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CONSEJO FEDERAL
DE INVERSIONES

INSTITUTO DE INVESTI-
GACIONES ECONOMICAS
Y FINANCIERAS DE LA
C. G. E.

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JOINT PROGRAM FOR INDUSTRIAL
AND AGRICULTURAL DEVELOPMENT

2nd. REPORT

(Period from November 11, 1962 to May 15, 1963)

SUMMARY

BUENOS AIRES
May 1963

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QUOTATIONS FOR READERS' UNDERSTANDING

Sponsors of the Program

The Consejo Federal de Inversiones (Federal Council of Investments)

The CFI is an agency established by agreement signed by the Ministers of Public Finance of the Provinces, the Nation, the Federal Capital and the National Territory of Tierra del Fuego, Argentine Antarctica and South Atlantic Islands, during the IIIrd. Meeting of Ministers of Public Finance that took place in Santa Fe on August 1959.

According to its legal nature it is an autarchic organism (having juridical capacity and a limited sphere of attributions), of institutional nature (decentralization by service and competence in the Provincial States).

The CFI is integrated by three organs: the Assembly, the Permanent Committee and the General Secretariate.

Created and supported by the Provinces, it is an unique organism in Argentine institutional practice, carrying out research and counseling on investments on the basis of the economic possibilities of each region, to the end of promoting - by means of a decentralization process - the harmonic and integrated development of the country.

Two kinds of tasks may be effected by the Council: one, of immediate assistance, facing the provinces' problems on a short term basis; and another one directed towards determining the facts of an economic problem situation and to programming the activity which - on a medium or long term basis - could solve it.

The Confederación General Económica (General Economic Confederation)

The CGE, founded in 1949, is a central body which includes 1328 Entrepreneurial Chambers, Associations and Federations representing production, trade, and industry throughout the whole country. Its eminently national structure allowed inland enterprises to find its more adequate expression in the CGE.

The Chambers are organisms of first degree, grouped in Federations which in turn constitute the Confederations. In the case of the CGE the Provincial Federations direct the economic problems of a general character through the Confederations and the CGE.

The Higher Council of the CGE is constituted by the representatives of the Economic Federations, the Specific Federations and the Confederations.

Recently the CGE created an Institute for Economic and Financial Research, its main aim being to study national economic problems and to give advice to the enterprises represented in the Chambers, Federations and Confederations.

Activities of the CFI (Federal Council of Investments)

1. It gives advice to the signatory provinces or states on the following:
 - a) Rational use of national resources in a federalist sense, favoring economic and demographic decentralization through creation and promotion of local sources of wealth.
 - b) Determination of priorities for investments and specification of their location or regional situation.
 - c) General orientation of credit, financial and fiscal policies.
 - d) Criteria to be followed for the joint venture investment of foreign capital.
 - e) Import of productive goods relative to national development.
2. It carries out the research needed to coordinate all investments, preparing also regional programs aimed towards coordinating these investments in a sense of economic integrations.
3. It effects the technical and economic studies asked for by its member provinces, including those needed to back the provinces' propositions before the National Government.

4. Public or private institutions are consulted or asked to share in studies, so as to avoid a repetition of research on the same subject and to obtain an effective coordination of efforts.
5. It connects itself with national and international institutions having similar or related aims.
6. It promotes scientific research connected with economic development and the training of experts.
7. It divulges the investment opportunities the country offers to Argentina and foreign capital.
8. It helps towards informing public opinion on the importance and meaning of the social and economic development of the country.
9. It promotes coordination meetings between the provinces with a common interest in regional development or in the exploitation of certain natural resources.

Within the framework of these functions, the CFI has signed various agreements; among them the "Joint Program for Industrial and Agricultural Development"; and it is carrying out a series of researches, which are well known and appreciated by everybody who is interested in the problems of the Argentine economy.

Activities of the Institute for Economic and Financial Research of the C. G. E.

The Institute for Economic and Financial Research of the C. G. E. is an agency devoted to permanent research on the economic reality of Argentina, created and supported by the C. G. E.

Regular Program (carried out by a permanent team of experts and economists).

1. Permanent statistical research on the social and economic processes of Argentina.
2. Periodic reports on the economic situation for the C. G. E. , the Confederations and Federations.
3. Technical assistance to the Chambers, Specific and Regional Federations.
4. Information exchange with private national and international bodies and with government departments national and provincial.
5. Maintenance of a center for financial and economic documentation.
6. Technical management of the monthly magazine "CGE - 200 millones".
7. Holding of study courses.
8. Conferences and lectures.

Special Program (carried out by experts and economists especially engaged to this end).

9. By agreement with the CFI, a program which reports semi-annually on agricultural and industrial development.
10. By agreement with the National Development Council and the CFI, a study on idle capacity in Argentine industry (terms of agreement in process).

Description of the Joint Program for Agricultural and Industrial Development.

This is a research project being carried out by virtue of an agreement signed on April 11, 1962, by the contracting parties. The agreement stipulates a term of two years with equal financing by both parties of the total budget estimated at 28.800.000 Argentine pesos.

The work is directed by the Committee of the Program constituted by the Secretary General of the CFI, the President of the CGE and the Director of the Program appointed by joint agreement of both parties. The Director of the

Program is charged with all matters pertinent to the technical and methodological aspects of the research work.

Due to restrictions on account of the limited funds available, it was agreed on to carry out a sectorial analysis of the main activity sectors of the agriculture and livestock, industrial and services branches and of the economic and financial policy sectors of government. A sector concerning housing was also included, because of its social importance in our country.

On account of the above, the denomination "Joint Program" must be understood as a conjunction of efforts of the contracting parties to develop this research; we do not aspire - our resources would not allow it - to make an exhaustive analysis of the whole economy of the nation nor its programming in the strict sense of the term. This task is attempted in the project on a Ten-year Program for the Argentine economy proposed on a previous occasion by the CGE to the UN Special Fund under whose consideration it is.

The first stage of this program is being carried out, through the coordinated action of the CFI and the National Development Council. It should therefore be understood that this "Joint Program", as a common effort of two institutions, is directed towards the promotion of development of the sectors considered, stating to this end the general orientations on economic policy which are deemed necessary. The research work has been divided in four semi-annual stages, each one finishing with its respective report, in which an actualization and analysis of the existing situation in the sectors considered will be given and the bases for short term programming will be gradually established.

The report for the first six months, already published, consists of a first approach to the problem, in which the different work-teams had wide freedom to pay attention to those parts considered most urgent or economically more important.

Each sector condensed in a summary (First semi-annual report, Nov. 1962, Vol. I, Pt. VI) the first results of its research, thus fulfilling its purpose of establishing a series of concrete short term measures within the relative certainty of the present condition.

In the second report, of which this publication is a part, some already considered aspects are brought up-to-date, others left untreated in the first report are developed, and some new sectors of research in the agricultural, industrial and social fields are added. These tasks of bringing up-to-date, completing and deepening will continue in the following reports, with the advantages

of a gradual integration and co-ordination made possible by continuous team work.

The attitude of the responsible experts of the different sectors in the work already done is characterized by the acceptance of every controversy which may help towards finding a solution for the problems of the Nation. That is why the conclusions of this job are subject to eventual changes of a formal or basic nature, as far as new economic facts coming up or criticisms being made may call for.

Who are the experts?

To accomplish the programmed work the Direction of the Program engaged many well known Argentine experts from different sectors of the economic and intellectual circles of the country, already experienced in their respective sector.

Each one develops his work with ample freedom to approach his problem and to state the pertinent recommendations, at the same time being responsible for his sector.

A listing of the experts follows:

<u>Director of the Program:</u>	Ing. Orlando A. D'Adamo
<u>Credit and monetary policy:</u>	Dr. Hugo Barber
<u>Foreign trade:</u>	Dr. Jorge Gardella Dr. José Kestelman Dr. Ovidio Ventura
<u>Budget:</u>	Dr. Francisco Aguilar Dr. Aldo Pecchini
<u>Tax policy:</u>	Dr. Moisés Kostzer Dr. Saúl Witis
<u>Social situation of Argentina:</u>	Dr. Gustavo Caraballo (h)
<u>Agriculture and livestock:</u>	Ing. Horacio Giberti

	Dr. Rodolfo Carrera Ing. Israel Icikson Dr. César Lanfranchi Ing. Mario Rossini
<u>Forestry and Forest Products:</u>	Ing. Juan Boggiano Dr. José Marinelli
<u>Fishing:</u>	Ing. Juan Boggiano
<u>Mining:</u>	Sr. Pedro Barrios
<u>Iron and Steel:</u>	Dr. Simón Makler Dr. Ideler Tonelli
<u>Metallurgical industries:</u>	Ing. Horacio Mariscotti Ing. Leonardo Iurcovich
<u>Petrochemical industry:</u>	Sr. Raúl Fernández Sr. Orlando Martínez
<u>Pulp and paper industry:</u>	Dr. Jorge Bolo Ing. Bernabé Mindlin
<u>Textile industry:</u>	Sr. Luis Henin
<u>Energy:</u>	Ing. Raúl Ondarts Ing. Santiago Isern
<u>Transport:</u>	Ing. Guido Belzoni Dr. Alejandro Menéndez
<u>Housing:</u>	Arq. Juan Bonta Arq. Alberto Lanusse

S U M M A R Y

The summaries of each of the sectorial reports constituting the second semi-annual report have been translated for the present release.

These summaries are synthetic descriptions of the present situation in the sectors considered, and include the immediate measures which are deemed necessary.

The complete reports backing the present release, may be consulted in their original Spanish version edited in four volumes.

PRESENT SITUATION OF THE ARGENTINE ECONOMY

SUMMARY

1. It is evident that we live under exceptional circumstances: On the one hand, the situation in our country shows political, social, financial and economic disturbances, and on the other hand there is a world situation and a social situation in many Latin American countries whose effects are more notorious because of the outstanding interdependence between our destinies. It is clear that all this indicates only one way for the consolidation of the occidental way of life: economic development under the indispensable sign of a better distribution of wealth.
2. It is also clear that if the leaders with direct responsibility, whether they are politicians or entrepreneurs, do not recognize the people's needs; if the urgency to eliminate hunger and misery, illness and illiteracy is not understood; if these truths inherent to social coexistence are not considered and the satisfaction of the great majorities' aspirations is slowed down, due to supposedly existing rights of small minorities, then an irreversible step towards the dangerous void of social struggle would have been taken. That is why we expressed that what must motivate the search for solutions within social peace is not fear, but the safe instinct of justice. These solutions have to make less arduous the constant increase and improvement of the material and spiritual levels of living of the main national majorities.
3. Only through clear programming of economic and social development can we generate the necessary faith and confidence in the future, and we understand this so because we start from the basic assumption that this programming will be done from below and from inside; the former, because it must be done from the very bases of the business or worker community, and from inside, meaning the faithful adherence to the main national goals. It cannot be otherwise, as for programming to reach its objective it must be fed on economic and social reality, and this reality can only be built by the main recipients of the program: entrepreneurs and workers.
4. A really national plan cannot exist if these sectors, on whose effort the success of the plan depends, have no direct share in its preparation and carrying out. Elsewhere we have repeatedly stated that it cannot be talked about a national plan, and much less about its success if this plan is made by a minority, whether it is a technical one which no doubt will elaborate it with a clear sense of duty, but without truly representing national reality; or an economic or

financial minority, which will consider mainly its particular interests and therefore will be far from fulfilling the fundamental needs of the country.

5. The development program has to be accurately coordinated as to sectorial and regional aspects, because national development requires priorities, and the balanced progress of the different regions of the country calls for harmony. We therefore stress the need of a balanced development of agriculture and industry. On the other hand national development cannot be exclusive, quite to the contrary, it must be a vigorous instrument of social progress in the under developed world.

6. These precise national objectives will help towards clarifying automatically our foreign trade policy, without confusing it with the international policy of our country. The latter should have as its main objective to strengthen the occidental position by means of peace and social progress. But this requires that we make an effort to effect this peace and social progress in our own country. Any disturbance in the institutional, political or social order becomes a heavy handicap for the joint effort. The solution of institutional problems is therefore an inescapable condition for a definitive ordering and orientation of the Republic.

7. It is indispensable to establish immediately the Social and Economic Council, constituted by representatives of business, professional and workers organizations. This body of institutional control does not weaken any parliamentary function. Parliament is the genuine expression of democracy, but from the economic, social and legislative points of view, it has to be supplemented by the action of an institution like the one mentioned. By its own constitution the Council will not be affected by the successive political and ministerial changes, and its main objectives will be the direct intervention in the formulation of the plan for economic and social development, its implementation and performance being provided by the State. This plan must lead to economic and social welfare, and to this end it must foresee all necessary structural changes in the agricultural, industrial, financial and exchange market fields and all other activities within national economy and finance.

8. The main objective of national development is to raise per capita income. This objective implies on the one hand the defence of national labor employed in industry and agriculture, by means of a sound support of its interests, as the industrialized countries do. On the other hand it means a more aggressive foreign trade policy tending towards protection of export prices and the conquest of all available markets of a real or potential nature.

Need for an Immediate Action.

It is nevertheless clear that while this national program is elaborated we cannot stay motionless, awaiting the results of an elaborate long term plan. We think that a series of measures should be taken towards creating the necessary hope and receptivity in the workers and entrepreneurs.

The correlation between economic and social development has been clearly taken up in a recent work by CEPAL (ECLA) showing the "big mistake of the oldfashioned formula: first the stage of economic development and then social reforms. An acceleration of economic development will not be obtained without changing the social structure" (1). But even this is not enough, because from its "take-off" onwards the program has to proceed safely. The majority of the country, be it businessmen, workers, professionals, bear the burden of a wrong income distribution, they are skeptical and suffer acutely the impact of bankruptcies, checks lacking funds, unemployment and delayed payment of salaries and pensions.

How can we obtain their support for the national program? In our opinion, there is no other solution than the adoption of an organic body of essential measures for the attainment of the plan's objectives, serving to secure the receptiveness it needs. In Argentina's present situation these measures are unavoidable and urgent, because while the plan of development is being written, the other one leading to the dismantling of industry is carried out; resulting in stagnation of rural production and massive unemployment.

For us, the immediate plan should be as follows:

1. Expansion of the means of payment through credit, selective rediscounting to production, industry and trade so as to assure a quick normalization of entrepreneurial activities and full employment. The Central Bank must assume its inherent function to assure the success of these anti-deflationary measures. It is also necessary to refinance credits to production, industry and trade, establishing adequate terms and interest rates.
2. Credit must have regional or sectorial priorities referring to agriculture and livestock, forestry, fishing and mining, iron and steel, chemical,

(1) Hacia una dinámica del desarrollo latinoamericano (Towards a dynamics of Latin American development). E/CN. 12/680. CEPAL. 1963

transport, machine-tools, pulp and paper and stationary industries sectors, and to operations connected with the development of the North-West Provinces, of Patagonia and the less developed provinces of the country.

3. Payment to State suppliers should be immediately effected in order to assure the subsistence of those not yet bankrupt.
4. It is necessary to establish exchange insurance through the Central Bank, thus helping national and foreign investors, easing external commitments and eliminating speculation.
5. The Industrial Bank must be mobilized, trying to co-ordinate the financial measures with the issue of bonds to be taken by private banks, so that the Industrial Bank may be able to fulfil its essential function as a development bank.
6. Recovery of demand. It is indispensable to return to normal the payment of salaries to employees, workers and pensioners in both private and State organizations, to find an outlet to the violent economic contraction which production, industry and trade are undergoing.
7. Immediate measures should be adopted to eradicate speculation and frauds performed on 9th. of July Loan Bonds, redeeming these bonds immediately and backing them at the Stock Exchange.
8. While the present emergency state goes on the suspension of unnecessary imports is indispensable, according to what is produced in the country, coordinating at the same time efficiently the existing organisms which fight against smuggling, a real illness for the national economy and entrepreneurial activities.
9. As to taxes, no new ones should be introduced, on the contrary a moratorium for the payment of taxes and delayed pension contributions should be studied so as to allow a transition from the present state of contraction to economic normality.
10. The purpose of national economic policy is full employment. But meanwhile it is necessary to establish an emergency fund for unemployment, without interfering with the planning of a permanent unemployment insurance.
11. No solution will be forthcoming if the State does not restrict its expenses in all departments. It is not possible that while the sectors of production,

industry and trade of the whole country and even economically prosperous companies are going bankrupt, or facing the possibility of it, the State does not suffer a reduction in its budgets and keeps the same bureaucracy that costs the country more than 350.000 million Argentine pesos per year. It is indispensable to assure that the State enterprises present their production plans three months before the start of the financial period, avoiding the anomalous present situation in which production plans are published at the end of the fiscal year they are supposed to cover.

12. The housing plans, devoid of priority in the economic field, have to be promoted on account of their social priority. It is necessary to stress that all foreign funds connected with housing programs must be allocated exclusively to plans for the low income sectors, leaving the solution of the same problem for the middle or high income sectors to the saving and loan societies and other national -public or private- institutions.

We are not trying to give a complete picture of the measures which should take us out of this difficult situation leading us to expansion and progress, but we try to point out the urgent measures to be taken to bring forth faith in the future, hope in the results of joint efforts and the necessary impulse to put the economic system again in good working shape. If this is not possible, then we will soon reach total disarticulation of domestic industry and one million unemployed, with all the social and political consequences which can be imagined. The country needs anew the faith and confidence which generated its best achievements.

We cannot be the country of bankruptcies, protested drafts, refused checks and gold supported bonds quoted at 60 pesos, and we cannot either be the country of pensioners looking for something that may allow them a minimum standard of living. As soon as demand is again active, the basic sectors of production are promoted through priorities and the people's savings both in the official and private banking systems are effectively oriented towards furthering truly productive activities and not to the fields of speculation, usury and secondary trades, then we can trust that recovery and subsequent expansion will take place. However, instead of decisions we are served many disquisitions trying to keep public opinion away from the "harmful inflationist influences of development programs".

"But those who encourage inflation are against income redistribution. Acting only in the monetary field, not denying, but ignoring development, they block the growth of production and therefore lead to inflation". (1)

(1) CEPAL, op. cit.

An inadequate economic policy has led its action upon compression of consumption but its worst effect has been to diminish supply and to disarticulate national industry. Its lack of sensitiveness is seen in the fact that even on compressing consumption no distinction was made between income sectors, and thus the 5% minority of the population which consumes fifteen times more than a family of low income, not only has not restricted its consumption capacity, but has even increased it.

These are the groups that according to CEPAL "load the majority of the population with structural obstacles against which development stumbles and with a regressive way of facing them". (1)

In the face of this the "Latin-American masses are using their increasing political and trade union power to defend themselves from the price rises caused by these monetary and extra-monetary factors of inflation" (1).

The only possible solution the orthodox economic leaders find for this problem is "monetary stabilization not connected with a policy of development and social equity". (1).

A lot of this can be blamed on the excessively obedient behaviour of Latin American financial executives to the dictates of the FMI (International Monetary Fund), institution whose important function of annual "stand-by" has been mistaken in our country for an almost inescapable leadership of the national economy and finance. Even while disagreeing with the essence of the FMI policies we do not accept the easy way out that only to its action we owe all of our present troubles. They are the result of the stubborn tendency to hold on to structural anachronisms and of the lack of imagination and courage in economic leadership "which is not according to our times", after an expression of Ortega y Gasset. We think that the functions of international organisms in the technical or financial field to which we have adhered, can be perfectly profitable. But it is not necessary to bind our decisions, even those inherent to the social and economic stability of our enterprises and of our people, to foreign administrative deliberations. Let us adopt with courage and decision the measures that circumstances call for and be sure that they will be understood or justified. And let us quit the unjustified and uncomprehensible position of asking for approval to adopt measures concerning social stability and national economic development.

It is utterly surprising that those people who look eagerly for the consolidation or refinancing of external debts or want to obtain loans of 50 or 100 mil-

(1) CEPAL, op. cit.

lion dollars at the international financial organisms, stay motionless in face of the extraordinary flight of Argentine capital, estimated for 1962 at 600 million dollars. What do 50 or 100 million coming into the country mean, useless to obtain public confidence, if 600 million dollars belonging to Argentines leave, together with the faith lost? What can 50 or 100 million dollars do here, if thousands of Argentine professionals, who cost the country considerable effort and expenses, leave to collaborate with their effort and science elsewhere, looking for new horizons? What can those few million dollars accomplish if unemployment grows and desperation may change the sign of social masses? What can one hundred million dollars do if the bankruptcies of national companies reach as much as 120 million dollars per year and those who go on pilgrimage for the loan inflicted on the country a loss of 500 million dollars? (To wit, decline of gross domestic product).

The problem has to be deeply analyzed and decisions cannot be simply attached to purely technical aspects; on the contrary they must give an integral answer to the serious problems the Republic faces. That is why we propose the above detailed measures. The semi-annual reports we release in accordance with the contracts signed, cannot give a bloodless vision of Argentine economic reality, they must also reflect our people's hopes and our needs. We do not want to stay in the cold fields of technique. On the contrary, we want to match technique with human emotion so that, as an instrument of economic and social policy, it fulfils its real objective. Not very long ago, Mendes-France said that "politics is not any more simply politics, economics is not any more simply economics, and technics is not any more simply technics". Technics, politics, and economics work all together as an expression of the real policy that should be applied by men aspiring to lead countries. A policy that presupposes substantial ingredients in the economic, social and technical implementation of solutions. Nobody can live nowadays in closed political, economic or social realms, as did leaders and theoretical economists and ideologists of the past. Today's reality is a synthetic one and calls for a policy aware of social and economic facts. That is why we ask for a coordinated action between the basic social frameworks of workers and entrepreneurs, also including political leadership through Parliament as an essentially democratic institution. This is a chance democracy has not yet played, and therefore we will stimulate and encourage it. We will also strive for the adoption of measures which may pave the way for a historic national action.

CREDIT AND MONETARY POLICY

SUMMARY

The negative facts already mentioned and the not very auspicious perspective reinforce the need of adopting some urgent measures, which should help towards overcoming the present depression, and though some of the recommendations may have been stated in our previous report, we think that the following measures have to be considered as an immediate program.

A) In the Foreign Financial Market

As our export trade is the only source of foreign exchange the following steps, recommended by the Foreign Trade sector: increase of nontraditional products exports, application of the draw-back system, tax exemption for new export industries, etc., are the only way to overcome the present situation.

As to the huge external debt we think that once the political and institutional situation of the country is cleared up, it would be necessary to ask clearly for a moratorium on the whole debt, within a reasonable term of five years, connected with the development plans to be presented to the authorities of the "Alliance for Progress" program.

B) In the Internal Financial Market

The structure of this market, shows some aspects in worse condition than in the last half of 1962, it is therefore very necessary to adopt measures allowing relief for the present financial tightness which affects especially industrial activity. Additional to already mentioned measures - selective rediscounting through the Central Bank, reduction of some points on Bank minimum cash reserves, up to establishing a bank moratorium if necessary -, some other ones should be taken immediately, as follows:

1) Payment of State debts with its suppliers.

The present debt has a great influence on the market - it is estimated at 100 thousand million pesos - and the monetary issue to cover it could be effected in a gradual and planned manner, so as to avoid the natural impact on the exchange market.

2) Updating of salary payments to State agents.

The implicit monetary issue to solve this problem is not necessarily inflationary, both because of its relatively small amount (4,000 million pesos) and because this money would be channelled directly into consumption, to cover expenses already incurred in by State agents.

FOREIGN TRADE

SUMMARY

Experiences of French Planning.

Analysis of foreign economic experiences is not easy because of structural diversities and a different degree of development. But in spite of these difficulties, French planning allows us to reach several conclusions:

- 1) The French plan brought about a deep transformation if not of the economic structure at least of its mechanisms. In spite of certain contradictions, development seems to accelerate. The economic groups operate with a long term perspective and therefore they help to stabilize national economic life.
- 2) The social techniques at work have shown a trend towards understanding among the social groups. The goal of planning has been to orient the activities of all social sectors to obtain harmonic joint progress. This is a demonstration of the compatibility between a planning policy and the economy of private enterprise. Then the joint presence of management, trade unions and the Administration within the "vertical" Commissions has shown itself to be a valuable instrument of co-operation at the highest level of economic and technical planning.
- 3) The success in the foreign sector is a demonstration of the benefits to be derived from the co-ordination of national economic activities by the central organisms of planning and co-ordination.
- 4) It is an enlightening example of how to solve a quasi-structural deficit in the balance of payments. However, this conclusion has to be conditioned to the situation of international markets, and to the trade policy of foreign countries.
- 5) The importance given to the development of the basic sectors - before the adoption of a free exchange policy - is a very interesting experience for the Argentine situation. Thus it has been possible to face a new acceleration

stage of international competition with efficiency in costs, productivity and innovation.

6) The importance given to non-traditional exports, especially during the IIIrd. and IVth. Plan, and the decided promotion of exports by means of a set of co-ordinated measures is also an enlightening example for Argentina.

Markets and products

1) The Argentine Republic has not yet adapted its foreign trade to the new international tendencies. Its main income is given by the export of primary products, concentrated in very few items, and oriented towards certain countries, the traditional markets for our products, but, due to their new trade policies, a potential danger for our future exports.

2) 95% of our export products belong to agriculture and livestock with emphasis on wheat, corn and meat. The essential feature of these products is given by the relatively low elasticity of international demand, which becomes a fundamental factor in the deterioration of the terms of trade.

3) The policy of the ECM towards self-sufficiency in agricultural products through heavy subsidies, leads inevitably to the adoption of restrictive measures detrimental to our products. The goal of the agricultural policy of the Community is not only self-sufficiency of the countries constituting the ECM, but also becoming exporters of temperate area products, in spite of the antieconomic exploitation of European agriculture and stock breeding. At present this is a potential danger which, on becoming real, would mean a hard blow to our trade.

4) The discouraging prospects shown by the ECM countries limiting their markets for our products (as they proceed with the common agricultural policy) are aggravated by the British policy towards our meat. For our meat exports we depend almost exclusively on the English market and our share in the total meat purchases of Great Britain is notoriously lower. And any effort to increase our supply depresses immediately our prices. This is happening now and worries the British government very much, not because of the low prices being paid for Argentine meat, but because of the heavy subsidies it has to pay - on account of this situation - to British breeders, who obtain a guaranteed price for their livestock, as a consequence of the British policy to promote meat production. This induces important sectors of British opinion to ask for a limitation of Argentine beef importation.

5) The USA confronts us with two problems:

- a) The agricultural surpluses, and
- b) The prohibition decreed by the U.S. government on the introduction of cured and salted meat of Argentine origin. Facing these situations and the new tendencies of international trade, it is imperative to effect a policy of product diversification, supplemented by an aggressive policy to conquer new markets and to keep up the existing ones, on the basis of the defence of our products' prices.

To this end it is necessary:

- a) To trade with all the countries of the world paying attention only to the national interest. There should not be any subordination of our country's trade policy to international policy as long as the latter is not definitely harmed. In these matters, we must follow the example of Great Britain, France, Canada, etc.
- b) To promote the export of non-traditional products to the end of obtaining an effective diversification of exportable production.
- c) To increase our trade with the Latin America Free Trade Association countries, which will make it possible to sell many items of our industrial production.
- d) To offset, through energetic and apposite negotiations at the highest level, the British agricultural sector's purpose to limit the purchases of Argentine meat.
- e) To appeal to international organizations in co-ordination with other Latin American countries when necessary demanding that highly developed countries, mainly those of the ECM, eliminate or reduce the restrictions and discriminations limiting consumption and importation of basic products.
- f) To consider jointly with the American authorities the ways and means to increase Argentine exports to that country. It is necessary to negotiate with the US government the suppression of the ban affecting the importation of cured and salted meat of Argentine origin. The negotiations must be based on the fact that, though financial help from the USA is important for our country, this co-operation cannot substitute the income on exports as a source of funds

for economic development. The problem of agricultural surpluses must be also re-formulated, so as to avoid the prejudicial and perturbing effects of these surpluses on the international market.

- g) To trade with the Asiatic and new African nations, which, as their population increases its standard of living, may become interesting markets for our traditional and non-traditional exportable goods.
- h) To conquer new markets it is necessary to adopt more flexible and realistic criteria of trade policy leaving orthodox rules and getting used to the possibilities of markets subject to other regimes.

Operation and perspectives of The Latin American Free Trade Association.

1) The Latin American Free Trade Association (LAFTA-ALALC) was instituted by the Montevideo Treaty signed on February 18th, 1960, by the six southernmost countries of South America and Mexico, to which Colombia and Ecuador were added later. ALALC is based on the need to integrate the economies of the member countries and to increase its interregional trade, considering an eventual Latin American Common Market.

The Montevideo Treaty is based on a twelve-year plan in order to obtain the gradual elimination of tariffs and duties within the Zone, through the granting of reciprocal preferences, not extendible to other countries, and negotiated every year among the Association member countries. This Agreement is of great economic importance, considering that it embraces nine South-American countries with a population of about 180 million, which is expected to reach 258 million in 1975.

The possibilities of economic expansion in the area may be appreciated considering that interregional trade amounts at present to only 6.5% of the whole trade of these countries, and that the economic capacity per inhabitant, besides being very irregular among the different countries and different zones of a same country, is only of about 350 dollars, which can be considered relatively low if compared with the 950 dollars of the average inhabitant of ECM countries and the 2.400 dollars of the average USA inhabitant.

2) The main directions of ALALC aim towards co-ordination and promotion of the Zone trade on a multilateral basis and the encouragement of industrialization by means of production on a bigger scale and a more competitive basis, with the purpose of rationalizing costs and improving the living standards of the consumers.

To reach these goals certain objectives have been fixed, which condition the

negotiation mechanisms. In the first place, we must stress the multilateral character of the preferences each country grants, which has modified the bilateral nature of trade relations among these countries.

Secondly, it has to be outlined that duties are not dismissed automatically, but through annual negotiations, each product at a time.

Thirdly, as a basis for the "rules of the game" of the negotiations, the principle of reciprocal concessions was set up, so that no country feels itself postponed.

3) In order to speed up the exemption program, and to stimulate joint venture investment, expansion or co-ordination among enterprises which are able to use in whole or in part the market offered by the Zone, the Montevideo Treaty foresees in its clauses 16 and 17, the possibility of agreements among complementary industries of a sectorial character, permitting to reach a better productive efficiency, to lower costs and to expand their activities.

It also provides permanent administrative and executive instances, like the Conference of the Contracting Parties and the Montevideo Committee, integrated by representatives of the highest level in order to receive suggestions, to take initiatives and to watch for the observance of the stipulations of the Treaty and the results of the talks and the intersectorial agreements application. This is a very effective factor to solve the many problems that, for sure, will appear in the liberalization of trade and economic integration of these countries, a new process in their economic relations.

4) Once the Treaty was ratified, on May 1961, on July of the same year the first period of ordinary sessions of the Conference began in Montevideo.

During this period the Permanent Executive Committee was installed, the First Executive Secretary was elected, and the rules and budget under which this organism will function were approved.

Some preliminary definitions were considered as indispensable for the application of certain stipulations of the Treaty and the first series of negotiations for exemption of products traded in the area was held.

As a result of this first meeting an almost total consolidation of the existing preferences within the Zone for the goods of traditional trade was obtained. These preferences were renegotiated on the basis of the principle of reciprocity, which inspires the Treaty.

To that the liberalization of other new products was added, which could be easily substituted as they were wholly imported from third countries. The percentage of exemption already agreed on is estimated at around 30%, therefore from the point of view of the rules, the Zone could have been put into operation several years before.

Our trade with the Zone, which in the last two years was slightly higher

than 9% of our total trade and which traditionally has been concentrated on a small number of basic products, increased appreciably during the first year of effective functioning of ALALC as regards to Brazil and Peru, but it seems to have had a negative result as to trade with Chile and Paraguay.

5) The Second Period of Conference Sessions was held in Mexico on August, 1962, and, besides the annual negotiations of national lists, it had to face a great number of problems relative to organization, operation of the Treaty and practical implementation of its plan and program, especially relative to: comple~~me~~ntation agreements, the origin of goods, the boundaries' traffic, dumping and other unfair practices, the protection of the value of the concessions, the elimination of non-tariff restrictions, transports, etc.

From a general point of view our negotiations with Brazil were the most significant and also the most simple ones, because of the wide and practical criteria evidenced by both delegations, which broaden considerably the perspectives of increment and diversification of trade. On the contrary, the negotiations with Paraguay, Peru and Uruguay were very difficult and had few practical results, as a consequence of the unfavourable incidence of the so-called "problem products" of these countries and a not very flexible negotiating stand on the part of our country.

6) The first results of the ALALC do not seem to respond to what was ex~~pe~~cted from it. The relatively easy period of exemption consolidation on the products of traditional trade and of adding others easily substitutable in the trade with third countries having already finished, the mechanism of annual negotiations by products seems to have become a difficult obstacle for the liber~~at~~ion process considered in the Montevideo Treaty.

Even more, the concessions already granted have shown themselves not to be able to generate new trade currents and to promote exchange. All this would indicate that the organization of trade among these countries on multilateral bases cannot substitute the stimulus given by the previously existing bilateral agreements to interregional trade.

To make the system work it is not enough to negotiate annually, product by product, on the basis of the tariff preference only. And therefore it is not enough either to return to regional exchange, at least to the past levels of bilateralism.

Certain limitations of the Montevideo Treaty, like the rigid procedure of exemptions and the existence of certain safeguard clauses especially applied to agricultural products, are factors that although allowing to respect important interests existing at present in each country, on the other hand they slow down the dismantling of the high protectionist walls, characteristic of these countries' economies, and they lack in fluidity for the process of trade liberation. Several structural obstacles are added to these limitations, like geographic isolation,



transport difficulties, etc., and others of a circumstantial nature like the adoption of stabilization and monetary convertibility plans in several of these countries, which far from encouraging the concentration of trade in the Zone, tend to disperse it to other overseas trade areas. Meanwhile, the marked differences among the Zone countries, as to living standards, social and wage policies, trade and exchange regimes, etc., constitute serious hindrances to materialize the process of industrial integration leading to the formation of a common market. All this explains the lack of success in reaching sectorial agreements of industrial complementation according to the provisions of the Treaty, as in spite of the Permanent Committee's good disposition to promote this kind of agreements, only two have been drafted, one for electronic valves and their components, and another one, which is as yet shelved, more limited, for statistical and similar machines. To this framework of difficulties in which the ALALC is working, the lack of enthusiasm that the entrepreneurial sector has shown up to the present with this initiative should be added.

7) Considering the above stated problems to be faced by the ALALC in its first years, its perspectives seem to be conditioned by the decision of the governments to find solutions to the structural problems, and to the possible adaptation of the Treaty and its executive organisms to the modalities of the Zonal Trade. However, the adaptation of the entrepreneurial sector, without whose enthusiastic and decided collaboration very little can be expected, should also be considered. It is essential to admit that the mere use of the tariff preference is not enough to provide the stimulus necessary for the intensification of Zonal exchange. The Treaty omits deliberately any consideration of the financial problems of the Zone, but this does not mean that there is not an urgent need to study a system of payments which admits the possibility of stimulating trade by means of a multilateral reciprocal credit regime, working as a substitute of the one existing through bilateral agreements. On the same level it is important to build up a system of financing basic and capital equipment exports within the Zone, which would allow the consolidation and expansion of said industries in competitive conditions with other countries. With respect to this matter an encouraging antecedent has to be mentioned. That is a project prepared by a group of experts of the Interamerican Development Bank, which was very favourably received at the last meeting of governors of that financial organism, which took place in Caracas in April. In the second place, it must be agreed upon some new procedure to accelerate the liberation of trade so that exemptions will not be limited to symbolic amounts of little effect, but will create real and effective exchange opportunities of goods with possibilities of expansion in the Zone market, be it obtained by substitution of imports from out of the Area or by increasing consumption through an exemption, or by gradual ousting of national industries with little efficiency at present and for the future.

8) The auspicious fact has also to be noted of the existence of permanent instances like the Conference of the Contracting Parties and the Permanent Executive Committee (PEC), able to receive suggestions, to take initiatives and to watch over the observance of the Treaty and the results of the concessions granted. Concerning this, the initiative of the PEC scheduling for the present year a series of meetings of official representatives in order to discuss important matters for the operation of the Zone, is to be commended. This embraces the co-ordination of trade policies, the confrontations of national development plans, the consideration of the financial problems of the Zone, etc.

The project to effect a series of studies on: the treatment to be given to the relatively less developed countries, the revision and actualization of the tariff schedule (NABALALC, Brussels Tariff Schedule for LAFTA), the comparative examination of tariff sectors, the relative importance of interzonal trade products, the commercial currents generated by concessions, transportation problems, the signature of sectorial complementation agreements, the traffic across boundaries, etc., is also to be praised.

9) Concerning the adaptation of the business sector to Zone activities, it is reasonable to expect that it will proceed with the exemptions materializing into better trade opportunities. In the meantime good results are to be expected from the interesting agenda of meetings of production representatives, called by PEC for this year. At these meetings problems of different industrial sectors of the Zone will be analyzed, among them: leather and furs, electronic valves, glass, textiles, dairy products, petrochemical industry, chemical and pharmaceutical products, iron and steel, copper, automotive industry, agricultural machinery, railroad supplies and parts, etc., it is expected that this will effect a "gradual and increasing co-ordination of the respective industrialization policies", which may facilitate the achievement of the next stages in the liberation program.

10) Our country's position in the ALALC will be determined as much by the official sector as by the collaboration and interest of the entrepreneurial sector. Although our country has very propitious initial conditions to benefit from the advantages offered by this initiative in the Latin American area, it is necessary to consider that until now precise official directives have lacked and that our delegations have not received the support necessary to take advantage of negotiation opportunities, which would consider not only our interests but also the principles of reciprocity on which we base all our negotiating position. However, it may be expected that with the experience given by two multilateral negotiations and the determination of the sensitive trade points of each country concerning the so-called "problems products", our delegations have now clear and flexible enough directives. This will result in a better way to obtain and grant concessions for a better dynamics of the liberation process which the governu

ments are promoting as a means of exchange expansion within the Zone.

The collaboration of the Argentine entrepreneurial sector after an initially reticent attitude, is now stimulated by the interest the Zone offers as a market of more possibilities and advantages for the export of our non-traditional products, mainly manufactured ones. The situation of the internal market, subject to the trials of stabilization plans, a favourable exchange rate and the recent addition of equipment in a great number of enterprises, these are all elements leading to an attitude of sympathy towards the Zone.

National Measures to Approach Argentine Foreign Trade Problems

- 1) The new draw back regime shows satisfactory results since Decree 8051/62 gave to the system the required speed and automaticity. But in practice it is not as yet sufficiently dynamic. The National Customs Department produces administrative delays, which are not understandable, with the consequent damage to exporters. Therefore, a prompt dispatch for the pending applications for reimbursement is urgently needed, by organizing the National Customs Department to reach the maximum of efficiency.
- 2) The regime for financing exports of non-traditional goods, must be quicker and more effective, therefore it is necessary that the officials in charge of credits be more expeditious. Certain hindrances must be eliminated, as demanding a guarantee from a bank of the importing country, which stops many exports. It would be convenient to analyze the best way of establishing a credit insurance.
- 3) The amount reimbursed to the exporters of the taxes they paid directly or indirectly in the internal market, according to Decree 1127/63, is insufficient. The weight of taxes (on sales, lucrative activities, income, emergency, gratuitous transmission of wealth, education promotion, provincial and municipal taxes) in spite of not having the same incidence in the different industrial activities in a condition to export, is in all cases higher than the 12% of the FOB value that is reimbursed. It would be convenient to readjust this value adapting it to reality so as to be able to place our manufactured products under really competitive conditions.
- 4) To encourage the export of non-traditional products it is necessary to create export groups and organizations to pay attention to specific export problems considering the different industrial sectors and all the inland regions of the country. It is also necessary to create the register of exporters and to effect immediately an industrial survey to determine the products Argentina may export, complementing this work with an analysis of foreign markets.

BUDGET

SUMMARY

Measures regarding the budget deficit

- 1) Staff reduction.
- 2) Freezing of vacancies and stimulus prizes to the staff which retires from the National Administration.
- 3) Transfer to the private sector of all State enterprises in condition to be thus transferred.
- 4) Concerning the remaining State enterprises, an urgent restructuring and rationalization, increasing staff productivity and reducing its deficits, mainly on account of the items which are not investments to reequip and improve the enterprise.
- 5) Compulsory publication of production plans and computation of the necessary resources, 90 days before each fiscal year starts.

Measures regarding the budget structure

- 1) Annex grouping of the general account with special account.
- 2) Annex grouping of the resources.
- 3) Stability to fulfil budget dispositions, suppressing the delegation of authority and requiring legislative sanction for any new credit.

TAX POLICY

SUMMARY

1) The budget and tax policy.

- a) Analysing the collection figures it is clear that the revenue from traditional taxes has not augmented as the increase is obtained by means of new taxes.
- b) The lack of increase of the former is due to the economic crisis the Nation is experiencing.
- c) It is to expect that as a consequence of the "clearing" of capital collection will increase in the second half of the fiscal year and thus will allow a reduction of the present tributary pressure.

2) "Clearing" of capital

The operation "clearing" of capital has shown that:

- a) The percentage of listed and non-listed taxpayers that resorted to the regime is big enough to confirm the estimate already effected in the first semi-annual report, about the dimension of tax evasion.
- b) A cautious estimate allows to say that between 1955 and 1961 tax evasion was around and not less than 57.000 million pesos, that is to say an average of 9.500 million per year.
- c) These figures do not include evasions corresponding to consumed rents and those which fled from the country. Obviously these cases were not reflected in the operation "clearing".
- d) The evasion shown not only damages fiscal collection but has extra-fiscal consequences, mainly in the stagnation of investment, discouraged by an excessive fiscal pressure.

3) Fiscal pressure

Income tax is the clearest example of the inequality of fiscal pressure. Through statistical figures we are allowed to state the following interpretations:

- a) The taxes attack heavily the so-called middle class, producing a discouraging effect on saving and its investment.
- b) Comparing the effective tax-rate in the years 1946 and 1963 on the bases of equivalent income in pesos of both years, we see increments doubling, tripling and reaching five times the taxes existing during the first of these periods and being charged more proportionally to the middle brackets.
- c) Our country is placed at the highest tax level in the world for non-high incomes.
- d) As to personal taxation, fiscal pressure is very clear comparing the years 1950 and 1960, where to an increase of the net income per taxpayers of 3.6 times, the tax to be paid has increased sixfold.
- e) Comparing the same years in corporate societies, taxable income has increased in general 10.8 times and taxable income per enterprise increased only 5.7 times.

4) Taxes and capital gains.

- a) The rhythm of investment in the country may be considered quantitatively satisfactory but not qualitatively.
- b) The wrong distribution of this investment is one of the reasons for the deformation of our economy and the stagnation of development. Building construction absorbs an excessive amount referred to normal.
- c) Public investment of basic structural building-bridges, roads, ports, etc. - is suffering a relative decline with respect to private investment in buildings, but it is also stagnant in absolute value, measured in constant 1950 pesos.
- d) An effective fiscal reform is the right means to accelerate growth in a development program, but it is not the program itself. "The government must keep up continually an estimate of future requirements, and analyze whether the projects of investment adopted and in process of maturing will assure the necessary expansion of productive capacity in the