
<td>63,060</td>
<td>90,464</td>
</tr>
<tr>
<td>Wine</td>
<td>33,347</td>
<td>42,350</td>
</tr>
<tr>
<td>Peanuts</td>
<td>11,123</td>
<td>25,559</td>
</tr>
<tr>
<td>Tobacco</td>
<td>3,993</td>
<td>12,540</td>
</tr>
<tr>
<td>Yerba Mate</td>
<td>3,055</td>
<td>17,982</td>
</tr>
<tr>
<td>Cotton</td>
<td>23,204</td>
<td>76,706</td>
</tr>
<tr>
<td><strong>TOTALS</strong>*</td>
<td>3,022,277</td>
<td>3,179,518</td>
</tr>
</tbody>
</table>


*Includes potato production.
Curtailment of the availability of foreign goods during World War II had favorable effects on industrialization. The weakness of the industrial development of Argentina became evident as shortages developed in respect to fuel, transportation, iron, machinery spare parts, and all chemical products. A considerable amount of decapitalization was experienced as a result of the reduction in the imports of foreign capital goods. In the years after the war, however, conditions were favorable for industrial expansion. Argentina's monetary reserves were large, and the government encouraged their use for industrial expansion in hopes of utilizing the potential of the nation and raising the standard of living. To these ends every possible approach was pursued, particularly easy credit, development of transportation by the state and provision of foreign exchange for key imports of capital goods.  

Textile production was at this time, and still is, the most advanced industry of Argentina. Concentrating on cotton, wool, and rayon, the nation became fairly self-sufficient in textiles with the exception of high grade items which were not economical to produce because of limited markets. Argentina's rapid increase in cotton textile production is revealed by Table III, which shows the replacement of imports with domestic production.

\[16\] Ibid., p. 193.
TABLE III

COTTON TEXTILE CONSUMPTION IN ARGENTINA, 1930-1945

<table>
<thead>
<tr>
<th></th>
<th>1930</th>
<th>1935</th>
<th>1940</th>
<th>1945</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic production</td>
<td>9</td>
<td>26</td>
<td>56</td>
<td>86</td>
</tr>
<tr>
<td>Imports</td>
<td>91</td>
<td>74</td>
<td>44</td>
<td>14</td>
</tr>
</tbody>
</table>


The composition of the textile industry in 1945 is significant. Small spinning establishments of less than 10,000 spindles, which represented less than 50 per cent of the spinning mills, contributed 18 per cent of the production. In weaving 98 per cent of the weaving mills contributed one-third of production, with the other two-thirds of output coming from the remaining 2 per cent of the mills.  

The iron and steel industry presents one of the key factors in understanding Argentina's industrial development. Lack of iron ore and coal were at this time, and still are, serious handicaps to industrial development in the country. During the World War II period, Argentina's...
imports of iron ore and finished steel products declined sharply. Fortunately for Argentina, she had acquired some technical know-how in the past and had also stockpiled scrap metal prior to the war. During the period under consideration Argentina depended on foreign sources for intermediate materials for her iron and steel industry and for a considerable percentage of her semi-finished and steel goods.

Cement production is an area in which Argentina has been active since the 1920's. In the 1939-45 period her domestic production took care of her needs, but since then some imports have been necessary to fill the total demand. Table IV, which presents cement production for selected years up to 1949, reveals a decline in production between 1938 and 1945. Starting with 1945, production rose up to 1947, declined in 1948, then increased in 1949. Consumption at the same time increased so that in the years 1930, 1938, and 1947-49 imports were needed to fill total demand.

The development of heavy industry was hindered by the scarcity and improper use of mineral resources. Specifically, the lack of coal deposits, unsound government management, and setbacks in agriculture presented obstacles. The main areas of development in addition to textiles and cement were meat packing, flour milling, sugar refining, wine making, and quebracho extraction.
TABLE IV
ARGENTINA'S CEMENT PRODUCTION AND CONSUMPTION, 1930-1949
(In thousands of tons)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1930</td>
<td>412</td>
<td>755</td>
</tr>
<tr>
<td>1938</td>
<td>1,179</td>
<td>1,254</td>
</tr>
<tr>
<td>1945</td>
<td>1,096</td>
<td>1,084</td>
</tr>
<tr>
<td>1946</td>
<td>1,150</td>
<td>1,120</td>
</tr>
<tr>
<td>1947</td>
<td>1,353</td>
<td>1,481</td>
</tr>
<tr>
<td>1948</td>
<td>1,251</td>
<td>1,594</td>
</tr>
<tr>
<td>1949</td>
<td>1,446</td>
<td>1,538</td>
</tr>
</tbody>
</table>


Foreign Investments

Foreign capital has played a significant part in the economic life of Argentina. This country was one of the first nations of South America to attract the external investor. External government loans were floated as early as 1825 and after 1852 British investments rapidly became important. Before the outbreak of World War II British investments in Argentina were, with the exception of their investments in the United States, the largest group of British investments outside the British Empire and

Commonwealth." United States investments in Argentina did not become important prior to World War I.

In appraising the magnitude of foreign investments in Argentina the approximate nature of the data should be kept in mind. What F. J. Weil wrote concerning United States investments in Latin America in general is applicable to Argentina in particular. "It is impossible to determine more than their approximate value at any one time. . . . Not only does the true value of such investments fluctuate with the return on operations, but the valuations which the companies place on their properties are subject to a number of factors which may bear little relation to the original investment or to the current market value of their holdings."

Railroads were the major area of direct foreign investment. As of 1943, approximately 75 per cent of Argentine railroads were owned by the British. These firms exercised considerable political influence and up until 1932 they successfully blocked the development of a road system which would make motor vehicle competition possible. Other areas of the economy, however, also attracted considerable foreign investments. The major meat packing plants were owned by British and American interests such as Anglo,

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Smithfield, Swift, Armour and Wilson. Tire, chemical and electric power production were dominated by foreign interests. Ford and General Motors owned the automobile assembly plants while the trolley and subway companies were English. Nearly all the plants producing quebracho extract were under the domination of the British. Argentine capital was dominant in oil, flour mills, textiles, sugar, shoes, glass, and beer production.21

Foreign investors were highly favored prior to World War II. Railroad companies received tax exemptions and were permitted to import goods for their own needs duty free. Although the "Mitre" law stated that net earnings on a three-year moving average were not to exceed 6.8 per cent of invested amounts, it did not define "investments." As a result many loopholes were utilized to send profits in considerable excess of the stated maximum to England. Excessive salaries were often paid to the board of directors, executives, legal advisors, and "consultants" which were charged to operating expenses. The "inside" construction company was used widely to exaggerate costs of building and reduce profits. In meat packing American and British interests operated monopsonies which discriminated among the sellers of cattle. The Argentine anti-trust law was too ambiguous to be effective.22

Clarence H. Haring estimates that in 1940, British investment holdings amounted to over two billion dollars and French, German, Dutch, and Belgian capital together about a billion dollars. His estimates of United States investments during the same year were $600 million.\textsuperscript{23} Felix J. Weil states that United States investments in Argentina in 1940 were about $578 million.\textsuperscript{24} Paul V. Horn and Hubert E. Bice reach the same numerical conclusion pertaining to United States investments as Weil. Of the $578 million, they state $388 million to have been of a direct nature and $190 million in portfolio forms.\textsuperscript{25} Estimates in 1940 were that United States direct investments represented 14 per cent of the total foreign investments in Argentina.\textsuperscript{26} John W. White states that aggregate British capital in Argentina was 435,128,482 pounds sterling in 1930 and 417,327,854 pounds sterling at the end of 1940; his estimate of United States investments in 1941 was between $580 and $610 million.\textsuperscript{27} Weil indicates that by the early 1940's Britain held about 60 per cent of all foreign investments

\textsuperscript{23}Haring, \textit{op. cit.}, p. 50.

\textsuperscript{24}Weil, \textit{op. cit.}, p. 230.


\textsuperscript{26}Ibid., p. 360.

in Argentina. The British attitude toward Argentina is best illustrated by the story of a hypothetical Englishman saying to a hypothetical American: "You may take Canada away from us but you will never take Argentina."\(^{28}\)

Juan Peron came into power in 1946 and his economic program revolved around the idea of Argentina for the Argentines. As part of this program the nationalization of some foreign investments was accomplished. In September of 1946, Argentina purchased the United River Plate Telephone Company, a subsidiary of the American and International Telephone and Telegraph Company for $94,991,364.\(^{29}\) The nationalization of the railroads was realized early in 1947 by the purchase of British interests for 150 million pounds sterling. As part of this movement Peron purchased Argentina's foreign-held debt of approximately 12.5 billion pesos in August of 1947. Juan Peron proudly stated in August of 1947: "Argentina . . . has no foreign debt, since it has all been cancelled, making us one of the world's three creditor countries."\(^{30}\)

This reaction against foreign sources of funds, which resulted in Argentina using the foreign exchange she had

\(^{28}\)Ibid., p. 129.


\(^{30}\)Ibid., p. 159.
accumulated during the war, was detrimental to the nation's hopes of industrialization. She did not have the foreign exchange left to import capital goods. The fallacy of this approach was to be realized by Peron in the early 1950's and by Arturo Frondizi when he took office in 1958.

**International Trade**

In the latter half of the 1800's Argentina was externally oriented. This fact is revealed by the use of foreign capital in the railroads, the dependence on exports, and the increased population resulting from immigration. The late 1880's commenced a period of accelerated development which continued until the depression of the 1930's. During the first thirty years of the twentieth century Argentina's gross national product expanded at an annual rate of 4.5 per cent. Although a good part of this increase on a per capita basis was minimized by a rapid population growth of 3.3 per cent, the accomplishments were considerable. The significant fact is that Argentina was able to expand because it obtained capital goods as a result of exports, foreign investment and loans. The growth was thus externally oriented, producing an imbalance in Argentina's economic development. In 1929, Argentina's agricultural

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production exceeded the nation's domestic consumption needs. However, her needs for capital goods, manufactures in general and fuel exceeded her internal capacity to produce them. Thus the great significance of commerce to Argentina was that foreign trade made it possible to reduce the imbalance between agricultural and industrial production.

The depression of the 1930's hit at the heart of the Argentine economy through its direct impact on exports and foreign investment. Capacity to import, representing Argentina's exports of goods and services multiplied by her terms of trade, averaged $1,600 million during the 1925-29 period but dropped to an annual average of $744 million during the 1930-35 period. The purchasing power of exports fell from $1,982 million to $1,214 million. These adverse effects were further influenced by a reduction in net annual inflow of foreign investment from $199 million to $120 million. Table V gives an indication of how severely Argentina was affected by the depression and the war years. The data reveal a sharp decrease from 1925-29 to 1940-44 in all the components considered. Declines in percentages were: quantity of exports, 32; terms of trade, 19; capacity to import, 45; and quantity of imports, 58. If the 1945-48 period is considered, a recovery over the 1940-44

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32 In terms of 1950 purchasing power.

years in all four measures is noted.

TABLE V

ARGENTINA'S EXPORTS, IMPORTS, TERMS OF TRADE
AND CAPACITY TO IMPORT, 1925 TO 1948

(Index numbers: 1925-29 = 100)

<table>
<thead>
<tr>
<th>Periods</th>
<th>Quantity of Exports</th>
<th>Terms of Trade</th>
<th>Capacity to Import</th>
<th>Quantity of Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925-29</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1930-34</td>
<td>92</td>
<td>80</td>
<td>73</td>
<td>68</td>
</tr>
<tr>
<td>1935-39</td>
<td>89</td>
<td>100</td>
<td>90</td>
<td>77</td>
</tr>
<tr>
<td>1940-44</td>
<td>68</td>
<td>81</td>
<td>55</td>
<td>42</td>
</tr>
<tr>
<td>1945-48</td>
<td>76</td>
<td>116</td>
<td>89</td>
<td>82</td>
</tr>
</tbody>
</table>


The relationship between the volume of imports and population is important, for while imports were reduced the number of persons was increasing. Table VI reveals numerically this relationship. Between 1925-29 and 1940-44 the quantity of imports per person experienced a very sharp decline of 70 per cent. A recovery is noted in all components during the 1945-48 period. Tables V and VI clearly point out the dilemma faced by Argentina. There was a reduction in exports, a deterioration in the terms of trade and capacity to import plus shortages imposed by World War II.
TABLE VI

ARGENTINA'S IMPORTS PER CAPITA FOR SELECTED PERIODS, 1925 TO 1948
/Index number: 1925-29 = 100/

<table>
<thead>
<tr>
<th>Years</th>
<th>Quantity of Imports</th>
<th>Population Increases</th>
<th>Quantity of Imports Per Capita</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925-29</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1930-34</td>
<td>68</td>
<td>113</td>
<td>60</td>
</tr>
<tr>
<td>1935-39</td>
<td>77</td>
<td>128</td>
<td>60</td>
</tr>
<tr>
<td>1940-44</td>
<td>42</td>
<td>138</td>
<td>30</td>
</tr>
<tr>
<td>1945-48</td>
<td>82</td>
<td>147</td>
<td>56</td>
</tr>
</tbody>
</table>


The impact of these enumerated developments resulted in a reduction in Argentina's aggregate demand. The Argentine government was now faced with the difficult decision of what action to take. Two alternatives were present. One involved the free trade approach of letting the market forces work themselves out; the other was a resort to selective controls. If the free trade alternative were chosen, the domestic income level would probably fall further in the short run. Such a development would contract demand for imports until demand for foreign items and the availability of foreign exchange came into balance. This approach, the government felt, would impose severe hardships on its citizens who were extremely dependent on foreign sources for
capital goods and manufactured items. A free trade solution would cure the balance of payments problems, but would widen the gap between internal needs and supply of these items. The consequences of this action might have been stagnation, unemployment and a reduction in the standard of living. Argentina chose, instead, a policy of controls. She attempted to keep domestic demand as high as possible by resorting to import substitution and a multiple exchange rate system, which was used along with tariffs. Thus the Argentine government chose not to solve the balance of payments problem, but merely to control it in the short-run.

Argentina's attempt at controlling commerce to relieve the economic dilemma she found herself in was aided by several factors: (1) A part of the foreign exchange had been used to import items which Argentina could produce fairly economically. In the 1929-35 period imports of this kind represented approximately 9.3 per cent of the total; by the 1940-44 period this percentage was reduced to 2.4.34 (2) Much capital investment had gone into basic areas such as transportation, and new expansion of investment could go along different lines without an immediate serious impact in the former capital investment areas. (3) Domestic sources of investment funds were fairly high. Thus, despite a decline experienced during the 1930's, savings were

34Ibid., p. 15.
high; this, coupled with a reduction of investment in agriculture and transportation, left a considerable amount of investment funds for manufacturing development.

Argentine policy held gross national product at fairly high levels during the depression and increased it during World War II. However, growth failed to match population increases, so that only by 1945 did per capita income regain its 1929 level. The main factor behind all this was the decline in agriculture demand. Between 1925-29 and 1940-44 domestic consumption of agricultural products increased approximately 24 per cent, but foreign demand declined 34 per cent. During this period agricultural production rose 34 per cent; this meant an increase in farm production over demand of about 10 per cent. Thus foreign commerce, specifically as measured by the severe foreign decline in demand for agricultural exports, made it extremely difficult for Argentina's gross national product to grow. Agriculture, which contributed one-third of gross national product, suffered depression conditions. To offset this decline and to raise gross national product 2 per cent annually would have necessitated an increase in non-agriculture production of 2.3 per cent per year from 1925 to 1944. It may also be noted that four of these years occurred during a period of war when capital goods imports were

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greatly curtailed.

**Argentine-United States Economic Relations**

Relations between the United States and Argentina have not generally been harmonious. "Argentina's foreign policy, including her divergent attitude toward Great Britain and the United States and her efforts during 1940-41 not to offend Germany, is dictated and controlled by the cold, inescapable economic fact that practically 100 per cent of the country's exports consist of raw materials of which 60 per cent are agricultural and 34 per cent livestock products." This fact has been the fundamental cause of adverse United States-Argentine relations. The United States, because it produces large quantities of the items which Argentina exports, has used various devices to keep Argentine products off the American market. Argentinians have been angered and the emotions aroused by these restrictions have made understanding between the two nations difficult.

Argentine resentment dates back to 1867 when a very high duty was placed on wool for the specific purpose of keeping Argentine wool out of the United States markets. With the passage of the Hawley-Smoot Tariff in 1930, which the Argentinians felt was aimed directly at them, Argentine exports to the United States dropped 86 per cent, from $117

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37 White, op. cit., p. 198.
million in 1929 to $16 million in 1932.\textsuperscript{38} During the 1936-40 period average yearly exports were $78 million as compared with $95 million during 1926-30.

As a retaliatory measure against American restrictions Argentina established an exchange control system specifically aimed to keep United States imports out. However, because the manufactured items of America were highly desired, they continued to flow to Argentina despite the penalty rates. Permission was finally refused for the importation of many American articles through the issuing of embargo lists.

Attempts at a United States-Argentine commercial treaty in November 1939 ended in failure. Argentina's demand for concessions, while being willing to give almost none, the animosity toward the United States and the clash of bilateral versus multilateral trade ideals were insurmountable obstacles. At this time Argentina had 17 bilateral trade agreements with European nations and was not willing to grant the United States its most favored nation clause provision. Also, the few concessions Argentina offered the United States were such that they could be nullified by quotas.

A treaty was successfully negotiated between the two nations in 1941. Circumstances had changed, the European

\textsuperscript{38}Ibid., p. 216.
market was to a great degree shut off from Argentina and the United States was the only major source of the capital goods which Argentina needed desperately. The signing of this treaty was a major success for the State Department. Argentina accepted the unconditional most favored nation clause and repudiated the bilateral system of trade set up by the Roca-Runciman Treaty of 1933; a victory had been won for multilateralism. Although the United States granted concessions on 84 items making up 92 per cent of Argentine exports to America in 1940, no concessions were made to grains except linseed. Chilled and frozen beef were still excluded, thus to many Argentinians the task was still incomplete. 39

During World War II Argentina was the least cooperative of the Latin American nations. It was not until early 1944, when the outcome of the war was apparent, that she severed relations with the Axis. Because Axis spies were freed from jail and given freedom of movement under the Farrell Administration, the United States broke diplomatic relations with Argentina in June 1944 and urged other Latin nations to do likewise. At the Chapultepec Conference in February 1945 the atmosphere improved somewhat. Argentina agreed to declare war on the Axis and the United States promised to use its influence to get Argentina admitted to

39Ibid., p. 224.
the United Nations.

Under Peron relations were not cordial. Some American business interests espoused closer United States-Argentine ties in hopes of obtaining markets for United States exports. A part of the United States military desired improved United States-Argentine relations because they wanted an ally in case of World War III against Russia. Generally, it appears that American policy toward Peron was one of hesitant toleration rather than any genuine attempt to accept what Peron stood for. Economic factors, political and ideological conflicts, and the fact that Argentina felt she should be the leading force in Latin America rather than the United States, explain past strained relations between the two nations.

Table VII presents a partial picture of the importance of United States trade to Argentina, comparing the role of Great Britain and the United States in trade with Argentina.

Before World War II, Great Britain was the leading trading partner of Argentina. England normally took from a quarter to a third of her exports and supplied approximately one-fifth of Argentina's imports. During these years Argentina imported from 14 to 29 per cent of her foreign merchandise from the United States. Exports to America by Argentina approximated 12 per cent except during war years when they increased. Generally, Argentina had deficits in its
trade with the United States and surpluses in its dealings with England.

**TABLE VII**

ARGENTINE TRADE WITH GREAT BRITAIN AND THE UNITED STATES, 1935 TO 1941

(In percentages*)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports from</th>
<th>Exports to</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Great Britain</td>
<td>United States</td>
</tr>
<tr>
<td>1935</td>
<td>21</td>
<td>14</td>
</tr>
<tr>
<td>1936</td>
<td>21</td>
<td>15</td>
</tr>
<tr>
<td>1937</td>
<td>21</td>
<td>16</td>
</tr>
<tr>
<td>1938</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>1939</td>
<td>20</td>
<td>17</td>
</tr>
<tr>
<td>1940</td>
<td>20</td>
<td>29</td>
</tr>
<tr>
<td>1941</td>
<td>17</td>
<td>29</td>
</tr>
</tbody>
</table>

*Percentages are based on tariff values.


In summary, Argentina's greatest resource asset is her fertile soil. She encountered difficulties in developing manufacturing as a result of inadequate mineral and fuel resources. The balance of payments has played a very significant role in the country's development because foreign exchange had to be earned from agriculture exports to finance purchases of industrial, power and agricultural equipment. Argentina's constitution is a democratic one but considerable political instability has at times led to the
abandonment of democratic government. Foreign investments have been important to Argentina and have helped to develop her transportation, power and manufacturing industries. Argentina has been economically more closely associated with Europe than with the United States. This is the result of the competitive nature of Argentine and United States agriculture exports and the complementary trade with Europe. A major change in Argentine development occurred in the 1930's as a result of Argentina's disillusionment with dependence on external factors for economic growth. The new trend was to emphasize industrial development and to reduce dependence on export markets. A brief examination of the development of Brazil until 1947 will now be undertaken.

BRAZIL

Resources

The United States of Brazil is an area of 3,287,195 square miles. It occupies 47 per cent of the South American continent and its land area is only 7 per cent less than the continental United States of America including Alaska.40 Brazil is the fifth largest country in the world and borders on all nations of South America except Chile and Ecuador. Altogether Brazil has eight river systems of which the

---

Amazon and its tributaries in the northern part represent 56 per cent of the total inland waterways. Unfortunately, some of these great rivers flow toward the interior instead of to the sea and are interrupted by large waterfalls. About 57 per cent of the land is made up of plateaus with a range of from 650 to 3,000 feet in altitude. Approximately 40 per cent of Brazil consists of lowlands of under 650 feet in elevation and the other 3 per cent is land over 3,000 feet above sea level.

Brazil possesses a considerable range in climate, but the section south of the city of São Paulo is the only area in the Temperate Zone. Temperatures in considerable parts of central and northern Brazil are moderated by altitude and sea breezes and seasons are the reverse of those in the United States. In the tropical and subtropical regions seasons are marked primarily by extreme changes in the degree of rainfall rather than temperature variations. Usually the dry season is in the winter and the wet in the summer.

In 1960 Brazil had a population of 67 million with an average rate of increase of 2.5 per cent during the 1950's. More than half of the inhabitants were under 20 years of age, indicating a young nation demographically.

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Population increases were primarily due to the domestic birth rate. Immigration into the nation was only 114,085 in the years 1940-49 and 491,510 during the 1950-60 period.\(^\text{42}\)

The census of 1950 recorded 98 per cent of the people as being native born. Population movements have taken place within Brazil from the northeast toward the south. São Paulo and Rio de Janeiro are the largest cities. As of July 1, 1958, the estimated population of São Paulo was over 3.5 million, while Rio de Janeiro had slightly over 3 million persons.

This giant of South America has rich and diverse resources; and whether one speaks of soil, forests, fisheries or mineral deposits, Brazil is well supplied. Within its borders is found one-fourth of the world's known reserves of iron ore. East Central Minas Gerais contains huge deposits of hematite and magnitite, which are 50 to 65 per cent pure. Coal and iron deposits, however, are too far apart; and this has hindered the establishment of an iron and steel industry. Approximately one-third of the world's known sources of zirconium are found in Brazil and she supplies almost all the high grade rock crystal mined in the world. In 1956 it was estimated that Brazil ranked fourth in the world in potential hydroelectric power. Other

\(^{42}\)U.S. Department of Commerce, Basic Data on the Economy of Brazil, op. cit., p. 31.
minerals found in Brazil comprise a long list and include: manganese, nickel, cobalt, tungsten, molybdenum, chromium ores, titanium, tantalite, columbium, mica, lead, aluminum, bismuth, mercury, zinc, tin, platinum, gold, silver, diamonds, asbestos, gypsum, limestone, marble, graphite, building stone and talc. Brazil, however, has suffered greatly from the lack of mineral fuels. Hope is held that large petroleum fields may be discovered and developed in the interior. The fact that the Brazilian government has chosen to develop the petroleum industry as a public monopoly and not permitted foreign oil companies to develop resources has undoubtedly contributed to the slow progress made in this area.43

From the almost virgin forests come commodities which usually comprise four of the top ten leading export items of Brazil. These are: lumber and fine cabinet wood, Parana pine, mate tea, carnauba wax and Brazil nuts. In 1954 it was estimated that 57 per cent of Brazil was forest land totaling 1,854,000 square miles. This made Brazil the possessor of the second largest forest area in the world after Russia. However, only 463,500 square miles, or 14 per cent of the forest land, is considered to be accessible. Also, only 115,900 square miles, representing 25 per cent of

accessible forests and 6 per cent of all forest land is being utilized. Approximately 40 per cent of the accessible forests are privately owned. 44

An analysis of the resources and conditions of Brazil leads to but one conclusion: very few countries in the world are better prepared to maintain an industrial complex of their own. 45

Government

Brazil was discovered on April 22, 1500, by Pedro Alvara Cabral, a Portuguese admiral. Under the Treaty of Tordesillas, which allocated Spanish and Portuguese discoveries in the New World, Brazil came under the domination of Portugal. After driving out the French in 1567, the Portuguese consolidated their foothold in Brazil. In 1580 Philip II of Spain took over the throne of Portugal and incorporated Brazil into the Spanish Empire. Portugal became independent of Spain in 1640 and succeeded in regaining control of Brazil.

In 1808 the colony of Brazil achieved the rank of a kingdom. She declared her independence in 1822 and in 1824 Brazil's constitution came into existence. This constitution "provided for the separation of the executive, judicial

44 Ibid., p. 6.
and legislative powers; concentration of provincial adminis-
tration under the control of the imperial government; a
Senate appointed for life and indirect election of a Chamber
of Deputies; union of church and state, with religious tol-
eration; and a bill of rights." 46 The constitution was
amended in 1834 to permit the provinces to elect provincial
legislatures.

Additional constitutions were proclaimed in 1891,
1934 and 1937. In 1891 Brazil became a republic after the
overthrow of the Empire. The Constitution of 1891 was
modeled to some degree after that of the United States and
specific functions were allocated to a weak central govern-
ment. Church and state were separated and direct elections
were introduced. The 1934 Constitution placed greater
authority in the hands of the central government. Brazil
was divided into municipalities and districts in relation to
population concentration and the federal government was
granted extensive authority to start social and economic
reforms. In 1937 a constitution was proclaimed which fur-
ter tightened the control of the central authority. A
plebiscite was to be conducted prior to the constitution
going into effect, but it was never held. Getulio Vargas
served first as president and then as dictator; under him
Brazil became a highly centralized dictatorship.

46 "Brazil," Encyclopedia Americana, op. cit., p. 444.
Brazil is today a Federal Republic; the constitution now in effect was promulgated on September 18, 1946. The present constitution provides for a government similar to that of the United States. The executive branch is made up of a President, and Vice-President elected for five-year terms; both are ineligible to serve consecutive terms. The legislative branch consists of the Senate and Chamber of Deputies.

The members of the Chamber of Deputies are elected for four-year terms with proportional representation of the States, Territories and the Federal District according to population. Three senators are elected from each state and the Federal District for eight-year terms. The Federal judiciary consists of the Supreme Court, the Federal Court of Appeals and the military, electoral and labor courts. All persons over 18 years of age, except illiterates, have suffrage.\textsuperscript{47}

Brazil is divided into 20 states, 5 territories and the Federal District of Rio de Janeiro. States enjoy considerable autonomy and may exercise those powers not delegated to the Federal Government. Each state has a governor and a constitution; territories are governed by Federally appointed governors. States and Territories are divided into municipalities and these in turn are subdivided into

\textsuperscript{47}Survey of the Brazilian Economy, 1960, op. cit., p. 4.
The government since the 1930's has pursued a program of encouraging industrial development. Toward this end trade restrictions and exchange controls have been utilized. Recently government emphasis has been on the development of basic manufactures, including rolled steel, non-ferrous metals, heavy chemicals, cement, paper and pulp, automotive trucks, ships and heavy industrial and electrical equipment.

Economic Development

The economic development of Brazil has been characterized by five principal cycles. There have been four export cycles: (1) the sugar cycle, (2) the mining prosperity cycle, (3) the coffee cycle, and (4) the short-lived rubber boom. A movement of economic development based on industrialization began to take place at the turn of the twentieth century.

Sugar production started on a large scale in the middle of the sixteenth century; and although it continued to be a major crop of Brazil, it declined from the second half of the seventeenth century. Sugar declined in price because of the development of Haitian production and with its reduction in value lost much of its ability to generate

\[48\text{Ibid., p. 11.} \quad 49\text{Ibid., p. 100.}\]
income. With the subsequent rise of Cuba as a producer and the production of sugar from beets in Europe and the United States, Brazilian sugar exports declined. "In the last half of the seventeenth century the volume of sugar exports was hardly half of the exports around 1650. Furthermore, prices had also declined by about 50 per cent, in other words the income generated by the sugar sector was reduced in a few decades to one-fourth of the level attained during the most prosperous times."50 At the end of the sugar cycle the Northeast corner of Brazil, where sugar had dominated, was left with a surplus labor force and very narrow capital base. These factors set the environment for long run underemployment in that section of Brazil.

Mining activity during the eighteenth century in the Central-Southern part of the nation provided a powerful, although short-lived, stimulus to the nation's economic development. Gold and diamond mining was carried on over scattered areas, primarily rivers and river banks, which aided the migration of population to previously empty land areas. This movement brought self-employed miners and wage earners into a labor force which had been made up primarily of slaves. The fact that miners depended on other areas for the means of life aided specialization and the development of a market economy. Thus the mining movement helped the

50 Ibid.
cause of internal economic development more than had sugar exports. Many of the advantages were not continued after the gold boom died out by the end of the eighteenth century. Most of those who had been employed in mining reverted to subsistence employment on the farms. The diamond and gold boom led to a considerable manpower pool in the Central-Southern region that was available when the coffee cycle came.

The coffee cycle may be divided into three periods: from the beginning of the nineteenth century to 1850, from 1850 to the end of slave labor in 1888, and finally from 1888 to 1929. With the collapse of coffee production in Haiti in the nineteenth century, Brazilian production was given an impetus. Manpower surpluses as a result of the end of the mining cycle were also beneficial. Coffee production utilized a larger number of workers and less capital than had sugar output and thus had a positive impact in spreading the money economy. In 1850 the use of slave labor began to decline. This factor had a favorable impact on economic development because it diversified funds which before had been used in the slave trade. The decline in the utilization of slaves also stimulated immigration from Europe since employment opportunities increased. Brazil experienced rapid economic growth during the second half of the nineteenth

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51 Ibid., p. 102.
century, based largely on coffee production. By the end of
the century, however, coffee market conditions began to
operate adversely for Brazil.

Coffee production around the turn of the century
began to experience cyclical fluctuations which were
"cobweb" in nature. Producers took measures to stabilize
prices and curtail production which were sometimes tempor­
arly successful, but in the long run stimulated production,
particularly in other countries. Attempts were made to
protect export levels by devaluation of exchange rates, but
this had the effect of reducing the capacity to import and
caused inflation. To these problems were added the mis­
allocation of resources through coffee surpluses and the
failure to find alternative uses for capital and labor pre­
viously employed in coffee production.

Price declines in coffee markets in 1929 plus the
fact that Brazil produced twice as much coffee as she could
sell brought a change to the existing economic structure.
Brazil liquidated its foreign exchange reserves as coffee
prices in the New York market dropped sharply from 22.5
cents per pound in September 1929 to 8 cents in September
1931. Devaluation of the exchange rate plus government
purchases of surpluses followed. Income in domestic cur­
rency was thus maintained and incentive toward

\[52\text{Ibid.} \quad 53\text{Ibid., p. 103.}\]
Industrialization was provided with a fairly large real purchasing power in the domestic market, plus protection from foreign competition.

A short-lived rubber boom, externally initiated, developed in the last decades of the nineteenth century and lasted until after World War I. Prices increased from 120 pounds sterling per ton in 1870 to about 500 in 1910. After World War I, with the rise of competition from Malaya, Singapore and Indonesia, prices fell to one-fifth of their former level. This caused a collapse in the regional economy which unfortunately had diverted its normal economic activities such as the production of cocoa, Brazil nuts and spices to rubber plantations.

Industrialization is the development which many economists feel is the latest of the cycles of Brazilian development. In the 1880's, as a result of the rise of urban centers, the skills possessed by immigrants, foreign investments in social overhead and the government's protectionist policy, manufacturing output began to increase. Table VIII gives an indication of Brazil's growth in manufacturing.

From the end of the 19th century up to the 1930's, there were periods of pronounced booms followed by sharp recessions. During the depressed 1930's devaluation of

54 Ibid.
exchange rates and pronounced fall in export prices made production for the domestic market more attractive. Using 1925-29 as the base, industrial production increased to 160 by 1935-39. Over the same period, the index of iron and steel rose to 570, that for cement increased to 865 and the index of tire production rose to 1,039. Physical production in steel and cement rose rapidly between 1926 and 1949. Steel output increased from 10,000 to 610,000 metric tons while cement production was augmented from 13 to 287,000 metric tons during the same period. Domestic cotton textile output had by 1949 almost completely replaced imports, the number of spindles increasing from 1,153,000 in 1915 to 3,280,000 in 1949.

TABLE VIII
GROWTH OF MANUFACTURING IN BRAZIL, 1889-1920

<table>
<thead>
<tr>
<th></th>
<th>1889</th>
<th>1907</th>
<th>1920</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of manufacturing firms</td>
<td>636</td>
<td>3,250</td>
<td>13,336</td>
</tr>
<tr>
<td>Capital</td>
<td>402**</td>
<td>666**</td>
<td>1,816**</td>
</tr>
<tr>
<td>Number of workers</td>
<td>54,169</td>
<td>150,841</td>
<td>275,512</td>
</tr>
<tr>
<td>Value of production*</td>
<td>n.a.</td>
<td>742**</td>
<td>2,989**</td>
</tr>
</tbody>
</table>

*In millions of cruzeiros. **At 1920 prices.


Part of this industrial increase is attributable to the world-wide excess industrial capacity present at the end of the 1920's. As full capacity was utilized further expansion was aided by the acquisition of second-hand equipment on a large scale from world industrial centers, made possible by the depression. The Second World War assisted industrialization because former external sources of imports were no longer available. Also, the war served to bring the government more directly into the economy as a stimulus of economic growth. Scarcity of capital goods imports did, however, limit the rate of growth during the war period.

The relative importance of Brazilian agriculture and industrial production is revealed in Table IX.

**TABLE IX**

**BRAZILIAN AGRICULTURAL AND INDUSTRIAL PRODUCTION,**

1920-1947

(Values at 1939 prices in millions of cruzeiros)

<table>
<thead>
<tr>
<th>Year</th>
<th>Agricultural Production</th>
<th>Industrial Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920</td>
<td>4,916</td>
<td>3,301</td>
</tr>
<tr>
<td>1929</td>
<td>6,472</td>
<td>4,726</td>
</tr>
<tr>
<td>1930</td>
<td>6,554</td>
<td>4,595</td>
</tr>
<tr>
<td>1933</td>
<td>7,455</td>
<td>4,875</td>
</tr>
<tr>
<td>1940</td>
<td>7,865</td>
<td>7,707</td>
</tr>
<tr>
<td>1942</td>
<td>7,702</td>
<td>8,820</td>
</tr>
<tr>
<td>1943</td>
<td>8,275</td>
<td>10,114</td>
</tr>
<tr>
<td>1944</td>
<td>7,947</td>
<td>10,906</td>
</tr>
<tr>
<td>1946</td>
<td>8,767</td>
<td>11,597</td>
</tr>
<tr>
<td>1947</td>
<td>8,766</td>
<td>11,212</td>
</tr>
</tbody>
</table>

In 1942 the value of industry output exceeded that of the agricultural sector for the first time. By 1949 the value of agricultural production was 1.8 times and that of industry 3.4 times what they were in 1920.

The yearly rate of growth of the Brazilian economy from 1920 to 1947 is presented in Table X. It is apparent that the rate of growth of the 1920's was not maintained during the 1930's nor in the World War II period. This fact is attributable to a great degree to the fall in income as a result of the decline of international prices for raw materials, specifically coffee. Also, wartime conditions further curtailed export earnings, making increases in per capita income more difficult. Nevertheless, the trend of growth has been a rising one.

TABLE X

AVERAGE YEARLY GROWTH IN GROSS NATIONAL PRODUCT,
1920-1947

<table>
<thead>
<tr>
<th>Period</th>
<th>GNP Average Rate of Growth</th>
<th>Yearly Rate of Population Growth</th>
<th>Per Capita Rate of Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>1920-1929</td>
<td>4.5</td>
<td>2.0</td>
<td>2.5</td>
</tr>
<tr>
<td>1929-1937</td>
<td>2.3</td>
<td>2.0</td>
<td>0.3</td>
</tr>
<tr>
<td>1937-1947</td>
<td>2.9</td>
<td>2.2</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: Survey of the Brazilian Economy, 1960, op. cit., p. 106.
A study of Brazilian economic development up to the late 1940's indicates that Brazilian economic growth over the years has become less dependent on external factors. This has been the result of the expansion of Brazilian industry and the use of a greater part of agricultural production for domestic consumption. The per cent of gross national product invested also increased from 10.5 during the 1925-29 period to 13.7 during 1945-1949.\(^{59}\) However, by 1949 the rate of Brazil's growth was still greatly dependent on external forces.

**International Trade**

Brazil, although the possessor of great natural resources, has faced a barrier in its quest to industrialize in the dearth of capital goods. She has been compelled to import a considerable amount of her equipment requirements. Her rate of economic growth and improvement of living standards are to a considerable degree dependent on her capacity to import. Since the capacity to import is a function of the quantity of exports and the terms of trade, the world demand and prices of agricultural products and raw materials thus assume considerable importance. Funds for the importation of capital goods must come out of the export sector along with loans and foreign investments.

\(^{59}\)Ibid., p. 106.
The Brazilian capacity to import suffered during the 1930's. In spite of recovery in the 1940's, the level reached in the late 1940's was not much higher than that attained during the late 1920's. Table XI presents annual average data for the quantity of exports, terms of trade, capacity to import and quantity of imports. The average annual capacity to import during this twenty-year period, measured in terms of exports and the terms of trade, increased 7 per cent. However, population during the same period rose 41 per cent; thus, per capita capacity to import declined by 25 per cent.\(^6^0\) Quantity of exports declined by 38 per cent and quantity of aggregate imports rose 9 per cent. Henry W. Speigel, using the 1901-1905 period as the base, concluded that Brazil's terms of trade rose to 136 during 1911-1915; but by 1936-1940 they were down to 50 and during World War II rose only to 65.\(^6^1\) Thus, the adverse influence of the Great Depression on Brazil's foreign trade was still being felt in 1949. Basically, it was the decline in Brazil's terms of trade that explains why, although there were increases in the quantity of exports, the capacity to import improved only slightly in the aggregate and declined on a per capita basis.

\(^{60}\)Ibid., p. 209.

TABLE XI

BRAZIL'S QUANTITY OF EXPORTS, TERMS OF TRADE AND
CAPACITY TO IMPORT, 1925-1949

(1937 = 100)

<table>
<thead>
<tr>
<th>Yearly Averages</th>
<th>Quantity of Exports</th>
<th>Terms of Trade</th>
<th>Capacity to Import</th>
<th>Quantity of Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925-29</td>
<td>73</td>
<td>197</td>
<td>143</td>
<td>122</td>
</tr>
<tr>
<td>1930-34</td>
<td>80</td>
<td>119</td>
<td>95</td>
<td>63</td>
</tr>
<tr>
<td>1935-39</td>
<td>111</td>
<td>90</td>
<td>100</td>
<td>89</td>
</tr>
<tr>
<td>1940-44</td>
<td>97</td>
<td>105</td>
<td>102</td>
<td>75</td>
</tr>
<tr>
<td>1945-49</td>
<td>124</td>
<td>123</td>
<td>153</td>
<td>132</td>
</tr>
</tbody>
</table>


United Nations studies for the 1920's through the 1940's reveal that Brazilian imports of capital goods have fluctuated more erratically than other goods. Not only has capital formation been retarded during the downward swing of international cycles, but recovery has often been slow. It took 17 years before the level of imports of capital goods achieved the level prior to the Great Crash. These factors have stimulated Brazilian efforts to utilize import substitution whenever possible; in steel and cement, for example, production rose noticeably. In 1941, for the first time, Brazil's combined production of steel and cement...
exceeded the volume of imports. Although the excess of home production over imports was not maintained during the 1944-47 period, it re-asserted itself in 1948 and 1949 when domestic output exceeded imports by more than 50 per cent. Using average annual figures for 1925-1929 as the base, by 1945-1949 imports of iron, steel and cement had declined 20 per cent while domestic production of iron and steel increased by 2,360 per cent.\footnote{Ibid., p. 219.}

Traditionally, agriculture has been the main source of Brazilian exports. Table XII indicates the relative importance of the major export items of Brazil during the 1821 to 1945 period. During most of the nineteenth century the eight primary products listed in Table XII accounted for approximately 90 per cent of the total value of exports. The First and Second World Wars tended to lead toward greater diversification; in 1942 this group represented only 47 per cent of the total. Coffee, since 1831, has been the leading export item although declining in relative importance. Sugar went from first place in 1821-30 to last by 1945; cocoa held its share and cotton demonstrated considerable variability, recovering somewhat starting with 1931-40. The fluctuations in these figures are largely explained by the product cycles in Brazil's economic development.
TABLE XII

VALUE OF EIGHT EXPORT COMMODITIES, IN PER CENT OF TOTAL EXPORTS, BRAZIL

(1821-1945)

<table>
<thead>
<tr>
<th>Year</th>
<th>All Eight</th>
<th>Coffee</th>
<th>Sugar</th>
<th>Cocoa</th>
<th>Mate</th>
<th>Tobacco</th>
<th>Cotton</th>
<th>Rubber</th>
<th>Hides and Skins</th>
</tr>
</thead>
<tbody>
<tr>
<td>1821-30</td>
<td>85.8</td>
<td>18.4</td>
<td>30.1</td>
<td>0.5</td>
<td>n.a.</td>
<td>2.5</td>
<td>20.6</td>
<td>0.1</td>
<td>13.6</td>
</tr>
<tr>
<td>1831-40</td>
<td>89.8</td>
<td>43.8</td>
<td>24.0</td>
<td>0.6</td>
<td>0.5</td>
<td>1.9</td>
<td>10.8</td>
<td>0.3</td>
<td>7.9</td>
</tr>
<tr>
<td>1841-50</td>
<td>88.2</td>
<td>41.4</td>
<td>26.7</td>
<td>1.0</td>
<td>0.9</td>
<td>1.8</td>
<td>7.5</td>
<td>0.4</td>
<td>8.5</td>
</tr>
<tr>
<td>1851-60</td>
<td>90.9</td>
<td>48.8</td>
<td>21.2</td>
<td>1.0</td>
<td>1.6</td>
<td>2.6</td>
<td>6.2</td>
<td>2.3</td>
<td>7.2</td>
</tr>
<tr>
<td>1861-70</td>
<td>90.3</td>
<td>45.5</td>
<td>12.3</td>
<td>0.9</td>
<td>1.2</td>
<td>3.0</td>
<td>18.3</td>
<td>3.1</td>
<td>6.0</td>
</tr>
<tr>
<td>1871-80</td>
<td>95.1</td>
<td>56.6</td>
<td>11.8</td>
<td>1.2</td>
<td>1.5</td>
<td>3.4</td>
<td>9.5</td>
<td>5.5</td>
<td>5.6</td>
</tr>
<tr>
<td>1881-90</td>
<td>92.3</td>
<td>61.5</td>
<td>9.9</td>
<td>1.6</td>
<td>1.2</td>
<td>2.7</td>
<td>4.2</td>
<td>8.0</td>
<td>3.2</td>
</tr>
<tr>
<td>1891-00</td>
<td>95.6</td>
<td>64.5</td>
<td>6.0</td>
<td>1.5</td>
<td>1.3</td>
<td>2.2</td>
<td>2.7</td>
<td>15.0</td>
<td>2.4</td>
</tr>
<tr>
<td>1901-10</td>
<td>95.2</td>
<td>51.3</td>
<td>1.2</td>
<td>2.8</td>
<td>2.9</td>
<td>2.4</td>
<td>2.1</td>
<td>28.2</td>
<td>4.3</td>
</tr>
<tr>
<td>1911-20</td>
<td>85.5</td>
<td>53.0</td>
<td>3.0</td>
<td>3.6</td>
<td>3.0</td>
<td>2.6</td>
<td>2.0</td>
<td>12.1</td>
<td>6.2</td>
</tr>
<tr>
<td>1921-30</td>
<td>88.6</td>
<td>69.6</td>
<td>1.4</td>
<td>3.2</td>
<td>2.7</td>
<td>2.1</td>
<td>2.4</td>
<td>2.6</td>
<td>4.6</td>
</tr>
<tr>
<td>1931-40</td>
<td>77.5</td>
<td>50.0</td>
<td>0.5</td>
<td>4.2</td>
<td>1.6</td>
<td>1.5</td>
<td>14.2</td>
<td>1.1</td>
<td>4.4</td>
</tr>
<tr>
<td>1941</td>
<td>57.2</td>
<td>30.0</td>
<td>0.1</td>
<td>4.7</td>
<td>0.9</td>
<td>0.6</td>
<td>15.0</td>
<td>1.4</td>
<td>4.5</td>
</tr>
<tr>
<td>1942</td>
<td>47.3</td>
<td>26.2</td>
<td>0.6</td>
<td>2.9</td>
<td>1.0</td>
<td>0.7</td>
<td>8.6</td>
<td>2.0</td>
<td>5.3</td>
</tr>
<tr>
<td>1943</td>
<td>48.2</td>
<td>32.1</td>
<td>0.2</td>
<td>3.9</td>
<td>0.8</td>
<td>0.8</td>
<td>4.7</td>
<td>2.2</td>
<td>3.5</td>
</tr>
<tr>
<td>1944</td>
<td>54.9</td>
<td>36.2</td>
<td>1.1</td>
<td>2.9</td>
<td>0.8</td>
<td>1.5</td>
<td>6.2</td>
<td>3.4</td>
<td>2.6</td>
</tr>
<tr>
<td>1945</td>
<td>54.9</td>
<td>35.5</td>
<td>0.4</td>
<td>1.9</td>
<td>0.9</td>
<td>2.1</td>
<td>8.7</td>
<td>2.9</td>
<td>2.5</td>
</tr>
</tbody>
</table>

Source: Speigel, op. cit., p. 123.
The noticeable decline in the role played by these eight commodities was offset by increases in exports of manufactures from one per cent of the total in 1939 to 18 per cent in 1945. Noticeable among manufactured exports were: textiles, menthol, caffeine and rubber tires and tubes. Strategic materials, minerals being the most important, also helped to fill the void. The latter included: cotton linters, seeds, nuts, waxes, oils, iron, manganese, mica, rock crystal, tantalite, beryl, tungsten, rulite and diamonds.

Brazilian imports also reflected the changes in economic development, particularly the increase in raw material imports. At the beginning of the twentieth century primary materials accounted for 15 to 20 per cent of total imports. In the following decades primary materials ranged from 20 to 34 per cent, reaching a peak of 34 per cent during the early part of World War II. Over the years machinery and equipment represented the most important single group of imports ranging from 14 to 21 per cent of the total. Wheat usually ranked second making up from 9 to 14 per cent of the total. Other leading import items were iron and steel plate, automobiles, gasoline, and coal. Table XIII presents a percentage breakdown for Brazilian imports by

\[64\] Ibid., p. 219. \[65\] Speigel, op. cit., p. 214. \[66\] Ibid., p. 126.
major groups in 1905 and 1945.

**TABLE XIII**

**MAKE-UP OF BRAZILIAN IMPORTS, PER CENT OF VALUE, 1905 and 1945**

<table>
<thead>
<tr>
<th>Year</th>
<th>Raw Materials</th>
<th>Foodstuffs and Livestock</th>
<th>Manufactures</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1905</td>
<td>17</td>
<td>35</td>
<td>48</td>
<td>100</td>
</tr>
<tr>
<td>1945</td>
<td>28</td>
<td>26</td>
<td>46</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Speigel, op. cit., p. 126.

**Foreign Investments**

Englishmen made their first important investments in independent Brazil in 1824-25. For the next 60 years Brazil was the main area of British investments in Latin America, primarily because of its stability. By 1890, however, English investments were greater in Argentina and she held the lead until 1946 when Brazil again became the most important area of British investments in Latin America. At the end of 1880 British investments in Brazil amounted to 38.9 million pounds sterling; of this amount 23.1 million was in government loans. At the end of 1910 British capital amounted to over 151.4 million pounds; it reached 223.8

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million in 1923 and achieved a peak of 287.3 million in 1930. At the end of 1946 the sum was 170.5 million pounds. Traditionally, more than half of these investments were in government bonds and until 1900 railroad investments were second in importance. Other British capital was heavily concentrated in public utilities and was less diversified than English investments in Argentina.

The French and Belgians, particularly the French, also made investments from 1908 to 1910. German funds began to be important during the 1890's, primarily in shipping, trading and banking. United States investments valued at only $40 million in 1914 became important after World War I. Total foreign investments in Brazil in 1930 were estimated at $2,628 million; of this amount the British owned one-half and the United States one-fifth.

Table XIV presents United States investments in Brazil for selected years. Paul Horn and Hubert Bice reached similar figures for direct United States investments as did William B. Dale. Horn and Bice estimate that American direct investments in Brazil in 1940 represented nine per

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68Ibid., p. 83. 69Ibid., p. 86.


cent of the total United States direct investments in Latin America. 72

TABLE XIV

UNITED STATES INVESTMENTS IN BRAZIL, 1929-1945
(In millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct</th>
<th>Government Bonds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1929</td>
<td>194</td>
<td>346</td>
<td>540</td>
</tr>
<tr>
<td>1936</td>
<td>194</td>
<td>366</td>
<td>560</td>
</tr>
<tr>
<td>1940</td>
<td>240</td>
<td>335</td>
<td>575</td>
</tr>
<tr>
<td>1943</td>
<td>337</td>
<td>288</td>
<td>625</td>
</tr>
<tr>
<td>1945</td>
<td>n.a.</td>
<td>207*</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

*1946 data.

Source: Speigel, op. cit., p. 136.

In 1940 foreigners supplied 40 per cent of the capital of industrial enterprises; without public utilities the foreign share was 27 per cent. 73 During the same year estimates of foreign participation in Brazilian industry as percentages of total investment were: mechanical shops, 58 per cent; non-metallic minerals, 49 per cent; clothing and toilet articles, 44 per cent; beverages, 42 per cent; wood, wood, wood, wood.

72 Horn and Bice, op. cit., p. 365.

28 per cent; and metallurgy, 26 per cent.\textsuperscript{74} Foreign investments probably reached a peak in 1930 and then declined. This decline was the result of the readjustment of the bonded debt and the nationalization of foreign enterprises previously foreign-owned. Also, during the Second World War some German and Japanese holdings were liquidated and the British were forced to sell some of their investments to help finance the war effort. United States and Canadian interests, however, have had a tendency to increase over the years.

The significance of foreign investments to Brazil cannot be measured merely in terms of the amount of funds. Perhaps more significant was the initiative, management and general industrial knowledge that went to Brazil with this capital. This is evidenced by the trend from 1930 through World War II for Brazilians to put up more of the capital while foreigners supplied the patents, special skills and management.

Brazilian-United States Relations

"Since the founding of the republic the relations between the United States and Brazil have unquestionably been more cordial than between the United States and any

\textsuperscript{74} Ibid.
other South American country."\textsuperscript{75} President Harry S. Truman in 1947 in a speech before the Brazilian Congress stated: "It is not too much to describe our relations as those of lifelong friends."\textsuperscript{76} Truman further stated that Brazil and the United States had common interests, principles and ideals. Simon Hanson wrote, "the United States of America has had no better friend than Brazil in the western hemisphere."\textsuperscript{77} Mauricio Nabuco, formerly prominent Brazilian Foreign Service official, stated that: "In this troubled world, when a great effort is necessary simply for nations to live in peace with one another, it is gratifying to see two countries whose lasting friendship seems to come naturally. There are geographical, historical, economic and political sources for the traditional understanding which twice in this century has led Brazil and the United States to a full alliance in war."\textsuperscript{78} Through the World War II period, Brazil and the United States could well be


\textsuperscript{76} Harry S. Truman, "The Ties Between United States and Brazil," \textit{Vital Speeches}, XIII (September 15, 1947), 713.

\textsuperscript{77} Simon Hanson, "Brazilian-American Relations: A Case Study in American Foreign Policy," \textit{Inter-American Economic Affairs}, V (Spring 1952), 3.

classified as having had excellent relations.

It was Thomas Jefferson who, as early as 1787, expressed the need and hope for an independent, strong, friendly Brazil to carry out in the Southern part of the hemisphere the role the United States was to play in the Northern. Emperor Don Pedro II was one of the greatest contributing factors to Brazilian-United States friendship by striving to develop democratic institutions in Brazil during his 58-year reign. Relations were further cemented in 1906 by the visit of Secretary of State Elihu Root to Brazil. This history-making venture marked the first time that a Secretary of State left United States territory during his term of office. During World War I, Brazil severed its relations with the Axis and allied itself with the United States.

During World War II, Brazil controlled Axis assets, cut off exports to them and aided the Allied cause with military assistance as well as the production of strategic materials. Throughout the war the Brazilian example contrasted markedly with the actions of Argentina. While the war was still being fought the United States gave Brazil materials necessary for the Volta Redonda integrated steel mill. At the end of the war Brazil emerged as a great ally of the United States.

Economic factors have been responsible to a great degree for the existence of cordial relations between the
two nations. Brazil's trade with the United States has been complementary rather than competitive. The United States has needed the tropical and strategic products of Brazil, while the latter has purchased many of its manufactured items in the United States. Since World War I the United States has been the major trading partner of Brazil. Table XV presents the relative position of the United States as a trading partner of Brazil. The increase in 1945 is indicative of the fact that World War II gave a great impetus to the promotion of inter-American trade. Trade with the United States during the decades of the 1920's, 1930's and 1940's usually resulted in a favorable balance for Brazil.

TABLE XV

PERCENTAGE OF BRAZILIAN TRADE WITH SELECTED COUNTRIES, 1913-1945

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th></th>
<th></th>
<th></th>
<th>Exports</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>United States</td>
<td>Great Britain</td>
<td>Germany</td>
<td></td>
<td>United States</td>
<td>Great Britain</td>
<td>Germany</td>
<td></td>
</tr>
<tr>
<td>1913</td>
<td>16</td>
<td>24</td>
<td>18</td>
<td></td>
<td>32</td>
<td>13</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>1919</td>
<td>48</td>
<td>16</td>
<td>0</td>
<td></td>
<td>42</td>
<td>7</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>1929</td>
<td>30</td>
<td>19</td>
<td>13</td>
<td></td>
<td>42</td>
<td>6</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>1939</td>
<td>36</td>
<td>9</td>
<td>20</td>
<td></td>
<td>37</td>
<td>10</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>1945</td>
<td>55</td>
<td>4</td>
<td>0</td>
<td></td>
<td>49</td>
<td>12</td>
<td>0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Speigel, op. cit., p. 127.
Since World War I the United States has been a significant investor in Brazil. In 1949, of total estimated foreign investment in Brazil of $1,500 million, the United States was the second largest investor with from $400-500 million, and England was first with $550-600 million.\textsuperscript{79}

In addition to the economic factors underlying relations between Brazil and the United States, Mauricio Nabuco, Brazilian statesman, feels that part of the amiable relations is explained by the long friendship between England and Portugal. The Brazilian with a Portuguese background has an easier time comprehending American habits than do his Spanish-speaking counterparts in Latin America.

Relations between the United States and Brazil have not been as cordial since the end of World War II. At the conclusion of the war Brazil expected to achieve its goals of industrial expansion with American assistance. Instead of receiving United States assistance, Brazil became the center of a controversy between the United States and Brazilian governments over private direct investment versus public investment policy. In the postwar period with the rise of Communism, other nations successfully were blackmailing Washington by threatening to turn to the Communists for assistance; Brazil did not resort to such threats but

\textsuperscript{79}Wythe, Wight and Midkiff, \textit{op. cit.}, p. 299.
still expected economic assistance on her terms. However, funds were not forthcoming and Brazil's industrialization ambitions were adversely affected. The seeds were thus sown for some of the strained relations of recent years. This development will be dealt with in greater detail in Chapter V.

ARGENTINA AND BRAZIL COMPARED

To permit a more accurate appraisal of United States economic relations with these two countries, a comparison of the areas covered in this chapter is in order. The comparison will not be extensive, but is merely intended to complete the limited presentation of the resources and historical evolution of these nations.

Although both countries are well endowed with natural resources, Brazil's are by far the most extensive, both from the viewpoint of variety and quantities available. Brazil's extensive resources are, however, so geographically located as to make their utilization often difficult. In area, Brazil is over three times the size of Argentina and within her borders are many mineral resources lacked by Argentina. Petroleum and hard coal appear to be the only materials needed for industrial development which Brazil at the present time does not have in adequate amounts. The situation in

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80 Hanson, op. cit., p. 9.
petroleum may be due to the failure to permit foreign capital with its "know how" to develop the oil potential of the nation. Argentina solved a similar problem by allowing foreign capital to develop its oil potential. Forest resources are great in Brazil and she ranks second in the world after Russia as the possessor of the world's largest forest area. Argentina, on the other hand, is an importer of many forest products. Although south and southeastern Brazil has fertile soil, much of the country is in the Amazon basin, which at present is unfit for planting. Argentina has an advantage in the availability of agriculture land because of the Pampa.

From the viewpoint of climate there is a significant contrast between the two countries. Most of Argentina is in the temperate zone while only a small portion of Brazil is within this range. This factor partly accounts for the difference in United States relations with these two countries. The United States, being in the Temperate Zone, produces agricultural products which are quite similar to Argentina's, while she needs to import tropical products such as coffee and cocoa, of which Brazil is a leading producer.

The population composition of the two countries is very different. Argentina's population is 97 per cent Caucasian with about 16 per cent being European-born. By South American standards Argentina's inhabitants are very literate
and their educational levels and technical skills are probably the highest in South America. Brazil's population, on the other hand, is composed of different racial groups and is not as well educated or trained as is that of Argentina. Both nations have population concentrations along their coasts in one or two major cities. Argentina's inhabitants are concentrated in the Buenos Aires area while Brazil's population density is greatest in Rio de Janeiro and São Paulo.

Brazil's native language is Portuguese, while Argentina's is Spanish. This fact has tended to some degree to set Brazil apart from the rest of Latin America. Mauricio Nabuco feels that the close ties between England and Portugal over the centuries have had an influence on Brazilian-American relations. He feels that those with a Portuguese background are more prone to understand better the ways of the Americans because of the extensive, friendly relations between Portugal and England over the years. The fact that Brazil speaks a language which is different from that spoken in most of Latin America has probably tended to help bring Brazil and the United States somewhat closer.

Both nations have forms of government which are quite similar and resemble that of the United States. Argentina declared her independence from Spain in 1816 and Brazil from

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Portugal in 1822. Attempts at a democratic form of government soon after their independence failed, but Argentina obtained a democratic constitution in 1853 and Brazil became a republic in 1891. Neither has escaped the adversities of political instability and a return to totalitarian forms of government during their history. Differences are that Brazil had an emperor for a significant part of its historical evolution while Argentina did not, and that Argentina has experienced more political upheavals than has Brazil.

Argentina started its industrialization development push before Brazil. Adequate statistics were not kept in Argentina prior to 1935; in that year the value of industrial output exceeded agricultural production by 14 per cent and in 1943 by 134 per cent.\textsuperscript{82} By 1948 the value of manufacturing was more than twice that of agriculture.\textsuperscript{83} Brazil's manufacturing output first exceeded the volume of agricultural production in 1942; however, in the years immediately following this relationship was not maintained.

Both countries have been vulnerable to external factors which greatly influenced their ability to develop economically. Brazil experienced export cycles, while Argentina was dependent on a small number of agricultural

\textsuperscript{82}Weil, \textit{op. cit.}, p. 149.

\textsuperscript{83}\textit{Economic Survey of Latin America, 1949, op. cit.}, p. 106.
products whose world demand fluctuated considerably. The two nations have attempted to reduce reliance on external forces and become more self-sufficient by pushing industrialization. It appears that some success was achieved along these lines during the 1930's and 1940's.

The lack of mineral resources has hindered Argentina's industrial expansion. Brazil, on the other hand, appears to have all the resources necessary for an industrial society with the possible exception of petroleum and hard coal. With its greater resource base, Brazil has the potential to become a great industrial power while Argentina in the present stage of technology is not so blessed.

Brazil was the South American leader in obtaining foreign investment up until the late 1880's. By 1890 Argentina took the lead and held it to 1946 when Brazil again regained her former leadership. Britain was the leading investor in both countries; her Argentine investments in 1940 totaled $2 billion84 and those in Brazil $1.2 billion.85 The United States was a closer second in Brazil than in Argentina in terms of total investments with approximately $575 and $578 million respectively in 1940. Up to World War II, sterling and dollars invested in Brazil were

84 Speigel, op. cit., p. 136. (I have converted Brazilian data from pounds sterling into dollars.)
85 Haring, op. cit., p. 50.
primarily in government bonds and usually they exceeded 50 per cent of the total investments. In Argentina, on the other hand, direct investments were of primary importance with the British investing in railroads and the Americans in meat packing and public utilities. By absorbing large sums of foreign investments in government bonds Brazil faced an annual problem of servicing this debt. During five of the eight decades from 1861-70 to 1931-40, these remittances accounted for from 10 to 20 per cent of all federal expenditures. Argentina did not face such a heavy burden. A difference also occurred after World War II in the attitudes of these nations toward foreign investors. Peron paid off most of Argentina's foreign debt and nationalized many foreign holdings; Brazil took no similar measures.

International trade has been very important to Brazil and Argentina over the years. Both have depended on export earnings to finance the importation of needed capital goods. Argentina's trade has been more significant to her in terms of value than has Brazil's. In 1913, for example, Argentina exported $510 million compared to Brazil's $316 million. During 1946 the figures were $1,183 and $981 million for Argentina and Brazil respectively. The data

86 Speigel, op. cit., p. 135. 87 Ibid., p. 144. 88 The Foreign Trade of Latin America (Washington: Pan American Union, 1952), p. 44.
on exports and imports assume greater significance when it is kept in mind that Brazil's population is about three times that of Argentina.

Both nations have been primarily exporters of primary goods, particularly agricultural products. Although Brazil exported some minerals, it appears that over the years Argentina's exports have been more diversified than those of Brazil. Argentina has traditionally exported grains and livestock products. In 1938, for example, in terms of per cent of total Argentine exports, corn accounted for 27 per cent, linseed for 13 per cent and wheat for 10 per cent. Brazil has, since 1850, relied primarily on coffee. During 1938 coffee made up 46 per cent; cotton, 19 per cent, and cocoa, 5 per cent of total Brazilian exports. Thus, while the three leading exports composed 50 per cent of Argentine exports, for Brazil they represented 70 per cent.

The terms of trade, using 1925-29 as the base of 100 for both countries, had declined to 81 for Argentina by 1940-41 and to 53 for Brazil. On the other hand, the quantity of exports in terms of index numbers dropped to 68 for Argentina and rose to 133 for Brazil. The capacity to

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89 Horn and Bice, op. cit., p. 134.
90 Brazil's statistics calculated from Table XI, page 58.
import, using 1925-29 as the base, declined to 55 by 1940-41 for Argentina and 70 for Brazil. Thus, while both suffered adversely in their terms of trade, Brazil, because of increased exports during the 1940-44 period, managed to maintain her capacity to import at a higher per cent of the 1925-29 level.

Relations between the United States and Argentina and Brazil represent a pronounced contrast. Economic aspects appear to be the most significant factor motivating the difference. Total trade with the United States has usually been more important for Brazil than for Argentina. Brazilian trade with America in 1938, for example, was 34 per cent of her exports and 24 per cent of her total imports. Argentina during the same year made 8 per cent of her foreign sales to the United States and purchased 17 per cent of her foreign commodities from the United States. In 1938 Brazil was the leading exporter of coffee. This commodity was the second leading export item in Latin America and accounted for 12 per cent of the total exports of Latin America. Argentina was the leading exporter of meats which represented 7 per cent of the total exports of Latin America.\textsuperscript{91} While America was the leading buyer of Brazilian goods in 1938, she was a distant second after Great Britain as a buyer of Argentine products. During 1938 England

\textsuperscript{91}Horn and Bice, \textit{op. cit.}, pp. 122-123.
purchased 33 per cent of Argentina's exports and sold her 20 per cent of her imports. Argentine-United States trade tends to create a deficit for Argentina while Brazilian-American trade usually results in a surplus for Brazil.

Relations during wartime reveal a significant contrast. During both World Wars Brazil allied herself with the United States and contributed to the war effort. Argentina, on the other hand, partly because of her dependence on European markets, tended to be very uncooperative with the United States. In World War II she did not sever relations with the Axis until 1944 when the outcome of the war was fairly evident. Brazil, on the other hand, contributed facilities, troops and strategic materials to the Allied cause.

Up to 1947 factors such as competition in world markets between Argentine and United States agriculture products and Argentina's desire to assume undisputed leadership of Latin America created strained relations between her and the United States. Resources and climate and their influence on the pattern of trade, plus the political leadership aspirations of the Spanish-speaking nation were responsible for this situation. Brazilian-United States relations were dominated by a large volume of complementary trade between the two countries. This trade was the result

\[^{92}\text{Ibid.}\]
of different resource endowments and the fact that two nations were in different stages of economic development. Amicable Brazilian-United States relations based on these economic factors were strengthened further by Brazilian support of the United States in the two World Wars of our century.
CHAPTER II

UNITED STATES TRADE WITH ARGENTINA
AND BRAZIL, 1947-1960

The important role played by trade in determining relations between the United States, Argentina and Brazil prior to 1947 was enumerated in the previous chapter. An investigation of commodity exchanges between the United States and the two South American nations during the 1947-1960 period will now be undertaken. Methodologically, the procedure utilized is to: (1) Present the composition and magnitude of trade by major groups; (2) undertake an analysis of the major subgroups of trade; (3) appraise the major difficulties arising out of these trade relationships, and (4) examine possible courses of future development. This procedure will be applied first to United States trade with Argentina and then to her trade with Brazil. The presentation will conclude with a comparison of American trade with the two nations in reference to the four areas covered.
UNITED STATES TRADE WITH ARGENTINA AND BRAZIL
BY MAJOR GROUPS

Argentina

Table I in the Appendix represents United States exports to Argentina during the 1947 to 1960 period. An examination of the data reveals several significant factors pertaining to American exports to Argentina. (1) It is apparent that the high value of over $680 million recorded in 1947 has never been approximated during the ensuing thirteen-year period. Only twice, after 1948, did the value of United States exports exceed $280 million, rising to almost $282 million in 1957 and to $349 million in 1960. The low level of $104 million was reached in 1953. Starting with 1949, the average yearly value of United States exports to Argentina, including re-exports, was $196 million. An upward trend appeared in 1955, which after a slight decline in 1958 and 1959, reached a total of $249 million in 1960, a sum exceeded only in the somewhat abnormal years of 1947 and 1948. (2) Machinery and vehicles have been the most important exports. The high mark of almost $364 million that this group reached in 1947 has not been approached since. Excluding 1947 and 1948, this group averaged $111 million and represented approximately 57 per cent of the

\[1\text{All numbers are rounded to the nearest million.}\]
total United States exports to Argentina. Commencing in 1956, an increase of exports in this group has taken place, reaching a peak of $240 million in 1960. (3) Metals and manufactures, and chemicals and related products have represented important export groups, averaging $25 and $24 million respectively since 1949. The fourth group in importance is non-metallic minerals. (4) The composition of the leading export groups indicates that Argentina needed to import the capital equipment and metals which she lacked. This composition reveals part of the problem which has confronted Argentina in her quest for economic growth. Argentina is dependent on external sources for many of the implements of industry. (5) The relatively insignificant values for exports of animals, animal products and vegetable food products indicate the presence of a source of United States-Argentina trade conflict.

The data representing United States imports from Argentina during the 1947 to 1960 period are presented in Table II of the Appendix. Certain characteristics concerning this trade are discernible. (1) The total value of imports during the period averaged $150 million and has been more stable over these years than the corresponding United States exports to Argentina. (2) Leading groups of imports, by value, have been textile fibers and manufactures, edible animal and animal products, inedible animal and animal products and inedible vegetable products, in
this order. Textile fibers and manufactures averaged $63 million during this period and represented 42 per cent of Argentina's total exports to the United States. The mean totals for animal and animal products, edible and inedible, were $33 and $22 million respectively, representing 22 and 14 per cent of total imports. (3) It is evident that the Argentine exports of manufactures to the United States are insignificant. (4) From 1947 to 1960 there is not the general decline in the total value of imports as there was in the exports sector. The decline in exports was accounted for by a recovery in the productive ability of England and continental Europe, and their recapture of much of the Argentine market they had lost during World War II. There was not a comparable impact on American purchases from Argentina.

Brazil

United States exports to Brazil are revealed in Table III of the Appendix. A study of the data indicates several characteristics of the exports during the period under examination. (1) The total value of trade was somewhat erratic, ranging from a high of $699 million in 1951 to a low of $241 million in 1955. Average total Brazilian purchases from the United States, including re-exports over these years were $446 million. The largest group was machines and vehicles with an annual average of $251 million. This group represented 56 per cent of the total United
States exports to Brazil during these years. Chemicals and related products ranked a distant second in importance with an annual average of $50 million and 11 per cent of the total. Metals and manufactures, vegetable food products and beverages, and non-metallic minerals followed in relative importance with annual averages of $42, $36 and $30 million respectively. (2) The make-up of the leading United States export groups during these years indicates to some degree the nature of the Brazilian economy. She was an importer of the products of an industrialized society and was somewhat dependent on external sources for the supply of vegetable food products and beverages.

Table IV of the Appendix reveals several aspects of United States imports from Brazil. (1) The total value of United States imports increased sharply from 1947 to a 1951 peak. This increase was primarily the result of increased purchases of vegetable food products and beverages. Since 1951 a downward trend prevailed, which is explainable by a decline in American purchases of vegetable food products and beverages. Over-all, the average of total imports was $655 million annually with a range from $446 million in 1947 to $904 million in 1951. (2) By far the most important import group was vegetable food products and beverages with an annual mean value of $560 million or 85 per cent of the total. (3) A very distant second in importance by value was the inedible vegetable products group averaging $36
million or five per cent of the total value of imports.

(4) The metals and manufactures group has shown a tendency to increase in value over these years. This group rose from a low of $4 million in 1947 to a high of $54 million in 1957. During the years under study this group annually averaged $23 million and 4 per cent of the total value of United States imports.

Argentina and Brazil Compared

A comparison of the trade by groups between the United States on the one hand, and Argentina and Brazil on the other, leads one to several conclusions. From a value viewpoint the total trade of the United States with Brazil has been much more important, averaging $1,101 million per year to $346 million per year for Argentina.\(^2\) Trade with Brazil did not experience the sharp reduction from the 1947 level that can be noted in Argentine-United States commodity exchange. This occurrence is explainable by the political ideology of the Peron regime in Argentina and the return of England and continental Europe as purchasers of Argentine commodities. Since 1955, United States exports to Argentina have increased. This is perhaps partly explainable by the change in governments in Argentina, which has led to

\(^2\)The years 1947 and 1948 have been omitted from the calculation of the Argentine average because they represent extremely abnormal years never again even remotely approximated.
the liberalization of trade barriers and reduced restrictions against foreign capital. Several American firms have established plants in Argentina and import many of their needed capital goods. United States imports from Brazil reached a peak in 1951 and since then have followed a downward secular trend. American exports to the same country have followed a similar, although not as pronounced, trend.

The major import group from the United States for both of these nations was machines and vehicles. In Brazil this group represented 56 per cent of the total imports, while in Argentina the figure was 57 per cent. Brazil's major export group was vegetable food products and beverages, representing 85 per cent of Brazil's total exports to the United States during these years. Argentina's major group of exports to the United States was textile fibers and manufactures, representing 42 per cent of the total United States imports from this nation. It thus appears that the trade of Argentina with the United States was more diversified than that of Brazil.

Figure 1 indicates the balance of trade in the merchandise account of the United States with Argentina and Brazil. With the exception of 1947, Brazil enjoyed a favorable balance of merchandise trade with the United States. Argentina's situation was different. During the 14 years under consideration she experienced favorable balances with the United States in only 3 of these years. In 1947 and
1960, the deficits were sizeable, amounting to $526 and $250 million respectively. In Figure 2, combined Argentine and Brazilian trade with the United States is shown. The picture revealed is that since 1949 combined United States imports from Argentina and Brazil have exceeded exports to these nations with the exception of 1958 and 1960. After the large United States deficit in 1953, a trend toward the narrowing of this American deficit balance is noticeable and continued through 1960. United States imports have tended to decline and exports to increase. The year 1959 indicates a reversal in this trend, as imports increased while exports decreased. However, in 1960 the secular movement reasserted itself. This movement toward the elimination of American deficits has been accounted for by a decline in United States purchases from Brazil and increased sales to Argentina. It appears from Figure 2 that total United States imports from these two nations have followed a more stable pattern than total United States exports to them.

Figure 3 represents the percentages of exports and imports of the total world trade of Argentina and Brazil accounted for by the United States. During the years under consideration, United States exports to Argentina accounted, on the average, for about 20 per cent of her international purchases. Argentine exports to the United States

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3 Calculated from data used in Figure 3.
FIGURE 1

UNITED STATES MERCHANDISE TRADE WITH ARGENTINA AND BRAZIL, 1947-1960

Source: Tables I-VIII in the Appendix.
FIGURE 2

COMBINED UNITED STATES MERCHANDISE TRADE WITH ARGENTINA AND BRAZIL, 1947-1960

Source: Tables I-VIII in the Appendix.
FIGURE 3

UNITED STATES SHARE OF TOTAL ARGENTINE AND BRAZILIAN TRADE, 1947-1960

approximated 13 per cent of her total foreign sales. Brazil yearly imported about 32 per cent of her foreign purchases from the United States and the United States annually obtained almost 48 per cent of Brazil's exports. Statistical evidence appears to substantiate the thesis that for Brazil trade with the United States was much more significant than for Argentina. Argentina's trade was more diversified and alternative sources of Argentina's import needs were present in Europe and Japan. Brazil, on the other hand, was overwhelmingly dependent on the export of vegetable products and beverages, with the United States being the most important buyer by far.

ANALYSIS OF TRADE BY SUBGROUPS

The previous section represented an attempt to present a descriptive, quantitative picture of the total volume and relative importance of trade between the United States and Argentina and between the United States and Brazil. These trade relations from a subgroup point of view will now be analyzed for the three countries. The procedure used will be to: (1) present in a quantitative form the major commodities involved in trade; (2) analyze the importance to the trading partners of the leading commodities; (3) examine the stability of the leading commodities from a volume and price point of view; (4) look for trends and changes during the 1947 to 1960 period including the terms
of trade, and (5) contrast Argentine and Brazilian trade with the United States from a subgroup approach.

Argentina

Values of United States exports to Argentina by subgroups are presented in Table V of the Appendix. Automobiles and related products represented the major exports from the United States during this period, averaging $39 million per year. The yearly values of this subgroup were erratic, ranging from a high of $150 million in 1947 to a low of $5 million in 1954. Steel mill products, rolled and finished, represented an average annual sum of $23 million while construction, excavating and mining equipment had a mean of $15 million. Fourth in importance, by value, was electrical machinery and appliances with a yearly average of $19 million.

American exports to Argentina followed a fairly diverse pattern within the area of industrial products. Petroleum and petroleum products exports were greatly reduced after 1956. This development is explainable by the increase in production of the Argentine fields, enabling Argentina to become nearly self-sufficient. Petroleum development is significant, for it will free Argentine foreign exchange for the importation of more capital goods which in turn may reduce further Argentine dependence on external factors.
The list of major United States exports to Argentina gives an indication of the degree of import substitution practiced by Argentina. It may be noted that all of the leading import subgroups represent commodities of an essential nature either for industry, agriculture or health usage. Comparatively high expenditures for railroad equipment since 1957 were indicative of the attempts of the Argentine government to rebuild the decrepit transportation system. After 1948, exports of textile manufactures greatly decreased, indicating the rise of the Argentine textile industry to a position of supplying most of the home market needs. Importation of agricultural equipment from the United States after 1953 was not in large amounts. This partly explains the problem of low agricultural productivity that Argentina faced during the last decade.

Analysis of United States imports from Argentina indicates that by far the most important commodity entering America from Argentina was unmanufactured wool. United States purchases of wool averaged $56 million in value over these years and represented 37 per cent of the mean yearly total of United States imports from this nation. The second most important subgroup was meat products, which is not surprising considering the nature of Argentina's economy. In

4Note Table VI in the Appendix for detailed data.
spite of tariffs and quotas on Argentine meats, their annual average imports into the United States approximated $29 million. Vegetable, dyeing and tanning materials, mainly quebracho extract, ranked third in importance.

American imports of raw hides and skins were sizeable until 1952 but after that year diminished in importance. Commencing in 1953, Argentine exports of ferroalloys to the United States increased. This, in a small way, may be the beginning of a future trend of considerable significance. Geological explorations are finding an increasing number of minerals in Argentina. Should these findings continue, it may be that Argentina will achieve a diversification in her export picture which she does not have at the present time.

Brazil

An examination of United States exports to Brazil by subgroups reveals that automobiles and related products represented the most important United States export subgroup to Brazil, averaging $76 million during the 1947 to 1960 period. Other leading subgroups with yearly averages during the postwar period were: electrical machinery, $35 million; grains and preparations, $34 million; construction, conveying and mining machinery, $27 million; steel mill products, rolled and finished, $25 million, and industrial machines and parts, $25 million.5

5Note Table VII in the Appendix for detailed data.
Since 1952 American exports of agricultural equipment and tractors were sizeable, averaging $21 million. In 1953, 1957 and 1958, shipments of railroad equipment were $21, $29 and $43 millions respectively. Air craft and parts exports totaled $20 million during 1957 and 1958, while machine tool exports amounted to $33 and $31 millions in 1958 and 1959 respectively.

The data indicate that Brazil, although primarily an importer of United States industrial products, is also a sizeable purchaser of grains and preparations. The latter subgroup has experienced severe fluctuations, varying from a high of $96 million in 1952 to a low of $8 million in 1955. Weather factors and plant diseases put pressures on Brazil's food supply which the domestic agricultural sector cannot always meet. For a nation the size of Brazil with its sparse population and abundant resources this indicates that all is not well in the agricultural sector. That the nation is attempting to solve this problem is partly indicated by increased imports of agricultural equipment and tractors. The year 1954 was the peak year for imports of this subgroup with purchases totaling $50 million. Heavy emphasis on importation of industrial equipment indicates a trend toward industrialization in Brazil. The importance of the construction, conveying and mining equipment group denotes a trend in Brazil toward more emphasis on mineral production and the building of roads.
The story of the United States imports is strikingly evident from an examination of the value of coffee purchases. During this period, United States imports of this commodity averaged $506 million annually and represented 77 per cent of the total yearly purchases from Brazil. This fact indicates an undesirable situation for Brazil because of a lack of diversification. The data reveal a decline since 1951 in the value of coffee exports to the United States. This is a trend which many experts feel will continue because of declining coffee prices and increased production of coffee by other Latin American countries and Africa. Cocoa was a distant second in importance, with an annual average of $34 million. Inedible vegetable oils and waxes were third, averaging $24 million per year and less than 4 per cent of the total annual Brazilian exports to the United States.  

An encouraging factor in the export picture for Brazil appears to be the noticeable increase in the trend toward greater exportation of minerals. This was especially true in the ferroalloys, ores and metals, and iron ore concentrates subgroups. It appears that this may be Brazil's answer to the expected unfavorable future outlook for coffee exports. United States dependence on external sources was expected to increase as some of its best deposits of these

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6See Table VIII in the Appendix for detailed data on United States imports from Brazil.
ores have been, or are, in the process of being depleted.

**FACTORS INFLUENCING TRADE**

The terms of trade for the two Latin American nations during the past 13 years indicate developments unfavorable to them. Although these terms of trade are not specifically representative of trade with the United States, they present the general picture. This is particularly true of Brazil because of the large role that trade with the United States occupies.

Argentine terms of trade have been adversely affected since 1948. Using 1955 as the base, her terms of trade declined from 143 in 1948 to 94 in 1959. The decline was most pronounced during the 1951 to 1956 period. Brazil's case is somewhat different. Her terms of trade improved during the 1948 to 1958 period from 66 to 101. During 1960 both nations experienced a recovery.

Price trends for the exports of Argentina and Brazil have generally been unfavorable during the period under study. Coffee prices increased until 1954 and since then have declined; such a development is particularly detrimental because of the inelastic demand for coffee. Cocoa has never recovered the 1954 high of 58 cents per pound. Beef prices generally declined until 1956, when an upward trend commenced. Quebracho extract, wool and corn also
experienced price declines. 7

Some Latin American nations have complained bitterly that the sale of United States agricultural surpluses on the world market at reduced prices has been a detrimental influence on the prices of their commodities. The United States Government has been helping the exports of agricultural commodities by: (1) grants of agricultural commodities (the Marshall Plan and the Mutual Security Program); (2) emergency relief programs; (3) sales for foreign currencies (Public Law 480); (4) short-term credits by the Export-Import Bank to permit procurement of agricultural commodities in the United States; (5) barter programs where agricultural products are sold for strategic materials, and (6) subsidies for exports of agricultural commodities.

Table XVI indicates the percentage of total United States exports sold in foreign markets under government programs in 1956-1957. Grains and livestock, products of importance to Argentina, and cotton, which is of significance to Brazil, have been heavily involved with government export assistance. During 1956 and 1957, 61 per cent of total United States grains and feed foreign sales and 47 per cent of cotton exports were executed under government aid programs. In addition, 34 and 30 per cent of total

7Note Table IX in the Appendix for more detailed data on the prices of these commodities.
livestock products and vegetable oils and seeds were exported with government assistance.

TABLE XVI

UNITED STATES AGRICULTURAL PRODUCTS EXPORTED UNDER GOVERNMENT AID PROGRAMS, 1956-57

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Percentage of Exports Under Government Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grains and Feed</td>
<td>61</td>
</tr>
<tr>
<td>Cotton</td>
<td>47</td>
</tr>
<tr>
<td>Livestock</td>
<td>34</td>
</tr>
<tr>
<td>Vegetable oils and Seeds</td>
<td>30</td>
</tr>
<tr>
<td>Fruits and Vegetables</td>
<td>7</td>
</tr>
</tbody>
</table>


Table XVII presents data on the change between 1934-35 and 1955-57 of the United States' share of the world's export market and world's production for selected commodities. With the introduction of export assistance the United States share of world exports increased considerably for all major commodities except cotton. The United States share of world production, however, did not change appreciably except for a decline in cotton and an increase in soybeans.
**TABLE XVII**

UNITED STATES SHARE OF WORLD EXPORTS AND PRODUCTION
OF SELECTED AGRICULTURAL PRODUCTS

IN ANNUAL AVERAGES, 1934-35 AND 1955-57

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Percentage Share of World Exports 1934-35</th>
<th>Percentage Share of World Exports 1955-57</th>
<th>Percentage Share of World Production 1934-35</th>
<th>Percentage Share of World Production 1955-57</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat</td>
<td>6.4</td>
<td>46.1</td>
<td>21.0</td>
<td>20.2</td>
</tr>
<tr>
<td>Barley</td>
<td>12.0</td>
<td>28.7</td>
<td>12.5</td>
<td>13.7</td>
</tr>
<tr>
<td>Oats</td>
<td>5.9</td>
<td>29.3</td>
<td>31.0</td>
<td>37.1</td>
</tr>
<tr>
<td>Corn</td>
<td>9.0</td>
<td>63.9</td>
<td>59.3</td>
<td>59.2</td>
</tr>
<tr>
<td>Rice</td>
<td>.8</td>
<td>14.8</td>
<td>1.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Cotton</td>
<td>43.0</td>
<td>43.6</td>
<td>51.9</td>
<td>35.5</td>
</tr>
<tr>
<td>Tobacco</td>
<td>41.0</td>
<td>37.6</td>
<td>30.2</td>
<td>32.3</td>
</tr>
<tr>
<td>Soybeans</td>
<td>2.3</td>
<td>82.0</td>
<td>9.5</td>
<td>51.3</td>
</tr>
</tbody>
</table>


Table XVIII reveals data on the changes in the sources of imports of cotton and wheat of four European nations during the first six months of 1956 and 1957. The data is presented at this point because it specifically relates to the two Latin American nations. The considerable increase of European cotton purchases from the United States was harmful to Brazil's cotton exports. Argentina has apparently been adversely affected by increased American wheat sales to Europe and Brazil. Brazil, for example, during 1954-55 imported 41 million bushels of wheat from Argentina and 0.3 million bushels from the United States.
Two years later, however, Brazil purchased 34 million bushels from Argentina and 18 million bushels from the United States. It appears that United States Government assistance to agriculture and the subsidization of agricultural export sales has hurt Argentine exports and helped Brazil to obtain some needed foodstuffs more cheaply than would otherwise have been possible.

**TABLE XVIII**

**CHANGES IN COTTON AND WHEAT IMPORTS OF FOUR WESTERN EUROPEAN NATIONS, FIRST SIX MONTHS OF 1956 AND 1957**

(In millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom</td>
<td>+77</td>
<td>-9</td>
<td>+13</td>
<td>-1</td>
</tr>
<tr>
<td>Germany</td>
<td>+83</td>
<td>-51</td>
<td>+26</td>
<td>-12</td>
</tr>
<tr>
<td>France</td>
<td>+13</td>
<td>+12</td>
<td>+19</td>
<td>-2</td>
</tr>
<tr>
<td>Italy</td>
<td>+40</td>
<td>-5</td>
<td>+6</td>
<td>-5</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>+213</strong></td>
<td><strong>-53</strong></td>
<td><strong>+64</strong></td>
<td><strong>-20</strong></td>
</tr>
</tbody>
</table>

*Latin America.


**ARGENTINA AND BRAZIL COMPARED**

Analysis of Argentina's and Brazil's trade with the United States during the 1947 to 1960 period permits several
observations. By value, unmanufactured wool, the leading export commodity of Argentina, averaged 37 per cent of her exports to the United States. Coffee represented an annual average of 77 per cent of Brazil's exports to America during these years. These two products were the major export items of the two Latin American nations to the United States during the years under study. Their significance from a value point of view was considerably different, as coffee sales averaged nine times greater per year than wool.

The pattern of United States imports reveals that Brazil was in the process of diversifying her exports to America. A noticeable trend developed in her sale of mineral exports to the North American nation. Argentina started on a similar trend, but on a much more modest scale and at a later date. These trends indicate a possible future hope for both nations; however, at present it would appear that Brazil's future along these lines is much brighter.

A noticeable difference between the two countries is evident in the trade of grains and preparations. While the United States exports of these commodities were practically nil to Argentina, they were sizeable to Brazil. Also, meat imports from Argentina were sizeable, while they were relatively much less significant from Brazil. One is led to reason that perhaps this may be an area of increase in future trade relations between Argentina and Brazil.
From 1947 through 1952, Brazil engaged in the importation of considerable textile machinery from the United States. This is an indication of the movement toward self-sufficiency within this area made by Brazil in the postwar period.

Argentina by comparison did not procure much textile equipment from the United States because she had reached a more advanced level of textile output at an earlier period.

The leading export items of the United States to Argentina and Brazil and those of the latter two to the United States experienced erratic fluctuations. United States exports of automobiles and parts to Brazil varied within a range of $116 million in 1947 to a low of $21 million in 1955. With Argentina, the range was from $150 million in 1947 to a low of $5 million in 1954. Unmanufactured wool sales by Argentina ranged between a high of $95 million and a low of $33 million in 1955 and 1958 respectively. Brazilian coffee sales ranged from $298 million in 1947 to $720 million in 1951. The need for export diversification becomes evident, particularly in Brazil. One has but to study the trade data in the tables in the Appendix to realize the much greater diversification in the nature of United States exports to these nations as compared with United States imports from them.

The general terms of trade have influenced Argentina more adversely than Brazil from 1948-1954. Since 1953, however, Brazil has also experienced a considerable decline in
its terms of trade, although in 1960 they were still higher than in 1948. Argentina reversed the trend of deterioration in her terms of trade after 1956 and by 1960 they were almost at the 1954 level.

Argentina has complained during the postwar period of competition from United States agricultural products, which have been sold in world markets at prices much below competitive levels. This criticism appears to have considerable validity as is indicated by the increase in the United States' world market share of selected agricultural products, while her world percentage of production has revealed no corresponding increase. The PL 480 program has contributed considerably to this situation. Brazil, on the other hand, is not so adversely affected by this action of the United States Government. She can, as a result, obtain wheat, which in 1959 and 1960 was her leading import by value, more cheaply.\(^8\) The fallacious development policies of the Argentine government were partly revealed by the $19 million purchase of grains and preparations in 1952. Argentina, a traditionally large exporter of grains, was forced because of mismanagement to import a group of commodities she previously produced in surplus quantities.

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AN ANALYSIS OF CHIEF EXPORTS TO THE UNITED STATES

An attempt will be made in this section to project the future outlook for coffee, cocoa, iron ore, wool and meat exports to the United States. A brief look at American import policy dealing with these two nations will be undertaken along with possible methods to promote increased export sales to the United States. Projections are made on the basis of certain assumptions. It is assumed that the United States Gross National Product will increase at a rate of 4.3 per cent between 1957 and 1965 and at a rate of 4.5 per cent between 1965 and 1970. A 25 per cent increase over the population of 1957 is estimated by 1970. We should keep in mind that these assumptions may lead to conclusions that are somewhat optimistic because they appear to overstate the rate of growth of the American economy.\(^9\)

Specific Commodities

The outlook for United States coffee imports is not favorable. Coffee consumption in the United States during the next ten years is expected to be determined by population increases and coffee prices. In addition, more subjective factors such as possible substitute products, changes

in consumer taste and changes in the efficiency of extrac-
tion techniques may be of importance. Louis O. Delwart uti-
lized a formula which encompassed the first group of factors
enumerated above. He assumed that a 10 per cent increase in
real income will result in a 2.5 per cent increase in per
capita coffee consumption. A price elasticity of demand is
assumed which indicates that a 10 per cent increase in cof-
fee prices will usually reduce coffee consumption by 2.5 per
cent.\textsuperscript{10} The projections disclosed that with lower prices
(52 cents per poundretailed in New York), per capita con-
sumption might amount to 26.4 pounds in 1965 and 27.3 pounds
in 1970. Total consumption is expected to amount to 3.65
billion and 4.1 billion pounds in the two respective years.
The previous all-time per capita consumption high was 26.1
pounds in 1946.\textsuperscript{11} This future estimate appears somewhat
optimistic in light of the increasing use of soluble coffees
which yield more cups per unit of green coffee.

Surpluses are expected to be a problem to exporters
during the next decade. In spite of agreements among pro-
ducers of coffee, the surplus problem is expected to become
worse. Prices fell from 78.3 cents per c.i.f. New York for
Santos No. 4 in 1954, to 38 cents per pound during the first
three quarters of 1959.\textsuperscript{12} Most Latin American nations have

\textsuperscript{10}Ibid., p. 40. \textsuperscript{11}Ibid. \textsuperscript{12}Ibid., p. 41.
experienced increased output since 1950 and African production has doubled in the last decade. The peak of production is expected to be reached in the early 1960's and estimates for prices of Santos c.i.f. New York for these years are 33 cents per pound.

Table XIX presents data pertaining to the expected value of United States coffee imports from Brazil during the next decade. It is anticipated that Brazilian coffee will be unfavorably affected by increased United States imports from Colombia and other Latin American producers. The projections indicate that in 1965 and 1970, the total dollar value of coffee imports will be less than the 1957 sum, which amounted to $528 million. Brazil's share of Latin American exports is also expected to register a slight decline. Over the whole future of Brazilian coffee exports hangs the grim specter of synthetic coffee, which could invalidate markedly the projections made. In the past fifteen years coffee production in Brazil has experienced a rising trend averaging 17 million bags during 1946-51 and 45 million bags in 1959-60.
TABLE XIX

UNITED STATES COFFEE IMPORTS FROM BRAZIL, 1957-1958,
AND EXPECTED IMPORTS FOR 1965 AND 1970
(In millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total from Latin America</th>
<th>From Brazil*</th>
<th>Brazil's Share of Total Latin American Exports (in %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>$1,206</td>
<td>$528</td>
<td>44%</td>
</tr>
<tr>
<td>1958</td>
<td>$1,014</td>
<td>$407</td>
<td>40%</td>
</tr>
<tr>
<td>1965</td>
<td>$1,005</td>
<td>$410</td>
<td>41%</td>
</tr>
<tr>
<td>1970</td>
<td>$1,140</td>
<td>$470</td>
<td>41%</td>
</tr>
</tbody>
</table>

*Estimate based on 33 cents per pound for Santos No. 4, New York wholesale price.

Source: Delwart, op. cit., p. 43.

During the last decade Brazil has produced about 20 per cent of the world's cocoa production, and she is one of the principal exporters of cocoa beans to the United States. Since World War II, consumption in America has not kept up with either income or population increases. Per capita annual consumption has not reached the pre-war level of five pounds, and since 1950 it has been less than four pounds. The factors accounting for this decrease are related to diet and higher prices. Cocoa prices ranged during the postwar period from 27 to 57 cents per pound as compared

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13Ibid., p. 37.
with from six to eight cents prior to the war, indicating a considerable increase in the cost of cocoa to consumers. During 1959, the mean price of Brazilian cocoa in the New York market declined from 43.3 cents per pound to 35.4 cents. The outlook is poor because of excess supply and in 1960 there were about 260,000 surplus tons in the form of stocks. Cocoa consumption for 1965 and 1970 is estimated at about four pounds per person. Prices have experienced a wide variation in the past and Louis O. Delwart of the National Planning Association estimates a price of 30 cents for his projections. Table XX indicates the projected estimates of total United States cocoa bean imports and imports from Brazil. Although from a percentage point of view the dollar value by 1970 is expected to double over 1957, not much variation is anticipated in Brazil's share of total American imports.

Iron ore is expected to experience the most rapid increase of any of the Brazilian exports to the United States. In 1957, the United States imported 20 per cent of its iron ore consumption, and by 1970, it is expected that the United States will be purchasing, externally, about 47 per cent of its total needs. At the present time approximately 60 per cent of total imports come from Latin America.

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TABLE XX

UNITED STATES IMPORTS OF COCOA BEANS, 1957-1958, AND EXPECTED IMPORTS FROM BRAZIL IN 1965 AND 1970
(In millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Imports</th>
<th>From Brazil</th>
<th>Brazil's Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>$135</td>
<td>$32</td>
<td>24%</td>
</tr>
<tr>
<td>1958</td>
<td>$173</td>
<td>$39</td>
<td>22%</td>
</tr>
<tr>
<td>1965</td>
<td>$236</td>
<td>$59</td>
<td>25%</td>
</tr>
<tr>
<td>1970</td>
<td>$257</td>
<td>$65</td>
<td>24%</td>
</tr>
</tbody>
</table>

Source: Delwart, op. cit., p. 39.

Expectations are that the St. Lawrence Seaway, which reduced transportation costs, will mean greater imports from Canada. In spite of this factor, United States needs are expected to increase so rapidly that Brazil's exports will perhaps double in value between 1957 and 1965. Table XXI indicates the total United States imports of iron ore expected in 1965 and 1970 and the amounts and percentages expected to come from Brazil. The latter's production of iron ore increased from 0.6 to 4.0 million metric tons between 1948 and 1959.\(^\text{15}\) Although not expected to increase as rapidly as total imports, Brazil's sales to the United States should more than double between 1957 and 1970.

\(^{15}\text{Ibid.}, p. 51.\)
TABLE XXI

UNITED STATES IMPORTS OF IRON ORE, 1957-1958, AND EXPECTED IMPORTS FROM BRAZIL IN 1965 AND 1970
(In millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Imports</th>
<th>From Brazil</th>
<th>Brazil's Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1957</td>
<td>$ 285</td>
<td>$20</td>
<td>7%</td>
</tr>
<tr>
<td>1958</td>
<td>$ 231</td>
<td>$12</td>
<td>5%</td>
</tr>
<tr>
<td>1965</td>
<td>$ 694</td>
<td>$28</td>
<td>4%</td>
</tr>
<tr>
<td>1970</td>
<td>$1,080</td>
<td>$42</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Delwart, op. cit., p. 23.

Brazil appears to have promise as an exporter of zinc, columbium, asbestos, meat, soluble coffee and sugar. Brazil is the third largest sugar producer in the world after Cuba and the Soviet Union. With the loss of the Cuban suppliers this item will become more important in trade between the United States and Brazil. Tropical hardwoods in the Amazon region may also provide an export item of value.

The outlook for wool and meat products exports to the United States is closely allied with the American tariff policy. At the present time restrictions, particularly sanitary regulations, hinder the inflow of fresh and frozen Argentine beef into the United States. Delwart claims these restrictions are justified because of the lack of an adequate system of inspection in Argentina. Indications are that
Argentine exports to the United States would probably increase with a reduction of American trade barriers. An estimate of the impact of a possible liberalization of United States restrictions on these commodities is presented in the next section dealing with American tariff policy.

United States Import Policy

United States import policies have become somewhat more restrictive since the 1958 recession and barriers have been increased on petroleum, lead, zinc, copper and meat. Table XII in the Appendix indicates the estimated changes in the imports of certain products which would be expected to follow a reduction in United States restrictions.

Argentina would probably benefit considerably from a reduction of United States restrictions since she needs to expand export sales and not primarily to diversify exports. Although a concentration on agricultural and livestock products is evident, in recent years only 25 per cent of all export receipts have resulted from meat sales. Wool and wheat have each provided 15 per cent of her export sales and only 5 per cent of total exports have been manufactured products. Argentina supplies 75 per cent of United States imports of canned beef and meat extracts, about 70 per cent of all imported inedible casein and quebracho extract and 15 to 20 per cent of all imports of beryllium.\(^1\) Following a

\(^{1}\text{Delwart, op. cit., p. 51.}\)
non-discriminatory suspension of United States import restrictions, it is estimated that American purchases of cattle and beef would increase about 100 per cent; preserved beef, 25-50 per cent; wool apparel, approximately 50-100 per cent; canned beef, 25-50 per cent; and leather pocketbooks, 100 per cent. In terms of value this would be an increase of from $41 to $56 million and much of this increase would be expected to accrue to Argentina.

Brazil would probably not be very much aided by a reduction of trade barriers by the United States. Coffee, cocoa and iron ore, her chief exports, are permitted entry duty free. Perhaps in sugar, cotton and zinc, some increase in sales to the United States could be expected if trade barriers were reduced. Brazilian sugar exports in 1958 amounted to 776,000 tons, but very little of this was exported to the United States.

The United States cannot proceed as it has in the past to demand "quid pro quo tariff reductions from the two Latin American countries, since both face foreign exchange shortages. To reduce tariffs would merely mean the increased importation into these two nations of goods not essential to the development of their economies. Reductions in restrictions by the United States would cause a small shrinkage in American merchandise trade surplus as indicated

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17 Note Table XII in the Appendix.
by Table XII in the Appendix. However, if we do not grant tariff concessions to Argentina and Brazil, increased bilateral trade agreements with the Soviet Bloc and other countries may be expected. This would hurt our political cause and also the cause of multilateral trade. A reduction of tariffs on semi-processed metal products, which are higher than those on ores, would help remove the Latins' fear that the United States wishes to stifle industrialization in their countries.

Coffee may present a serious problem to the United States in the future. A synthetic product would wreak havoc with the Brazilian economy. It is suggested by Delwart that the United States under such circumstances would have to come to the assistance of Brazil. Perhaps at first the United States could place a high excise tax on the synthetic product to permit a more orderly adjustment in the economy of the coffee exporting nation.

Promotion of Exports

Louis O. Delwart suggests some methods by which the Latin American nations can stimulate exports during the coming decade. Although these suggestions are intended for the whole of Latin America in general, they are applicable to Argentina and Brazil specifically. This is particularly true in view of the importance of these two nations in Latin America. To aid the increase of export sales, the governments of these two countries should pursue policies of
economic stabilization. (1) Inflation should be controlled. Argentina and Brazil have been victims of rapidly rising prices. Inflation causes higher production costs and may result in reduced exports because of attempts to charge higher prices in world markets to cover the increased production costs. Rapidly rising domestic price levels also make foreign goods more attractive in the domestic market because they tend to become cheaper relative to domestic products. It appears that perhaps stabilization is becoming politically respectable in Argentina and Brazil.¹⁸ Argentina has attempted a belt-tightening program with some degree of success; President Quadros’ attempts in Brazil failed, but it is hoped that President Goulart will renew efforts along these lines. (2) Argentina and Brazil will have to rely on other policy instruments besides the rediscount rate and open market operations. Experience has shown that the rediscount rate is not very effective in periods with great price increases and the expectation of continued increases, as have existed in these countries. Under such conditions people pay the high interest rates and continue to borrow in expectation of higher prices, higher interest rates and, for businessmen, higher profits. Open market operations have not been successful because of the lack of a well developed securities market as compared

¹⁸ Delwart, op. cit., p. 84.
with the United States and traditional patterns of investment in real estate. Delwart suggests the use of direct ceilings in total central bank credit expansion, direct ceilings in the total amount of claims on the public that can be held by commercial banks, increases in and enforcement of the legal reserve requirements and requirement of advance deposit on imports as being the types of monetary policies proven most successful in the past.  

(3) Serious attempts should be made to balance the budgets in these two nations. This is probably one of the main causes of price instability in Brazil and Argentina in the postwar period. To solve the problem a sounder tax system, along the lines of that in the United States, needs to be instituted. Tax increases and not reductions in government expenditures present the major answer to this problem. (4) Wage stabilization must be stressed. Argentina is a prime example of a country in which wage increases have been granted without regard to productivity increases, while Brazil is not much better off than Argentina in this respect. The major problem in this area is the low level of earnings of the majority of the masses. Authorities must not only use sound reasoning in granting wage increases, but must guard against speculative profits. (5) The freeing of the exchange system from oppressive direct controls would be helpful to the

\[19\text{Ibid., p. 83.}\]
expansion of trade. Liberalization of restrictions has been accomplished to a considerable degree in both Argentina and Brazil starting with 1959. It is hoped that further liberalizations will be made as economic conditions permit it. The elimination of exchange controls will also tend to encourage United States investments in these nations. (6) The United States should make loans to Argentina and Brazil to help them achieve economic stabilization. In return for these loans the recipient nations should promise to follow policies designed to correct the problem of internal economic instability. It would be fallacious, however, to judge Latin American nations by United States standards in regard to price and economic stability. We should not judge, for example, Argentine and Brazilian efforts on the basis of highly desirable, but impossible goals.

Specific incentives should be utilized by Argentina and Brazil to stimulate exports; the two countries have done very little along these lines in the postwar period. In fact, only Mexico and Peru of the Latin nations can be given credit for successful endeavors along these lines. It is doubtful that monetary and fiscal controls alone can accomplish the task of stabilization in Argentina and Brazil during the 1960's. There must be combined and properly coordinated strict policies of a monetary and fiscal nature with specific incentives to promote exports.

Tax incentives, particularly in the area of mining,
to provide an attractive climate for investment, would be helpful. Brazil appears to have started a much needed diversification toward mineral production. Argentina, since 1958, has discovered that some of her ills resulting from a lack of minerals and fuels were due to a lack of exploration and development in these areas. Both nations appear to have considerable resources which need to be developed, but at the present time foreign capital is needed to do the job. An example of the rewards which may be obtained is the recent petroleum achievement in Argentina.

A revision of existing codes regulating mining companies would be helpful. For example, revised codes might include a guarantee against expropriations, a commitment not to raise taxes for a period of time and a provision for repatriation of current earnings. Taxes should be levied only when profits are registered and they should not approximate more than 50 per cent of profits realized in the country. Initial tax-free periods might be offered to attract investors.

Credit incentives may be helpful in stimulating certain types of exporting industries. This would be particularly true in dealing with new exports. Perhaps through the new Inter-American Development Bank some assistance could be rendered by sending funds through government owned or private banks to small export establishments. In most cases, however, it appears that this has not been a major problem
in selling the major exports from Argentina and Brazil.

Social overhead must be developed through government investment to remove bottlenecks in the growth process. This would help set the foundation upon which export industries could grow. From an export industries viewpoint, measures to provide better storage facilities, high quality standards, quality controls to insure that these standards are met, and export inspection should be emphasized. Irrigation projects to increase agricultural production for exports should be carried out. Better port facilities would be a stimulus by reducing transportation costs. Improved roads, railroads, communications and power development are essential.

It appears that when one speaks of conditions needed to increase exports, or improve the export sector, one is merely echoing the basis for general economic development. It becomes difficult to improve the export sector without general economic improvements and development.

**COMPARISON OF ARGENTINA AND BRAZIL**

A comparison of United States trade relations with Argentina and Brazil leads to several conclusions. Total trade with Brazil during the years under consideration was much greater in value than that with Argentina, averaging $1,101 and $346 million respectively. The United States has generally experienced an unfavorable balance of trade with
Brazil and a favorable balance with Argentina.

The trade of the United States and Brazil is complementary, while the trade patterns of the United States and Argentina tend to be competitive. This is exemplified by the fact that the three major imports of the United States from Brazil are duty free, while the products which Argentina generally sells in the American market are highly protected by tariffs and quotas. United States tariff policy has much more significance for Argentina than for Brazil. This factor accounts for part of the hostility which has existed between the United States and Argentina, and the general existence of friendship between the United States and Brazil. Argentina is thus by economics as well as culture more oriented toward Europe than toward the United States, who annually purchases only about 13 per cent of her exports.

Political factors have tended to play a greater role in United States trade with Argentina than with Brazil. Politics started playing a major role during World War II and the rise of Fascist movements in Argentina led to strained relations between the United States and Argentina. Brazil, on the other hand, cooperated with the United States during World War II and the amicable political relationship favorably influenced trade between Brazil and the United States. Under the Peron Administration, further political conflicts developed to disrupt Argentine–United States trade
relations. Since 1958, when political conditions became more favorable in Argentina from a United States viewpoint, exports to Argentina increased and further increased trade with Argentina may be realized.

Argentina's trade with the United States appears to be more diversified than that of Brazil. While Argentina's problem is to increase the volume of exports, Brazil is also confronted with the necessity to diversify away from coffee. Brazil appears to be making initial steps toward greater diversification by the exportation of minerals, particularly iron ore.

Projections for the exports of foodstuffs to the United States, which at the present time represent the major group of Brazil's exports and are second only to wool for Argentina, are not very favorable. The outlook for mineral exports is more favorable and it appears that in the immediate years ahead Brazil will do more in the way of exporting minerals than Argentina, although both are taking steps in this direction.

Coffee may in the future present a great economic problem to the United States in its dealings with Brazil. It is apparent that a synthetic substitute will become a reality with time and the impact of this on the Brazilian economy will be very adverse. Preparations to meet such a possible eventuality should be undertaken by Brazil and the United States.
Inflation has been a severe economic curse of both countries and has hurt export trade considerably. It appears that economic stabilization is now politically more respectable in these two nations. Frondizi took steps to achieve stabilization; Quadros' failure has left Brazil in an uncertain position. Unchecked rising price levels in Argentina and Brazil will make the task of increasing exports difficult.

Both Argentina and Brazil should take more positive steps to stimulate exports to the United States as well as to other areas. This would call for tight monetary and fiscal policies and specific measures such as tax incentives, increased credit availability and the more rapid development of social overhead by government and private investment. Further liberalization of trade restrictions by Argentina and Brazil would help increase trade.

The United States should review her import policy on certain Argentine commodities. A reduction in import restrictions might be more beneficial to the Argentine economy and United States-Argentine relations than the funnelling of American funds to her through loans and grants.

Trade between Argentina and Brazil may increase in the future. There is a basis for Brazilian imports of grains from Argentina and Brazilian exports of chemicals and minerals to the latter. In recent years wheat has been Brazil's most important import followed by crude
petroleum. Argentina is a wheat exporter and in 1962 she is expected to begin exports of petroleum. Brazil, on the other hand, is developing her output of iron ore and other minerals needed by Argentina. Thus there is a growing basis for increased trade between Argentina and Brazil.

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20 Companhia Auxiliar De Empresas Eléctricas Brasileiras, op. cit., p. 5.

CHAPTER III

UNITED STATES PRIVATE DIRECT INVESTMENT
IN ARGENTINA AND BRAZIL

Economic Aspects of Investments

One of the major difficulties experienced by both Argentina and Brazil during the 1950 to 1960 period was a shortage of dollars. Dollars to purchase imports from the United States were obtained by export sales to America, bank credits, United States Government grants and loans, borrowing from the World Bank, loans from the International Monetary Fund and private American investments. In attempting to develop economically, foreign capital is of great importance to Argentina and Brazil. Foreign capital is particularly important because of the nature of Argentine and Brazilian political institutions. A ruthless dictatorship can cut consumption to the subsistence level, but a democracy will probably always have to rely on foreign capital in its early stages of development to help avoid possible political upheaval.

Several claims are made in behalf of the beneficial influence of foreign investments in the recipient nation. (1) It is generally held that foreign investment has a
positive influence on the level of employment and income. The beneficial influence is attributed to: (a) the addition in the physical capital of the receiving nation; (b) the increment in social overhead capital which may facilitate and encourage further domestic and foreign investment by creating more favorable facilities, and (c) the multiplier effect which will usually generate income by a multiple of the quantity invested. This claim appears to be valid as long as foreign capital does not compete with domestic investment funds or divert domestic factors from the production of essential to non-essential goods. In an underdeveloped nation, with some degree of planning in the channeling of external sources of capital into essential areas, it would appear that in most instances external capital should complement rather than compete with domestic sources.

(2) Technical knowledge is often a significant benefit derived by nations receiving foreign direct investment. Imported technical "know how" permits the utilization of the results of expensive research which underdeveloped areas generally cannot afford. (3) Better managerial techniques may accompany the direct investment and be of assistance to the recipient by emphasizing cost consciousness and competent administration. Furthermore, external managerial "know how" may institute in the developing managerial classes of nations like Brazil and Argentina a sense of the responsibilities the executive group has toward society in
a free enterprise economy. (4) Balance of payments benefits may be realized from foreign investments. This can be accomplished by: (a) producing items previously imported; (b) providing funds for the purchase of needed capital goods, and (c) producing products for export markets that earn foreign exchange. Some of these beneficial aspects could be minimized if increased exports result in a deterioration in the terms of trade. Also, if increased foreign exchange holdings, as a result of decreased imports, are inefficiently utilized possible benefits may not be realized. It appears that to obtain some indication of the effect of foreign capital on a nation all the possible impacts must be considered and weighed together.

An evaluation of the significance of United States private investments in Argentina and Brazil faces several obstacles. (1) Detailed data is only available for direct investments and this information does not include all United States private funds channeled to these nations. In 1957 it was estimated that United States direct investments comprised approximately 66 per cent of total American investments overseas and 75 per cent of total long term investments. However, since most United States portfolio investments have taken place in Western Europe the percentage of direct investments for Brazil and Argentina may be somewhat higher.
than the over-all averages. ¹ (2) Records of values of investments are by book value rather than real value. With inflation being a real problem in Brazil and Argentina the reported values understate the true amounts of United States direct investments in these nations. (3) United States official agencies gather data on a voluntary basis from individual firms. This method of gathering information means that the basis of evaluation may be different in the various firms and also there is no assurance that total investments data have been gathered. (4) The method of coverage considers a firm United States owned if over 25 per cent of the voting stock is held by American residents. This approach may result in unrealistic conclusions since the problem of evaluating foreign ownership in some of the firms is difficult. The Brazilian Embassy, for example, estimates that of the $644 million United States direct investment reported in Brazil during 1950, approximately $68 million was owned by foreign nationals other than American. ² These shortcomings of the data should be kept in mind in the analysis of United States direct investments in Argentina and Brazil.

²Ibid., p. 99.
ARGENTINA

Government Regulations

The book value of United States direct investments in Argentina at the end of 1960 was estimated at $472 million. This sum compared with $202 million in 1946 and represented an increase of almost 134 per cent during the period. The upward trend in United States investments reflects an improvement in the investment climate in Argentina commencing in 1953 when Peron began to favor foreign investment. In 1955 the Provisional Government opened the free exchange market, although requiring that investments by foreigners must involve new, modern, and efficient machinery and must also include power producing facilities when the plant was constructed in an area which did not have adequate power. Law No. 14,780, signed on December 3, 1958, continued the trend toward encouraging foreign capital. This law permits foreign capital to enter Argentina in the form of foreign exchange, machinery, spare parts or raw materials. At the end of 1958 the United States and Argentina signed an


agreement whereby American investors could obtain insurance against the non-convertibility of peso holdings. In March, 1961, Argentina ratified a new Investment Guaranty agreement with the United States providing insurance against inconvertibility.

There are numerous regulations on foreign capital flowing to Argentina. Under Law No. 14,773/58 all solid, liquid and gaseous hydrocarbon deposits are the exclusive property of the national government and private exploitation of these minerals is precluded. Coal is practically a government monopoly, but government agencies may utilize private Argentine or foreign firms in their development. Railroad, telecommunication and electric power are primarily government owned, although private firms operate in power production. The government permits investment of foreign capital in property, stocks, bonds, and mortgages without joint permission. Foreigners in Argentina enjoy all the rights of citizens of the country. They may buy and sell property and cannot be deprived of property without recourse.

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The president of Argentina is empowered by law to assist and protect producing firms in Argentina whether foreign or domestically owned. He can: (1) grant exemptions from customs duties and other changes to facilitate acquisition of needed capital equipment; (2) grant increased protection to firms producing in Argentina who would be endangered by importation of foreign goods; (3) limit the inflow of raw materials and manufactured goods domestically produced; (4) grant preferential treatment in authorizing credits and other means that would assist the financing of industrial projects; (5) grant preferential treatment to firms in reference to raw materials, energy, fuels and transport, and (6) grant tax exemptions. These regulations have hindered foreign sales in Argentina and encouraged the foreign manufacturer to establish factories within her borders. This plus the fact that Argentina is a developed nation with a high standard of living by Latin American standards are stimuli to foreign investors.

Foreign firms may carry on isolated transactions in Argentina without subjecting themselves to requirements for domestic businesses. Companies legally incorporated in foreign nations but without any domicile, branch or any

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9 Ibid., p. 3.
other kind of company representation in Argentina may engage in commercial transactions not contrary to Argentine law. However, these firms must satisfactorily establish that they have been incorporated in accordance with the law of the foreign nation and they must inscribe the incorporating documents in the Commercial Register. Companies that are formed abroad to carry on their principal business in Argentina or that have their management centered in Argentina are considered domestic entities. Firms formed abroad but establishing branches or any other kind of representation in Argentina are subject to the same requirements as Argentine companies with regard to registration and publication.\textsuperscript{10}

Work legislation is somewhat restrictive on the employer and employers are liable for industrial accidents and sickness. The employee is entitled to compensation during three months of absence from duty when he has been employed for less than ten years or for six months if he has served for over ten years. The compensation is to equal the average of the salary received during the previous six months of employment. If after the three or six month period the worker cannot return to his job, the employer has to keep the position open for him for a year, after which time he must pay a dismissal indemnity. Maximum indemnity payments are 30,000 pesos. Social security coverage is very

\textsuperscript{10}Ibid., p. 4.
extensive and costly in Argentina. Employer limitations on interference with labor unions are similar to section 7 of the Wagner Act.

**Taxation**

Taxes on corporations are a straight 30 per cent of taxable income for Argentine firms during the fiscal year. Corporations constituted abroad are taxed at a rate of 38 per cent on income (except dividends and capital gains) paid or credited to them. Local branches of foreign companies are also taxed at 38 per cent as are fees paid to directors and other managers located abroad. Interest payments on foreign credits used to import industrial equipment acquired as fixed assets are exempt and may be deducted from gross income. Other deductions permitted are:

1. "One hundred per cent of investment in agricultural machinery and implements and machinery for mining, timbering and shipyards.

2. Fifty per cent of investment in fixed assets, except real estate, provided investment exceeds 10 per cent of amount of such assets held at the beginning of the year.

3. Ten per cent of the cost of construction or acquisition of buildings excluding land value to be utilized for production."\(^{11}\) The government is authorized by law to

\(^{11}\text{Ibid.}, p. 18.\)
increase, reduce or eliminate these above enumerated deductions.

All business enterprises are also subject to an excess profits tax. Excess profits are considered profits in excess of 12 per cent of capital and free reserves. Capital and free reserves are defined as the difference between the value of assets and liabilities to third parties at the beginning of the fiscal year plus 50 per cent of the year's net taxable profits. Securities other than government bonds, real estate not used in the business, and loans granted as investment of capital are not included as assets nor is income from them included in excess profits subject to taxes.

In Table XXII an example of the computation of the tax on a typical firm in Argentina is presented. It is assumed that a foreign-owned, locally organized corporation operating in Argentina during a given year has capital of $2.5 million and profits of $1 million. The normal tax is at 30 per cent of profits or $300,000. The corporation has to pay an eight per cent dividend tax on payments to shareholders situated abroad on the difference between total profits and the sum of the normal tax. In this case it would amount to eight per cent of $700,000 or $56,000. An excess profits tax also has to be paid by the corporation. Excess profits are computed as profits in excess of 12 per cent of capital assets plus 50 per cent of the year's net
taxable profits. According to these assumptions this would mean that excess profits would be the sum exceeding 12 per cent of $3 million or $640,000 (capital assets equalled $2.5 million, 50 per cent of taxable profits equals $0.5 million or a combined sum of $3 million; 12 per cent of $3 million equals $360,000 or $1 million minus $360,000 equals $640,000). The excess profits tax rate is a scaled one ranging from 10 to 30 per cent. In this illustration the rates would be 10 per cent on the first $150,000 of excess profits, 15 per cent on the next $150,000, 20 per cent on the next $150,000, 25 per cent on the next $150,000, and 30 per cent on the remaining $40,000. These calculations would arrive at an excess profits tax of $117,000. Therefore, total taxes as a per cent of taxable income equalled 47.3 per cent compared with 52 per cent in the United States. Thus as far as the tax situation is concerned, a firm operating in Argentina has a slight advantage over one in the United States.

TABLE XXII

IMPACT OF TAXES IN ARGENTINA

<table>
<thead>
<tr>
<th>Taxes (in dollars)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal tax (at the rate of 30% on profits of $1 million)</td>
<td>$300,000</td>
</tr>
<tr>
<td>Dividend tax (at the rate of 8% on $700,000—total profits less amount of normal tax)</td>
<td>56,000</td>
</tr>
<tr>
<td>Excess profits tax (profits in excess of 12% of capital plus 50% of net taxable profits, rates scaled from 10% to 30%)</td>
<td>$117,000</td>
</tr>
<tr>
<td>Total Taxes</td>
<td>$473,000</td>
</tr>
</tbody>
</table>

Total taxes as a percentage of net taxable income, 47.3 per cent.


Inflation

United States firms contemplating investing in Argentina should take into consideration the rampant inflation in that country. From 1948 to 1960 price increases have averaged 28% per cent yearly. This pronounced inflationary spiral has been primarily due to easy monetary policy, and large government deficits. This excessive inflation will mean rising labor and material costs for American investors producing in Argentina. If production is for the Argentine market problems may arise in converting pesos which are
declining in value into dollars for home repatriation. A firm hoping to produce in Argentina for export will find that inflation which increases costs may make international competition difficult to meet because of the need to charge higher prices. Policies to curb this price spiral have not been forceful enough to be effective and until such policies are instituted, the inflation will undoubtedly be a significant barrier to United States investment.

Magnitude and Impact of United States Investments

American investors have been active in Argentina. Two polyvinyl chloride plants built by United States companies were placed in operation in March, 1960. They have a combined total capacity of 8,000 tons, which satisfies the nation's requirements. In 1960 construction was commenced on a joint United States-Argentine aluminum fabricating plant with an annual capacity of 20,000 tons. The Argentine government also approved an investment project to build an aluminum reduction plant. During 1960 Argentina authorized a $70 million investment project by United States firms to establish an integrated petroleum complex which will utilize her petroleum and natural gas reserves. This complex will produce butadiene, synthetic rubber, styrene, ethylene, polyethylene, plasticizers and fertilizers. In

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in 1960 the Argentine Government approved a $4 million invest-
ment to construct a plant to produce carbon black. Light
plane production was started by Lockheed Aircraft Inter-
national. From September 1950 to the end of 1960 the Argen-
tine Government approved proposals for investments totaling
$316.4 million. Of this sum $185.5 million represented
United States Funds. Most of the foreign investments were
concentrated in chemical, petro-chemical and automotive
vehicle plants. 14

To evaluate the significance of United States invest-
ments to the Argentine economy an examination of specific
contributions of American investments to the economic life
of Argentina is necessary. Areas to be examined are:
(1) the sales of manufactured products by American owned
enterprises; (2) amounts of imports acquired by these firms
from the United States; (3) production of other American
owned firms, and (4) the contribution made to local incomes
and employment levels. The United States Department of
Commerce conducted a survey which it published in 1958 re-
vealing this information. Because in 1955 the value of
United States direct investments in Argentina totaled $447
million as compared with $472 million in 1960, the 1955
survey may be considered to be a rough approximation of the

14Ibid., p. 5.
situation in 1960. It should be noted that the data covers only those companies which voluntarily engaged in the survey. The writer has no way of determining the extent of non-participation of American owned firms. One may conclude, at any rate, that the figures would be somewhat higher if 100 per cent participation had been realized.

United States companies, excluding trade and service industries, operating in Argentina in 1955 had sales of $571 million of which $438 million was accounted for by manufacturing and $98 million by petroleum. Of total sales, $505 million was sold in local markets including all of the petroleum. Only $66 million was exported, all comprising manufactured goods of which the United States market absorbed $23 million. Approximately $40 million was utilized by these firms to make foreign remittances for imports and income payments. This meant that almost all of their sales proceeds were paid in Argentina for wages, taxes, materials, and other local expenditures.

Approximately $21 million of manufactures consisted of foodstuffs, mainly meat products. Other large significant sales by American firms were in chemicals, $75 million;

15 U.S. Department of Commerce, U.S. Investments in the Latin American Economy, 1958, op. cit., p. 112. (I have not chosen the data for the 1960 survey covering the year 1957 because the values for 1955 more closely approximate the 1960 figures.)

16 Ibid., pp. 57, 153.
rubber goods, $45 million; and electrical machinery, $35 million. Food products in 1955 represented a smaller portion of United States investments in Argentina than in earlier times, indicating a trend toward investment diversification. Increased activity of American firms in manufacturing meant a relief for Argentina's balance of payments problems as a result of home production of previously imported items.

In addition to the manufacturing companies, United States owned public utilities in Argentina in 1955 had sales of $12 million. American owned petroleum firms spent $53 million in Argentina for wages, taxes, and materials. At this time petroleum was a critical item in Argentina's import picture. Under the Frondizi regime United States investors were influential in making Argentina self-sufficient in petroleum consumption. This proved a great help in coping with balance of payments problems.

Approximately $530 million was paid out by American owned firms in Argentina during 1955. Of this total $120 million was for wages, $100 million in taxes (primarily direct taxes), and $280 million for materials produced in Argentina. These firms reporting in the survey employed 79,000 workers in Argentina, of which only approximately 200 were Americans.\(^{17}\) Of the $21 million earned by these

\(^{17}\text{Ibid.}, \ p. \ 59.$
companies, $15 million was reinvested in Argentina.


The sales volume of United States firms in Argentina has increased markedly since 1957. During 1957 these enterprises sold $385 million; by 1958 sales rose to $426 million, and by 1960 they totaled $696 million. This increase is primarily explained by increased automobile production.\footnote{Ibid., p. 23.}

In 1960 the net capital outflow to Argentina totaled $70 million and undistributed subsidiary earnings $36 million.\footnote{Ibid., p. 22.} American owned firms thus assisted Argentina's economy by: developing the petroleum industry; helping to alleviate the balance of payments problems; producing products needed in the Argentine market; providing employment for nationals, and paying taxes.

**BRAZIL**

**Government Regulations**

Prior to presenting the role of United States investments in Brazil, a brief examination of the factors
influencing foreign investment in Brazil is in order. Foreign investors have generally been welcomed in Brazil during the postwar period. The main exception to this statement is petroleum exploration, production, refining, and transportation, which excludes foreign participation. Since October of 1953, the petroleum industry has been a monopoly of the federal government. Although foreign companies still operate some tankers, refineries and retail distribution services, they cannot expand except in distribution. Petroleum policy in Brazil has apparently sparked a continuing controversy within that nation. Those defending the government policy of excluding foreigners from investing in the petroleum industry do so on the grounds that:

1. Petrobras, the government company, is doing a good job, as attested by the sharp rise in crude-oil output and the successful refinery program. The attainment of the Development Program is now assured and there is a good prospect the goals may be exceeded.

2. Petrobras is a well-run, well-managed enterprise. It uses the services of capable foreign individuals and companies extensively in its exploration and production programs and therefore has access to the most modern scientific and technical advances in its work.

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3. True, the development of Brazil's oil resources is a costly undertaking, specifically in foreign currency outlay. However, if the development is done by Petrobras, all the resulting profit will be retained in the country and used for its development; it will not have to be shared with foreign enterprises, which would take their share abroad.\textsuperscript{22}

Those attacking the government monopoly of petroleum are just as vociferous in presenting their views. They feel that:

"1. The program of Petrobras and even its objectives are too modest to meet the vast needs of the country.

2. In the difficult and risky business of discovering and producing oil, there is no substitute for the seasoned private enterprise which has a large financial stake in success and which has repeatedly demonstrated its ability to produce results elsewhere.

3. Brazil can ill afford to invest the huge resources, especially of foreign exchange, that will be needed to develop her oil industry. This is particularly true at a time when a shortage of foreign exchange is threatening to slow down the rate of industrial growth, and when foreign investors stand ready, under materially advantageous conditions, to develop the oil industry."\textsuperscript{23}

\textsuperscript{22}Ibid., pp. 15-16.  \textsuperscript{23}Ibid., p. 16.
It appears at the present time that production and processing of petroleum will continue to remain in government hands. Economic relations between the United States and Brazil would be improved by a settlement of this conflict. Attempts on the part of the United States to get Brazil to acquiesce to her demands may only lead to further obstacles in the path of American investors in Brazil. This last statement is made in the light of the fact that Brazil is in a stage of economic and political development in which intense nationalistic and anti-foreign feelings are present.

**Taxation**

Tax burdens are an important factor to consider in attempting to determine whether to invest overseas and where to invest. Table XXIII presents the impact of Brazilian taxes in a situation identical to that examined for Argentina. The assumptions made are that the corporation in question has $2.5 million in investment capital and $1 million in profits. This corporation pays a normal tax of 23 per cent on profits. The firm is also subject to a dividend tax of 25 per cent on total profits less the amount of the normal tax. An excess profits tax is levied by Brazil which may be calculated in several ways. The method yielding the lowest tax burden is utilized. For excess profits purposes profits are compared with 30 per cent of the
capital in the business (30 per cent of $2.5 million = $750,000). Profits in excess of 30 per cent of capital are termed "excess" profits (in this case $1,000,000 - $750,000 = $250,000). In this illustration since profits do not exceed 50 per cent of the excess profits tax law they are taxed at the lowest rate which is 20 per cent (the tax is thus $50,000 or 20 per cent of $250,000).

### TABLE XXIII

**IMPACT OF TAXES IN BRAZIL**

<table>
<thead>
<tr>
<th>Taxes (in dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Normal tax (at the rate of 23% on $1 million)</td>
</tr>
<tr>
<td>Dividend tax (at the rate of 25% on $770,000--total profits less amount of normal tax)</td>
</tr>
<tr>
<td>Excess profits tax (profits in excess of 30% of capital assets at a scale of rates in this case 20% of $250,000)</td>
</tr>
<tr>
<td><strong>Total taxes</strong></td>
</tr>
</tbody>
</table>

Total taxes as a percentage of net taxable income, 47.25 per cent.


**Inflation**

A rapid inflationary spiral averaging annual increases of 53 per cent between 1948 and 1960 has plagued
Brazil. Causal factors have been expansion of private credit, government deficits and electric power bottlenecks. The inflationary spiral has stimulated the conversion of savings into investments because of expected divergences between money costs of production and prices. Inflation strengthened a traditional tendency in Brazil to invest in agriculture and real estate construction. Delays in completing investment projects as a result of a shortage of materials indicate that inflation has outlived its usefulness in facilitating the shift of resources to new ventures. It thus appears that excessive inflation has hindered economic development by: (1) channeling investments into speculative areas such as real estate, leaving fewer funds for basic sectors of the economy; (2) reducing savings levels because of the tendency to maintain high levels of consumption, and (3) creating unstabilizing social and political tensions.\(^{24}\) Attempts to curb runaway inflation in Brazil by limiting the expansion of the money supply, balancing the federal budget, keeping wages within the bounds of productivity increases and achieving a balance in the balance of payments have generally failed. The cost of living in Brazil rose 36 per cent over 1960 during 1961 and 56 per cent over 1961 during the first eight months of

Other Investment Factors

Power shortages have hindered the development of some areas of the Brazilian economy. Most of the available power is in the southeastern coastal area; in 1954, for example, 80 per cent of Brazil's total generating capacity was in this area. In spite of the fact that much of Brazil does not possess electric power, the nation has a vast hydropower potential. The slowness of private companies to develop power is attributable to: (1) the reduction in power demand in the 1930's as a result of the depression; (2) a nationalistic movement which opposed private power companies, and (3) legislation which curbed the profitability of investments in this area. In 1934 a limit of 1C per cent of capital assets was established for net returns and the "historical costs" principle was used in evaluating assets to establish the basis for permanent earnings. This base did not consider replacement costs, which had risen significantly, and the power-producing firms were not able to reinvest sufficient funds for expansion. Also a 10 per cent return limit was not sufficient when cost of living indexes were averaging increases of 20

per cent annually from 1948 to 1960. During this period returns in manufacturing enterprises averaged 25 per cent and financial institutions were obtaining 12 per cent interest on short-term advances. As a result most of the capital for development of power has come from public agencies, the Export-Import Bank and the World Bank. Power rates are presently among the lowest in the world and the outlook for future foreign investment in this area is poor. Thus, a bottleneck to foreign capital in the manufacturing sector of the Brazilian economy still persists.

Comparative cost figures between the United States and Brazil are not always reassuring to the potential American investor. In 1957 a study was made comparing unit production costs in the United States with Brazil and 19 other nations. The cases used were those where an American firm manufactured a similar product at home and in one or more foreign nations; 13 firms were involved in the United States-Brazilian comparison. In 6 of the 13 firms total unit costs in Brazil were from 85 to 115 per cent of American costs and in the other 7 costs in Brazil were more than 115 per cent of United States costs. Analysis of direct material costs revealed that in one of the firms costs were from 85 to 115 per cent of those in the United States while in 12 of the reporting companies these costs were more than 115 per cent.

26Dale, op. cit., p. 18.
of those in the United States. Labor costs revealed Brazil to have a considerable advantage. Of 12 reporting firms, 11 had labor costs of less than 85 per cent of those of plants located in the United States. Overhead costs revealed a situation which was approximately the same in the two nations. The high material costs in Brazil are explainable by several factors. There is the need to import items not available in Brazil. Even when some commodities are available in Brazil, their quantities are often limited and sporadic imports are required. The uncertainties as to the availability of materials necessitate high inventories. The potential American investor may thus find Brazilian-American cost comparisons to be unfavorable to Brazil as a result of high material costs in the Portuguese-speaking nation. American investors will find it generally advantageous to invest in industries that have a high percentage of labor costs and that do not require the importation of materials.

**Magnitude and Impact of United States Investments**

Book values of United States direct investments in Brazil increased from $323 million in 1946 to $953 million in 1960, a rise of 192 per cent. Of the 1960 sum, $515 million was invested in manufacturing, $200 million in

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27 Ibid., pp. 33, 34.
public utilities, $130 million in trade and $76 million in petroleum. United States direct investments in 1955 were estimated at $1,115 million.28

During 1955 United States owned manufacturing firms in Brazil had total sales of $355 million. Of this sum approximately 33 per cent represented sales of food products, chemicals, rubber products, electrical machinery and automotive products.29 These manufacturing companies helped Brazil's balance of payments by accounting for $15 million of capital goods imports. American firms involved in the importation and distribution of petroleum and petroleum products reported sales of $300 million. Together United States owned companies contributed about $80 million to Brazilian exports. United States direct investments in public utilities had gross revenues of $27 million which were approximately equal to the total payments in Brazil of these firms.30

Expenditures during 1955 of United States owned firms in Brazil for wages, taxes, materials and other items totaled $600 million. Manufacturing firms accounted for 50 per cent of the sum and spent over 80 per cent of their


30Ibid., p. 63.
total sales proceeds within Brazil. Approximately $250 million was spent for supplies and utilities exclusive of purchases by trade and distribution companies. Brazilian governments received $80 million in taxes including $22 million of direct taxes on income. Two-thirds of the income taxes were paid for by manufacturing firms and petroleum companies accounted for most of the indirect taxes such as sales taxes and import duties. 31

Approximately $85 million was received in the form of wages and salaries and about 50 per cent of this sum was accounted for by manufacturing. United States firms employed 94,000 persons, which represented the largest number in any of the Latin American countries, and of this total only 630 were sent from the United States. Out of a total 8,500 supervisory and technical positions, about 8,000 of these jobs were occupied by local personnel. For each worker the companies had total assets of approximately $9,000, including current assets and fixed assets less depreciation reserves. Gross fixed assets per employee were $6,000, ranging from $3,000 in manufacturing to $17,000 in public utilities. 32 During 1955 these firms invested $60 million and much of this came from earnings since only $16 million of dividends were paid out of total incomes of $51 million. Since World War II, United States direct

31 Ibid. 32 Ibid.
investments in Brazil had, by 1955, grown faster than any other Latin American nation. Total United States investments in Brazil were exceeded only by American investments in Canada, England, and Venezuela.

COMPARISON OF ARGENTINA AND BRAZIL

An analysis of Argentina and Brazil in relation to foreign investment must consider that Argentina is not an underdeveloped country. She is a decapitalized country, similar to postwar Europe rather than to Africa or most of Latin America. Peron's reckless policies caused the nation to live off the fat of the land. In so doing, transportation facilities, including highways and railroads, deteriorated, cattle herds were depleted, agricultural methodology became archaic, factory facilities were permitted to become obsolete and worn out, power was inadequate, foreign exchange reserves were very low and trade deficits were occurring regularly. In testimony before Congress Senator Wayne Morse stated that Argentina needed more recovery and rehabilitation rather than development.\(^\text{33}\) Brazil, on the other hand, can be termed as an underdeveloped nation and unlike Argentina she has never achieved a desirable living

standard for her people. Her resources are relatively much less developed than Argentina's. W. W. Rostow places Brazil in the "take off" stage of economic development. This stage is characterized by key industries expanding rapidly, factory workers increasing, incomes and savings rising and the rate of investment jumping from about 5 per cent of national income to 10 per cent or more. Professor Rostow indicates that Argentina has completed the "take off" stage. It appears, however, that the stagnation experienced by the Argentine economy in the 1950's has prevented any real progress in the drive toward the maturity stage.

Savings as a percentage of gross national product is very different in the two nations. For selected years in the 1950's Argentina's savings averaged 20 per cent of gross national product while Brazil has managed a mean saving of 14 per cent. It is interesting to note that the percentage of savings has been higher in Argentina than in the United States during the years under consideration. As was stated, the disastrous policies of Peron were to a great degree responsible for Argentina's dilemma and need for foreign capital. Brazil is and will be for a long time more dependent on foreign capital sources than Argentina.

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35 Note Table XIII in the Appendix.
From a magnitude point of view Brazil is much more important to American investors than Argentina. The value of United States direct investments during 1960 in Brazil was approximately twice those in Argentina, being $953 million to $472 million. During the same year Brazil had 12 per cent of total United States direct investments in Latin America and Argentina had 6 per cent. It follows that in absolute dollar terms the contribution made by United States investment to the Brazilian economy was greater than that to the Argentine economy. Sales in Brazil totaled $682 million during 1955 compared to $583 million in Argentina. United States owned firms spent $600 million in Brazil for wages, materials and other items and $530 million in Argentina. Approximately 94,000 persons were employed by these firms in Brazil compared to 79,000 in Argentina. Manufacturing ventures attracted the most funds in both countries. The petroleum industry was second in significance in both Brazil and Argentina.

United States government assistance of all types from 1946 to 1960 totaled $452 million for Argentina and $1,234 million for Brazil. The difference in the amounts of loans

36 Note Table XII: in the Appendix for more details during the 1946 to 1960 period.

by the Export-Import Bank accounts for most of the differential. In both nations loans were used primarily to obtain needed capital goods.

The role of politics and the ensuing "investment climate" in attracting foreign funds is very evident from a study of these two nations. Although Brazil still leads in the total acquisition of both public economic assistance and direct private investment, the picture commenced to change in 1959. At this time the Argentine government began to attempt to attract foreign capital and undertook to have closer relations with the United States. Thus during 1959 and fiscal 1960 Argentina received Export-Import Bank loans totaling $64 million. Brazil, on the other hand, continued to deny foreign development of its petroleum resources and to a degree drifted away from the United States politically. The result was a sharp reduction in Export-Import Bank loans to Brazil and during 1959 and the first half of 1960 only $7 million in credits were authorized to the Portuguese speaking nation. In recent years, while much foreign private investment has been made in the Argentine petroleum industry, the same has not been true of Brazil. The climate toward the foreign investor has deteriorated in recent years in Brazil. Much of what occurs in the area of United States direct investments will depend on the nature of the political philosophy which prevails in the two nations.

Firms locating in Argentina will in all probability
find a more skilled local labor force to draw from than in Brazil. In 1950, 81 per cent of all Brazilians had completed less than 4 years of schooling compared with only 37 per cent in Argentina. It is estimated that in 1957 illiteracy in Brazil prevailed in 50 per cent of the population while in Argentina it was 13 per cent. From 1947 to 1953, 56 to 65 per cent of the Brazilian labor force was employed in agriculture, while in Argentina the percentages were from 25 to 35. Male life expectancy, which reveals something of the health of the labor force and possible experience and skills, was 54 years in Argentina and only 38 years in Brazil during 1957.

Considering economic potential in general terms, it appears that in the long run Brazil may have more of a future to offer the American investor than Argentina. Brazil has greater resources, a larger population, and her economic potential is very great. In recent years the Brazilian economy has fared better than Argentina's. Per capita share of the gross national product was static from 1950 to 1958 in Argentina while it increased 3.7 per cent annually in Brazil. During 1953-58 Argentina's

39Ibid., p. 23. 40Ibid., p. 18. 41Ibid., p. 15.
42Ibid., p. 46.
population averaged annual increments of 1.9 per cent and Brazil's 2.4 per cent. In the short run Argentina's higher per capita income and more advanced stage of economic advancement may make her a more desirable area in which to invest.

The foreign investor will be affected by the degree of inflation present. It will have a bearing on wage levels, material costs, possible foreign exchange difficulties and depreciation allowances. Although the inflationary problem of Brazil has received much publicity, Argentina since 1953 has suffered more from the inflation virus. Using 1953 as the base for both nations, the consumer price index in Brazil climbed to 326 in 1959 and 433 in 1960 while the corresponding figures for Argentina were 464 and 590. In both countries galloping inflation is a serious problem which may present difficulties to the foreign investor.

Potential American investors will find the tax treatment in Argentina and Brazil to be approximately the same as indicated by Tables XXII and XXIII. These tables assume that there are two corporations, one located in Argentina and the other in Brazil. They further assume each firm has $1 million of net taxable profits and $2.5 million of capital assets. The calculations made in this chapter reveal a

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43 Ibid., p. 12.
44 Note Table XIV in the Appendix.
very similar tax burden in the two countries. Although the normal and the excess profits taxes are higher in Argentina, the much higher dividend tax rate of Brazil offsets them, so that the over-all tax rate is almost identical. In most cases taxes would not be a prominent factor in determining whether to locate in Brazil or Argentina. The tax rates of 47.3 per cent in Argentina and 47.25 per cent in Brazil are quite high when one considers that the rate in the United States is 52 per cent, but the risks involved much less.

In summary, at the present time, Brazil is more dependent on foreign investment funds than Argentina. From the viewpoint of volume of funds Brazil is approximately three times as important to American investors as is Argentina. Recent dollar contributions made by United States investments to the economies of the two Latin American nations, in the forms of sales, wages, materials, products for exports and employment of nationals, were much greater in Brazil than in Argentina. Brazil has been the recipient of greater United States public funds than Argentina. However, in 1959 the picture commenced to change and Argentina acquired a larger share than Brazil of United States public funds during 1959 and 1960. Potential American investors will find inflation to be a factor to consider in both nations and tax treatment to be approximately the same in Argentina and Brazil. Brazil appears to be in the process of making greater progress in economic development than
Argentina. Increases in per capita gross national product during 1958 to 1960 averaged zero for Argentina and 3.7 percent for Brazil. The American investor may find that Argentina offers the greater short run potential because of a higher per capita income, a more skilled labor force and a more advanced state of economic maturity. In the long run, however, Brazil's greater resources, larger population and faster rate of economic growth would seem to indicate that she offers the greater economic possibilities.
CHAPTER IV

ARGENTINE AND BRAZILIAN BALANCE
OF PAYMENTS PROBLEMS

Argentina and Brazil have been greatly influenced by external economic factors. A study of the balance of payments of these two countries will reveal information pertaining to the nature of these factors. Through an analysis of Argentina's and Brazil's international financial statements the relationships between external and internal economic influences may be more clearly comprehended. Furthermore, the balance of payments reveals not only a nation's relationship with the rest of the world but also, if compared over a period of several years, the stages of the country's economic growth. Thus, the information contained in the balance of payments is indispensable to the economist attempting to analyze a nation's economy. As W. W. Jevons once said, "what the Periodic Table of Elements is to the chemist, the Balance of Payments is to the international economist."¹

The procedure in this chapter will be to: (1) Explain the method used in measuring surpluses and deficits in the balances of payments of Argentina and Brazil. (2) Discuss Argentina's international financial statement in relation to: (a) exchange controls; (b) the postwar crisis in her balance of payments; (c) the balance of payments and economic stagnation during the 1950 to 1960 period; (d) the factors causing balance of payments problems, and (e) the role of the United States in Argentina's balance of payments. (3) Examine Brazil's balance of payments in relation to: (a) exchange controls; (b) factors influencing exports, imports and terms of trade; (c) future balance of payments prospects, and (d) the role played by the United States. (4) Compare the role of the balances of payments in the economic development of Argentina and Brazil.

MEASUREMENT OF SURPLUSES AND DEFICITS

In discussing the balances of payments of Argentina and Brazil the need arises to arrive at a basis of measuring deficits and surpluses. Professor Machlup provides a means of obtaining an insight into this problem. He differentiates between the Market Balance of Payments, the Program Balance of Payments and the Accounting Balance of Payments.2

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The market approach is an "ex ante" one where at a given time there is a given demand and supply situation prevailing between a nation and the rest of the world. This concept is very useful in the foreign exchange market. Its major contribution is revealing the effects which changes in the exchange rate might have upon the amounts of exchange demanded and supplied. The market balance approach is thus inadequate as a means to analyze the over-all role of the balance of payments in a nation's economic development. The program approach is also an "ex ante" concept which considers planned foreign exchange needs relative to some fixed standard. Deficits occur when planned foreign exchange needs exceed the expected acquisition of the foreign exchange and surpluses occur under the reverse situation. Finally, the accounting balance of payments is considered. This is an "ex post" concept based on statistical records and is a fully balancing accounting statement. With the double entry system the only imbalance can be errors and omissions, and these are statistical errors, not economic factors.

Of the three balance of payments concepts the accounting balance with consideration of the program approach will be mainly utilized to arrive at deficits and surpluses. However, a differentiation will be made between autonomous payments and accommodating items. Autonomous payments are those which have taken place for reasons other than the status of the balance of payments. Accommodating items are
payments which are induced by other items and serve to fill the gap in the net autonomous entries of the balance of payments. These accommodating items are generally taken to be gold flows and short-term capital movements. This statement is made with the realization that for gold-producing countries gold may be considered normal autonomous merchandise rather than a balancing item. Also, under specific instances short-term capital movements may be autonomous and disequilibrating, as were the capital flights in the 1930's. Long-term capital may also serve as a balancing item on occasion. Overall, the net of autonomous items is equal to the net of accommodating items. If the autonomous items result is a net deficit, the balance of payments is in deficit disequilibrium and must be matched by accommodating financing. This difference represents the true balance of payments deficit as it will be used in this study.

The program balance enters the picture because to understand the accounting balance, deficit or surplus, the factors which result in a particular accounting statement must be understood. It is from the program approach that the impact of economic policy on the balance of payments can be seen. The relationship between the balance of

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payments and a nation's economic development can best be grasped from the program approach. Because a thorough program balance of payments complete with data cannot be obtained, the procedure will be to start with the accounting balance, then study the available program balance to be able to understand the former.

ARGENTINA

**Exchange Controls**

Controls over exchange were established in Argentina in 1931 when the law dictated that all exchange transactions be handled through authorized banks at authorized rates. In 1933, a free exchange market was created and all importers of items not previously covered by controls could obtain foreign exchange in this market. During the years 1934 to 1939, some exporters were permitted to sell their foreign exchange at the free market rate. This free exchange sector was discontinued in 1939 for merchandise transactions and a system of multiple exchange rates took its place. This system became more and more complex, and by 1950 there were four rates each for imports and exports plus a free rate. Imports were grouped into preferential A, preferential B, essential and non-essential. Exports were classified as basic exports, preferential A, preferential B and special
exports. The free rate was applied to financial remittances.⁴

The application of controls was motivated by the desire of the government to correct what it felt was an imbalance between agriculture and industry in the Argentine economy. Primarily, the idea was to apply as much of the limited foreign exchange funds as possible to procure those items needed to enhance the industrial development of Argentina.

Revisions were made in the above system in August 1950. The system of multiple exchange rates was replaced by two fixed rates of 5.00 and 7.50 pesos per United States dollar. These rates applied to the buying, selling and controlled free rates. The latter rates were free in name only as the government controlled their fluctuation. Further adjustments were made in the system over the next few years. Export rate variations were added which permitted the exporters to dispose of some of their foreign exchange at the free rate. Controls were extended over the free market and rates were not permitted to fluctuate. This form of exchange regulations was replaced by the exchange reform of 1955.

The "aforo" system came into operation in 1955 and was amended in August of that year. This was a multiple

⁴For details see Table XV in the Appendix.
exchange rate system. It was based on a fixed official rate of 18 pesos per dollar, and a fluctuating free rate. The rates for a given transaction could be: (1) the official rate less various surcharges for certain exports; (2) the combination of the official and free rates in fixed proportions, or (3) rates resulting from the "aforos" and the free rates.  

"Aforos" were unit prices expressed in terms of foreign exchange established for some of the exports and imports negotiated in the official market. The part of the export proceeds equal to the "aforo" had to be surrendered at the official rate and anything above this could be sold at the higher free rate. For imports the balance of the actual price over the official price had to be covered by the purchase of exchange in the free market. To the extent that the "aforos" understated the actual prices, exports received a premium and imports were taxed.

Major changes were made in the above system in 1958. Foreign exchange earned from the sale of beef, mutton, greasy wool and sheepskins was sold 65 per cent at the official and 35 per cent at the free rate. Exports of raw hides, some types of wool, beef products and other animal by-products were made 50 per cent at the official and 50

per cent at the free rate. Some exports were subject to a surcharge of 10-25 per cent. A maximum rate of 50 per cent at the official and 50 per cent at the free rate was put into effect in August 1958 for specific imports such as medicines, paper, some fertilizers, rubber and tin. Most other imports were transacted under the free rate and were subject to a surcharge of 20 to 40 pesos per United States dollar. Official valuations were established for some imports made at the official rate, and in those cases the importer had to purchase the difference in the free market. Thus, the effective rate at the end of August, 1958, varied from 18 to 87 pesos per dollar.6

The Paris Club Agreement between Argentina, Austria, Belgium-Luxembourg, Denmark, France, Germany, Italy, Holland, Norway, Sweden, Switzerland and the United Kingdom was signed in November of 1957. This is a multilateral trade and payments agreement which provides that the Argentine authorities will not discriminate in trade and payments among or against European participating countries. Argentina's receipts from or payments to these countries may be made in any of their currencies. Exchange rates approximate the rates currently quoted on the European foreign exchange markets.7

6Ibid., p. 39. 7Ibid., p. 38.
A single fluctuating rate system replaced the earlier multiple rate system in January, 1959; thus the system of "aforos" was eliminated. All controls over trade, invisible and capital transactions were removed except for the stipulation that all export income be surrendered within 30 days of shipment. At this time three import lists were announced. Commodities on two of the lists would be subject to surcharges of 20 to 40 per cent of their c & f value. Imports not included in these lists would automatically be subject to a 300 per cent surcharge; this was reduced on December 31, 1959, to 150 per cent. Number three and all unlisted imports were subject to advance deposits to be held for 180 days. The deposits ranged from 50 to 500 per cent of the c & f value of the goods plus the surcharge. 8 A detailed summary of the surcharges is presented in Table XVI in the Appendix.

The government attempted to use exchange restrictions of various types to aid industrial development. Prior to 1955, this was to a considerable degree accomplished by discriminating against agriculture. Since 1959 the movement has been toward freer trade. By the end of 1961, imports were free of import and exchange licenses and exchange to pay for them could be purchased in a truly free exchange

market. For import purposes, commodities were grouped in accordance with their essentiality and local production. Items needed to develop local industries were exempt from surcharges. Exports were free of direct controls and the surrender of exchange proceeds was not required. Payments for invisibles were made freely through the free market.  

During 1947-51, the system of exchange controls was generally detrimental to the economic development of Argentina. Under the operation of state trading and multiple exchange controls no incentive was given agricultural production and basic Argentine economic endeavors such as cereal growing and stock raising were penalized. Through the use of controls producers were denied the benefit of prevailing high export prices by being forced to sell their products to state agencies which paid prices lower than those prevailing in world markets. As a result of these policies agricultural production declined and subsequently so did Argentine agricultural exports. Also, foreign investors were partly discouraged from investing in Argentina because of restrictions through exchange controls on remittances of profits. The over-all result was that exchange restrictions hurt agricultural production, reduced the quantity of available exports and hindered the inflow of foreign

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capital. These developments resulted in serious balance of payments disequilibrium and greatly reduced foreign exchange earnings. The shortage of foreign exchange funds reduced Argentina's ability to purchase capital goods needed in her quest for industrial development.

The Postwar Crisis, 1946-1949

World War II presented some advantageous economic conditions for Argentina. She was a neutral and the demand for her agricultural commodities during and immediately after the war was high. A summary version of the balance of payments for 1946-1959 is presented in Table XVIII in the Appendix. The surplus or deficit is represented by the combined gold and short-term capital movements.

The data in Table XVIII in the Appendix reveals that Argentina experienced balance of payments deficits in each of the four years under consideration. One apparent reason for these negative balances, particularly in 1946, was the heavy deficits in long-term capital. This was attributable to the desire on the part of the Argentine government to nationalize foreign holdings. The railroad industry furnishes an example of this policy. English investors were paid, so that the incessant desire of Argentina to own its railroads could be accomplished. Repayment of capital was accompanied by deficits in the merchandise balance in 1946, 1948 and 1949. Merchandise account difficulties were the
result of European recovery and United States sales of surpluses. The statements made are only in general terms. A more detailed examination of the factors during 1946 to 1949 which caused Argentina to begin experiencing economic stagnation, mal-distribution of capital, and declining exports is necessary.

Argentina's position changed during the course of World War II. Its population increased by 40 per cent, gross national product rose by 40 per cent and industrial production expanded by 65 per cent. The result was an increase in foreign exchange needs to keep the economy going. This meant that import requirements for fuel, raw materials and capital goods to replace worn out capital rose. The change, unfortunately, was accompanied by a decline in exports from 25 to 13 per cent of gross national product. Once again Argentina was placed in the dilemma of having to utilize a small amount of exchange to finance the imports which she needed to increase her national output. This situation was aggravated by several other factors. (1) No further squeezing of non-essential imports could be practiced as had been done previously; (2) The transportation industry needed capital expenditures to replace

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depreciated equipment in contrast to the condition of excess capacity in the 1930's. (3) Agriculture found it difficult to expand merely by the expansion into new lands of the Pampa because these had been fairly well utilized by the 1920's. During the 1930's the problem in agriculture had been one of inadequate demand. After World War II the new situation in agriculture was insufficient production to meet domestic and foreign needs. (4) The rise of industrial development and motor transportation brought pressure for greater importation of petroleum. All these factors exerted their adverse influence on the balance of payments.

Economic conditions called for a change in Argentina's growth pattern and methods had to be devised to obtain more foreign exchange. Two possibilities became apparent. One alternative was the expansion of exports and the other called for more stringent import substitution. Changes in import composition would have had to come in the area of intermediate products, especially fuels and capital goods themselves.\footnote{Ibid., p. 16.} Argentina chose again to emphasize industrialization and import substitution whenever possible. No conscientious effort to augment exports through increased agricultural productivity was noticeable.

Argentina at this time was in a good position to put the industrialization policy to a successful test. Two
factors were now working in the nation's favor. (1) The terms of trade in 1946 began to improve, rising from 81 percent of the 1925 level in the 1940-44 period to 116 in the 1945-48 years. (2) Foreign exchange reserves were considerable as a result of the war period. Unfortunately, the management of the industrialization policy was poor. Exchange was allocated for items that were not very essential to Argentina and to nationalize foreign investments producing low economic yields. These two factors to a great degree explain the lack of capital formation in the key areas of the Argentine economy. Transportation, petroleum and capital goods industries were neglected. This development in turn explains to a great extent the forces which hindered Argentine economic development.

The poor distribution of investment capital also led to problems in the distribution of labor among the various areas of employment and labor productivity. Inside the manufacturing and transportation industries poor use was made of the increases in manpower. Agriculture suffered a labor shortage which was partly the result of labor going into industry and the lack of increased productivity on the farm. The construction and railroad industries were the ones who absorbed the largest number of laborers and both experienced declines in productivity. Thus, while the volume of production in Argentina's industry increased, this benefit was neutralized by declines in construction and
transportation and stagnation in agriculture. This fact is largely responsible for the stagnation in the per capita income of the nation.

Argentina lost her opportunity in the export field as well. The situation after the war was such that the demand for Argentina's commodities expanded rapidly. Many areas of the world, particularly Europe, were in the process of rehabilitating themselves from the holocaust of war and the demand for food was high. Argentina, however, could not take advantage of this opportunity and her share of the world export market, except for wool, actually declined as can be seen from Table XXIV.

**TABLE XXIV**

ARGENTINA'S SHARE OF EXPORT MARKET FOR SELECTED AGRICULTURAL COMMODITIES IN SELECTED YEARS

(In per cents)

<table>
<thead>
<tr>
<th>Period</th>
<th>Maize</th>
<th>Wheat</th>
<th>Linseed</th>
<th>Wool</th>
<th>Meat</th>
</tr>
</thead>
<tbody>
<tr>
<td>1934-38</td>
<td>61.4</td>
<td>19.3</td>
<td>67.5</td>
<td>11.7</td>
<td>39.7</td>
</tr>
<tr>
<td>1945-49</td>
<td>42.8</td>
<td>8.7</td>
<td>30.5</td>
<td>14.0</td>
<td>35.0</td>
</tr>
</tbody>
</table>


The situation in the above table is explained by
several factors: (1) agriculture was not an attractive area to investors; the government re-distributed income in favor of the city areas through keeping relatively low prices for agriculture commodities and direct consumer subsidies, resulting in a large increase in domestic consumption and thus a reduction in the amounts available for export; (2) farm methods in Argentina were not modernized and this hindered production, and (3) the agricultural subsidies of the United States led to dumping of farm commodities on the world market. This point, however, is not of pronounced significance, because regardless of price levels Argentina did not have sufficient commodities to sell.\textsuperscript{12}

These developments had an impact on the domestic economy. The gross national product increased from $6.5 billion in 1945 to $9.2 billion in 1948 and declines were experienced after 1948.\textsuperscript{13} At the same time the need for foreign exchange required to maintain the level of economic activity increased. This led to a situation in which the margin of foreign exchange available for expansion of Argentina's industrial equipment disappeared. Sums received for exports barely covered the cost of importing the intermediate factors of production, particularly fuels and capital


\textsuperscript{13} Ibid.
goods for replacement of depreciated equipment. The balance of payments had once again placed great pressure on Argentina's economy and her means of industrial expansion were being curtailed.

The outcome of these problems was economic stagnation. Argentina's inability to expand economically coupled with attempts to redistribute income in favor of the city workers on one side, and attempts to maintain the level of investment on the other, resulted in inflation. Rising prices were almost inevitable because of the conflict between the goals of high workers' incomes and efforts to maintain the level of investment. The redistribution of income to workers tended to reduce the amounts of goods available for export. This in turn reduced the ability to import capital goods and the internal ability of the nation's economy to expand. During this period the little progress that was made was accomplished at the expense of reductions in Argentina's gold and foreign exchange holdings. A decline of $914 million in gold and foreign exchange holdings was experienced by the nation from 1946 through 1949. After 1948 there followed a period of stagnation and decline in the Argentine economy which brought a reduction in per capita income from $564 in 1948 to $428 by 1952.\textsuperscript{14}

\textsuperscript{14}In terms of 1952 U.S. dollars.
Stagnation and the Balance of Payments, 1950-1960

Based on per capita income data, Argentina did not make any real over-all advances in the decade of the 1950's. In an attempt to explain this situation a summary balance of payments for the 1950 to 1959 period is presented and deficits or surpluses in trade balances for these years determined. Table XVIII in the Appendix gives a numerical presentation of the Argentine trade for the years in question.

Argentina's trade balance was unfavorable during most of the period. What factors account for this unfavorable picture? The main answer suggests itself in the forms of (1) the terms of trade, (2) the capacity to import, (3) domestic inflation, (4) volume of exports, and (5) volume of imports. Between 1950 and 1960 there were declines of 24 and 15 per cent respectively in the terms of trade and unit value of exports. This was accompanied by a rise of 16 per cent in the unit value of imports.15

A decline was experienced in the capacity to import of 25 per cent between 1946 and 1955.16 The declines were at first offset by short and medium term foreign credits made possible by bilateral agreements. By 1955 the

15 For details see Table X in the Appendix.

liquidation of these credits had to be faced and a debt of approximately $360 million had to be met over a very short period of time. Added to this sum in the form of medium term obligations were about $400 million, resulting in a total short term and medium debt of $760 million. Fortunately, Argentina's authorities succeeded in consolidating these obligations over a longer period of time. In 1956 a change toward multilateral trade with some European nations was made, which replaced the then existing bilateral system. At this time an agreement was made providing for the repayment of the debt over a ten-year period. Along with this went a move towards the reduction of imports from creditor nations. An increase in exports made possible payments to Germany, who had not agreed to the consolidation proposal. Purchases from the convertible currency area increased sharply, particularly from Venezuela in the form of petroleum. To meet this situation gold reserves were tapped and this resulted in a drop in gold reserves from $370 million at the end of 1955 to $224 million at the end of 1956. The combined gold and foreign exchange holdings declined to $130 million during 1958. In 1959 a recovery commenced in Argentina's trade agreement which increased the volume of gold and foreign exchange holdings to $658

million during 1960.

Argentina's balance of payments during the 1950's was further aggravated by considerable domestic inflation. Rapidly rising domestic prices tend to reduce foreign demand for one's exports while increasing domestic demand for foreign commodities. Using 1953 equal to 100 the consumer price index was 69 in 1951 and 590 in 1960.\(^{18}\) This pronounced inflationary trend could not help but put additional pressure on the balance of payments. Wages drove production costs up, rising from an hourly rate index of 100 in 1950 to 451 by 1959.\(^{19}\) The over-all impact was that the prices of Argentina's commodities on the foreign market were increased.

To evaluate import and export requirements it is necessary again to examine the relationship between industrial development and agriculture during this period. The growth in industrial production from 1951 through 1960 was inadequate with the exception of mining. Increases in 1960 over 1951 for the general, mining, manufacturing, and electricity and gas categories were 8, 128, 2, and 17 index points respectively.\(^{20}\) Table XX in the Appendix indicates

\(^{18}\)See Table XIV in the Appendix.

\(^{19}\)The very pronounced increases in prices between 1958 and 1959 are largely attributable to an across the board wage increase by the Frondizi government of 60 percent.

\(^{20}\)Note Table XX in the Appendix.
that industrial growth is partly explainable by the balance of payments. As was stated earlier, between 1944-45 and 1949-50, manufacturing had experienced a sharp rise due to the policies followed by the government. In 1951 the deficits in the balance of payments began to be a problem. The government, in attempting to correct the balance of payments disequilibrium, was forced to reduce imports, including some raw materials and nearly all kinds of machinery, and to restrict credit. This action led to stabilization of manufacturing output rather than continued increases as a result of reduced capital equipment imports. A recovery trend in manufacturing output began in 1955 which was maintained until 1959. The manufacturing recovery was accompanied by a deficit in the balance of payments and the deficit was partly the result of increased equipment purchases which assisted manufacturing production. Thus it appears there was a close relationship between the balance of payments and manufacturing production in Argentina.

Industrial development by 1955 had failed to isolate Argentina from external pressures. The investment cycle was greatly dependent on the level of exports and poor export years meant less exchange to purchase capital equipment. Domestic production also followed variations related to the level of exports and investment. The problem of industrial development was to a great degree traceable to poor economic policy during the prosperous years. Instead of developing
the basic industries, expenditures went heavily for public works and less essential industries, such as factories for providing consumer durable goods. All this added to greater pressures on imports. By 1953, when the nation's gold and monetary reserves were under pressure, even imports of fuels and spare parts were curtailed. This related the level of industrial activity even more closely to the level of exports. By 1960 a reduction of exports reduced not only foreign exchange income, but also resulted in a greater loss of income derived from manufacturing.

When the authorities in 1951 attempted to stem the flow of imports, the decline in the purchases of finished capital goods impeded the level of investment. In addition to this, the uncertain prospects for exports and the credit restrictions imposed tended to discourage investment. Furthermore, the reduction in capital goods imports meant that some local projects were cancelled for lack of machinery and demand for domestically produced capital goods was consequently reduced also. In Argentina the situation was such that the level of investment was not limited primarily because of shortage of savings or investment opportunities, but by lack of foreign exchange to pay for needed capital goods.  

Argentina resorted to extensive import substitution policies for finished goods, materials, capital goods and consumer goods. The attempt to reduce importation of finished goods was directed over a wide area. Between 1950 and 1955 the imports of finished goods items were reduced by 45 per cent. Food could not be cut very extensively because imports were already at low levels. The pronounced decline of 96 per cent in textile imports was not accompanied in this period by expansion at home, but rather by a decline in consumption of 30 per cent in per capita terms. The reduction in consumer durables, spare parts, tires for cars, bicycles, motorcycles, clocks, watches, pianos and refrigerators was in most cases compensated for by increased domestic production. Fuel imports experienced an increase of some items such as coke, lubricants and fuel oils.

Import substitutions resulted in decreased material imports for food, textiles and building materials. In the food group the main item eliminated was tobacco imports because other food imports were already at low levels. As far as textiles were concerned, the development of wool spinning helped to reduce imports. Part of the reduction in textiles was also explained by a decline in the

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22Ibid., p. 129.
manufacturing of clothing at home.23

Problems were encountered in substituting material imports for light industry. For example, although tires were to a considerable degree replaced by domestic production, this substitution led to a tripling of the importation of rubber. Some savings were made in the chemical industry, particularly with the elimination of sulphur imports. The paper industry was affected by a reduction of $107 million in the importation of paper products, but some of these savings were offset by an increase of $71 million in pulp paper imports. External purchases of crude petroleum showed a considerable increase which can be explained by the import substitution in gasoline. Refining of crude petroleum as a percentage of national production rose from 180 in 1949-51 to 227 in 1958.24 Metal imports showed an increase, particularly in pig iron, iron plate, rails and tin plate, the last for expansion of the canning industries. Domestic production expanded considerably, particularly iron rod, wire, strip and galvanized sheets. Over-all, although the tonnage of these metal imports rose by 28 per cent, their values at 1950 prices increased only 21 per cent.25 Import

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23Ibid., p. 130.
substitution on lead was complete. Building materials declines are explainable by a reduction in capital investment and import substitution. Domestic production met the demand for tiles, sand and pebbles, but cement production did not take up all the slack left by reduction in imports.

Capital goods substitution data are based on capital goods imports regardless of their stage of the manufacturing process. Import reductions of all capital goods amounted to 27 per cent. Domestic production in the heavy industries by and large made up for the reduction in imports. There was a rise in average annual value during the 1948-49 to 1955-56 period of all types of durable goods produced from 3.9 to 5.1 million pesos, compared with a decline in imports in the same group from 2.0 to 1.0 million pesos. Unfortunately for Argentina the domestic production took place primarily in consumer goods rather than in producer goods. As a consequence industrial and transportation equipment could not be replaced at a desirable rate and outmoded, worn-out machinery was utilized. Economic stagnation in Argentina is explained to a great degree by this development.

The over-all reduction in the importation of consumer goods was 18 per cent. Factors responsible for this change have been previously enumerated. Textile production

26Ibid. 27Ibid., p. 131. 28Ibid.
at home increased and consumption declined. Consumer durables provided the greatest savings and fuel consumption the least.

It was from agricultural exports that Argentina had to obtain the foreign exchange which was so necessary for her over-all economic development. The picture in agriculture was a dismal one and appears to have been one of the main causes of Argentina's economic woes. During the 1945 to 1955 period while other nations, with the exception of Chile, were making substantial progress in agricultural productivity, Argentina experienced stagnation in this sector. 29

In summary, what factors account for Argentina's balance of payments dilemma in 1955 and 1960? The answer lies in several areas. (1) The new areas of agriculture planting were not as productive as the fertile Pampa. (2) The government's emphasis on industry reduced agricultural prices and incentives. (3) Outdated agricultural methods and equipment were the mode because of channelling of available foreign exchange resources to industry. (4) The shift to industry involved more than surplus workers; it was a population shift which was not compensated

29 "Productivity of Labor and Land in Latin American Agriculture," Economic Survey for Latin America, 1956, op. cit., p. 175. See also Table XXI in the Appendix for detailed comparisons.
for by increased productivity on the farms. In the year 1955 the situation was such that Argentina's economy could be characterized by a "deficit in the balance of payments, short term inflexibility to import, inadequate energy supplies, disinvestment in the transportation industry and inflation." The same situation generally prevailed in 1960.

Role of the United States

Argentina's trade with Europe has been more important to her than that with the United States. The South American nation usually incurs trade deficits in commodity exchanges with the United States. United States subsidization of agricultural exports have at times reduced Argentina's export of farm products such as wheat and corn. In recent years American capital movements to Argentina, particularly into the petroleum industry, have made it possible for Argentina to improve her balance of payments position. United States government loans have helped and can in the future continue to assist Argentina in overcoming her scarcity of capital goods. In addition, a liberalization of United States trade restrictions on Argentine meats and wool would be of great assistance to Argentina in her quest to obtain foreign exchange to purchase capital goods needed.

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for her economic development drive.

BRAZIL

Exchange Controls

Brazil first introduced exchange controls in the year 1931 and this system prevailed until 1949 when it was revised. Import licenses were granted up to the limits of import quotas through exchange licenses required for both imports and non-trade payments. A multiple currency exchange tax of five per cent was placed on most payments abroad. All exports required licenses and shipping permits and foreign exchange earned had to be surrendered to the authorities.  

Rising coffee prices resulted in Brazil enjoying increasing export earnings in the immediate postwar period. Favorable coffee markets coupled with high foreign exchange reserves earned during the war put Brazil in a good position as far as foreign exchange was concerned in the late 1940's. The rising level of imports plus the repatriation of foreign capital soon led in the early 1950's to foreign exchange difficulties.

The multiple exchange system was revised in February 1958. A greatly over-valued official rate of exchange was retained and a system of differential exchange bonuses was

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established. The available exchange, after meeting the needs of the government, was offered to importers at auctions held in the major commercial centers. The bonus rates created for exports in 1953 permitted selected exporters to sell 15, 30 or 50 per cent of their proceeds at the free rate; however, most exports fell into the 30 per cent category.

For some import items such as newsprint, wheat, coal, some machinery, diesel and fuel oil, crude petroleum, kerosene and lubricating oils, exchange was made available at favored non-fluctuating rates. Other non-enumerated imports were handled at widely fluctuating rates under the auction certificate system started in 1953. Imports were grouped into five categories on the basis of essentiality.32

Changes were made in the system during 1957. A new grouping for exports was created which divided the currencies into two categories: convertible, and all others. Four currency groupings were created; these were: coffee and cocoa, hides and skins, most raw material exports, and all other exports.33 Also during this year a new Customs Tariff Law raised the tariff rates.

From October 4, 1958, to December 31, 1959, many exports were shifted to the free market and the number of

32 See Table XXII in the Appendix.
33 See Table XXIII in the Appendix.
export categories reduced from four to two. Coffee exports between June 1957 and January 1959 received a bonus in addition to the 37.06 cruzeiros per dollar. At first the bonus was one per cent on coffee sold at $43 per 60 kilogram bag plus one per cent per additional dollar increase in price. The percentage was increased on July 1, 1958, to three.

On December 31, 1959, the free market rate was made applicable to all exports except coffee, cocoa, castor seeds and crude petroleum. Starting July 1, 1960, exports of coffee and cocoa beans have been made at fixed rates of 90 cruzeiros per bag. Castor seeds, cocoa products and crude petroleum are exported at a fixed rate of 100 cruzeiros per dollar plus a bonus of 81.64 cruzeiros. Proceeds from exports at free market rates are converted at 130 cruzeiros per dollar. The exporter receives, in addition, the difference between this rate and the current free market rate in central bank bills of six months maturity bearing interest at six per cent per year.34

In 1960, exchange for most imports was sold in public auctions at fluctuating rates. A fixed preferential rate of 100 cruzeiros per United States dollar, however, applied to government payments and certain enumerated imports.

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Non-trade invisibles and capital transactions not made at the preferential rate were made at the free rate.

In 1961 the auctioning of exchange was abolished. Exchange to pay for imports in the General Category and in the Special Category was now obtainable in the free exchange market. A certificate of exchange coverage continued to be required for imports in the General Category. Special Category imports require import licenses granted to holders of "promesas de licenca" and the latter were auctioned on the basis of general quotas. Some export proceeds had to be turned over to authorities at pre-determined rates. The free market rates at which some of the export proceeds were converted were determined by the Bank of Brazil.

As of January 31, 1962, buying rates in cruzeiros per dollar were: (1) exports of cocoa and cocoa paste, 263.4; (2) free rate, all other export proceeds, 310. Selling rates were: imports of wheat, 237.54; imports of petroleum, 325.16; all other imports at the free rate of 318.0.  

Brazil's exchange control system has had both a favorable and unfavorable impact on the nation's economic development. From a negative point of view, the system greatly over-valued the cruzeiro and this may have hindered the introduction of needed new export products. These

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regulations exerted pressure on the domestic price level to the extent that reduced imports were not replaced by home production. A serious weakness in the system was the penalizing of coffee exports by granting this commodity the least favored exchange rate. The penalizing of coffee exports led to dissatisfaction with the exchange system on the part of Brazilian coffee interests. As a result of this situation accusations of "exchange confiscation" were made against the Brazilian Government and attempts to evade the regulations were encouraged. When export bonuses were introduced they had to be frequently adjusted as a result of the need to compensate for rising domestic costs of production. These adjustments were often made too slowly, thus hurting the competitive position of Brazilian exports.

The system of exchange regulations appears to have accomplished several beneficial results. It helped to utilize much of the available foreign exchange for needed imports of capital goods and petroleum products. Investment outlays were increased because the Brazilian Government utilized some of the funds it obtained through the practice of having a lower buying rate than the selling rate for domestic economic development projects. Also Brazilian restrictions against some imports apparently assisted the development of domestic industries. Thus the system possessed both detrimental and beneficial aspects. In the Brazilian case and in light of the scope of this study it
is impossible to make a positive unequivocal statement concerning the impact of exchange controls on the nation's economic development.

Brazil's Balance of Payments

Brazil's balance of payments in the last 15 years generally suffered from deep structural disequilibrium and rigidities. A summary version of the Brazilian international account for the 1946 to 1960 period is presented in Table XXVI in the Appendix. The data reveal that Brazil had and still has serious balance of payments problems. Although she has, with the exception of 1952, had surpluses in the merchandise account, they have not been sufficient to offset other deficits in the balance of payments. The services sections of the current account reveal deficits in every year under consideration. Transportation and insurance deficits averaged approximately $149 million during these years. Investment income data reveal a mean annual outflow of about $117 million and in some years Brazilian payments to foreign investors exceeded the amount of new capital influx. This means that much of the benefit of the new capital received is offset by the investment income payments abroad for past capital acquisitions.

The obligations of foreign investment income payments, along with the need to import capital goods, makes for considerable rigidity in Brazil's international account. If
foreign capital is properly utilized, then the burden of investment income payments is justified. Balance of payments problems, however, are augmented if improper utilization of foreign capital is made. The foreign capital should be used to produce essential items at home which are justified by economic considerations. Such investments would reduce dependence on foreign products and also increase production of commodities for export. If this is done, the pressure on the balance of payments may be relieved somewhat by eventually obtaining a greater surplus in the merchandise account. Over-all, Brazil experienced deficits in its current account in 11 of the 13 years under study.

Private capital inflows into Brazil have helped to reduce the size of the deficits experienced in the current account. In the late 1950's external sources of capital provided over $207 million yearly to offset deficits in the current account. The burden of the investment income account will thus continue to be considerable in years to come.

Errors and omissions have been sizeable at times and in 1958, for example, this totaled $211 million. It thus appears that in some years the errors and omissions entry is so great as to render questionable the accuracy of the balance of payments deficits or surpluses for these years.
Exports

Brazil's balance of payments difficulties have been influenced by the composition of the nation's exports, by terms of trade adversities, and by rampant inflation. With the exception of the early 1950's Brazil's export value has increased very little, being $1,157 million in 1947 and $1,269 million in 1960. The quantity of exports, with 1955 equal to 100, was 121 in 1947, 91 in 1952 and 119 in 1960. During the 1939 to 1954 period, export volume declined by 15 per cent while gross national product doubled and population increased 40 per cent. Exports as a percentage of gross national product were 21.5 per cent in 1939, 17.3 per cent in 1946 and 9.2 per cent in 1954. Thus while the quantity of total world trade increased by 35 per cent between 1948 and 1956, Brazil's export quantity declined by 11 per cent. The demand for goods of primary producing countries such as Brazil was adversely influenced by substitution of synthetic materials, technological advances leading to economies in the use of raw materials, the income inelasticity of demand for food products and restrictions to protect domestic agricultural sectors.

It appears that the changes which have taken place in the Brazilian economy, causing a movement from the

country to the cities and a developing domestic market, have
tended to emphasize production for domestic use rather than
foreign markets. Furthermore, world demand for coffee has
grown less than increments in population, and since 1954
coffee prices have been adversely affected. Coffee, of
course, is critical to Brazil's balance of payments, repre­
senting 42 per cent of total exports during 1945-49, 62 per
cent in the 1951-55 period and 60 per cent in 1960.\textsuperscript{37}
Cotton and cocoa beans are a distant second and third in
importance as exports, representing 9.5 and 6.4 per cent of
total exports respectively during the 1951-55 period.

The three leading export commodities of Brazil face
pronounced international competition. Coffee appears to
have the best prospects and starting with 1959 a consider­
able recovery in Brazil's coffee market was noted. Brazil's
1959 exports of 17.7 million bags represented 43 per cent of
the world's coffee exports. The Portuguese-speaking nation's
share of the world market had declined to 35 per cent in
1958. Expected price stability as a result of the coffee
agreement of 1958 and a reduction in Brazilian production
from 43 million bags in 1959-60 to 26 million bags in
1960-61 should help coffee export values.\textsuperscript{38}

\begin{footnotes}
\item[37] Companhia Auxiliar de Empresas Electricas Brasil­
eiras, \textit{This Is Brazil, 1960} (New York, 1961), pp. 4-5.
\item[38] Economic Survey of Brazil, 1960, \textit{op. cit.}, p. 29.
\end{footnotes}
officials are hopeful that world coffee consumption will increase from the present two per cent annual rise to three per cent. They base their optimistic expectations on increasing world population, rising levels of income, customs reductions by the European nations and greater publicity efforts. As we have noted earlier, over all this optimism hangs the specter of the possibility of a synthetic coffee. Such a development would wreak havoc with Brazil's balance of payments and economic development hopes.

Brazilians are hopeful that cotton exports will continue to increase. Their hopes are based on the recovery in the 1959-60 marketing year, when quantity of exports rose by 93 and revenues by 43 per cent respectively. During 1960, quantity increased 23 per cent and value 28 per cent over 1959. It is unlikely, however, that significant increases in cotton exports will continue to occur. From 1954-55 to 1958-59 there was a sharp reduction in exports from 1,040,000 to 243,000 bales. This decline was accounted for by United States exports of surplus cotton, increased home consumption, adverse climatic conditions and diseases which hindered cotton production. As a result of these factors, in very recent years cotton has been surpassed by cocoa, iron ore and sugar in importance as export commodities.

39Companhia Auxiliar de Empresas Electricas, op. cit., p. 5.
Cotton production in Brazil is expected to increase. This expectation of increased cotton output is based on encouragement given to the cotton industry by Federal and State governments and private research organizations. Also, increases in cotton yields are anticipated as a result of improved farming methods, fertilizers, insecticides and new varieties of cotton, which yield more and are of a better quality. Parts of Brazil not presently under cultivation would lend themselves to cotton production if an adequate irrigation system could be introduced. Some steps have been taken in this direction and in 1959, for example, production of cotton with the aid of irrigation was started along the Sao Francisco River basin at Manga. In 1959-60 total production amounted to 1,700,000 bales as compared to 1,989,000 bales in 1938-39. This decline is explained by declining export prices, adverse climatic developments and plant diseases. Cotton consumption during the same period increased from 552,000 bales to 1,200,000. Exports which were 1,609,000 bales in 1938-39 were only 500,000 in 1959-60. Here lies the reason for expecting minor increases, if any, of cotton exports even though production may be raised considerably. The growing pressure of domestic demand will consume most of the increase in output.40

Brazil is the world's second leading cocoa producer, having produced 20 per cent of the world's output during the past decade. Table XXV compares Brazilian production during 1958-59 and 1959-60 with her two closest competitors.

TABLE XXV.

MAIN WORLD PRODUCERS OF COCOA, 1958-1960
(In thousands of metric tons)

<table>
<thead>
<tr>
<th></th>
<th>1958-59</th>
<th>1959-60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td>243.8</td>
<td>319.6</td>
</tr>
<tr>
<td>Brazil</td>
<td>191.0</td>
<td>182.6</td>
</tr>
<tr>
<td>Nigeria</td>
<td>137.2</td>
<td>152.2</td>
</tr>
<tr>
<td>Other</td>
<td>314.0</td>
<td>350.2</td>
</tr>
<tr>
<td>Total World Production</td>
<td>886.0</td>
<td>1,004.6</td>
</tr>
</tbody>
</table>

Source: Survey of the Brazilian Economy, 1960, op. cit., p. 33.

We note that while Ghana and Nigeria increased their production, Brazil's output declined. However, acreage devoted to cocoa in Brazil increased 4.9 per cent yearly during the 1951-56 period. Since the cocoa plant takes seven years to mature, it can be expected that after the 1961-62 crop a sharp rise in production will occur. Cocoa exports will suffer from African competition and the variability and weakness of prices. From 1954 to 1956, for example, cocoa prices fell from 52.7 cents per pound to 22.5 cents and during 1959 average prices in New York dropped from 43.3 to
35.4 cents a pound. The immediate outlook is for quantity supplied to continue to exceed quantity demanded at prices in the neighborhood of 35 cents per pound.

Production and exports of iron and manganese ores hold considerable promise. Iron ore exports, which were 599,000 metric tons in 1948, increased to 5,239,807 by 1960. Manganese ore exports rose from 141,000 metric tons in 1948 to 866,318 in 1960. These products have the advantage over agricultural exports of not being susceptible to climatic and disease factors. Also, demand is not limited to such a great degree by population changes. While individuals are limited in the quantity of food they are able to consume, their desire for manufactured products tends to be insatiable. This factor gives the exportation of mineral ores a greater potential than food exports.

TABLE XXVI

BRAZILIAN SUGAR PRODUCTION, CONSUMPTION AND EXPORTS
FOR SELECTED YEARS, 1956-1959
(In thousands of metric tons and U.S. dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production</th>
<th>Consumption</th>
<th>Export Quantum</th>
<th>Export Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956</td>
<td>2,268</td>
<td>2,014</td>
<td>19</td>
<td>$ 1.6</td>
</tr>
<tr>
<td>1957</td>
<td>2,714</td>
<td>1,905</td>
<td>424</td>
<td>$ 45.9</td>
</tr>
<tr>
<td>1958</td>
<td>3,004</td>
<td>2,254</td>
<td>776</td>
<td>$ 57.4</td>
</tr>
<tr>
<td>1959</td>
<td>3,128</td>
<td>2,233</td>
<td>606</td>
<td>$ 42.8</td>
</tr>
</tbody>
</table>

Source: Survey of the Brazilian Economy, 1960, op. cit., p. 35.

Ibid., p. 34.
Brazil in 1958 ranked behind Cuba and Russia as the world’s third leading sugar producer. Sugar production in Brazil increased rapidly during the 1950’s. Table XXVI reveals sugar production, domestic consumption, export quantities and export values for the late 1950’s. Production, which was 1,403,000 metric tons of centrifuged sugar in 1950, amounted to 3,128,000 tons in 1959. Sugar exports represented 4.6 per cent of total Brazilian exports in 1958 and 3.3 per cent in 1959. Consumption during the 1950-59 period rose by 62 per cent. In 1959 only a little over half of the sugar cane production was used by the centrifuged sugar industry. Brazil has the capacity to produce and export more sugar. Her ability to export, however, is limited by the International Sugar Agreement of 1958, which limited its export quantity to 550,000 metric tons. Also, due to the preferential agreements of the British Commonwealth, the United States, the French Community and the European Common Market, Brazil is confronted with a limited international sugar market.

Traditionally, Brazilian industries have lacked interest in foreign markets and Brazil’s industries have been set up to meet domestic demand. This was a result of the foreign exchange crisis in the 1930’s, the unavailability of many imports during World War II, and of the scarcity of foreign exchange in the 1940’s and late 1950’s. The goal was to substitute domestic production for goods which could
no longer be purchased abroad. These factors led Brazilian industrial producers to be little interested in foreign markets. Conditions are now changing and Brazil is attempting to develop heavy industry. However, this heavy industry will need large markets to survive and export considerations must be given greater emphasis than in the past. It appears that in the next several years this sector will do little to help overcome balance of payments problems since it does not appear to be in a position to compete with more efficient foreign producers.

The nature of the export composition of Brazil reveals her to be overly dependent on coffee and other agricultural products for foreign exchange earnings. There does seem to be a desirable trend toward the increased exports of other items, primarily iron and manganese ores. At present Brazil's major exports face unsteady price levels and weak demand as a result of the increased supply in world markets and the relative income inelasticity of demand for food products.

Exchange rate policies and domestic inflation have hindered Brazilian exports. From 1939 to 1953 Brazil utilized a system of inflexible exchange rates which for most of the postwar period were highly overvalued. This system of exchange rates hindered the introduction of new products which might in the long run be competitive, but which because of the unrealistic rates could not be initially sold. In
1953 a multiple exchange control system was introduced which aided in perpetuating the inflationary pressures. This excessive inflation at home helped to price exports out of the world market by increasing costs of production as a result of higher wages and material prices. It is apparent that the inflationary situation has worsened in recent years. General price levels increased 37 per cent from 1958 through 1959 and 33 per cent from 1959 through 1960.\(^{42}\)

**Imports**

Imports increased sharply from 1946, when wartime restrictions were lifted, to 1952, when exhaustion of exchange reserves accumulated during the war, more severe government restrictions and reduced export volumes prevented further increased purchases abroad. In 1958 petroleum, wheat and newsprint accounted for 31 per cent of total Brazilian imports. Petroleum comprised 7 per cent of the value of imports in 1947 and 20 per cent in 1958. There has, however, been a decline in the percentage of total petroleum consumption which is imported. In 1953, 92.8 per cent of total consumption of crude petroleum was imported, but by 1958 the figure was down to 76 per cent. During 1950, 98.6 per cent of consumption of petroleum products was imported

\(^{42}\)See Table XII in the Appendix.
and by 1958 only 37 per cent was purchased abroad.\textsuperscript{43} In spite of the favorable trend in percentage of petroleum needs produced at home, the sum spent abroad each year is sizeable and steady. In millions of dollars $264 was spent in 1956 for imports of fuels and lubricants; the sum for 1955 was $286 and in 1959, $258. The maintenance of a high level of imports at a time when domestic production is rising is explained by the increasing consumption of petroleum and petroleum products in Brazil.

Brazil is dependent on external sources for wheat. Approximately 90 per cent of wheat consumed in Brazil before World War II was imported and until 1949 wheat and flour comprised 12 per cent of total imports on the average. In the 1950's the percentage was reduced to eight but in absolute terms the sums have not decreased. Expenditures for wheat and flour totaled $107 million in 1957 and $116 million in 1958. Much of this wheat is purchased from Argentina and Uruguay, which permit payments with soft currencies. The introduction by the United States of the PL-480 program has been of assistance to Brazil by permitting her to pay for wheat in her own currency.\textsuperscript{44} At present plans are under way


\textsuperscript{44}The PL-480 program permits payment in the domestic currency of the buyer. The United States then often contributes these funds for economic development in the importing country.
to increase domestic wheat production but imports will continue to be significant. This is explained by the expected increase in Brazil in per capita consumption of wheat, which at present is quite low.

Brazil's terms of trade, unit values of imports and exports and the quantity of exports and imports reveal unfavorable developments for Brazil. The terms of trade reached low depths for Brazil in the late 1940's and then recovered rapidly through 1954 as a result of increased coffee prices. From 1954 to 1959 there was a decline of 35 per cent as coffee and cocoa world prices declined with increased world supply. A slight recovery was noted in 1960. The unit values of exports and imports explain the terms of trade decline. From 1954 to 1960 unit values of exports declined 40 per cent while unit values of imports fell only 11 per cent. Quantity statistics indicate that while exports were fairly steady, imports rose appreciably during the period. These developments adversely affected Brazil's capacity to import. 45

Import substitution has been practiced to the point where further curtailment of imports will be difficult. There are still, however, some tendencies toward change. From 1956 to 1959 foodstuffs declined slightly from $170 to $167 million, representing 13.8 and 12.2 per cent

45 See Table XV in the Appendix.
respectively of total imports. Raw material imports were reduced from $218 to $160 million, representing 17.7 and 11.6 per cent respectively of total imports. Vehicle imports increased from 7.7 to 13 per cent and from $95 to $178 million during the same periods. Machinery purchases also registered a rise from $157 to $232 million from 1956 to 1959, representing 12.7 and 16.8 per cent respectively of total imports. Altogether, essential imports represented 94.6 per cent of total imports in 1956 and 96 per cent in 1959. The four per cent of imports in the non-essential category does not leave much room for pronounced import substitution activities.46

Balance of Payments Prospects

The rigidity in the import sector is quite obvious. Brazil will continue to need capital goods to realize her hopes for economic development. In order to increase the capacity to import, Brazil will have to overcome several obstacles. An adequate ratio of debt service payments to export proceeds will have to be established. This ratio increased from 12.5 per cent in 1957 to 14.5 per cent in 1959. In December, 1959, Brazil had loans outstanding of $523.6 million to which was added $47.7 million in the form of a loan from the International Monetary Fund. The

46 Survey of the Brazilian Economy, 1960, op. cit., p. 76.
Brazilian Embassy indicates that during 1960 Brazil had to repay obligations of $92.2 million including interest on these loans, which would still leave at the end of 1960 a debt of $500 million. In 1960 combined foreign exchange needs to cover repayments and interest on foreign private and public financing, consolidated external debt and trade arrears amounted to $250 million. It is expected that over the 1960-64 period foreign exchange needs to cover these enumerated outlays will exceed one billion dollars. To fulfill these obligations Brazil will have to attract an increased amount of foreign capital, increase export sales, reschedule debt service payments or decrease imports. It appears that the latter possibility will not be feasible since it would deprive the economy of needed capital goods and it would take time to increase home production to satisfy increased home demand for imports such as petroleum and wheat. The unchecked inflation will make an increase in exports difficult. Therefore, the most likely possibilities are to attract foreign capital and reschedule debt service payments.

Brazil must continue to attract foreign private and public funds. These funds must be directed into areas where they may yield more benefits than the liabilities of future repayments and servicing of debts. Perhaps the private funds, because they are motivated by the profit motive, should be directed into manufacturing. Public monies should
be applied to meeting social overhead needs, since in this sector returns on the investment are relatively small. The key to success in this area will be the political stability and outlook toward foreign investors exhibited by Brazil. At the present time political tensions make Brazil a questionable place to invest one's funds.

World prices and demand fluctuations for Brazil's major export items present a serious problem. It is estimated by the Brazilian Embassy that a return to the price ratio of exports to imports prevailing in 1955 would have added about 30 per cent to Brazil's capacity to import in 1959, with the export quantity staying the same. Brazil, with the exception of coffee and possibly cocoa, cannot alone influence world prices. A solution may lie in some form of international commodity agreements.

The Brazilian Embassy anticipates that Brazil will not rid itself of its balance of payments problems in the near future. It feels that: "The future balance of payments is going to depend naturally, on the one side, on Brazil's ability to go on compressing imports, and on the other, on a combination of the country's ability to increase exports and to attract capital. But these three components of the future behavior of the balance of payments are very closely related to each other. The ability to compress imports depends on the ability of the country to produce import-substituting goods and resources; the import
substituting production as well as production for exports always depend in some way or degree on the capacity to import equipment, which in turn, depends upon foreign investments and credits and upon the improvement of present terms of trade. This statement very adequately relates the role of the balance of payments in the economic development of a nation such as Brazil.

We have read of the vicious cycle of poverty in underdeveloped nations. These countries, of which Brazil is one, suffer from low income levels, low savings and a low level of investment. If this cycle is to be broken in Brazil, it must be done through an increase in productivity. This increase in productivity will be possible only if greater amounts of capital are used. Since domestic sources cannot supply the adequate amounts needed it appears that the chief hope lies in increased foreign investment in Brazil. A picture of the capital situation in Brazil is revealed by a comparison with the United States. During the 1945-52 period the capital stock in Brazil varied from $500 to $700 per person while in the same period comparable figures for the United States were $10,000 to $15,000 per inhabitant. United States capital inflows would help Brazil to partially

47Survey of the Brazilian Economy, 1959, op. cit., p. 60.
48Ibid.
overcome the problem of insufficient capital.

The Brazilian Embassy estimates that the gap between exports and imports will grow. Table XXVII gives a summary of their projections. If one assumes the continuation of the 1957 per capita income level and the historical growth rate of exports of two per cent, no difficulty will arise. This, of course, assumes there is stagnation in the Brazilian economy. However, if the assumption of a two per cent yearly increase in the per capita income is made, a serious balance of payments situation presents itself. The Brazilian Embassy estimates that with an annual increase in income of two per cent per capita the balance of payments deficit would amount to $604 million in 1970 and $930 million in 1980. These projections clearly indicate the need for Brazil to attract foreign capital or increase to a considerable degree her level of exports.

The Brazilian government is assisting economic development by channelling its investment funds into building "social overhead." These projects involve the expansion of transportation, electric power and irrigation facilities. These are areas of investment where the expected profits do not usually justify the risk assumed by private enterprise.
## TABLE XXVII

PROJECTIONS OF BRAZILIAN CAPACITY TO IMPORT AND OF IMPORT NEEDS, 1957-1980
(In millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Historical Growth of per capita import capacity obtained in 1957</th>
<th>Capacity to Import</th>
<th>Global Needs of Imports</th>
<th>Difference Between A (capacity to import) and C</th>
<th>Difference Between A (capacity to import) and D (import needs)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>A</td>
<td>B</td>
<td>C</td>
<td>D</td>
</tr>
<tr>
<td>1957</td>
<td>1,380.0</td>
<td>1,381</td>
<td></td>
<td>992.0</td>
<td>1,655.0</td>
</tr>
<tr>
<td>1960</td>
<td>1,464.5</td>
<td>1,487</td>
<td></td>
<td>1,019.7</td>
<td>1,800.0</td>
</tr>
<tr>
<td>1965</td>
<td>1,616.9</td>
<td>1,682</td>
<td></td>
<td>1,064.1</td>
<td>2,076.1</td>
</tr>
<tr>
<td>1970</td>
<td>1,785.1</td>
<td>1,903</td>
<td></td>
<td>1,108.1</td>
<td>2,388.9</td>
</tr>
<tr>
<td>1980</td>
<td>2,176.0</td>
<td>2,436</td>
<td></td>
<td>1,214.6</td>
<td>3,105.8</td>
</tr>
</tbody>
</table>

1 Capacity to import is assumed equal to the value of exports.

2 Assuming a decrease of 1.5% per year in relation to net national product in the imports of equipment and raw materials and an increase of 2% yearly in the total value of imports of consumption goods which would continue to be 1% of GNP throughout the period.

3 Assuming a stagnation of the economy measured in terms of per capita income.

4 Assuming a realistic dynamic growth of national product, i.e., an annual increase of 2% of the income per capita.

Source: Survey of the Brazilian Economy, 1959, op. cit., p. 61.
The Role of the United States

The United States government has aided Brazil in the past with "bail-out" loans. American investments in Brazil have also been sizeable, being exceeded only by those in Canada, England and Mexico. Barring any unforeseen development which would provide Brazil with aid from the Soviet Bloc, the South American nation will be dependent on the United States for aid to overcome balance of payments difficulties and for assistance in its quest for economic betterment. The United States is also Brazil's best customer for exports and the latter usually registers a favorable balance in United States-Brazilian trade. Brazil will also find the United States to be a large market for her developing exports of iron and manganese ores. One wonders how Brazil will avoid severe economic difficulties if the United States does not assist her during the foreseeable future. It appears that political philosophies are changing in Brazil, which may endanger cooperation for her economic betterment. The United States will probably demand economic and social reforms as a prerequisite for aid to Brazil. At the present time it appears that these social and economic changes will not be forthcoming.

ARGENTINA AND BRAZIL COMPARED

Brazil has suffered much more than Argentina from terms of trade deterioration. Using 1955 as the base year,
Argentina's terms of trade were 99 in 1960 compared with 80 for Brazil. This is explained by a decline in the unit value of exports for Argentina from 100 in 1955 to 88 in 1960 compared to a decline for Brazil from 100 to 68 during the same period. The volume of exports for Argentina since 1955 increased more rapidly than imports and for Brazil the reverse situation prevailed.

While Brazil generally has surpluses in the merchandise account, Argentina has deficits. Brazil had surpluses in all but one of the years under analysis. Argentina, on the other hand, had deficits in all the years except five. Brazil has persistent large deficits in the transportation and insurance account while Argentina has managed surpluses. Investment income net debits are much greater for Brazil than for Argentina and foreign capital influx into Brazil has been much larger than into Argentina.

Inflationary pressures have hurt the balance of payments in both nations. Up to 1958 the spiral was more severe in Brazil; from 1959 to 1960, however, Argentina's Consumer Price Index rose more than Brazil's. Stabilization of domestic prices would tend to help relieve pressure on the balance of payments. With the development of strong labor unions demanding and getting higher wages and easy monetary policy, price stabilization will be extremely difficult to achieve in both nations.

Foreign trade is more significant on a per capita
basis to Argentina than to Brazil. The sums are generally somewhat larger for Brazil; however, when compared to the population of both countries, the greater per capita importance of trade to Argentina becomes evident.

In both nations the exchange control system has been geared to encourage industrialization. The effect of these restrictions appears to have been more adverse in Argentina than in Brazil. In Argentina a pronounced redistribution in the allocation of resources from agriculture to manufacturing occurred. Since Argentina was extremely dependent on the agricultural sector the results were disastrous to Argentina's economy. This was to a great degree responsible for the stagnation of the Argentine gross national product. Brazil's agricultural sector, on the other hand, did not stagnate and she experienced an annual growth in gross national product of 3.7 per cent from 1950 to 1958.\footnote{Committee for Economic Development, op. cit., p. 46.}

The United States plays a greater role in the balance of payments of Brazil than she does in Argentina's. While Argentina usually incurs deficits in her trade with the United States, Brazil has surpluses. Magnitudes and composition of the trade of these two nations with the United States were discussed in Chapter II. As was stated, Argentine-United States trade tends to be competitive and United States-Brazilian trade is complementary. Economically,
Brazil is United States oriented and Argentina is more closely tied with Europe.

Balance of payments data reveal both countries to be in the debtor category. Both Brazil and Argentina have generally fluctuated between being immature and mature debtors. During 1946 and 1947 Argentina was in the mature debtor repayer category, but this was exceptional.

The balance of payments acts as a regulator of economic growth in both nations. Its role, however, is somewhat different. Both nations depend on foreign capital goods for their economic development; Brazil, however, also needs foreign monetary capital. Thus Brazil is an underdeveloped nation needing both money capital and capital goods. Argentina's dilemma is not one of insufficient savings, but a lack of foreign exchange to procure capital goods. The Argentine dependence on external sources in the long run should not be as great as Brazil's. Argentina is a case of a physically decapitalized nation as a result of poor governmental economic policies compared to Brazil, which is an underdeveloped one.

While both nations are confronted with balance of payments deficits, Brazil's problems appear more serious. This is explained by the heavy burden of investment income payments, greater dependence on external capital, a very weak service sector as the result of an inadequate merchant marine, and poor outlook for traditional exports.
Development of a Brazilian merchant marine and of her mineral export potential would help relieve the balance of payments problem. In Argentina's case the primary problem seems to be inefficient allocation of resources which will take several years to correct even if policies are correctly geared to restoring her agricultural export sector.

Foreign capital could help reduce the economic woes which Argentina and Brazil are experiencing and hasten the correction of balance of payments disequilibrium. The belt tightening which will be needed without external assistance may be impossible in a democracy. As long as balance of payments problems persist, progress toward economic development will be hindered. Neither Argentina nor Brazil appears at present to have the political stability needed to attract this capital.

In 1960, political instability appeared to make it improbable that internal austerity to help solve the balance of payments problem could be expected in either country. These reforms would involve checks on inflationary pressures along with responsible monetary and fiscal measures. Such moves would entail considerable belt-tightening and governments which would be strong enough to withstand the various pressures such action would encounter. At present the political situation would seem to make such action improbable.
CHAPTER V

UNITED STATES ECONOMIC POLICY TOWARD
ARGENTINA AND BRAZIL

Many factors in addition to economic considerations enter into the formulation of a nation's economic policy. These factors include political philosophies, traditions, personalities, external threats to regional integrity and cultural differences. United States economic policy toward Argentina and Brazil has been motivated by all these factors. In this chapter we shall: (1) describe the amount of United States economic assistance to the two South American nations; (2) discuss the factors influencing United States economic relations with Argentina; (3) examine the various aspects of American economic policy toward Brazil, and (4) compare and analyze United States policy toward Argentina and Brazil.

UNITED STATES ECONOMIC ASSISTANCE

Export-Import Bank

The Export-Import Bank has been active in extending credits to Argentina and Brazil. Table XXVII reveals the status of Export-Import Bank loans to the two South American countries from 1934 to June 30, 1960. Brazil received
credits from the Bank totaling $1.34 billion, representing 34 per cent of total authorized credits to Latin America. Argentina ranked third behind Mexico in credits authorized during this period with $519 million. These credits to Argentina represent 13 per cent of the Bank's loans to Latin America. The data in Table XVIII do not, however, reveal a trend which has developed since 1959 in the Bank's dealings with these two nations. Brazil received one loan during 1959 and one during the first six months of 1960 totaling a combined sum of $7 million. During 1959, the Bank received from Brazil in repayments and interest collections $25 million more than it paid out in loans to Brazil; this contrasted with 1958 when Brazil received $90 million of net aid. Argentina, on the other hand, was the recipient of $48 million in net assistance from the Bank in 1958 and $53 million in 1959. During the first four months of 1960 Brazil paid out $13 million more to the Bank than she borrowed. Argentina during the same period had net loans of $19 million extended to her.  

Generally, credits obtained by both nations have been used primarily for the purchase of capital goods. In 1955, a loan of $60 million was received by Argentina for the purchase of steel mill equipment. A sizeable credit of $88

1Simon G. Hanson, "The End of the Good Partner Policy," Inter-American Economic Affairs, XIV (Summer 1960), 75, 76, 83.
million was extended in 1956 to the same nation for the procurement of railroad equipment. In 1958, Argentina's government borrowed to purchase equipment and services to develop power and industrial output. Major loans to Brazil during the 1934 to 1960 period were: steel mill equipment, $45 million in 1940; refinancing the purchase of equipment manufactured in the United States, $300 million in 1953; railroad equipment, $100 million in 1956; and refinancing the purchases of equipment in the United States, $100 million in 1958.  

TABLE XXVIII

CREDITS MADE BY THE EXPORT-IMPORT BANK TO ARGENTINA AND BRAZIL, 1934 TO JUNE 1960

(In millions of dollars)

<table>
<thead>
<tr>
<th>Nation</th>
<th>Credits Authorized</th>
<th>Disbursements</th>
<th>Repayments</th>
<th>Principal Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>519</td>
<td>270</td>
<td>69</td>
<td>201</td>
</tr>
<tr>
<td>Brazil</td>
<td>1,344</td>
<td>1,015</td>
<td>502</td>
<td>513</td>
</tr>
<tr>
<td>Total loans to Latin America</td>
<td>3,965</td>
<td>2,700</td>
<td>1,234</td>
<td>1,467</td>
</tr>
</tbody>
</table>


The Export-Import Bank also made loans to these two
nations as an agent of the International Cooperation Administration. Credits authorized to Argentina totaled $20 million, all during 1958, while credits to Brazil amounted to $149 million, all in 1956. Actually only $2 million of the Argentine and $54 million of the Brazilian loans had been disbursed as of June 30, 1960.3

Other United States Public Agencies

Three other agencies besides the Export-Import Bank have provided financing and economic aid to Argentina and Brazil. These agencies are the Foreign Agricultural Service of the United States Department of Agriculture, the International Cooperation Administration, and the Development Loan Fund.

The Foreign Agriculture Service of the United States Department of Agriculture has since 1954 been responsible for administering the agriculture surplus program authorized under Title I of the Agricultural Trade Development Act of 1954 (Public Law 480). Under this law the United States sells farm surpluses overseas for local currencies, then makes loans of these funds for economic development.

Assistance under Titles II and III of the Agricultural Trade Development Act of 1954 is administered by the International Cooperation Administration. Under Title II,  

3Ibid., p. 214.
surplus farm products may be distributed abroad for use in famine relief and other emergency assistance. Provisions are made in Title III for the bartering of surplus food and fibers for strategic materials abroad. Under Section 416 of Title III, private, voluntary agencies have been instrumental in the distribution of food to the needy throughout the world.  

The Development Loan Fund was originally established within the International Cooperation Administration by the Mutual Security Act of 1957. In 1958, under the Mutual Security Act of that year, the Fund became an independent corporate agency of the United States. The Development Loan Fund is required by law to consider the action taken by nations asking for assistance to solve their own problems and funds are allocated for specific projects. Argentina, as of 1960, had received the largest single loan, $24.8 million.

Table XXIX presents a summary of total United States Government financial and economic assistance to Argentina and Brazil during the period for fiscal years 1946 to 1960.

TABLE XXIX.

UNITED STATES GOVERNMENT FINANCIAL AND ECONOMIC
ASSISTANCE TO ARGENTINA AND BRAZIL, 1946 TO 1960*  
(In millions of dollars)

<table>
<thead>
<tr>
<th>Agency</th>
<th>Argentina</th>
<th>Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mutual Security Programs</td>
<td>26.3</td>
<td>37.8</td>
</tr>
<tr>
<td>International Cooperation Admin.</td>
<td>1.5</td>
<td>37.6</td>
</tr>
<tr>
<td>Development Loan Fund</td>
<td>24.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Non-Mutual Security Programs</td>
<td>425.7</td>
<td>1,196.6</td>
</tr>
<tr>
<td>Public Law 480</td>
<td>34.8</td>
<td>164.4</td>
</tr>
<tr>
<td>Title III</td>
<td>---</td>
<td>16.3</td>
</tr>
<tr>
<td>Export-Import Bank</td>
<td>390.8</td>
<td>986.8</td>
</tr>
<tr>
<td>Other</td>
<td>0.1</td>
<td>45.4</td>
</tr>
<tr>
<td>Total</td>
<td>452.0</td>
<td>1,234.4</td>
</tr>
</tbody>
</table>

*Fiscal 1960


Loans by International Agencies

The International Bank for Reconstruction and Development has made loans totaling $292 million to Brazil, of which $267 million was still outstanding in March, 1960. Approximately $239 million of this money was used for electric power and communications development. The remainder went into the improvement of transportation facilities of the Central de Brazil Railroad. The United States is a subscriber of 33.2 per cent, and Brazil and Argentina each
have 1.57 per cent of the I.B.R.D. total subscriptions.\textsuperscript{5} Argentina became a member in 1956, and as of March, 1960, had not received any loans from the Bank. The point to be made is that Brazil has borrowed considerable sums from an international agency of which the United States is the biggest contributor. Thus, about one-third of the Bank's loans to these two countries, almost $100 million, may be attributed to United States funds.

Argentina and Brazil have obtained short term funds from the International Monetary Fund of which they, along with the United States, are members. Of a total quota of $9,228 million during the period covered by this study, the United States quota was $2,750 million or almost 30 per cent. Argentine and Brazilian assessments were only $150 million each. From March, 1947, through April 30, 1959, the Fund purchased $93.5 million of Argentine currency and $260.7 million of Brazil's. In December, 1958, Argentina arranged for a standing loan of $75 million to support a program that included exchange, fiscal and credit reforms. Brazil, during the fiscal year ending April 30, 1959, had a stand-by agreement of $37.5 million.\textsuperscript{6}

\begin{flushleft}

\textsuperscript{6}International Monetary Fund, \textit{Annual Report, 1959}, pp. 20, 21, 25, 27, 208.
\end{flushleft}
ARGENTINE POLICY

Traditionally, Argentine–United States relations have not been amicable. Part of this is explained by Argentina's attempt to become the leader of the South American nations. Argentina viewed the United States as an obstacle in the path of the fulfillment of this aspiration since many of the Latin American nations gravitated toward the North American nation rather than toward her. The economic magnet of the United States was too powerful. American and Argentine products have also traditionally competed against each other in world markets. To these factors have been added the animosity resulting from the restrictive regulations imposed by the United States on Argentine meat products and wool entering the United States. American attempts to gain Argentine acceptance of multilateral trade practices in place of its bilateral arrangements have caused further friction. Argentina has felt that bilateral trade agreements were of benefit to her in the move toward economic development.

During World War II relations were further strained between the United States and Argentina. The latter nation did not declare war against the Axis until it was completely evident that the Allied powers would emerge victorious. There is little doubt that the sentiments of the government of Argentina were with the Axis. In May, 1942, President Castillo secretly informed the Axis that he hoped they would
win and that rather than sever economic relations with them, he would eventually come out officially on their side. Enrique Ruiz Cruñázu, a leading Argentine government official, declared in July, 1942, that Argentina belonged to the European economic community and that he considered the increase in United States military, political and economic strength as a greater menace to Argentina than Nazi Germany. Even after Argentina severed relations with the Axis on January 26, 1944, Nazi activity in Argentina continued unsuppressed. The Farrell government made no attempt to curb German and Japanese espionage activities.

United States-Argentine relations deteriorated further in 1946 when American ambassador to Argentina, Spruille Braden, toured the South American nation speaking against the Farrell regime and Juan Peron, the candidate of the new National Labor Party for the Presidency. Braden was determined that a democratic form of government should be established in Argentina. Unfortunately, Argentinians considered this to be Yankee interference in internal affairs. The United States Department of State issued a Blue Book on Argentina in February, 1946, revealing information obtained from captured German documents. The Blue Book linked Juan Peron with the Nazis of Germany and was released two weeks

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prior to the election. This activity only angered the proud Argentinians, who responded by voting Peron into office.  

Insistence by the United States upon multilateral trade agreements, non-preferential tariffs and private capital loans in Hemisphere economic affairs clashed with the rising nationalism of Argentina. The latter hoped that her industrialization programs would free her economy from colonial status in world markets. In the immediate postwar period, when United States aid was not forthcoming to the nations of the Southern Hemisphere in expected quantities, Argentina made a big drive for economic leadership of Latin America. Argentina was in a favorable position because of food surpluses and large holdings of foreign exchange. Washington strongly opposed Peron's plan because it ran counter to multilateral trade policies and threatened to divide the Western Hemisphere.

During 1949-50 there was a noticeable improvement in United States-Argentine relations as Argentina became more cooperative, partly because of economic necessity. By the middle of 1948 there was a decline in the world sellers' market, Great Britain, Argentina's chief buyer, was in economic difficulty, and there was a dollar shortage throughout

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9 Ibid., p. 171.
Latin America and the Sterling-Area. Argentina was, as a result of these factors, in a poor economic condition; and Peron was forced to turn to the United States for aid. The United States was being influenced by the rising Communist menace and Argentina was needed as a force against this threat. On May 17, 1950, the Export-Import Bank extended $125 million in credits to Argentina. This loan retired Argentina's $100 million indebtedness to the United States and made possible purchases of machinery.¹⁰ In return for this assistance, Peron modified the severe restrictions on United States investments and business interests in his country. Peron also ratified the Rio de Janeiro Pact on June 29, 1950. It is noteworthy that Argentina voted with the United States in the United Nations after the invasion of South Korea by the Communists.

Relations between these two nations continued to improve and under President Eisenhower the cementing of United States-Argentine relations came to be of prime importance. Milton Eisenhower on his visit to Argentina called Peron "the great leader of a great nation."¹¹ Peron made a deal which involved United States government financing of a huge industrial plant in return for Argentine oil concessions to American private oil companies. The United States Department of State now felt that its Argentine policy was a

¹⁰Ibid., p. 177. ¹¹Hanson, op. cit., p. 79.
success. When Arturo Frondizi came to power, apparently as the first freely elected Argentine President in thirty years, Washington was pleased. Frondizi's statements concerning his desire to remove many of the governmental restrictions on the Argentine economy further heartened United States officials who visioned Argentina as the foundation around which American economic policy toward Latin America would revolve. The new Argentine government, like Perón, made concessions to private American oil companies to develop Argentina's oil reserves and promised to remove the state from several areas of the Argentine economy. Apparently a private enterprise democratic economic system was to be given a trial in Argentina. President Eisenhower on his journey to Argentina declared to an Argentine audience that he was one hundred per cent for Frondizi. It apparently mattered little to Eisenhower that the opposition to Frondizi felt this to represent intervention in internal affairs. To the Eisenhower administration the permission obtained for American firms to develop Argentine petroleum resources and the reduction of the role of the Argentine Government in economic affairs meant success for their policy of promoting private enterprise within a democratic framework of government. Apparently the United States government partially equated the well-being of American petroleum firms with the well-being of America. One of the major factors behind the change in United States relations with Argentina was
apparently the concessions made to the oil companies. Past behavior on the part of Argentina was forgotten as were the past contributions of a friendly nation like Brazil; thus demonstrating the minor role sometimes played by morality in a nation's economic and political policy. Relations between nations must of necessity be based on enlightened self-interest rather than morality. In the case of relations between the United States and Brazil, however, moral aspects tend to reinforce the main theme of this study—that, based on economic factors, Brazil should be the main country around which the United States should build its Latin American policy.

In return for petroleum and economic reform concessions Argentina was given what Eisenhower called "a billion dollar program" and which was referred to as the most extensive program of financial cooperation in the Hemisphere. In spite of extensive United States assistance real wages in Argentina fell 20 per cent in 1959, and the gross national product declined by 3 to 5 per cent. While the level of industrial output did increase by 10 per cent, labor's share of gross national product declined and the cost of living was rising faster than in Brazil.¹² During 1959, per capita gross national product increased by two per cent in Brazil and declined by five per cent in Argentina. Economic

¹²Ibid., p. 77.
factors should have indicated to American policy-makers that the main United States economic effort in Latin America should have been geared toward Brazil.

BRAZILIAN POLICY

During World War II Brazil proved herself a good partner. On January 1, 1942, the Portuguese-speaking nation declared her solidarity with the United States and she became the source of natural rubber, nickel ores and vegetable oils needed in the war effort. This South American nation also provided major bases for the African campaign. Northeastern Brazil became a major supply base and in 1942, 1,238 planes flew from this area to and from the war areas. During 1944, military traffic through this air corridor was greater than through all other military air routes combined.

Near the termination of the war the United States had 165,000 troops stationed in Brazil, and at the end of 1942 the United States had built or added to fifteen airports in the country.\(^\text{13}\) North Americans also built naval bases, seaplane bases, warehouses, observer posts, hospitals and radio transmitters. Military equipment, at 30 per cent of American Army list cost, was sold to Brazil and in addition $34 million of materials under Lend-Lease agreements were

provided by the United States.\textsuperscript{14}

Brazil's support of the Allied cause went further. With United States assistance she built up her air defenses. This greatly assisted successful Allied operations in North Africa in 1942 and aided air transhipment to all areas of the world. Brazil provided a fighter aircraft squadron which worked under the United States Twelfth Air Force in Italy and an infantry division which served under the command of the United States Fifth Army in Italy. Brazil also supplied a considerable naval group which operated under United States command in the South Pacific and by 1944, this naval unit was given the duty of anti-submarine patrol in South Atlantic waters.

 Brazilians had evidenced considerable anxiety during the war over whether the United States would abandon her bases at the conclusion of hostilities. In the spring of 1944 the Brazilian newspaper, \textit{O Journal} of Rio de Janeiro, expressed the hope that "as soon as the war is over the Americans will leave the Brazilian bases which they occupy at present."\textsuperscript{15} The newspaper assured the United States that the bases would be made available again "if times similar to those through which we are now living should occur again."\textsuperscript{16} Only "the ingenuous and the ignorant," it said, would now advocate the retention of the bases. Hints were made at the

\begin{itemize}
\item\textsuperscript{14}\textit{Ibid.}, p. 124.
\item\textsuperscript{15}\textit{Ibid.}, p. 135.
\item\textsuperscript{16}\textit{Ibid.}
\end{itemize}
possibility of armed resistance in Latin America against Yankee retention of these bases. The article concluded with the view that the "occupation of Nicaragua is an episode much too recent to be lost sight of."\(^\text{17}\) Thus, under the apparent harmonious spirit of cooperation the old bogey of Yankee imperialism was present. With the end of the war and the elimination of the common enemy, some old jealousies, suspicions and hatreds were revived.

At the end of World War II it seemed to Brazilians that American interest in their economic problems waned rapidly. The United States, for example, did not provide the funds for economic development that the Latin American nation had expected. Brazil also suffered economically from her inability to compete with synthetic rubber and the plantation rubber of the East Indies. Thus, the shift of resources during the war period to the growing of rubber trees now proved to be a liability. As the United States personnel withdrew from Latin America, what did they leave behind, asked a Latin American diplomat: "In the rubber regions, empty tin cans, one or more broken down Frigidaires, rural air strips from which their airplanes took off with their household goods, their office employees and their blondes."\(^\text{18}\)

United States racial practices helped to widen the breach in Brazilian-Yankee solidarity. Brazil, with a large

\(^{17}\text{Ibid.} \quad ^{18}\text{Ibid., p. 201.}\)
Negro population, felt angered at the racial practices of the United States, particularly in the South. Gilbert Freyre, a noted Brazilian sociologist, remarked that "the Latins have developed their ethnic aspects of democracy more than the political and the Anglo-Saxons the purely political aspect more than the ethnic."19 Brazilian newspapers repeatedly cited their country as an example of racial tolerance.

World War II created a new drive of rising expectations in Brazil, with hoped for results in the postwar period. However, outside assistance was necessary to achieve the hoped for economic betterment. After the war Pedro Luís Correa e Castro, Brazilian Minister of Finance, stated that Brazil had contributed much to the war effort without receiving material remuneration of any type. He said that in the event of another war Brazil in its present condition could not be of much assistance and thus she should receive loans from the United States for her financial recuperation and future economic development to the amount of $1,000 million.20 The Minister of Finance concluded with an old Brazilian proverb: "lend me your hand if you do not wish to carry me on your back." When the American funds were not forthcoming, Brazilians felt there was a dollar curtain as well as an Iron Curtain.

19Ibid., p. 221. 20Ibid., p. 236.
Brazilians felt that the main objective of United States economic policy was the promotion of private investment capital. Much of this capital flowed into the petroleum industry in Latin America. Brazil, however, held out for government development of its oil resources. This became a source of difficulty between the two nations. Brazilians interpreted the attempt of the United States to push private investment as an effort by the Yankee nation to develop the type of enterprise which so many persons in Brazil had made the focus of bitter attacks. The fact that investments after World War II often came with an extension of a defense system against Communism led Brazilians to suspect the motives of the Yankees as efforts to reduce Brazil to the status of a satellite in preparing for a new war.

Augusto Frederico Schmidt, a Brazilian, stated the situation rather well: "We need, ask for, and hate foreign capital at the same time." He further stated that: "Yankee foreign business has a colonizing effect, which, though usually unintentional, is profoundly contradictory to the idealism and generosity of that great country."\(^{21}\)

The reaction against foreign capital, particularly American, was well established by 1954. In that year President Vargas stated that when he had returned to office in 1950, profits of foreign enterprises reached 500 per cent

\(^{21}\)Ibid., p. 254.
yearly. Also, many of these firms did not participate or consult at the local level. Agitation aided by the slogan "the petroleum is ours" led to the passage of the Petrobras Bill in 1953 and the creation of Petrobras. The latter is a government corporation formed to handle all phases of the petroleum industry from exploration to refining. In 1949 Brazil limited to eight per cent of original capital investment the profits that might be sent out of the country by foreign investors each year. A Brazilian journalist wrote in 1952 that "in Brazil the public man who wants to be unpopular has one easy resource: to defend the thesis of collaboration by Brazil with the United States." This rising nationalism and tide of anti-Yankee feeling led President Kubitschek in 1956 to refuse to give the United States permission to prospect for uranium and to transport nuclear materials out of Brazil to America.

The Brazilian resentment against the United States had perhaps started as early as 1949 with Truman's Point Four Program. After high initial hopes Brazilians became disillusioned with the delays in putting the program into operation plus the modest scope of the program. With the outbreak of the Korean War came further evidence that matters were not cordial between Washington and Rio de Janeiro. Brazil agreed to help only, as President Vargas said, if

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22 Ibid., p. 255. 23 Ibid., p. 272.
the nation's needs were "heeded, understood, and met by our powerful ally." When Secretary of State Dean Acheson visited Rio de Janeiro in 1952 to request Brazilian troops, he was met by icy silence. Part of this reaction was due to lack of acceptance of the Korean War as being in defense of the Western Hemisphere and part was due to disappointment with United States economic assistance.

Brazil's disappointment and frustration with foreign capital was expressed in 1953 by its Finance Minister, Dr. Oswaldo Aranhu. He announced that foreign capital was not necessary to his country and if foreign countries objected to proposed new taxes that "they can leave, it makes no difference." Brazil, he said, had depended too much on outside aid: "We must learn to stand on our own feet." It was against the background of this sentiment in Brazil that the Eisenhower Administration attempted to obtain oil concessions for American oil firms as a prerequisite for United States aid to Brazil. Word went out from the United States Department of State to break Brazilian resistance to United States development of Brazilian oil reserves.

A noticeable change in United States economic assistance to Brazil soon became evident. In 1959 the Export-Import Bank received from Brazil in repayments and interest collections about $25 million more than it disbursed on

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24 Ibid., p. 374. 25 Hanson, op. cit., p. 75.
loans to Brazil. During the same year the Department of State reported that cooperation with Brazil had been reduced by 75 per cent. A study of the Export-Import Bank's activities during the first four months of 1960 reveals that the Bank was receiving from Brazil in repayments and interest collections two dollars for every one it disbursed to Brazil.\(^{26}\) Also, Brazil was barred from the Development Loan Fund, while Argentina was receiving a sizeable amount of assistance. This change in United States assistance occurred at a time when adverse world markets were creating additional economic problems for Brazil. It appears that the United States had awaited a Brazilian economic collapse of such extent that the South American nation would have to accept private American investment in petroleum. Brazil, however, did not break; she survived the squeeze.\(^{27}\)

On March 28, 1960, the State Department testified before the Senate Foreign Relations Committee that per capita gross national product had increased more in Brazil than in any other Latin American nation. Formally the program against Brazil was explained in terms of her refusal to accept an economic stabilization program such as that to which Argentina had agreed. As we have noted previously, however, the consumer price index during 1959 and 1960 increased more rapidly for Argentina than it did for Brazil. It thus seems

\(^{26}\)Ibid. \(^{27}\)Ibid.
that this argument was only a cloak for the attempt to force Brazil to admit greater amounts of United States private capital in its petroleum industry.

COMPARISON AND EVALUATION OF UNITED STATES ECONOMIC POLICY TOWARD ARGENTINA AND BRAZIL

While Brazil received a larger amount of United States assistance in the postwar period, a noticeable change began to occur in 1959. It appears that petroleum concessions to private American firms and promises of monetary and fiscal policy reforms by Argentina and the denial of similar concessions by Brazil played a major role in the change in emphasis of United States aid to these two countries. Although some writers accuse the Eisenhower Administration of seeking favors for wealthy supporters in the oil industry, this writer feels that the major reason for the change was the genuine desire to establish the private enterprise, capitalistic system in Latin America. That the use of an economic club in the face of strong nationalistic feelings about petroleum resources in Brazil would engender bitter resistance should have been apparent to American policy makers.

United States economic policy in the postwar period appears to have been extremely imprudent. In basing her

28 Ibid., p. 78.
Latin American hopes on Argentina rather than on Brazil, American policy makers may have lost sight of the facts. Brazil's potential is much greater than Argentina's. She is a nation which occupies almost half of South America, has the largest population of the Latin nations, and possesses most of the needed resources to become a major world economic power. Argentina, on the other hand, lacks some critical resources in her quest for industrialization and while her future appears to be bright it does not compare with Brazil's. Also, if American policy had been geared toward Brazil, the Yankees could have dealt with a nation which historically had been a friend and ally. Perhaps under these conditions the chances for success would have been greater than in Argentina. These assumptions are apparently partly substantiated by the recent results obtained in the two economies. Brazil expanded economically during this period despite curtailment of economic assistance, while Argentina was economically stagnant. As has been stated, poor policy explains many of Argentina's economic problems; however, one wonders what the results would have been in Brazilian economic growth if Brazil had received the economic assistance she sought. Such assistance may have helped to remove bottlenecks such as inadequate transportation facilities and power shortages, which would have assisted industrial and agricultural development.

Based on the United States postwar economic policy
toward Argentina and Brazil, it appears that political ideologies have been more significant in United States economic policy decisions than whether the economies of the United States, Brazil and Argentina have been complementary or competitive. From a point of view of economic self-interest one would expect United States assistance to be primarily channelled toward Brazil. This is not to imply that the United States should not assist Argentina but that economic as well as political factors should make Brazil America's number one concern. American policy makers under the Eisenhower Administration seemed to place their primary concern on the type of role assumed by the governments of Argentina and Brazil in the economic development drive. When Argentina permitted private capital to develop her oil reserves and promised that the government would begin to remove itself from the economy by de-nationalizing some sectors of transportation and by removing economic controls, American officials were impressed and provided assistance. When Brazil, on the other hand, felt that public rather than private capital was the answer to petroleum development, this evidently did not fit the private enterprise, capitalistic model the United States had envisioned for economic development in Latin America.

The emphasis by United States foreign economic policy makers on re-creating in these two countries a replica of the way that America developed economically seems full of
perilous pitfalls. (1) It may be expected that such an approach will lead to charges of economic intervention in the internal affairs of both these countries. While this charge has already been made in Brazil by government officials, in Argentina it is adhered to by a large portion of the masses if not by the government personnel in office during the time covered by this study. (2) These are different times from those existing while the United States was evolving into an industrial giant. In the post-World War II period the "demonstration effect" and the Communist threat make haste imperative if nations are to develop economically along capitalistic lines. Today's peoples are impatient for the better things of life and if a democratic political-economic system will not deliver them, they will experiment with controlled political and economic systems. Often the needed quickening of a nation's economic pulse can be realized through greater participation of the public sector in the economy. In Brazil, for example, the low level of voluntary savings, the wide year-to-year fluctuations in export proceeds, and the lack of continuity and adequacy of the inflow of foreign resources has necessitated a greater participation in economic matters by the government than would otherwise have been the case.

These factors make for instability in the pattern of Brazilian economic development. The Brazilian government at times is able to counter the unfavorable impacts of reduced
export earnings by making public funds available for development projects. Also, as we have stated, bottlenecks present problems to the expansion of the Brazilian economy. Some of these bottlenecks such as inadequate power and transportation facilities cannot apparently be solved with private investment because the expected profits do not justify the risk of the undertakings. In these areas the most plausible solution appears to be public funds. It should be remembered that the history of the United States reveals a great degree of federal, state and local government assistance to railroads and for road construction. Power projects were assisted, for example, by Federal expenditures for TVA and the Hoover Dam. These developments took place during a time when the pressures for economic betterment of the population and social tensions were minor in comparison to what Brazil and Argentina face.

A significant group of writers, which includes Walter Heller, A. M. Lewis, Benjamin Higgins and Edward S. Mason, strongly advocates the need of vigorous participation by the public sector. Supporters of government action feel that social overhead capital formation can best be facilitated by public participation. They argue that this is a sector of economic development in which private enterprise is not sufficiently motivated by anticipated returns. Some of the pro-public participation proponents feel that the number of private entrepreneurs in underdeveloped countries is limited
and new entrants are kept out by rigid social structures. As a result of this, government may be the best agent to initiate economic development. It is stated by some that public participation may lower the real cost of development by reducing the waste of natural resources in the productive process. The slowness and cumbersomeness of the private enterprise system is attacked by some as a justification for public efforts. Finally, centralized planning is advocated on the grounds that it may facilitate an all around, coordinated attack on the problem of development.  

Exponents of a private enterprise approach to development, such as P. T. Bauer and B. S. Yamey, feel that a high rate of profit is a good source of capital formation. They argue that the dispersal of decision making is desirable because it will avoid over-emphasis on possible unproductive investment efforts. Also, bankruptcy will purge the system of inefficient productive efforts. Finally, free enterprise advocates feel that capitalists have a capacity for innovation not generally possessed by public sectors because bureaucracies become bureaucratic and tend to cling to proven methods. At the present time it appears that the matter of the proper roles of public and private funds in achieving economic development is largely unresolved. The fact that

there is considerable controversy over which is the proper approach would seem to make the position taken by the Eisenhower Administration against public development assistance open to question. It may have been more prudent for the United States to have continued assisting Brazil instead of changing her Latin American policy emphasis from Brazil to Argentina. The result of the change in American policy toward Brazil has been a very noticeable deterioration of United States-Brazilian relations.

The United States attitude toward the inflationary spirals of Brazil and Argentina needs further examination. While it is true that excessive inflation tends to present difficulties to economic development, should the United States withhold economic assistance from Brazil until the latter can curb inflation? It should be kept in mind that while in the United States and other developed nations inflation generally tends to occur only when full employment is approached, in underdeveloped countries this may not be the case. Bottlenecks prevent the full utilization of the factors of production. If the main policy objective is eliminating inflation rather than removing the bottlenecks, this policy might lead to permanent underdevelopment. In the long run it would appear that removal of these bottlenecks, such as power shortages, inadequate railroad facilities, insufficient petroleum production, and the absence of a road system worthy of the name, would increase the flow of
products and help reduce inflation. The Brazilian Embassy estimates that annually about one-fourth of agricultural output is lost because of the lack of needed storage and transportation facilities. Steel mills, such as Volta Redonda, at times have to operate at less than full capacity as a result of the railroads' inability to supply iron ore or coal to maintain capacity output. It is not intended here to imply that the excessive rate of inflation has helped Brazil nor that fiscal and monetary tools should not be utilized as complementary measures. However, if Brazil does not receive assistance to pursue projects to eliminate these bottlenecks, inflation will be favored rather than slowed down.

The United States must pursue an intelligent economic policy toward Brazil. Such a policy should take into consideration the different economic factors existing in Brazil as compared to the United States. These Brazilian factors are: low educational levels; unstable government; transportation and power bottlenecks; a new Brazilian sense of nationalism and a high degree of inequality in incomes and wealth. Brazil's problems and outlook for economic development cannot thus be evaluated on the basis of the United States experience. American policy makers should keep in mind that a decision as to the proper combination of public and private enterprise has not as yet been reached. Also, even if the private enterprise system is better, the
uncompromising United States approach on the petroleum issue was unrealistic. Brazilians felt that they had to choose between maintaining their self respect or capitulating to United States demands. They chose to maintain their position of keeping private capital out of petroleum development at the cost of a reduction in much needed American economic assistance. The United States may have to accept a considerable degree of socialism in Brazil in the foreseeable future. Perhaps if this is done, a drastic movement toward a planned economy in Brazil may be avoided and the basis laid for a later strengthening of the private enterprise sector of the Brazilian economy.
A summary of the major conclusions reached as a result of this study will now be undertaken. The purpose is primarily to state and explain the observations deduced from the data which have been gathered and analyzed throughout this study. Conclusions are reached pertaining to:

1. resources;
2. the balance of payments;
3. the role played by the United States in the economic lives of Argentina and Brazil;
4. the role of economic and political factors in relations between these countries;
5. the change in emphasis of United States economic policy;
6. the emphasis of United States economic policy;
7. the stages of Brazilian and Argentine economic development;
8. the impact of inflation on economic development;
9. foreign capital, and
10. a program of United States economic assistance.

Resources

A comparison of the resource bases of the two South American countries indicates that Brazil has a greater economic potential than Argentina. This statement is explained by:

1. Brazil's greater size;
2. her larger population;
(3) her possession of a wider range of resources, and (4) her greater achievements in economic growth during the post-World War II period. Brazil is approximately three times the size of Argentina and occupies 47 per cent of the total land area of South America. She is the fifth largest country in the world and borders on all nations of South America except Chile and Ecuador. In 1960 Brazil had a population of approximately 67 million persons with an average annual rate of increase during the 1950's of 2.5 per cent. In the same year Argentina's inhabitants numbered 21 million with an average yearly rate of growth since 1937 of 2.4 per cent. Should these rates of increase continue Brazil's population will yearly increase numerically more than Argentina's. Brazil has a wide variety of mineral resources, including one-fourth of the world's known reserves of iron ore, approximately one-third of the world's known sources of zirconium and almost all of the world's supply of high grade rock crystal. Additional minerals found in Brazil are: manganese, nickel, cobalt, tungsten, molybdenum, titanium, chromium ores, lead, bauxite, mercury, bismuth, platinum, gold, silver, diamonds, marble, gypsum and graphite. In 1956 it was estimated that Brazil ranked fourth in the world in potential hydroelectric power. Petroleum and hard coal are the only resources she lacks in sufficient quantities and all indications are that petroleum resources are available and that they lack only proper development. Brazil is
the possessor of the second largest forest area in the world after Russia. Forest products are exported and include lumber, fine cabinet woods, Parana pine, mate tea, carnauba wax and Brazil nuts. Argentina, in contrast, is not self-sufficient in forest products and is a net importer of such items as paper, cardboard and newsprint. She also has suffered in her quest for economic development from the lack of mineral resources. Although Argentina is a producer of minerals such as coal, iron ore, salt, bismuth, lime, lead, zinc, gold, silver, copper and tungsten, their output has not been in significant amounts. The Argentine problem of petroleum shortages appears to have finally been solved during 1962. Economic growth rates for the two nations in terms of per capita gross national product represent a contrast during the 1950 to 1958 period. While Argentina's average annual real per capita increase in the gross national product was zero, Brazil's was 3.7 per cent. These trends undoubtedly partly reflect the disastrous economic policies of the Argentine government, such as the multiple exchange control system which penalized agriculture and the channeling of investment funds into non-productive monuments and apartment buildings, but may also partly represent the advantages of Brazil's superior resource base.

Argentina's resource advantages relative to Brazil's are: (1) a better over-all climate; (2) greater availability of farm land, and (3) a more literate and homogeneous
population. Most of Argentina is in the Temperate Zone while only a small portion of Brazil is within this range. Argentina is the bread basket of South America with approximately one-third of her land being cultivable and she has historically been an exporter of corn and wheat. Brazil is usually a net importer of staple food products such as wheat. The population composition of the two countries is very different and while Argentina's population is 97 percent Caucasian, Brazil's is composed of different racial groups. Also, Brazil's population is not as well educated nor as well trained as is that of Argentina.

It is true that nations such as England and Japan have greatly overcome inadequate resource bases. However, it appears that their tasks would have been facilitated and their economic achievements\(^1\) greater had nature endowed them more generously with needed raw materials. The economic well-being of England and Japan depends to a considerable degree on external factors such as foreign market potentials, degree of competition faced in external markets and trade restrictions, which are beyond their control. While it is possible in theory and in practice for nations with inferior resource bases to make greater economic advances than those with superior resources, it is with those nations having the

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\(^1\) By economic achievements it is here meant the level of per capita income.
greater resource base that the greater potential lies, other things (such as stable government and sound economic policies) being equal. In Argentina and Brazil institutional factors such as inadequate educational facilities, very uneven distribution of wealth, inadequate tax systems and political instability have prevented proper development of natural resources.

**Balance of Payments**

The balance of payments has presented serious obstacles in the economic development of both South American countries. Brazil generally incurs surpluses in her merchandise account, while Argentina usually registers deficits. The situation is reversed in the transportation and insurance accounts where Brazil has persistent large deficits and Argentina has managed surpluses. Investment income debits are much greater for Brazil than for Argentina, indicating that foreign capital influx has been much greater into Brazil than into Argentina. While both are facing balance of payments deficits, Brazil's short run problems are more difficult. This is explained by the heavy burden of investment income payments, greater dependence on external capital, a weak service sector and a poor outlook for traditional exports. Argentina's chief problem appears to be inefficient allocation of resources which has hurt agricultural production.
It has been established that both nations depend on foreign earnings to purchase needed capital goods. Brazil has experienced pronounced sugar, cotton, rubber and coffee export cycles while Argentina has depended on a few agricultural products such as meat, wool and vegetable oils. World demand for the exports of both countries has tended to fluctuate pronouncedly and it is along the lines of stabilizing demand for these exports that possible action by the United States holds promise. This is particularly true of Brazil where the United States is the Latin nation's chief buyer.

Although both nations should diversify their exports, Brazil's problem is more pressing, yet her prospects are more promising. Future prospects for foodstuff exports are not very good; however, the outlook for exports of minerals is promising and Brazil appears to have considerable potential along these lines. Argentina will not be a significant exporter of minerals in the foreseeable future. A better control of the inflationary spirals in both nations would assist these countries to improve the competitive position of their exports. Coffee may in the future be replaced by a synthetic substitute and the United States and Brazil should make preparations for this possibility because such a development would create grave economic problems for Brazil.

The Role of the United States

The United States has played a greater role in the
economic life of Brazil than in that of Argentina. From 1947 through 1960 Brazil sold 48 per cent of her exports to the United States, compared to 13 per cent for Argentina. The United States is by far Brazil's best coffee market and coffee represents 77 per cent of Brazil's sales to the United States. In the years 1957-59 coffee represented 58 per cent of total Brazilian exports. Argentine meats face sanitation restrictions and quotas in the United States and must compete with American meat producers. In the postwar period Argentina's imports from the United States averaged 20 per cent and Brazil's 32 per cent. During the same period the average value of United States trade with Brazil was $1.1 billion and that with Argentina only $346 million. United States government financial and economic assistance to Brazil and Argentina totaled $1.2 billion and $452 million respectively. Direct investments by Americans in 1960 were $953 million in Brazil and $472 million in Argentina. These figures represented 12 and 6 per cent respectively of total United States investments in Latin America. During 1955 American-owned firms in Brazil had sales of $672 million compared with $583 million in Argentina. United States owned companies in Brazil spent $600 million in Brazil for wages and materials, compared with $530 million in Argentina.

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These firms employed 94,000 Brazilians and 79,000 Argentinians.

The statistics substantiate the thesis that the United States is of greater economic importance to Brazil than to Argentina. The future potential of trade seems to indicate that this situation will continue. Brazil will probably export increasing amounts of minerals to the United States while Argentina will continue to export her traditional products which generally compete with American producers.

Economic and Political Factors

This study reveals that during 1947 to 1960 Brazilian and Argentine actions toward the United States were generally governed by economic factors, while United States government policy toward the two nations was primarily influenced by political considerations. During World War II Argentina did not support the United States for fear of losing her continental European markets in the event of a German victory which seemed probable early in the war. In July, 1942, Enrique Ruiz-Cruíñazu, a leading Argentine government official, declared that Argentina belonged to the European community. After World War II Brazilian-American relations became strained because of Brazil's feeling that she had not been provided the economic assistance by the United States that she deserved and had been promised. The
United States did not feel that the situation was as politically serious in Brazil as it was in Europe and Asia. During 1949-50 the Peron regime made overtures toward the United States because of economic necessity. Argentine world markets were declining, there was a dollar shortage throughout Latin America and the Sterling area, foreign exchange holdings were exhausted and capital assets were depreciated. Thus, although the Argentine government was antagonistic toward the United States, economic necessity by Argentina led her to move for a rapprochement with America and a loan from the Export-Import Bank. The United States action was to a great degree motivated by the desire to obtain Argentine cooperation in the event of a clash with Communist Russia. In 1959 Argentina was again in economic difficulty and as a result she agreed to let United States private firms develop her oil resources. Also, the Frondizi government promised a change toward a private enterprise economic system sought by the Eisenhower Administration. As a result the United States poured both private and public dollars into Argentina because she appreciated the supposedly democratic government of Argentina. The case of Brazil in 1959 presents the only exception to our general conclusion during the postwar period. The United States pressed for private development of Brazil's resources—to a great degree a position motivated by the Eisenhower group's political and economic philosophy. Brazil at this time, while in economic
difficulty, did not yield to this American pressure, but was primarily motivated by the politics of nationalism as exemplified by the slogan "the petroleum is ours." This one exception should not invalidate the general conclusion that the United States government action was usually motivated by political considerations and Argentina and Brazil were generally influenced mainly by economic factors in their relations. In 1959, Brazil was overcome by an almost hysterical wave of nationalism fanned by ambitious politicians. She did not act in her economic self-interest as indeed she should have. The Latin American decided that he might have to remain poor, but he was going to keep his pride. It is unlikely that such emotion could have arisen over any other sector of the economy but petroleum. If our general observation is correct several conclusions may be arrived at.

The United States has the economic club to demand and probably obtain needed economic reforms from Argentina and Brazil. Argentina and Brazil appear to have political clubs to wield against the United States as both countries have Communist movements. Agreements between the United States and the two South American countries will thus be the outcome of economic necessity for the Latins, political necessity for the Americans and shrewd negotiations by the parties involved. They all need each other and the significant factor is to convince the other side that they need you more than you need them.
United States Policy Change

The change in the emphasis of United States policy in 1959 from Brazil to Argentina was probably incompatible with the national interest of the United States. (1) In making such a change Brazilian-American relations were strained to a point which may be beyond repair. (2) Argentina did not and does not now have the potential to become an economic power such as Brazil. (3) The apparent reason for the change in emphasis seems to have been the desire of the Eisenhower administration to see Brazil and Argentina develop along the private enterprise, capitalistic model of the United States. The enumerated objectives manifested themselves in the quest to develop Brazilian and Argentine oil resources by private capital. One may question whether this action was in the best interests of the United States. As a result of this controversy friendly past relations between the United States and Brazil were set back by Brazilian cries of Yankee intervention. Furthermore, the fact that the Argentine public was greatly outraged over the agreement that permitted development of her petroleum interests leads one to conclude that the interests of the United States were not served even in Argentina. Clearly the issue in Brazil was whether the United States should have tried to assist Brazil to overcome some of her economic difficulties by helping to develop petroleum production by a government agency, or whether the United States should have been primarily
concerned with private capital developing the resources. The State Department emphasized the second alternative. This study contends that greater consideration should probably have been given to the possibility of assisting Brazilian economic development. There are several reasons for this statement. It may be unrealistic to expect that Brazil can evolve economically along the same private enterprise, democratic capitalistic system as the United States did. Private enterprise cannot be expected to develop transportation and power facilities with the present rates permitted utility companies. With the haste needed to improve living conditions as the result of the Communist menace and the "demonstration effect," the public sector may facilitate economic development by helping to remove transportation and power bottlenecks. It is beyond the scope of this study to evaluate thoroughly the issue of public versus private development and it appears that at the present time no concrete unequivocal answer can be given. Part of the answer may take several decades to be determined. If the United States does not assist Brazil she may fall under the domination of Communists. Thus, an intelligent American policy should take into consideration the possibility that United States assistance today, although not entirely in the form of developing private enterprise, may save Brazil from complete socialism.
United States Economic Policy Toward Brazil

Brazil must be the keystone of United States economic policy toward Latin America. This conclusion is based on: (1) Brazil's territorial size; (2) its large population relative to other Latin American nations; (3) her considerable economic potential; (4) the probability of success of such policy, and (5) moral aspects of United States and Brazilian relations. It is not implied by this that other nations south of the Rio Grande such as Argentina should be neglected, but rather than a friendly, pro-American Brazil should be the number one priority in formulating Latin American policy by our State Department. Brazil borders on all but two of the South American nations and should she fall into the Communist camp this would have an adverse impact on neighboring countries. Several examples of Communist activity in Asia such as Laos and Vietnam come to mind when considering the difficulty of stopping a determined foe from infiltrating across frontiers. Furthermore, Brazil's resources would make her extremely dangerous in the hands of a Communist enemy. A combined array of Russian, Chinese and Brazilian resources would pose the United States with a most serious economic threat. This is particularly true if the conclusion made in this study—that Brazil will within time become a major world economic power—is correct. The probability of success of economic assistance to a nation such as Brazil is good. Brazil has the resources and according
to W. W. Rostow is in the "take off" stage where considerable economic progress can be expected. Her economy is complementary to ours and historically there have been amicable relations which would tend to make American aid perhaps more effective. While one should not justify actions between nations solely on moral grounds, in this instance moral aspects reinforce the general theme of this conclusion. Brazil in the past has come to the support of the United States during perilous times for the latter nation. Thus, self-interest, logic and morality seem to validate the proposition of making Brazil the number one United States policy objective in Latin America. As former Brazilian President Juscelino Kubitschek stated: "Brazil means Latin America because our country is almost half of Latin America in size and population."  

**Stages of Economic Development**

Brazil is an underdeveloped country, while Argentina is a decapitalized nation. Previously enumerated reckless governmental policies such as exchange controls and misallocation of investment funds have been primarily responsible for the Argentine situation and she needs more recovery and rehabilitation rather than development. These

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points are partly revealed by a comparison of savings as a percentage of gross national product. In five selected years during the 1950's, Argentina's average percentage of savings of the gross national product was 20, while Brazil's was only 14. Argentina's figure for these years was higher than that of the United States, which had 17 per cent. Unfortunately, Argentina channelled much of these savings into apartment houses, stadiums and monuments. The illiteracy rate in 1950 in Brazil was 50, compared with 13 in Argentina. Also, Argentina falls into the category of Latin American nations with 25-30 per cent of its labor force employed in agriculture, while Brazil is in the 50-65 per cent group.\(^5\)

W. W. Rostow places Brazil in the "take off" stage which is characterized by: (1) new industries expanding rapidly; (2) reinvestment of profits; (3) an increase in factory workers; (4) a rise in savings and income, and (5) an increase in the rate of investment from five to ten or more of national income. Rostow classifies Argentina as a country which has completed the "take off" and is commencing her drive for economic maturity.\(^6\) Such a nation is characterized by: (1) investment of from 10 to 20 per cent of national income; (2) the economy extends its capabilities to more complex processes such as machine tools, chemicals and


\(^6\)Rostow, \textit{op. cit.}, p. 127.
electrical equipment, and (3) the output of the economy regularly outstrips population increases. By the end of this stage the nation has the means to produce what she chooses. It appears that Argentina has at times during the post-World War II period fallen back into the "take off" stage since she did not expand output more rapidly than population during the 1950's. The over-all data suggest that Brazil is underdeveloped and will be more dependent on the United States for capital and economic assistance and for a longer period of time than will Argentina.

Foreign Capital

The period of economic transition to better economic performance levels, in Argentina as in Brazil, will be hastened and made easier if United States capital inflows are encouraged. Argentina and Brazil have serious balance of payments problems. Argentina has incurred deficits in the trade account as a result of the decline in the foreign sales of her leading agriculture exports and she needs foreign capital goods to rebuild her agriculture and transportation systems. Argentina also needs physical capital if her industrialization aspirations are to be realized. Brazil faces difficult balance of payments problems as a result of inflation, declining coffee prices and large deficits in the income and service accounts. These deficits in the income and service accounts are expected to continue in
the foreseeable future. United States capital could help relieve Brazil's problems by developing petroleum resources and reducing imports of this commodity. External capital could help to develop transportation and power, thus reducing major bottlenecks to industrial progress which could possibly lead to reduced imports and increased exports plus a reduction in the inflationary spiral. Argentina would benefit by the inflow of American capital if it provided the needed agricultural, power and industrial equipment. Excessive nationalism, unstable governments and bureaucratic restrictions will reduce this needed capital inflow. To the extent that this happens economic development in these two nations will be delayed and economic problems perpetuated.

History reveals that the economically advanced western nations went through a period of belt tightening during their industrial revolutions. This resistance to higher wages and better living conditions made possible the formation of the needed capital bases. In these earlier periods the "demonstration effect" causing unrest was not present, nor were well organized Communist agitators demanding a change in the structures of government and society as a whole. Today democratic governments such as Argentina and Brazil face the additional problems created by the "demonstration effect" and the Communist agitators. These factors make the people impatient for improvement and when they feel that economic conditions are not being bettered rapidly
enough they often turn their frustrations on their governments. The results are political upheavals and uncertainty which in turn hinder economic development. United States economic assistance can ease this period of transition, particularly in Brazil, by reducing some of the need for belt tightening and shortening the time needed to go through this period of transition. American assistance may make the difference as to whether democratic political institutions can survive such a period of transition.

**Inflation**

It appears that the degree of inflation in Argentina has been a detriment to her economic development and that inflation has probably had an adverse impact on Brazilian growth. There appears to be a difference in the impact of inflation between the short and long run. In the short run commodity prices usually increase more rapidly than wages and many fixed costs. This means profits rise, thus generating further demand for factor inputs, such as land, labor and materials. This increased factor demand is also generally accompanied by heavy inventory buying. Eventually interest rates and wages begin to increase rapidly and profit margins are reduced, which in turn leads to a reduction in demand for factors of production. Unless another inflationary spiral takes hold there will be a recession which will mean inventory reductions, production reductions
and increased unemployment. Prices may continue to rise during the slump but at reduced rates.

In the long run, inflation in Argentina and Brazil has been uneven. This has caused uncertainty in the minds of consumers and business people concerning prices, costs and profits. Uncertainty with a bias toward expected price increases leads to greater expenditures on consumer goods and less in the way of savings, whose future value is dubious. Inflation has also reinforced a tendency in Argentina and Brazil to hold value in the form of physical assets such as land and buildings. This reduces the rate of savings and investments in productive enterprises. Excessive inflation in Argentina and Brazil has led to government action to help control the price spiral. In Argentina government interference to halt inflation destroyed the ability of the price mechanism to channel resources into productive uses. Price controls on meat, for example, during the period of inflation reduced prices to a point where producers did not find it profitable to supply the market with good quality meat. The same situation prevailed with wheat. Thus, Argentine meat and wheat exports dropped at a time when foreign exchange earnings would have helped economic development. In Brazil the exchange control system discriminated against coffee and cocoa, the leading export products. Also, in Brazil some projects had to be halted because of lack of materials, indicating that the prevailing
high rate of inflation had outlived its usefulness.

The Federal Reserve Bank of New York made a study of the relation between inflation and economic growth from 1950 to 1957 for 16 underdeveloped countries. The study revealed that those with little or no increase in prices had average growth rates of six per cent in their gross national product. Those countries with average annual price increase rates of over 20 per cent registered increases in their gross national product of only about 4 per cent.\(^7\) According to the Chase Manhattan Bank, during the 1950's the Latin American nations with the most rapid inflation such as Argentina and Bolivia had the lowest growth rates, while those with low increases in prices such as Venezuela and Costa Rica experienced the greatest advances economically.

The role of inflation in Brazilian economic development is somewhat uncertain because she has experienced a considerable rate of growth with an annual rate of inflation between 1948 and 1960 of approximately 20 per cent. This may lead the reader to conclude that the position taken in this study that such excessive inflation is detrimental to economic growth is invalid in Brazil. However, the contention of this study is that the Brazilian case is unique and at the present time defies a final solution. This writer

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feels that Brazil has grown economically in spite of excessive inflation and not because of it. In addition to the previously enumerated factors there are several reasons for this conclusion. (1) Brazil has great potential for economic growth. This is the result of her abundant natural resources and her economic advancement into the "take off" stage where the economic basis for rapid growth has been laid. Therefore, it seems reasonable to believe that Brazil would have grown without inflation. (2) The balance of payments deficits have facilitated economic progress in the past but may impede it in the future. Foreign loans and investments have made possible the chronic deficits and large amounts of capital goods imports. Many of the loans have not been repaid or serviced and Brazil has had to seek extended terms of payment. The burden of these loans, which are payable in foreign currencies, will be detrimental to future economic growth because they will reduce available investment funds. Brazil's repayment task will be made more difficult by the inflationary spiral which has depreciated the value of the cruzeiro in terms of most other currencies. (3) Developments during 1962 present a case against excessive inflation as an agent of economic growth. During 1962 living costs in Brazil increased 52 per cent, but the rate of economic growth was only 3.5 per cent compared with the 6 to 7
per cent averaged in the 1950's. Population increased 3.1 per cent during 1962, thus per capita income increases were negligible. This development took place during a year when the inflationary spiral was very pronounced. One reason in part for the economic decline was the decrease in new foreign investments to less than a quarter of the 1961 figure. This reduction was due to expropriation of foreign owned firms, to restrictive limitations on profits that could be taken from Brazil. The 1962 experience seems to indicate that perhaps foreign investments in Brazil have been a more important factor in her growth than inflation. Thus, Brazil presents an uncertain situation in reference to the impact of inflation on growth. For the reasons enumerated, this writer feels that the inflationary impact has probably been adverse.

Program for United States Economic Assistance

A United States program of economic assistance to Argentina and Brazil should be based on the principle of enlightened self-interest. It should be clearly understood by the Latin Americans that we need them politically, but that we realize they need us economically. To approach our program of assistance on any other grounds would make us appear like the proverbial Greeks bearing gifts. Economic

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8"Brazil: Two Billions From U. S. and Yet--", U.S. News and World Report, LIV (April 1, 1963), 46.
assistance should be in the form of long term, low interest loans. Grants give the impression of charity and the proud Latins tend to resent such assistance, while short term loans do not give the recipients time to utilize the capital to best advantage before they start making repayment. The United States should have strings attached to its loans such as: (1) demanding where possible institution of a progressive income tax system; (2) a land reform which will distribute to the peasants lands currently idle rather than lands presently under cultivation and provide improved agriculture education and credit; (3) more effective measures to keep domestic Brazilian and Argentine capital at home, and (4) policies to control excessive inflation. America should not provide any assistance unless some concrete efforts along these lines are made. Without some of these basic reforms, United States assistance will be in vain and both funds and valuable time will be lost. The United States cannot develop these nations; they will have to do the task themselves. The best Argentina and Brazil can expect from the United States is assistance to make the transition through their industrial revolutions less painful. It is a form of political irresponsibility for politicians in Brazil and Argentina to blame the United States for their failures. These failures are due to them, not to the United States.

Assistance should be provided for education in Argentina and Brazil. One of the biggest bottlenecks to economic
growth in these countries is inadequate education. This is particularly true of Brazil where over 50 per cent of the population in 1950 was illiterate. The colleges in Argentina and Brazil are generally controlled by irresponsible students. These schools lack both quantity and quality in their faculties, have inadequate facilities and their curricula place too much emphasis on the social sciences. What is needed is assistance to this vital area to return control of the schools to administrators and faculties, provide new and better trained faculties, increase scientific facilities and equipment and increase educational programs stressing technology. Engineers, trained farmers and scientists will be needed if these two countries are to make the economic advances of which they are capable. Graduate schools in agriculture, of which there are none in Argentina or Brazil, would be a good starting point to expand educational facilities. In the early stages, a vigorous program of lending United States professors to Argentina and Brazil should be pursued. Also, capable young Brazilians and Argentinians should be encouraged to enter teaching as a career and as many as possible sent to the United States for training.

Speaking from a point of view of economics, education should provide information pertaining to birth control in Brazil, if at all possible. Starvation and suffering from want of bare essentials are a daily occurrence in Brazil, especially in the Northeast. Much needed increases in
Brazilian per capita incomes are made difficult by annual population increases of approximately 2.5 per cent. It will be hard under such a population pressure for Brazil to make any real economic strides on an individual basis. Her ability to escape from the vicious cycle of poverty will be rendered more difficult. A program such as this would have to be executed through interested Brazilian groups rather than through any American agency. This would be an explosive issue at best and direct foreign intervention would no doubt make the possible success of such a program less plausible.

Education could do much to instill a sense of community responsibility in the minds of Argentine and Brazilian business leaders. Any real progress within a democratic controlled capitalistic system will be impossible if this group does not shoulder its obligations to their communities. They must be made to realize that their group cannot survive long when a few are extremely wealthy and the vast majority is so miserably poor. The United States in the late nineteenth century was forced to resort to public regulations when the "robber barons" held their "public be damned" attitude. Argentina and Brazil may be forced into similar action because the private enterprise which is being tested in these countries is unfortunately primarily the nineteenth century version of private enterprise. Along these lines, perhaps some courses in management responsibilities and ethics would be valuable.
Policy makers will have to continuously modify the program in the light of new developments and they should hope for the best and expect the worst. Economic, political and social problems which have existed for centuries cannot realistically be expected to lend themselves to any quick, easy solution. However, the excellent economic resource potentials of Argentina and Brazil give hope that the economic expectations of these two countries will be realized with time and United States economic assistance. The existence of economically developed, democratic societies in Brazil and Argentina, when combined with the economic might of the United States and Canada, would help to ensure the stability of the Western Hemisphere.
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APPENDIX
TABLE I

UNITED STATES EXPORTS TO ARGENTINA BY GROUPS, 1947-1960
(In thousands of dollars)

<table>
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<tr>
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<tbody>
<tr>
<td>Animal &amp; Animal Products, Edible</td>
<td>557</td>
<td>319</td>
<td>378</td>
<td>63</td>
<td>203</td>
<td>222</td>
<td>266</td>
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<tr>
<td>Animal &amp; Animal Products, Inedible</td>
<td>4,105</td>
<td>1,398</td>
<td>752</td>
<td>74</td>
<td>300</td>
<td>419</td>
<td>20</td>
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<td>Vegetable Food Products &amp; Beverages</td>
<td>6,748</td>
<td>4,764</td>
<td>26</td>
<td>60</td>
<td>185</td>
<td>19,001</td>
<td>205</td>
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<tr>
<td>Vegetable Products, Inedible (Except Fibers &amp; Wood)</td>
<td>22,907</td>
<td>9,807</td>
<td>1,950</td>
<td>1,191</td>
<td>1,926</td>
<td>1,115</td>
<td>1,485</td>
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<tr>
<td>Textile Fibers &amp; Manufacturing</td>
<td>67,760</td>
<td>16,815</td>
<td>2,990</td>
<td>1,057</td>
<td>5,691</td>
<td>3,096</td>
<td>564</td>
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<td>Wood and Paper</td>
<td>10,747</td>
<td>8,206</td>
<td>356</td>
<td>864</td>
<td>16,976</td>
<td>3,926</td>
<td>288</td>
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<tr>
<td>Metals and Manufactures (Except Machinery &amp; Vehicles)</td>
<td>108,961</td>
<td>58,910</td>
<td>20,191</td>
<td>15,676</td>
<td>27,478</td>
<td>13,951</td>
<td>14,328</td>
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<td>Nonmetallic Minerals</td>
<td>28,158</td>
<td>25,182</td>
<td>5,638</td>
<td>8,623</td>
<td>33,900</td>
<td>26,304</td>
<td>15,183</td>
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<tr>
<td>Machinery &amp; Vehicles</td>
<td>363,851</td>
<td>213,073</td>
<td>83,495</td>
<td>87,215</td>
<td>111,165</td>
<td>58,607</td>
<td>48,451</td>
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<td>Chemicals &amp; Related Products</td>
<td>41,147</td>
<td>30,733</td>
<td>9,135</td>
<td>22,569</td>
<td>43,174</td>
<td>18,248</td>
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<td>Miscellaneous</td>
<td>23,120</td>
<td>16,273</td>
<td>4,077</td>
<td>4,184</td>
<td>6,021</td>
<td>1,997</td>
<td>1,388</td>
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<td><strong>Total Domestic Exports</strong></td>
<td>678,059</td>
<td>378,301</td>
<td>128,988</td>
<td>141,577</td>
<td>232.349</td>
<td>146,887</td>
<td>104,131</td>
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<td><strong>U.S. Exports of Foreign Merchandise</strong></td>
<td>2,133</td>
<td>658</td>
<td>161</td>
<td>175</td>
<td>1,093</td>
<td>424</td>
<td>91</td>
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<td><strong>Total, Including Re-exports</strong></td>
<td>680,212</td>
<td>378,959</td>
<td>129,149</td>
<td>141,752</td>
<td>233,442</td>
<td>147,311</td>
<td>104,222</td>
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TABLE I (continued)

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<td>Animal &amp; Animal Products, Edible</td>
<td>561</td>
<td>516</td>
<td>306</td>
<td>493</td>
<td>281</td>
<td>302</td>
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<td>270</td>
<td>147</td>
<td>275</td>
<td>486</td>
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<td>Vegetable Food Products &amp; Beverages</td>
<td>3,784</td>
<td>8,667</td>
<td>22,511</td>
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<td>221</td>
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<td>913</td>
<td>4,009</td>
<td>3,667</td>
<td>2,809</td>
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<td>Textile Fibers &amp; Manufacturing</td>
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<td>2,680</td>
<td>3,829</td>
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<td>Nonmetallic Minerals</td>
<td>5,803</td>
<td>13,982</td>
<td>28,149</td>
<td>27,214</td>
<td>4,991</td>
<td>7,108</td>
<td>10,849</td>
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<tr>
<td>Metals &amp; Manufactures</td>
<td>20,219</td>
<td>35,087</td>
<td>34,285</td>
<td>35,094</td>
<td>29,338</td>
<td>21,091</td>
<td>37,599</td>
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<tr>
<td>Machinery &amp; Vehicles</td>
<td>55,933</td>
<td>57,332</td>
<td>81,273</td>
<td>167,563</td>
<td>175,667</td>
<td>161,081</td>
<td>240,067</td>
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<tr>
<td>Chemicals &amp; Related Products</td>
<td>24,955</td>
<td>19,552</td>
<td>33,132</td>
<td>33,450</td>
<td>19,454</td>
<td>19,571</td>
<td>20,194</td>
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<tr>
<td>Miscellaneous</td>
<td>2,254</td>
<td>1,688</td>
<td>4,765</td>
<td>3,835</td>
<td>2,942</td>
<td>3,611</td>
<td>6,183</td>
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<tr>
<td>Total Domestic Exports</td>
<td>122,072</td>
<td>147,657</td>
<td>211,852</td>
<td>280,311</td>
<td>248,110</td>
<td>229,802</td>
<td>347,185</td>
</tr>
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</table>

| U.S. Exports of Foreign Merchandise   | 288  | 101  | 316  | 1,492| 894  | 760  | 1,958|
| Total, Including Re-exports           | 122,360| 147,758| 212,168| 281,803| 249,004| 230,562| 349,143|

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<td>6,170</td>
<td>1,605</td>
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<td>16,852</td>
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<td>82,740</td>
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<td>105,411</td>
<td>98,119</td>
<td>58,482</td>
<td>90,337</td>
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<tr>
<td>Wood &amp; Paper</td>
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<td>46</td>
<td>32</td>
<td>48</td>
<td>15</td>
<td>15</td>
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<tr>
<td>Nonmetallic Minerals</td>
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<td>218</td>
<td>237</td>
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<td>58</td>
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<td>810</td>
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<td><strong>197,730</strong></td>
<td><strong>217,060</strong></td>
<td><strong>165,290</strong></td>
<td><strong>181,696</strong></td>
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TABLE II (continued)

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<td>17,222</td>
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<td>39,450</td>
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<td>1,465</td>
<td>906</td>
<td>858</td>
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<td>671</td>
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TABLE III

UNITED STATES EXPORTS TO BRAZIL BY GROUPS, 1947-1960
(In thousands of dollars)

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<th></th>
</tr>
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<tbody>
<tr>
<td>Animal &amp; Animal Products, Edible</td>
<td>3,046</td>
<td>1,764</td>
<td>4,250</td>
<td>1,467</td>
<td>3,778</td>
<td>1,410</td>
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<td>574</td>
<td>205</td>
<td>455</td>
<td>152</td>
<td>157</td>
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<td>66,292</td>
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<td>14,646</td>
<td>31,468</td>
<td>98,257</td>
<td>13,300</td>
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<td>5,247</td>
<td>9,429</td>
<td>5,203</td>
<td>3,451</td>
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<td>Textile Fibers &amp; Manufactures</td>
<td>8,241</td>
<td>6,193</td>
<td>4,414</td>
<td>3,750</td>
<td>4,490</td>
<td>3,346</td>
<td>3,717</td>
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<td>6,485</td>
<td>9,530</td>
<td>1,584</td>
<td>1,067</td>
<td>8,823</td>
<td>10,717</td>
<td>2,604</td>
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<td>4,777</td>
<td>34,776</td>
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<td>26,496</td>
<td>42,431</td>
<td>32,998</td>
<td>27,811</td>
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<td>48,681</td>
<td>45,990</td>
<td>35,888</td>
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<td>212,525</td>
<td>209,432</td>
<td>429,764</td>
<td>301,554</td>
<td>163,907</td>
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<td>15,429</td>
<td>21,914</td>
<td>13,027</td>
<td>11,432</td>
</tr>
</tbody>
</table>

Total Domestic Exports                  | 640,601| 476,390| 381,164| 342,830| 697,799| 563,135| 293,924|

Exports of Foreign Merchandise           | 2,580 | 1,169 | 777   | 691   | 1,606 | 1,011 | 1,996 |

Total, Including Re-exports              | 643,181| 477,559| 381,941| 343,521| 699,405| 564,146| 295,920|

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</thead>
<tbody>
<tr>
<td>Animal &amp; Animal Products, Edible</td>
<td>1,959</td>
<td>2,491</td>
<td>4,140</td>
<td>4,776</td>
<td>4,356</td>
<td>953</td>
<td>1,919</td>
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<td>Animal &amp; Animal Products, Inedible</td>
<td>401</td>
<td>79</td>
<td>213</td>
<td>347</td>
<td>174</td>
<td>75</td>
<td>234</td>
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<td>Vegetable Food Products &amp; Beverages</td>
<td>15,944</td>
<td>8,612</td>
<td>35,722</td>
<td>34,460</td>
<td>32,684</td>
<td>42,857</td>
<td>39,487</td>
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<td>Vegetable Products, Inedible</td>
<td>5,394</td>
<td>2,438</td>
<td>2,677</td>
<td>3,978</td>
<td>5,539</td>
<td>8,548</td>
<td>10,844</td>
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<tr>
<td>Textile Fibers &amp; Manufactures</td>
<td>2,776</td>
<td>1,586</td>
<td>1,460</td>
<td>1,696</td>
<td>646</td>
<td>367</td>
<td>1,226</td>
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<td>Wood &amp; Paper</td>
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<td>4,489</td>
<td>4,066</td>
<td>2,797</td>
<td>1,556</td>
<td>4,398</td>
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<td>36,425</td>
<td>27,898</td>
<td>27,701</td>
<td>34,201</td>
<td>31,494</td>
<td>30,785</td>
<td>35,151</td>
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<td>30,164</td>
<td>29,434</td>
<td>48,789</td>
<td>39,368</td>
<td>28,527</td>
<td>38,524</td>
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<td>345,663</td>
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<td>46,951</td>
<td>55,619</td>
<td>52,465</td>
<td>35,714</td>
<td>48,824</td>
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<td>12,236</td>
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<td>10,353</td>
<td>9,442</td>
<td>10,406</td>
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<td>525,540</td>
<td>401,388</td>
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<td>481,784</td>
<td>529,678</td>
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### TABLE IV

**UNITED STATES IMPORTS FROM BRAZIL BY GROUPS, 1947-1960**

*(In thousands of dollars)*

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<td>Animal &amp; Animal Products, Edible</td>
<td>16,507</td>
<td>14,158</td>
<td>10,425</td>
<td>13,597</td>
<td>18,247</td>
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<td>2,231</td>
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<td>621,366</td>
<td>771,481</td>
<td>708,950</td>
<td>680,782</td>
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<td>10,551</td>
<td>20,629</td>
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<td>Animal &amp; Animal Products, Edible</td>
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<td>1,494</td>
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<td>5,121</td>
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<td>7,957</td>
<td>5,782</td>
<td>6,004</td>
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<td>1,958</td>
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<td>7,694</td>
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<td>105</td>
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<td>611,172</td>
<td>563,483</td>
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### TABLE V

**PRINCIPAL EXPORTS FROM THE UNITED STATES TO ARGENTINA BY SUBGROUPS, 1947-1960**

*(In thousands of dollars)*

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*Buses and trucks are included.

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*Buses and trucks are included.

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TABLE VI (continued)

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TABLE VII

PRINCIPAL UNITED STATES EXPORTS TO BRAZIL BY SUBGROUPS, 1947-1960
(In thousands of dollars)

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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat Products</td>
<td>2,874</td>
<td>7,128</td>
<td>2,370</td>
<td>2,651</td>
<td>2,057</td>
<td>1,139</td>
<td>94</td>
</tr>
<tr>
<td>Hides &amp; Skins, Raw, except Furs</td>
<td>11,579</td>
<td>10,255</td>
<td>7,498</td>
<td>9,242</td>
<td>13,672</td>
<td>3,696</td>
<td>6,394</td>
</tr>
<tr>
<td>Vegetables &amp; Preparations</td>
<td>5,071</td>
<td>3,347</td>
<td>3,315</td>
<td>3,690</td>
<td>3,370</td>
<td>3,143</td>
<td>3,122</td>
</tr>
<tr>
<td>Nuts &amp; Preparations</td>
<td>6,968</td>
<td>4,781</td>
<td>5,325</td>
<td>4,462</td>
<td>6,507</td>
<td>6,085</td>
<td>6,437</td>
</tr>
<tr>
<td>Coffee</td>
<td>298,300</td>
<td>352,600</td>
<td>428,800</td>
<td>566,400</td>
<td>719,900</td>
<td>670,700</td>
<td>627,900</td>
</tr>
<tr>
<td>Cocoa &amp; Cocoa Beans</td>
<td>31,800</td>
<td>42,200</td>
<td>33,100</td>
<td>42,400</td>
<td>38,100</td>
<td>26,900</td>
<td>36,800</td>
</tr>
<tr>
<td>Naval Stores, Gums &amp; Resins</td>
<td>2,039</td>
<td>2,408</td>
<td>253</td>
<td>701</td>
<td>1,081</td>
<td>1,202</td>
<td>712</td>
</tr>
<tr>
<td>Oil seeds</td>
<td>26,530</td>
<td>28,894</td>
<td>21,063</td>
<td>12,889</td>
<td>13,031</td>
<td>6,667</td>
<td>3,258</td>
</tr>
<tr>
<td>Vegetable Oils, Waxes, Inedible</td>
<td>21,994</td>
<td>18,014</td>
<td>19,928</td>
<td>30,577</td>
<td>42,773</td>
<td>29,614</td>
<td>28,272</td>
</tr>
<tr>
<td>Vegetable Fibers &amp; Manufactures</td>
<td>1,037</td>
<td>3,814</td>
<td>1,918</td>
<td>7,241</td>
<td>16,883</td>
<td>8,843</td>
<td>2,473</td>
</tr>
<tr>
<td>Ferroalloy Ores &amp; Metals</td>
<td>3,727</td>
<td>3,458</td>
<td>4,164</td>
<td>4,164</td>
<td>3,542</td>
<td>10,317</td>
<td>14,455</td>
</tr>
<tr>
<td>Iron Ore &amp; Concentrates</td>
<td>422</td>
<td>2,355</td>
<td>4,635</td>
<td>8,963</td>
<td>14,932</td>
<td>6,386</td>
<td></td>
</tr>
<tr>
<td>Medicinal &amp; Pharmaceutical Preparations</td>
<td>3,017</td>
<td>2,811</td>
<td>2,579</td>
<td>1,525</td>
<td>3,819</td>
<td>2,552</td>
<td>894</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Meat Products</td>
<td>441</td>
<td>1,297</td>
<td>947</td>
<td>1,073</td>
<td>3,833</td>
<td>10,906</td>
<td>3,158</td>
</tr>
<tr>
<td>Hides &amp; Skins, Raw, except Furs</td>
<td>5,351</td>
<td>6,580</td>
<td>6,795</td>
<td>5,004</td>
<td>5,519</td>
<td>7,622</td>
<td>5,751</td>
</tr>
<tr>
<td>Vegetables &amp; Preparations</td>
<td>1,627</td>
<td>3,576</td>
<td>3,075</td>
<td>1,270</td>
<td>1,492</td>
<td>2,193</td>
<td>2,975</td>
</tr>
<tr>
<td>Nuts &amp; Preparations</td>
<td>4,040</td>
<td>8,885</td>
<td>7,722</td>
<td>6,211</td>
<td>6,140</td>
<td>6,006</td>
<td>8,202</td>
</tr>
<tr>
<td>Coffee</td>
<td>544,800</td>
<td>486,300</td>
<td>604,700</td>
<td>528,400</td>
<td>406,900</td>
<td>449,302</td>
<td>398,888</td>
</tr>
<tr>
<td>Cocoa &amp; Cocoa Beans</td>
<td>59,900</td>
<td>47,000</td>
<td>37,500</td>
<td>31,500</td>
<td>38,600</td>
<td>33,900</td>
<td>32,492</td>
</tr>
<tr>
<td>Naval Stores, Gums &amp; Resins</td>
<td>1,235</td>
<td>862</td>
<td>500</td>
<td>1,254</td>
<td>874</td>
<td>637</td>
<td>767</td>
</tr>
<tr>
<td>Oil Seeds</td>
<td>3,751</td>
<td>4,861</td>
<td>1,801</td>
<td>1,947</td>
<td>764</td>
<td>603</td>
<td>12</td>
</tr>
<tr>
<td>Vegetable Oils, Waxes, Inedible</td>
<td>21,525</td>
<td>19,837</td>
<td>18,652</td>
<td>25,860</td>
<td>22,605</td>
<td>22,000</td>
<td>15,654</td>
</tr>
<tr>
<td>Vegetable Fibers &amp; Manufactures</td>
<td>2,892</td>
<td>6,038</td>
<td>8,934</td>
<td>6,160</td>
<td>4,924</td>
<td>4,339</td>
<td>3,488</td>
</tr>
<tr>
<td>Ferroalloy Ores, &amp; Metals</td>
<td>8,502</td>
<td>9,560</td>
<td>14,498</td>
<td>33,879</td>
<td>23,990</td>
<td>21,938</td>
<td>26,709</td>
</tr>
<tr>
<td>Medicinal &amp; Pharmaceutical Preparations</td>
<td>1,148</td>
<td>1,553</td>
<td>2,169</td>
<td>2,313</td>
<td>3,105</td>
<td>2,905</td>
<td>3,221</td>
</tr>
</tbody>
</table>

TABLE IX

PRICES OF LEADING EXPORT COMMODITIES OF ARGENTINA AND BRAZIL BY COMMODITY, 1950-1960
(Yearly average in dollars)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Coffee, Santos No. 4</td>
<td>.51</td>
<td>.54</td>
<td>.54</td>
<td>.58</td>
<td>.79</td>
<td>.57</td>
<td>.58</td>
<td>.57</td>
<td>.49</td>
<td>.38</td>
<td>.37</td>
</tr>
<tr>
<td>(N. Y. Spot)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cocoa, Accra</td>
<td>.32</td>
<td>.34</td>
<td>.36</td>
<td>.37</td>
<td>.58</td>
<td>.37</td>
<td>.27</td>
<td>.31</td>
<td>.44</td>
<td>.34</td>
<td>.29</td>
</tr>
<tr>
<td>N. Y. PP.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Beef, utility grade cow, all wghts.**</td>
<td>.37</td>
<td>.44</td>
<td>.38</td>
<td>.26</td>
<td>.25</td>
<td>.25</td>
<td>.25</td>
<td>.28</td>
<td>.38</td>
<td>.36</td>
<td>.33</td>
</tr>
<tr>
<td>Quebracho Extract, N. Y.**</td>
<td>8.32</td>
<td>10.28</td>
<td>11.50</td>
<td>11.50</td>
<td>11.57</td>
<td>11.70</td>
<td>11.70</td>
<td>10.00</td>
<td>9.90</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Wool (greasy) raw, Boston**</td>
<td>74.60</td>
<td>108.80</td>
<td>62.30</td>
<td>63.70</td>
<td>61.70</td>
<td>57.10</td>
<td>57.20</td>
<td>64.70</td>
<td>48.00</td>
<td>54.30</td>
<td>56.80</td>
</tr>
<tr>
<td>Corn, No. 3, yellow, Chicago***</td>
<td>1.49</td>
<td>1.79</td>
<td>1.77</td>
<td>1.57</td>
<td>1.58</td>
<td>1.38</td>
<td>1.42</td>
<td>1.27</td>
<td>1.23</td>
<td>1.14</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

♦All figures rounded to nearest cent.  **Per 100 pounds.  ***Per bushel.

**TABLE X**

**TERMS OF TRADE, UNIT VALUE OF EXPORTS AND IMPORTS**

**FOR ARGENTINA, 1948-1960**

(1955 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Terms of Trade</th>
<th>Unit Value of Exports</th>
<th>Unit Value of Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>143</td>
<td>118</td>
<td>82</td>
</tr>
<tr>
<td>1949</td>
<td>129</td>
<td>114</td>
<td>88</td>
</tr>
<tr>
<td>1950</td>
<td>130</td>
<td>104</td>
<td>80</td>
</tr>
<tr>
<td>1951</td>
<td>133</td>
<td>135</td>
<td>102</td>
</tr>
<tr>
<td>1952</td>
<td>105</td>
<td>112</td>
<td>107</td>
</tr>
<tr>
<td>1953</td>
<td>123</td>
<td>112</td>
<td>92</td>
</tr>
<tr>
<td>1954</td>
<td>100</td>
<td>98</td>
<td>97</td>
</tr>
<tr>
<td>1955</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1956</td>
<td>90</td>
<td>91</td>
<td>100</td>
</tr>
<tr>
<td>1957</td>
<td>92</td>
<td>88</td>
<td>95</td>
</tr>
<tr>
<td>1958</td>
<td>93</td>
<td>83</td>
<td>89</td>
</tr>
<tr>
<td>1959*</td>
<td>94</td>
<td>83</td>
<td>90</td>
</tr>
<tr>
<td>1960*</td>
<td>99</td>
<td>91</td>
<td>92</td>
</tr>
</tbody>
</table>


TABLE XI
POSSIBLE EFFECT ON SELECTED UNITED STATES IMPORTS FROM LATIN AMERICA OF A NON-DISCRIMINATORY SUSPENSION OF UNITED STATES IMPORT RESTRICTIONS

<table>
<thead>
<tr>
<th>Commodities</th>
<th>Present Restrictions</th>
<th>Estimated Increases Following Suspension of Restrictions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ad Valorem Tariff</td>
<td>Other Restrictions</td>
</tr>
<tr>
<td>Cattle and beef</td>
<td>9.0-17</td>
<td>Sanitary reg</td>
</tr>
<tr>
<td>Leather pocketbooks</td>
<td>17.5-20</td>
<td>50% of import fee</td>
</tr>
<tr>
<td>Preserved meats</td>
<td>8.0</td>
<td>Quota</td>
</tr>
<tr>
<td>Sugar</td>
<td>9.0-12</td>
<td>Quota</td>
</tr>
<tr>
<td>Apparel, wool</td>
<td>25</td>
<td>Sub. to U.S. prod.</td>
</tr>
<tr>
<td>Canned beef</td>
<td>15</td>
<td>-</td>
</tr>
<tr>
<td>Cotton</td>
<td>8</td>
<td>Quota</td>
</tr>
</tbody>
</table>

TABLE XII
BOOK VALUE OF UNITED STATES DIRECT INVESTMENTS
IN ARGENTINA AND BRAZIL FOR SELECTED YEARS
(In millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>202</td>
<td>356</td>
<td>393</td>
<td>447</td>
<td>333</td>
<td>330</td>
<td>366</td>
<td>472</td>
</tr>
<tr>
<td>Brazil</td>
<td>323</td>
<td>644</td>
<td>1,013</td>
<td>1,115</td>
<td>835</td>
<td>798</td>
<td>828</td>
<td>953</td>
</tr>
</tbody>
</table>

*Preliminary estimates.


TABLE XIII
GROSS DOMESTIC CAPITAL FORMATIONS
(Per cent of G. N. P.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Argentina</th>
<th>Brazil</th>
<th>United States</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>23</td>
<td>17*</td>
<td>17</td>
</tr>
<tr>
<td>1953</td>
<td>18</td>
<td>13</td>
<td>16</td>
</tr>
<tr>
<td>1957</td>
<td>22</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>1958</td>
<td>21</td>
<td>14</td>
<td>16</td>
</tr>
<tr>
<td>1959</td>
<td>18</td>
<td>13</td>
<td>17</td>
</tr>
</tbody>
</table>

*For 1951.

**TABLE XIV**

CONSUMER PRICE INDEX FOR ARGENTINA, BRAZIL AND THE UNITED STATES

(1953 = 100)

<table>
<thead>
<tr>
<th></th>
<th>1948</th>
<th>1953</th>
<th>1956</th>
<th>1957</th>
<th>1958</th>
<th>1959</th>
<th>1960*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Argentina</td>
<td>31</td>
<td>100</td>
<td>132</td>
<td>165</td>
<td>217</td>
<td>464</td>
<td>590</td>
</tr>
<tr>
<td>Brazil</td>
<td>59</td>
<td>100</td>
<td>173</td>
<td>206</td>
<td>237</td>
<td>325</td>
<td>433</td>
</tr>
<tr>
<td>United States</td>
<td>90</td>
<td>100</td>
<td>102</td>
<td>105</td>
<td>108</td>
<td>109</td>
<td>110</td>
</tr>
</tbody>
</table>


### TABLE XV
**ARGENTINA'S FOREIGN EXCHANGE RATES, 1950**
*(Pesos per dollar)*

<table>
<thead>
<tr>
<th>Selling Rates</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>9.73</td>
<td>Imports classed &quot;Preferential A&quot;</td>
</tr>
<tr>
<td>5.37</td>
<td>Imports classed &quot;Preferential B&quot;</td>
</tr>
<tr>
<td>6.08</td>
<td>Imports classed as essential</td>
</tr>
<tr>
<td>12.53</td>
<td>Permitted non-essential imports</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Buying Rates</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>3.86</td>
<td>Basic exports</td>
</tr>
<tr>
<td>4.83</td>
<td>Exports classed &quot;Preferential A&quot;</td>
</tr>
<tr>
<td>5.73</td>
<td>Exports classed &quot;Preferential B&quot;</td>
</tr>
<tr>
<td>7.20</td>
<td>Special export list</td>
</tr>
</tbody>
</table>

**Free Rate**

- Financial remittances


The following are some of the items included in the various import categories in Table XV:

1. Preferential A—coal, fuel oil, crude petroleum.
2. Class B—coffee, bananas, rubber, soft woods, newsprint, industrial chemicals.
3. Essential imports—machine parts, yerba mate.
4. Non-essentials—all items not enumerated under the categories above.

For export sales which represented the buying rates, the description is as follows:

1. Basic exports—beef, mutton, grains, linseed.
2. Preferential A—pork, raw hides, sheepskins, greasy and washed wool.
4. Special exports—tanned leather, leather manufactures, fresh fruit.
TABLE XVI

ARGENTINE IMPORT Surcharges, 1959

List One—fuels, principal metals, rubber, newsprint, industrial machinery and motors of a type not manufactured in Argentina—no surcharge.

List Two—industrial raw materials, drugs, iron and steel bars, tin plate, wood pulp, bond paper and paper for plates—20 per cent.

List Three—semi-processed articles, lumber and chemical products—40 per cent.

List Four—spare parts, tires and tools—100 per cent.

List Five—luxuries and musical instruments—150 per cent.

List Six—industrial machines and motors like those produced in Argentina—150 per cent.

List Seven—these items had not been published at the time of this writing but items in this category will carry a 200 per cent tax.


TABLE XVII

ARGENTINA'S GOLD AND FOREIGN EXCHANGE HOLDINGS, 1945-1949

(In millions of dollars)

<table>
<thead>
<tr>
<th></th>
<th>1945</th>
<th>1946</th>
<th>1947</th>
<th>1948</th>
<th>1949</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>1,197</td>
<td>1,072</td>
<td>332</td>
<td>142</td>
<td>216</td>
</tr>
<tr>
<td>Foreign Exchange</td>
<td>466</td>
<td>624</td>
<td>749</td>
<td>666</td>
<td>566</td>
</tr>
<tr>
<td>Total</td>
<td>1,663</td>
<td>1,696</td>
<td>1,071</td>
<td>809</td>
<td>782</td>
</tr>
</tbody>
</table>

TABLE XVIII

SUMMARY OF ARGENTINA'S BALANCE OF PAYMENTS, 1946-1960
(In millions of dollars)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
<th>Transp. &amp; Insurance</th>
<th>Investment Income</th>
<th>Other Services</th>
<th>Private Donations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1946</td>
<td>1,371</td>
<td>-1,480</td>
<td>231</td>
<td>-451</td>
<td>-60</td>
<td>29</td>
</tr>
<tr>
<td>1947</td>
<td>1,614</td>
<td>-1,585</td>
<td>74</td>
<td>-82</td>
<td>-51</td>
<td>--</td>
</tr>
<tr>
<td>1948</td>
<td>1,407</td>
<td>-1,491</td>
<td>50</td>
<td>-8</td>
<td>-40</td>
<td>--</td>
</tr>
<tr>
<td>1949</td>
<td>934</td>
<td>-1,073</td>
<td>33</td>
<td>-10</td>
<td>-22</td>
<td>--</td>
</tr>
<tr>
<td>1950</td>
<td>1,167</td>
<td>-1,045</td>
<td>18</td>
<td>-3</td>
<td>-24</td>
<td>--</td>
</tr>
<tr>
<td>1951</td>
<td>1,178</td>
<td>-1,442</td>
<td>31</td>
<td>-28</td>
<td>-13</td>
<td>--</td>
</tr>
<tr>
<td>1952</td>
<td>709</td>
<td>-1,196</td>
<td>61</td>
<td>-5</td>
<td>-33</td>
<td>--</td>
</tr>
<tr>
<td>1953</td>
<td>1,148</td>
<td>-862</td>
<td>37</td>
<td>-7</td>
<td>-42</td>
<td>--</td>
</tr>
<tr>
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*1960 data from International Monetary Fund, *International Financial Statistics*, XVI (February 1963), 44.

### TABLE XII

**ARGENTINA'S HOLDINGS OF GOLD AND FOREIGN EXCHANGE, 1951-1960**

(In millions of U.S. dollars)

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TABLE XX

INDEX NUMBERS OF ARGENTINA'S INDUSTRIAL PRODUCTION, 1951-1960
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<th>Colombia</th>
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TABLE XXII

BRAZILIAN IMPORT CATEGORIES UNDER 1953 FOREIGN EXCHANGE LAW

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<th>Group</th>
<th>Principal Commodities</th>
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<tr>
<td>Category II</td>
<td>Ores, scrap metal and raw materials.</td>
</tr>
<tr>
<td>Category III</td>
<td>Wood, industrial machinery and vehicles.</td>
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<tr>
<td>Category IV</td>
<td>Office machinery, fresh fruits and some consumer goods.</td>
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<tr>
<td>Category V</td>
<td>Commodities not included in the first four categories.</td>
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TABLE XXIII

BRAZILIAN EXPORT CURRENCY CATEGORIES UNDER 1957 LAW

(Cruzeiros per dollar)

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<th>Commodities</th>
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TABLE XXIV

BRAZILIAN EXCHANGE RATES, NOVEMBER 1960

(Cruzeiros per dollar)

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<th>Quantum of Imports</th>
<th>Capacity to Import</th>
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TABLE XXVI

SUMMARY OF BRAZIL'S BALANCE OF PAYMENTS, 1946-1960
(In millions of U.S. dollars)

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*Not available.

VITA

Louis J. Rodriguez was born March 13, 1933, in Newark, New Jersey. He received his elementary education in the schools of Celanova, Spain, and was graduated from the Jonathan Dayton Regional High School in Springfield, New Jersey.

In 1955 he received his B.A. degree from Rutgers University, and in 1957, his M.A. degree from Louisiana State University, where he is presently a candidate for the degree of Doctor of Philosophy in Economics.

He is currently teaching at Francis T. Nicholls State College in Thibodaux, Louisiana.
EXAMINATION AND THESIS REPORT

Candidate: Louis J. Rodriguez

Major Field: Economics


Approved:

[Signature]
Major Professor and Chairman

[Signature]
Dean of the Graduate School

EXAMINING COMMITTEE:

[Signature]

[Signature]

[Signature]

Date of Examination:

May 14, 1963