EFFECTS OF THE THREE POST-WORLD WAR II RECESSIONS ON UNITED STATES TRADE WITH LATIN AMERICA

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ABSTRACT

Because of the high degree of economic interdependence among the nations of the world, business cycles initiated in one country are often transmitted to other countries. The international transmission of business fluctuations is particularly evident in trade between industrial and primary producing economies. Contractions in industrialized countries cause imports, especially raw material imports, to be reduced. This has a depressing effect on the economies of the underdeveloped countries because of the passive movements in their balances of payments due to declines in export earnings. They undergo losses of international reserves, declines in domestic economic activity and income and, consequently, are forced to reduce imports.

This paper discusses the extent to which the above pattern has held true with respect to trade between the United States and Latin America during the period since World War II. Because the Latin American countries rely on exports to the United States for substantial proportions of their national incomes, recessions in this country may be expected to cause recessions among the republics of Latin America. The objective of this paper is to discover whether or not, and to what extent, the 1948-49, 1953-54, and 1957-58 United States recessions have brought about balances of payments deficits, declines in national incomes, and reductions in imports of Latin American countries.

The responsiveness of the major Latin American export commodities to changes in United States income during the postwar period is determined and the structure and importance of foreign trade of each of the seven

largest trading republics is presented. These are used as a basis for studying the effects of each of the three postwar recessions on the balances of payments and domestic economies of the above mentioned seven countries - Mexico, Cuba, Venezuela, Colombia, Brazil, Argentina, and Chile.

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by

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CHAPTER I
INTRODUCTION

It has long been recognized that the international incidence of business cycles has been especially evident in trade between industrial and primary producing economies. Due to the nature of demand for industrial raw materials, fluctuations in the domestic business activity of industrial countries produce fluctuations, often magnified, in the exports of primary producing countries. Since exports of primary producing countries are normally larger, relative to national income, than those of industrial countries, fluctuations in the export earnings of the former tend to exert a strong impact on internal economic conditions. Because exports are much larger than domestic investments in underdeveloped countries, they are the more powerful generator of economic fluctuations; whereas, in industrial economies, investments are a more important cause of business fluctuations than are exports.[1]

Because of the relative importance of investments and exports in industrial and underdeveloped countries, the following cyclical pattern might be expected to follow: a change in investment, industrial production, and income in the United States tends to produce a change in the exports of many underdeveloped countries to the United States, as well as to other countries whose economies are likewise affected by United States business cycles. To the extent that this relationship prevails over other variables, a definite cyclical pattern of trade between the United States and its suppliers of raw materials should develop as a result of business contractions

[1]For a discussion of the relative size of exports and investment in primary producing and industrial countries, see Wallich, Henry C., "Underdeveloped Countries and the International Monetary Mechanism", Money, Trade, and Economic Growth: Essays in Honor of John Henry Williams, pp.17-32.

in the United States. When demand for producers' and consumers' durables declines during a United States recession, decreased demand (due to both decreased requirements and reductions in inventories) for the crude materials and semi-manufactures necessary for the production of those items causes a decline in the quantity and unit value of imports from underdeveloped countries. A decline in export earnings has a depressing effect on the national income of underdeveloped countries, (because of the importance of exports relative to national income), and causes a passive movement in the balance of payments which is often sufficient to bring about a deficit because of the predominant portion of the trade of many underdeveloped countries that is conducted with the United States.

A decline in national income and international reserves tends to bring about a reduction in imports. The decline in international reserves is usually the more important reason for underdeveloped countries to reduce imports because it is these countries, more often than the industrial countries, who have insufficient reserves of gold and foreign currencies. Consequently, during a recession in this country, United States exports to underdeveloped countries should be expected to decline almost immediately after a decline in imports - long before the income effect has had a chance to bring about a balance of payments adjustment.

The question now arises: to what extent do the above statements hold true for the postwar period? Furthermore, if they hold for some underdeveloped countries and not for others, what factors determine the impact of United States business fluctuations on the balances of payments and domestic economies of particular countries? Have the international repercussions of American economic declines been exaggerated as a result of the experiences of the thirties? Or, may it be assumed that "the economy of the outside world is now reasonably immune from fluctuations in the United States economy; or that tools of international policy are available to offset serious international effects of any future decline in the United States."?[1]

As a means toward a partial answer of some of the above questions, this paper attempts to ascertain the effects of post-World War II United States economic declines on Latin America and to arrive at a few conclusions regarding the relationships between business fluctuations in the United States and trade with Latin America. The objective is to determine the effects of the 1948-49, 1953-54, and 1957-58 United States recessions on trade with Latin America in general, on imports of the major Latin American export commodities, and on the balances of payments and economic activity of the seven largest Latin American trading nations.

The method of analysis which this paper follows with the purpose of arriving at the above stated objective largely revolves around (1) the responsiveness of the major Latin American exports to changes in United States economic activity, and (2) the structure of foreign trade of Latin American countries. The products involved in trade between the United States and Latin America are the medium by means of which recessions in this country are transmitted to Latin American countries. In recognition of this fact, chapters III and IV deal with the impact of the three postwar recessions on United States imports of nine of the major Latin American commodity exports. Chapter III treats those commodities which have been observed to be responsive to changes in income in the United States during the postwar period - copper, lead, zinc, and wool. Chapter IV discusses

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[1]Polak, J.J., "The Repercussions of Economic Fluctuations in the United States on Other Parts of the World", International Monetary Fund Staff Papers, 1956-57, Vol.V, p.280.

five Latin American exports which have been relatively unresponsive to changes in United States business activity - iron ore, petroleum, sugar, coffee, and cacao.

Chapters V and VI are concerned with the effects of the United States postwar recessions on particular Latin American nations - Mexico, Cuba, Venezuela, Colombia, Brazil, Argentina, and Chile. The countries are treated individually and their reactions to each of the three recessions are considered separately. The responsiveness of the balances of payments and domestic economies of these seven countries are discussed in the light of the structure of each country's foreign trade, i.e., the composition of exports by commodity and by country, relation of exports to national income, and international monetary reserves relative to imports.

CHAPTER II
EFFECTS OF THE THREE POSTWAR UNITED STATES RECESSIONS ON TRADE WITH LATIN AMERICA

The Domestic Economy During the Three Recessions

No two contractions are exactly alike, but the similarities apparent in the three United States recessions since World War II outnumber the differences. Such contrasts that exist, with some exceptions, are mostly of degree rather than evidences of differences in the fundamental underlying causes. All three of the postwar recessions were short relative to the National Bureau of Economic Research's median contraction of eighteen months.[1] Only three of the preceding twenty-four recessions were shorter than that of 1957-58, which had a duration of only nine months; the 1948-49 and 1953-54 recessions lasted eleven and thirteen months, respectively.

The tendency to liquidate inventories was the main, though not the only, feature characterizing the three postwar recessions. As stated by Geoffrey Moore:

> One of the typical features of brief business cycle contractions is that a large proportion of the decline in output is attributable to a decline in investment in inventories... . As a result, the decline in output exceeds the decline in sales, often by a wide margin. This was the case in 1957-58 and also in 1953-54 and 1948-49. In each of these brief contractions, the decline in inventory investment exceeded the decline in total final purchases and hence was a downward factor contributing to the decline in gross national product.[2]

Table II-1 compares changes in industrial production, disposable income, corporate profits, and selected components of the expenditure side of gross national product during the three recessions. The percentages show changes from the peak to the trough quarters, seasonally adjusted at

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[1]Based on twenty-four contractions preceding that of 1957-58.

[2]Moore, Geoffrey H., "The 1957-58 Business Contraction: New Model or Old?", American Economic Review, May, 1959, pp.297-98.

annual rates. The decline in GNP was mildest during the 1953-54 recession although that contraction was the longest of the three. The deepest decline in GNP occurred during the shortest, but sharpest recession - that of 1957-58. Industrial production fell substantially during each recession, with the tendency to liquidate inventories causing the decline in output to exceed the decline in personal consumption expenditures.

TABLE II-1
CHANGES IN SELECTED INDICES DURING THREE UNITED STATES RECESSIONS
(per cent change from peak to trough quarter)

	1948-49	1953-54	1957-58
Gross National Product	- 3.3%	- 1.8%	- 3.7%
Industrial Production	-13.4	- 9.5	-12.0
Disposable Personal Income	- 2.4	+ 1.6	- 0.4
Corporate Profits before Taxes	-19.8	-18.6	-27.6
Personal Consumption Expenditures	+ 1.8	+ 2.3	0.0
Durable Goods	+13.9	- 3.3	-11.9
Automobiles and Parts	+31.6	- 8.3	-22.0
Furniture and Household Equipment	+ 8.5	- 1.4	- 5.1
Other Durable Goods	- 8.6	+ 7.3	- 1.8
Non-durable Goods	- 2.9	+ 0.8	+ 0.6
Services	+ 5.1	+ 7.0	+ 3.6
Gross Private Domestic Investment[1]	-30.3	- 7.8	-26.2
Residential Nonfarm Construction	+12.4	+12.9	- 4.1
Other Construction	- 7.2	+ 4.3	- 5.1
Producers' Durable Equipment	-20.4	- 5.9	-20.4
Government Purchases of Goods and Services	+ 6.9	-11.4	+ 4.5
National Security	+ 5.3	-20.9	- 1.9
Other Federal	- 9.5	-31.6	+45.0
State and Local	+16.1	+16.0	+ 8.3

Sources: Survey of Current Business, 1949-1959; Federal Reserve Bank of St. Louis Monthly Review, 12/58, pp.145-50.

[1]Inventories are not shown here because of the impossibility of showing a percentage change from accumulation to liquidation of inventories. The change from accumulation to liquidation of inventories accounted for 72 per cent and 58 per cent of the decline in gross private domestic investment during the 1948-49 and 1957-58 recessions respectively. The change in inventories accounted for more than the total change in gross private domestic investment during the 1953-54 recession - with increases in construction partially offsetting the decline in inventories.

Disposable personal income declined only slightly in 1948-49 and 1957-58 and actually increased during 1953-54. This was attributable to several factors: first, transfer payments increased 17 to 21 per cent during each recession; second, income from rent and interest increased during each recession; third, dividend payments increased despite large reductions in corporate profits. Dividends increased during 1948-49 and 1953-54 and declined only 2.4 per cent in 1957-58.

Personal consumption expenditures did not fall during any of the postwar recessions. Declines in spending on durable goods during 1953-54 and 1957-58 were offset by increased purchases of services and non-durables. During the 1948-49 contraction, the decline in consumer expenditures on non-durable goods was attributable to price decreases and consumers were able to divert income to spending for durables without having to reduce consumption of non-durables.

Gross private domestic investment declined during all three of the postwar recessions. Reductions in inventories comprised an average of 70 per cent of the three declines in gross private domestic investment. Expenditures on plant and equipment also declined substantially during each recession. Increased spending on residential construction in 1953-54 partially offset the large decreases in spending on inventories and plant and equipment during that recession.

Government purchases of goods and services increased during the 1948-49 and 1957-58 recessions but declined sharply during 1953-54. The decrease in government spending in 1953-54 mainly resulted from reductions in defense spending and stockpiling of strategic materials following the Korean armistice.

Imports During the Recessions

Since there were few basic differences in the performance of the economy among the three postwar recessions, one would expect the foreign trade of the United States to react similarly during each of these recessions. The remainder of this chapter discusses the effects of the recessions on United States imports, by classes of commodities and by areas, with emphasis on trade with Latin America.

Since the character of United States imports from specific areas is dependent upon the type of commodities which those areas export, it would be well to take a look at how the main categories of imports were affected by the three recessions. Table II-2 shows the percentage changes in the value of United States imports during the three recessions according to the five commodity classifications listed in the Survey of Current Business. The changes listed are from the peak twelve-month period to the low twelve-month period. For the 1948-49 and 1957-58 recessions the declines were between calendar years. For the 1953-54 recession the decline was from the fourth quarter, 1952 - third quarter, 1953 period to the fourth quarter, 1953 - third quarter, 1954 period.

TABLE II-2
CHANGES IN VALUE OF UNITED STATES IMPORTS DURING THREE RECESSIONS
- BY CLASSES -
(Per cent change from peak twelve-month period to low twelve-month period)

Recession	Crude Materials	Crude Foodstuffs	Manufactured Foodstuffs & Beverages	Semi-Manufactures	Finished Manufactures
1948-49	-12.3%	+ 4.8%	+ 1.4%	-11.0%	- 4.8%
1953-54	- 5.4	+ 5.0	+ 0.5	-19.9	- 2.4
1957-58	-12.2	- 3.3	+19.1	- 9.0	+11.4

Source: Survey of Current Business[1]

[1]Dates of table sources are, for the most part, not given in this paper because of the impracticability of listing the page numbers and titles of periodicals for tables which are comprised of data taken from periodicals over a twelve year period - 1948-59. It would be convenient for the writer

The value of United States imports of crude materials and semi-manufactures declined substantially during all three recessions. This is to be expected from the declines in industrial production during those periods. Imports of crude and manufactured foodstuffs were not as responsive to changes in United States income or industrial production as were other imports. The decline in the value of crude foodstuff imports during the 1957-58 recession was due primarily to the decreased price of coffee. Imports of finished manufactures declined slightly in 1948-49 and 1953-54 and increased substantially in 1957-58. The reaction of imports of manufactured products to United States business declines is logical considering the high rate of consumer expenditures during the postwar recessions. The increase in imports of finished manufactures was especially important during the 1957-58 recession because United States purchases from abroad of this category of commodity have tended to increase, both in absolute amount and relative to total imports, during the postwar period.

From the figures in Table II-2, it can logically be assumed that United States imports from those areas exporting crude and semi-manufactured materials would show the severest declines during business recessions. These areas are the primary producing countries of Latin America, Asia, and Africa, with the exception of those countries exporting mainly foodstuffs. Table II-3 shows changes in the value of United States imports during three recessions according to the area of origin.

The value of imports from Latin America fell during all three recessions as did those from Canada and the group listed as Others (mainly Africa, Asia, and Oceania). The small size of the reduction in imports

if the reader would accept the statement for most of the remaining tables that they are calculated from data drawn from pertinent issues of the publications listed. For example, the figures in Table II-2 above have been calculated from data obtained from a large number of issues of the Survey of Current Business between 1948 and 1959.

from Latin America during the 1948-49 recession was primarily due to the rising price of coffee during that period. The 4.6 per cent decline listed for the 1957-58 recession would have been much larger if the periods used were 1956 and 1958. There was a sizeable reduction in the value of imports from Latin America during 1957 due to falling prices for non-ferrous metals and other industrial raw materials as a result of increased capacity built during the Korean War period and immediately thereafter; but, most of the 1957 decline cannot be attributed to the recession, which began in the fourth quarter of that year.

TABLE II-3
CHANGES IN VALUE OF UNITED STATES IMPORTS DURING THREE RECESSIONS
- BY AREA -
(Per cent change from peak twelve-month period to low twelve-month period)

Recession	Total	Latin America	Europe	Canada	Others [a]
1948-49	-7.0%	-1.4%	-19.6%	-2.6%	-11.2%
1953-54	-7.5	-8.0	-11.2	-4.9	- 6.8
1957-58	-2.8	-4.6	+ 6.9	-7.3	- 7.5

[a]Mainly Africa, Asia, and Oceania
Source: Survey of Current Business

The sensitivity of United States imports from Latin American countries to domestic economic activity depends on the type of commodity imported from each country. The Latin American republics can be classified under three general headings according to the type of commodity exported to the United States: (1) those countries exporting mainly foodstuffs (coffee, sugar, cocoa, and bananas); (2) those countries exporting mainly non-ferrous metals or wool, and ; (3) those countries in which petroleum is the predominant export, namely Venezuela. Table II-4 lists, under the above three headings, the absolute values and changes in United States imports from Latin America during the three postwar recessions.

TABLE II-4
UNITED STATES IMPORTS FROM LATIN AMERICA DURING THREE RECESSIONS
(mill.$)

	Group A		Group B		Group C		Total	
1948	1346		717		271		2333	
1949	1387	+3.0%	636	- 9.9%	278	+ 2.5%	2301	-1.4%
4Q/52-3Q/53	2022		1135		427		3584	
4Q/53-3Q/54	2010	-0.6%	808	-28.8%	480	+12.4%	3298	-8.0%
1957	1937		928		899		3764	
1958	1800	-7.1%	898	- 3.2%	892	- 0.8%	3590	-4.6%

Group A - Countries exporting mainly foodstuffs: Brazil, Colombia, Cuba, Haiti, Dominican Republic, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Ecuador, and Paraguay.
Group B - Countries exporting mainly non-ferrous metals and wool: Mexico, Chile, Peru, Bolivia, Argentina, and Uruguay.
Group C - Countries exporting mainly petroleum: Venezuela.
Sources: Survey of Current Business, Foreign Trade Reports

As Table II-4 indicates, imports from Group A, the countries exporting foodstuffs to the United States, have not shown a high degree of responsiveness to United States recessions. Fluctuations in the price of coffee dominate movements in the value of imports from those thirteen countries and, as one might guess, the price of coffee rose in 1948-49 and declined during 1957-58. The fall in the unit value of coffee and cacao imports during 1958 more than offset the increased value of sugar imports. Although the price of coffee rose in 1954, the decreased quantity of coffee imports during that year caused the value of coffee imports and, therefore, imports from the Group A countries to decline.

Group B is composed of those Latin American countries exporting primarily industrial raw materials - non-ferrous metals and wool - other than petroleum to the United States. Based on the figures in Table II-2, which showed that United States imports of crude and semi-manufactured materials were very sensitive to declines in United States industrial activity, it is logical that imports from these countries should decline during United States recessions. United States industrial raw materials imports from Latin America declined very much in line with declines in industrial production. Industrial production, as measured by the Federal Reserve Board's index, was 8.3 per cent lower in 1949 than in 1948. Imports of crude and semi-manufactured materials fell 11.6 per cent and imports from the Group B countries declined 9.9 per cent. As is the case for most recessions, the decline in total value was attributable to reductions in both quantity and unit value.

The exceptionally large decline in the value of imports from the Group B countries in 1954 was due more to declines in quantity than in price decreases.[1] Increased demand from Europe strengthened raw materials prices during the 1953-54 recession, whereas declines in the economies of Western Europe during 1948-49 had accentuated the adverse affects of the United States recession on raw materials prices. The decline in United States imports from Mexico, which accounted for over 35 per cent of imports from the Group B countries, was an important reason why the reduction in imports from that group of countries was greater in 1953-54 than in 1948-49 or 1957-58. The value of imports from Mexico fell by 19 per cent in 1953-54 whereas imports from that country increased in both 1949 and 1958.

Imports from the Group B countries declined less severely than those from the foodstuff exporting countries during the 1957-58 recession. This was attributable to several factors: (1) the increase in agricultural imports from Mexico; (2) the increase in meat imports from Argentina; (3) metals imports had already fallen substantially in 1957 and the decline in industrial production in 1958 did not cause that category of imports to be reduced much farther.

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[1]Lovasy, Gertrud. "Prices of Raw Materials in the 1953-54 United States Recession", IMF Staff Papers, Vol. V, 1956-57, Washington, D.C., pp.47-73.

Mexico has the most diversified export schedule of the countries in Group B. Whereas the other five countries in that group rely on the non-ferrous metals or wool for at least 60 per cent of their exports to the United States, Mexico's exports to the United States are comprised 50-60 per cent of agricultural products and only about 25 per cent metals. Consequently, Mexico's balance of payments with the United States is not as responsive to recessions in this country as are the balances of payments of the other Group B countries. If one were to omit Mexico, the exports of the Group B countries to the United States would have declined during each of the three recessions as follows: 1948-49, 16.8 per cent; 1953-54, 34.4 per cent; 1957-58, 11.4 per cent. From this one can see that United States recessions have the greatest impact on trade with the following five Latin American countries - Argentina, Uruguay, Chile, Bolivia, and Peru, and a somewhat lesser, but still significant, impact on trade with Mexico.

Venezuela has been placed in a separate category, rather than in Group B because the long-run increase in petroleum imports has overshadowed the tendency for petroleum consumption to decline during United States recessions. Imports from Venezuela, which have increased relative to total imports from Latin America, declined only during the 1957-58 recession and then by less than one per cent. The value of petroleum imports and of imports from Venezuela increased during the 1948-49 and 1953-54 recessions.

The major distinction that can be found in United States - Latin American trade among the postwar recessions is in the reaction of the Latin American countries to declines in imports; that is, in curtailment of imports from the United States subsequent to a decline in dollar earnings. Those countries, primarily by means of import and exchange controls, reduced imports from the United States as a result of a reduction in exports during the 1948-49 and 1957-58 recessions. Primary producing countries need a large supply of foreign exchange reserves relative to imports because of seasonal and cyclical fluctuations in their balances of payments. However, the underdeveloped nations have a tendency to spend foreign exchange as soon as it is acquired, and, as a result, they have insufficient reserves to weather a passive movement in their balance of payments.[1] The Latin American countries had acquired large amounts of gold and foreign exchange during World War II because of the large demand for their products during wartime and because they were unable to purchase manufactured products from the belligerent nations. With the end of World War II, these countries increased their imports of capital goods and luxuries at a faster pace than could be supported by their current earnings of foreign exchange. Consequently, the international reserve holdings of Latin American countries declined by one-fourth between the end of 1946 and the end of 1948 (from $3,977 million to $2,948 million).[2] With the advent of the United States recession and the resultant decrease in exports, nearly all Latin American countries found themselves in a weak international monetary position. Most republics of Latin America, as a result of the combination of decreased foreign exchange earnings and a high demand for

[1]Ragnar Nurkse, in his book for the League of Nations on interwar currency problems, discusses balance of trade fluctuations of eighteen countries during the interwar period. Two of Nurkse's observations which are worthy of notice are: (1) the countries with highest degree of trade-balance fluctuations were borrowing countries and exporters of primary products; and (2) those countries with the most "need" for international reserves (i.e., those with the greatest fluctuations in their balances of trade) were the ones which did not have the inclination or ability to hold them. "A poor country is less likely than a rich one to sacrifice potential imports and to tie up some of its limited wealth in an international cash reserve." (International Currency Experience, League of Nations, 1944, pp.91-92.)

[2]Economic Commission for Latin America, Recent Developments and Trends in the Economy of Latin America, Mexico City, May 28, 1951, p.22.

imports, adopted complicated systems of exchange controls and import restrictions.[1] They reduced imports of capital goods and severely curtailed imports of luxuries with the result that imports from the United States declined by 17 per cent between the periods indicated in Table II-5. Table II-5 shows the values of United States exports, in total and to Latin America, during the twelve-months in which exports were at their pre-recession high and during the twelve-months in which exports were at their lowest.

TABLE II-5
UNITED STATES EXPORTS DURING THREE RECESSIONS
(mill.$)

	Total		To Latin America	
	Amount	Percentage Change	Amount	Percentage Change
3/48-2/49	12,808		2,992	
3/49-2/50	10,206	-20.3	2,475	-17.3
1953	15,723		2,919	
1954	15,107	- 3.9	3,195	+ 9.5
1957	20,805		4,460	
1958	17,815	-14.4	4,050	- 9.2

Source: Survey of Current Business

Although the 1953-54 recession was the postwar recession during which United States imports from Latin America suffered their severest decline, Latin America increased its purchases from the United States during that period. The reasons for the increased exports to Latin America during 1954 were as follows: (1) many Latin American countries had undergone severe recessions in 1953 and had reduced imports from the

[1]For a thorough-going discussion of the trends in Latin American exchange controls during the postwar period, see Schott, Francis H., "The Evolution of Latin American Exchange-Rate Policies Since World War II", Essays in International Finance, No.32, January 1959, International Finance Section, Department of Economics and Sociology, Princeton University, Princeton, N.J.

United States during that year.[1] As income increased in 1954, despite the decline in exports to the United States, they imported many products that had been deferred from 1953 because of reduced economic activity; (2) the 1953-54 recession in the United States did not spread to other countries as had the 1948-49 decline. The economies of Latin America and Western Europe were on the upswing in 1954 and were healthy enough to weather a decline in sales to the United States. Because of the boom in Western Europe, Latin American exports to that area increased and the overall balance of trade of Latin America improved during 1954 despite the decline in exports to the United States; (3) as Table II-6 shows, most of the major Latin American countries were in a stronger international position at the beginning of the 1953-54 recession than they had been at the beginning of the preceding United States recession. Consequently, they were more capable of withstanding a decline in dollar receipts without being forced to restrict imports. Of the seven countries (which comprise 80-90 per cent of Latin America's foreign trade) listed in Table II-6, only two - Brazil and Chile - held a smaller supply of gold and dollars relative to imports in 1953 than they had held in 1948. The other five countries, particularly Argentina, were in substantially stronger international monetary positions in 1953 than in 1948. This, along with the factors listed above, probably accounts for the increase in Latin American purchases from the United States in the face of decreased exports to this country.

[1]These recessions preceded and were independent of the 1953-54 United States recession. They generally were caused by a slowing of the rate of domestic investment and by a general contraction in demand caused by restrictive policies in some countries and by changes in income distribution. ECLA, Economic Survey of Latin America 1953, 1954, p.4.

TABLE II-6

RATIO OF GOLD AND DOLLAR RESERVES TO IMPORTS OF SEVEN LATIN AMERICAN COUNTRIES

(Reserves at end of year to aggregate annual imports)

	1948	1953	1957
Mexico	32%	46%	49%
Cuba	97	108	48
Venezuela	65	73	93
Colombia	30	43	45
Brazil	39	32	31
Argentina	23	66	20
Chile	37	36	26

Sources: Federal Reserve Bulletin, UN Statistical Yearbook

United States exports declined in 1958, both to Latin America and to the rest of the world. This was partly a reaction to reduced imports by the United States and partly the result of increased competition for overseas markets from the revitalized countries of Western Europe. United States exports had increased substantially during 1956 and 1957 (the total value of merchandise exports in 1957 was 28 per cent over that in 1955; exports to Latin America increased 17 per cent in 1956 but declined in 1957) and it was not to be expected that the rate of increase of those years could be maintained. Also, as the European economies have become able to supply more of their own requirements and to export manufactured products as well, they have regained many of their Latin American markets which they lost during World War II. Table II-7 shows the downward trend of the proportion of Latin America's foreign trade that is conducted with the United States. This trend is similar to the one following World War I. During both world wars, trade was diverted from peacetime patterns and Latin American countries that traditionally had transacted the bulk of their foreign trade with Europe were forced to buy from and sell to the United States. Following both World War I and World War II, trade between Latin America and Europe has tended to become adjusted to prewar patterns.

This trend, it it continues, should make the economies of Latin America less sensitive to United States business fluctuations except insofar as those fluctuations are transmitted to Europe and result in a decline in European imports from Latin America; this happened in 1948-49 and in several prewar United States business declines.

TABLE II-7
PROPORTION OF TOTAL FOREIGN TRADE CONDUCTED WITH THE UNITED STATES OF SEVEN LATIN AMERICAN COUNTRIES

	Imports			Exports		
	1948	1953	1956	1948	1953	1956
Mexico	87%	81%	78%	75%	74%	73%
Cuba	80	76	74	52	61	65
Venezuela [a]	73	67	59	13	37	40
Colombia	70	62	61	84	83	72
Brazil	52	28	37	43	48	49
Chile	42	53	58	53	64	48
Argentina	37	17	20	10	19	12

a-The proportion of Venezuela's total exports which is ultimately destined for the United States is actually far in excess of the figures shown in this table. Much of Venezuela's crude petroleum is exported to the Netherlands Antilles, where it is refined and shipped to the United States and Western Europe.

Source of data: UN Statistical Yearbook

In summary, United States imports from Latin America declined during all three recessions, primarily due to reductions in demand for industrial raw materials. The reactions of those economies to declines in dollar earnings seemed to depend on (1) the phase of the business cycle that they were in when experiencing a decline in exports, (2) levels of international reserves, and, (3) economic activity in Europe.

CHAPTER III
LATIN AMERICAN COMMODITY MARKETS
DURING THE POSTWAR UNITED STATES RECESSIONS
- COPPER, LEAD, ZINC, WOOL -

In order to understand the effects of United States business fluctuations on Latin America, one must understand the impact of these fluctuations on the markets for the commodities which the Latin American countries export to the United States. Most of the Latin American nations are, to a large extent, export economies and the majority of these countries rely on one primary commodity for the predominant share of their foreign exchange earnings. Consequently, changes in the price and the quantity demanded of these products, resulting from economic declines in the United States, have a strong impact on the national incomes and balances of payments of the Latin American countries.

Chapters III and IV discuss the effects of changes in United States demand during the 1948-49, 1953-54, and 1957-58 recessions on nine of the major Latin American commodity exports to this country. These commodities, which comprise 80-90 per cent of the total value of United States imports from Latin America, are listed in Table III-1. All of these commodities are primary products - either raw materials for United States heavy industry or crude foodstuffs.

Table III-1 shows that two commodities, coffee and petroleum comprised over 60 per cent of Latin America's total exports to the United States in 1957. Consequently, variations in United States demand for those two commodities should be expected to have a large effect on total Latin American dollar earnings. The right-hand column of Table III-1 indicates the proportion of total United States imports of each commodity obtained from Latin American suppliers for the year 1957. For example, Latin America supplied 88 per cent of United States coffee imports and 28 per cent of wool imports in 1957.

TABLE III-1
MAJOR UNITED STATES IMPORTS FROM LATIN AMERICA

	Value (mill.of $) 1948	Value (mill.of $) 1957	% of U.S. Imports 1957	% of Total Imports from L.A. 1957
Coffee	686	1207	88%	32.0%
Petroleum and products	379	1114	72	29.6
Sugar	312	356	78	9.4
Copper, metals and manufactures	170	206	59	5.3
Iron ore	10	152	54	4.0
Cocoa and cacao beans	91	69	51	1.8
Zinc, metals and manufactures	11	66	43	1.8
Lead, metals and manufactures	47	64	41	1.6
Wool, unmanufactured	139	59	28	1.6

Sources: Survey of Current Business, Foreign Trade Reports, Foreign Commerce Weekly, April 13, 1959, p.5.

Those commodities which have shown a high degree of income elasticity, with respect to imports into the United States, during the postwar period are discussed in this chapter - copper, lead, zinc, and wool.

COPPER

Since the bulk of copper output is consumed in the production of durable (capital and consumer) goods, the demand for copper tends to be a function of the demand for durable goods. The demand for durable goods has been unstable in the past, and therefore, the demand for copper has undergone wide fluctuations. Since mine output is relatively inflexible, changes in the level of production usually come too late to prevent major fluctuations in price. Fluctuations in price and output have tended to reinforce each other, thus increasing the amplitude of changes in the receipts of the copper exporting countries.[1]

The United States is the world's largest producer and consumer of copper. During 1937-38, the United States ranked fourth among copper importers and was actually a net exporter of copper.[2] However, during and after World War II, domestic consumption of copper advanced at a faster rate than domestic production. The United States now ranks second only to Western Germany as an importer of copper ores and manufactures.

United States imports of copper from Latin America declined substantially during periods of recession prior to World War II. Table III-2 shows changes in United States domestic production of copper and imports from Latin America during four economic declines from 1907 to 1938. Since the United States has become more important in the world copper market, changes in United States demand for copper should be expected to exert an even stronger impact on the export receipts and domestic economies of copper producing countries during the postwar period than during the period prior to World War II.

TABLE III-2
UNITED STATES PRODUCTION OF COPPER AND IMPORTS FROM LATIN AMERICA

	Domestic Production		Imports from Latin America	
	% Change in Value	% Change in Volume	% Change in Value	% Change in Volume
1907-08	-28%	- 9%	-32%	-28%
1920-21	-71	-58	-50	-29
1929-32	-90	-73	-86	-63
1937-38	-45	-33	-40	-20

Source: ECLA, "United States Capacity to Absorb Latin American Products", 1951

Table III-3 shows percentage changes in United States consumption, production, and imports of copper during the three post-World War II

[1]United Nations, Department of Economic and Social Affairs, Non-Ferrous Metals in Under-Developed Countries, New York, 1956.

[2]Ibid., p.36.

recessions. The percentage figure, opposite the years designating the recession periods, shows the degree of change from the peak twelve-month period to the low twelve-month period. The years 1957 and 1958 are listed separately because each year showed substantial declines from the preceding year. The declines in the consumption, production, and imports of copper during 1957 were mainly the continuation of a weakening demand dating from the end of the Korean War. The 1957-58 recession served to accentuate this decline in the domestic and world markets for copper.

TABLE III-3
COPPER: UNITED STATES CONSUMPTION, PRODUCTION, AND IMPORTS DURING THREE RECESSIONS
(Per cent decline from preceding 12-month period)

	Domestic Deliveries of Refined	Production and Deliveries Production of Refined	Mine Production	Quantity of Imports (refined, unrefined and scrap	Value of Imports	Price High ($/lb.)	Price Low ($/lb.)
1948-49	-25.5%	-14.4%	-12.4%	+ 8.3%	-14.3%	.2320	.1653
1953-54	-22.9	- 6.0	- 9.7	-21.7	-30.0	.2990	.2960
1957	-12.2	+ 9.5	- 2.1	- 0.3	-24.3	.4673	
1958	- 6.6	- 8.5	- 8.8	-15.4	-34.9		.2402

Source: Survey of Current Business

The decline in United States copper consumption and production led the 1948-49 downturn in overall business activity by one quarter. However, the decreased demand did not at first affect imports of copper, due to a strike in the Utah mines. Consequently, although GNP turned down in the first quarter of 1949, the quantity and value of copper imports did not begin to decline until the third quarter of 1949. The decline in the quantity of imports was brief but the fall in the price of copper was longer and more severe than the decline in volume. During the period from the third quarter of 1949 through the second quarter of 1950, the value of

copper imports fell by approximately 14 per cent while the volume of copper imports actually rose by about 8 per cent. The fall in price occurred during the first half of 1949 (before the decline in total imports) and was the result both of decreased demand by Western Europe and the recession in the United States. The prices listed in Table III-3 are the high prices, occurring prior to the recessions, and the low prices, occurring during the recessions. The variations between average yearly prices are not as large as the variations between those prices listed in Tables III-3, III-5, and III-7.

The decline in domestic consumption and production of copper during the 1953-54 recession was similar to that occurring during 1948-49. However, the quantity of copper imports into the United States fell by approximately 22 per cent during the period July, 1953 to June, 1954 from the preceding twelve-month period. The price of copper fell only slightly during 1953 because of increased demand by Western Europe, which offset the decline in United States purchases.[1] The exports and production of most of the major suppliers of copper rose during 1953-55 (including the United States and Chile), with most of these additional amounts going to the United Kingdom, Belgium, France and West Germany.[2] As a result of the increased European demand, the price of copper remained steady, and the loss in Latin American dollar earnings from copper was mainly the result of decreased volume.

The decline in United States consumption of copper during 1957-58 led the decline in gross national product by nearly a year. The decline in United States consumption and production of copper during 1957-58 was more prolonged, though not as severe, than the consumption and production

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[1] Lovasy and Zassenhaus, op. cit., IMF Staff Papers.
[2] ECLA, (E/CN.13/L.1), p.15.

declines which occurred during the 1948-49 and 1953-54 recessions. The quantity of imports during 1957 stayed at near 1956 levels but the value of imports declined substantially. This price reduction occurred as the result of (1) an expansion in world output as investments made at the time of the Korean War came into production and (2) a levelling off of copper demand in both North America and Western Europe.[1] The combination of decreased European demand, recessions in the United States and Canada, and expanded world supplies caused the sharpest decline in copper prices of the postwar period in 1956-58. As a result of this price decline, combined with a decreased volume of imports, the value of United States copper imports during 1958 was 51 per cent below that of 1956. The value of copper imports from Latin America registered a 61 per cent decline during the same period.

United States business recessions caused the value of copper imports from Latin America to be drastically reduced during 1949-50, 1953-54, and 1957-58. Table III-4 lists the value of United States copper imports preceding and during each of the postwar recessions. The postwar trend of United States copper imports has been upward, but the Latin American countries have provided a progressively smaller proportion of the total. In addition, United States recessions have had a stronger impact on copper imports from Latin America, particularly Chile, than on other suppliers.

[1]United Nations, Commodity Survey 1958, 1959, p.163.

TABLE III-4
COPPER: VALUE OF UNITED STATES IMPORTS DURING THREE RECESSIONS
(metals and manufactures: mill.of $)

	Chile	Mexico	Peru	Other L.A.	Total L.A.	Rest of World
3Q/48-2Q/49	145.4	25.2	9.7	9.1	189.5	53.1
3Q/49-2Q/50	84.6	23.1	8.3	5.5	121.5	86.5
3Q/52-2Q/53	297.3	42.3	9.5	11.6	360.7	160.3
3Q/53-2Q/54	148.5	34.6	15.9	11.8	210.8	153.5
1956	192.1	44.3	30.8	13.6	280.8	224.4
1957	143.2	27.4	23.5	11.5	205.6	176.6
1958	74.7	19.1	14.2	9.2	110.0	138.9

Sources: Survey of Current Business; Foreign Trade Reports

In summary, United States business declines have affected copper imports from Latin America similarly during all three postwar recessions. A decline in United States consumption of copper leads to a decline in production and imports. This, in turn, leads to a decline in price which reinforces the decline in quantity, causing a further drop in total value.

LEAD

As in the case of copper, the position of the United States was reversed from that of a net exporter of lead before World War II to a net importer during and after World War II. Between 1937 and 1950, a lead export surplus of 61,000 short tons was converted into a deficit of 224,000 short tons. There was an eight fold increase in the quantity of United States lead imports between 1936-38 and 1947-50. The United States ranked first among the world's importers of lead ores and metals during the postwar period compared to sixth place during the 1930's.[1]

The major uses of lead in the United States are in storage batteries, mainly for motor vehicles, and in building and construction.

[1] United Nations, Non-Ferrous Metals in Under-Developed Countries, New York, 1956, p.36.

Since these activities fluctuate closely in response to total business activity, the consumption of lead should be expected to decline during United States business recessions. Table III-5 shows the declines in United States consumption, production, and imports of lead during the three postwar recessions.

TABLE III-5
LEAD: UNITED STATES CONSUMPTION, PRODUCTION, AND IMPORTS DURING THREE RECESSIONS
(Per cent decline from preceding 12-month period)

Recession	Total Consump.	Mine Prod.	Quantity of Imports (ore, metal)	Value of Imports (mill. $)	Price High ($/lb.)	Price Low ($/lb.)
1948-49	- 6.1%	+ 4.2%	-26.5%	-49.2%	.2150	.1063
1953-54	- 3.0	-11.9	-29.0	-44.0	.1900	.1282
1957-58	-12.7	-21.6	+10.1	-15.4	.1615	.1086

Sources: Survey of Current Business, Foreign Trade Reports

During the 1948-49 and 1953-54 recessions, small declines in United States consumption resulted in large declines in the quantity and value of United States imports. In contrast to the case for copper, lead consumption in Western Europe during 1953-54 was not enough to offset the decline in United States demand, and consequently, the price of lead fell by nearly one-third between 1952 and 1954.

During the 1948-49 and 1953-54 recessions, lead imports were curtailed more severely than was domestic mine production. The reverse was true during 1957-58. During 1957-58, United States producers took advantage of falling lead prices to build up stocks of lead ores and refined lead. As a result, the quantity of United States lead imports increased during 1958. However, the price of lead fell due to the decreased demand by United States and Western European consumers. Because of the decline in price, the value of lead imports into the United States in 1958 fell by 15 per cent from the previous year.

The value of United States lead imports from Latin America declined during two of the three recessions. Table III-6 shows the value of imports immediately preceding and during each one of the declines in lead imports. Three years are listed for the 1953-54 recession because of the prolonged decline in imports from Latin America during that period. United States imports from Mexico and Peru continued to decline in 1954 after imports from other areas had recovered. The value of imports from Latin America increased during 1958 despite a 28 per cent decline in imports from other areas - mainly Canada. An increased value of lead imports from Peru and Bolivia offset a decreased 1958 value for Mexico. The value of lead imports from Latin America declined less than those from other areas during the 1948-49 recession while the decline during 1952-54 was approximately the same for Latin America as for other regions.

TABLE III-6
LEAD: VALUE OF UNITED STATES IMPORTS DURING THREE RECESSIONS
(mill.$)

	Mexico	Peru	Other L.A.	Total L.A.	Rest of World
3Q/48-2Q/49	54.2	14.4	10.9	79.5	82.1
3Q/49-2Q/50	36.3	6.9	2.2	45.4	36.7
1952	67.8	23.1	10.7	101.6	105.4
1953	35.4	19.0	2.5	56.9	58.9
1954	19.1	13.1	5.7	37.8	83.8
1957	32.6	22.8	8.6	63.9	93.1
1958	27.5	28.9	8.7	65.1	66.7

Source: Foreign Trade Reports

The effects of United States recessions on imports of lead from Latin America were similar to those for copper. The same pattern existed for both copper and lead - a decline in domestic consumption and production leads to a decreased volume of imports and a falling price, both of which contribute to the decline in the value of Latin American exports to the United States.

ZINC

Similarly to the cases of lead and copper, the United States changed from a net exporter of zinc in the prewar period to a net importer during and after World War II. Imports of zinc into the United States during the 1930's were extremely small relative to the imports of other countries. For example, during 1937-38, the United States imported only five per cent as much zinc as did Belgium-Luxembourg, the world's largest zinc importer at that time. However, imports of zinc into the United States increased almost fourteen times between 1936-39 and 1947-50 and the United States emerged as the world's largest zinc importer in the postwar period.[1]

The principal uses of zinc are for plating steel sheets and for use in die casting. Consequently, the demand for zinc, like that for copper and lead, tends to fluctuate in relation to domestic production of durable goods. Changes in United States consumption, production, and imports of zinc during the three postwar recessions are shown in Table III-7. Domestic consumption and production declined substantially during each recession. The quantity of zinc imports rose somewhat during 1949-50. However, the price declined by over 40 per cent and consequently, the value of United States imports of zinc fell by 14.3 per cent during that period.

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[1]United Nations, Non-Ferrous Metals in Under-Developed Countries, New York, 1956, p.35.

TABLE III-7
ZINC: UNITED STATES CONSUMPTION, PRODUCTION, AND IMPORTS
DURING THREE RECESSIONS
(Per cent decline from preceding 12-month period)

Recession	Consumption	Primary Production of Slab Zinc	Mine Prod.	Quantity of Imports	Value of Imports	Price High ($/lb.)	Price Low ($/lb.)
1948-49	-14.8%	- 4.4%	- 5.1%	+ 5.9%	-14.8%	.1750	.0932
1953-54	-15.5	-10.6	-32.6	-16.4	-40.7	.1950	.0938
1957-58	-18.0	-20.7	-25.2	-16.6	-40.9	.1350	.1000

Sources: Survey of Current Business, Foreign Trade Reports

The 1953-54 recession brought about a decline in domestic consumption of zinc and a reduction in manufacturers' inventories. Both of these factors contributed to a lower United States demand for zinc imports. The decreased quantity of imports, coupled with a price decline of over 50 per cent, caused the value of imports to be reduced by 40 per cent - most of which was brought about by a cutback in imports from Mexico.

The decline in domestic consumption and production of zinc during the 1957-58 recession was more severe than the declines in domestic zinc activity which occurred during either 1948-49 or 1953-54. Consequently, the declines in the quantity and value of imports was much greater than in 1948-49 and slightly more than in 1953-54.

The effects of postwar recessions on consumption, production and imports of zinc have been much the same as for copper and lead. A decline in domestic durable good production causes a decline in the quantity demanded and price. This decreased consumption encourages producers to reduce their inventories. The reduced level of consumption, accentuated by the liquidation of inventories, causes a decline in domestic production and imports. The reduced demand for imports, coupled with a relatively inelastic supply, brings about a large decline in price. The decline in both the quantity and value of imports causes the fall in the total value of imports to be magnified.

Table III-8 lists the value of United States imports of zinc immediately preceding and during three business declines. The value of zinc imports, both in total and from Latin America, declined during all three recessions. The decline was relatively slight during the 1948-49 recession but this was partially due to the fact that zinc imports had been declining prior to the recession and the decline during 1949-50 began from an already low level of imports.

TABLE III-8
ZINC: VALUE OF UNITED STATES IMPORTS DURING THREE RECESSIONS
(metals and manufactures: mill.$)

	Mexico	Peru	Other L.A.	Total L.A.	Rest of World
3Q/48-2Q/49	11.4	1.9	0.06	13.4	36.5
3Q/49-2Q/50	9.7	1.9	0.02	11.6	30.9
1952	57.1	11.8	6.7	75.6	73.7
1953	16.7	9.4	2.1	28.2	72.4
1954	14.7	15.0	2.2	31.8	56.6
1957	33.4	28.1	4.1	65.6	88.2
1958	15.2	15.7	1.9	32.8	55.6

Source: Foreign Trade Reports

Three years are listed for the 1953-54 recession. This is done to illustrate the fact that the decline in imports from Latin America led the decline in zinc imports from other areas. The value of zinc imports from Latin America fell by 63 per cent in 1953 while imports from other regions fell only two per cent. In 1954, imports from Latin America recovered slightly (except for Mexico) while imports from the rest of the world fell by about 22 per cent.

The 1958 decline occurred before imports of zinc had reached pre-1953 levels. The value of United States zinc imports in 1958 was nearly identical to the value of imports in 1954. However, the 1958 decline started from a lower level than the decline which occurred during 1953-54. Hence, the later reduction in zinc imports does not appear to be as severe as the earlier one.

WOOL

Apparel and carpet wools are the two important types of wool imports into the United States.[1] The United States produces a large quantity of apparel wool which does not vary substantially from year to year or over the long run. Production of carpet wool in the United States is negligible. The volume of United States apparel wool imports from Latin America has fluctuated in cycles of two to three years against a long-term downward trend beginning in the 1920's. Carpet wool imports, conversely, have shown a rising trend and have exhibited fluctuations of relatively minor amplitude. This contrast in behavior is due to the difference in the domestic production of these two types of wool in the United States. During depression periods, United States production of apparel wools is sufficient to supply most of the domestic requirements, while in prosperous times, with a rising consumption of wool, substantial imports are needed to supplement United States production. Therefore, imports meet marginal requirements determined by the spread between a relatively fixed domestic supply and a fluctuating domestic consumption of apparel wools. Inventory adjustments in the United States apparel wool industry are undertaken largely in relation to imported rather than domestic wools.

[1]This discussion of the causes of fluctuation in U.S. wool imports is taken from a discussion of the subject in E/CN.12/226, pp.110-112.

Fluctuations in apparel wool imports due to both inventory adjustments and changes in consumption, show the same basic pattern since imports are limited to the spread between (1) total consumption, or business estimates of consumption, and (2) United States domestic apparel wool supply. Small changes in consumption or inventories, therefore, are likely to cause major fluctuations in imports of apparel wool. Carpet wool imports ordinarily show much less variation than apparel wool imports, due to the fact that United States production of carpet wool is negligible. Nevertheless, imports of carpet wools, as well as those of apparel wools, fluctuate in response to movements in United States business activity and consumer income, though in differing amplitudes.

The above discussion of the causes of fluctuations in United States wool imports refers primarily to the prewar period. Nevertheless, events of the years following World War II indicate that the same factors prevailed during the postwar period. Table III-9 shows changes in the consumption and imports of wool during the three postwar United States recessions. The total amount of these declines can not be attributed to the recessions since the long-term trend in both the consumption and imports of wool is downward. Rather, periods of recession in the United States serve to accentuate this long-run decline.

As indicated in Table III-9, the three recessions had similar effects on the consumption and imports of wool. United States mill consumption of apparel and carpet wools declined between 22 per cent and 28 per cent during each of the three recessions, and the value of wool imports declined between 18 and 31 per cent. In each case, the greater the decline in domestic consumption, the more severe was the reduction in the value of imports. Civilian consumption of apparel wools declined relatively little during 1954 but a 96 per cent reduction in government orders following the Korean armistice accentuated the decline caused by the fall in civilian purchases. This was part of the large decline in government expenditures during the 1953-54 recession.

TABLE III-9
WOOL: CHANGES IN UNITED STATES CONSUMPTION AND IMPORTS
DURING THREE RECESSIONS
(Per cent shows change from high to low 12-month period)

	Mill Wool Consumption (apparel and carpet)	Volume of Wool Imports	Value of Wool Imports
1948-49	-27.8%	-42.7%	-27.9%
1953-54	-22.6	-28.9	-18.0
1957-58	-24.1	-23.7	-30.5

Sources: Survey of Current Business, Foreign Trade Reports

Table III-10 shows the absolute values of wool imports from Latin America during and immediately preceding each of the three recessions. Unmanufactured, semi-manufactured, and manufactured wools are included. However, unmanufactured wools comprise over 90 per cent of total United States wool imports, both from Latin America and in total. The most outstanding fact concerning United States wool imports is that they fluctuate widely along a fairly steep downward trend. The value of wool imports from Uruguay and Argentina were reduced 88 per cent and 54 per cent, respectively, between 1948 and 1958.

TABLE III-10
WOOL: VALUE OF UNITED STATES IMPORTS DURING THREE RECESSIONS
(unmanufactured, semi-manufactured, and manufactured wool - mill.$)

	Argentina	Uruguay	Other L.A.	Total L.A.
1948	80.9	49.9	8.0	138.8
1949	46.6	43.6	7.7	97.9
1953	87.6	41.4	7.4	136.4
1954	46.7	17.5	7.4	71.6
3Q/56-2Q/57	54.3	10.9	9.4	74.6
3Q/57-2Q/58	35.1	4.6	4.5	44.2

Sources; Survey of Current Business, Foreign Trade Reports

The value of wool imports from Latin America has declined more severely than wool imports from other areas during United States recessions. In addition, the long-run decline in imports of wool is more pronounced in imports from Latin America than from other areas. For example, the value of United States wool imports from Latin America in 1956 was only 61 per cent of 1948 levels. In comparison, the value of total wool imports in 1956 was 78 per cent of the value for 1948.

CHAPTER IV
LATIN AMERICAN COMMODITY MARKETS DURING THE POSTWAR UNITED STATES RECESSIONS - IRON ORE, PETROLEUM, SUGAR, COFFEE, CACAO -

This chapter deals with the major Latin American exports to the United States which have not shown a high degree of responsiveness to changes in United States economic activity. Two are industrial raw materials (iron ore and petroleum), the imports of which have shown tendencies to expand in spite of decreased domestic consumption during periods of recessions. The remaining three are crude foodstuffs - sugar, coffee, and cacao.

IRON ORE

Imports provided only 5.6 per cent of total United States iron ore supplies in 1948 compared to 24 per cent in 1957. United States steel companies have been interested in expanding overseas iron ore sources, (particularly Canada, Venezuela, Brazil, and Peru) because of (1) the nearing exhaustion of the Mesabi Range and other domestic sources and, (2) the richer ores obtainable in the newer foreign sources. For example, Venezuelan ore contains about 75 per cent iron compared to approximately 45 per cent for ore from the Mesabi Range. Consequently, the United States steel industry has tended to expand iron ore production in foreign sources while, at the same time, cutting back output from United States mines. This is the reason why the quantity and value of iron ore imports rose during both the 1948-49 and 1953-54 recessions while domestic production of iron ore declined. Total consumption of iron ore in the United States in 1958 was down 28 per cent from 1957. Usage of foreign ore, though, was off only about 20 per cent. Consequently, imported ore comprised more than 27 per cent of all iron ore consumed in the United States in 1958, compared to 24 per cent in 1957.[1] These figures indicate that the decline in imports of iron ore during the 1957-58 recession was due to the severity of the recession, rather than to any tendency to divert purchases from foreign to domestic sources of supply. Table IV-1 shows changes in United States steel production, mine output of iron ore, and the quantity and value of iron ore imports during the postwar recessions.

TABLE IV-1
IRON ORE: UNITED STATES CONSUMPTION, PRODUCTION, AND IMPORTS DURING THREE RECESSIONS
(Per cent decline from preceding 12-month period)

	Steel Production	Mine Production	Quantity of Imports	Value of Imports
1949	-12.0%	-15.9%	+21.1%	+35.3%
1954	-20.9	-25.8	+42.3	+23.2
1958	-24.3	-35.2	-14.6	-18.4

Sources: Survey of Current Business, Foreign Trade Reports

Table IV-2 shows the value of United States imports of iron ore during 1948-49, 1953-54, and 1957-58. Latin American sources have steadily gained predominance among foreign suppliers of iron ore to the United States. During the 1948-49 recession, imports from Latin America remained steady while imports from the rest of the world rose. In 1954, Latin American exports to the United States rose considerably while imports from other sources fell. The value of imports from Latin America fell less sharply than imports from other areas during the 1957-58 recession.

[1] Wall Street Journal, February 3, 1959, p.24.

TABLE IV-2
IRON ORE: VALUE OF UNITED STATES IMPORTS DURING THREE RECESSIONS
(mill.$)

	Venezuela	Chile	Brazil	Peru	Other L.A.	Total L.A.	Rest of World
1948	0	7.5	1.5	0	0.4	9.5	17.7
1949	0	6.9	2.4	0	0.3	9.6	27.2
1953	17.0	12.3	6.4	6.0	3.9	45.6	51.3
1954	36.0	7.9	7.0	15.5	1.8	68.2	41.1
1957	87.7	20.6	20.3	20.7	3.1	152.4	133.4
1958	87.9	26.0	12.0	17.1	1.2	144.2	89.1

Sources: Survey of Current Business, Foreign Trade Reports

In summary, it may be said that the rapid expansion of foreign sources of iron ore more than offset the adverse effects of the declines in total iron ore consumption during the 1948-49 and 1953-54 recessions. However, the slowing of this expansion, combined with the more severe recession of 1957-58, caused a decline in the quantity and value of imports during 1958.

PETROLEUM

The United States is the world's largest producer of petroleum and petroleum products, but consumption is greater than production, and hence, the United States is a net importer of petroleum. Most of these imports come from Latin America. In 1949, petroleum and products comprised 18 per cent of the total value of Latin American exports to the United States. By 1957, this figure had increased to nearly 30 per cent. This compares to a total of about 9 per cent for the non-ferrous metals. In 1958, petroleum, for the first time during the postwar period, surpassed coffee in importance as a Latin American export to the United States.[1]

[1]Including imports from the Netherlands Antilles - which originate in Latin America.

Consequently, the pattern of United States imports of petroleum has a strong impact on Latin American dollar earnings.

Table IV-3 shows changes in the consumption, production, and imports of petroleum during the three postwar recessions. All three recessions brought about declines in domestic consumption and production of crude petroleum. Nevertheless, the quantity and value of imports increased during both 1949 and 1954. United States producers have tended to expand purchases from foreign sources of crude petroleum at a faster rate than from domestic sources during the postwar period. Consequently, foreign supplies continued to advance during the 1948-49 and 1953-54 recessions even while domestic production was reduced. The 1953-54 recession slowed the rate of increase in imports but the 1948-49 recession did not. The 1957-58 recession caused a slight reduction in the quantity of petroleum imports although not as severe as the cutback in domestic production. However, the price increase more than offset the decline in quantity and the total value of United States imports of petroleum and products increased in 1958 as it had during 1949 and 1954.

TABLE IV-3
PETROLEUM: UNITED STATES CONSUMPTION, PRODUCTION, AND IMPORTS DURING THREE RECESSIONS
(Per cent decline from preceding 12-month period)

	Consumption of Crude - Foreign and Domestic	Production of Crude	Quantity of Imports	Value of Imports
1949	-4.1%	-8.7%	+20.3%	+14.9%
1954	-0.6	-1.9	+ 1.9	+ 8.8
1958	-4.0	-6.4	- 1.3	+ 6.5

Source: Survey of Current Business

Table IV-4 shows the value of United States oil imports during 1948-49, 1953-54, and 1957-58. The Netherlands Antilles are shown separately because petroleum imports from these islands are refined from crude petroleum originating in the Latin American countries - mainly Venezuela. Therefore, when taking into account the importance of United States petroleum imports from Latin America, imports from the Netherlands Antilles must be considered along with those from the South American mainland.

TABLE IV-4
PETROLEUM: VALUE OF UNITED STATES IMPORTS DURING THREE RECESSIONS
(petroleum and products: mill.$)

	Venezuela	Colombia	Mexico	Other L.A.	Netherlands Antilles	Total L.A. and Neth. Antilles	Rest of World
1948	242.2	22.2	10.5	0	122.0	396.9	36.8
1949	251.3	28.1	16.0	0	117.1	412.4	65.2
1953	363.1	39.3	23.9	0.3	155.9	582.5	179.1
1954	412.4	34.4	35.3	2.5	164.9	649.5	178.9
1957	767.2	26.5	39.5	2.4	282.9	1113.5	430.3
1958	751.9	31.0	29.6	4.9	337.5	1154.9	489.7

Sources: Survey of Current Business, Foreign Trade Reports

Imports from Venezuela and Mexico increased considerably between 1948 and 1958. The recessions in the United States have tended to slow the rate of increase but have not halted the expansion of petroleum imports during the postwar period.

SUGAR

Official regulations since 1934, in the form of quota restrictions, have minimized the degree of fluctuations of United States sugar imports. The United States sugar market is supplied from three sources:

domestic producers, imports from territories, and imports from foreign sources.[1] The division among these sources is determined by United States government policy. Under the United States Sugar Act of 1948, 98.64 per cent of United States sugar requirements in excess of the domestic, territorial, and Philippine quotas is allotted to Cuba. In addition, Cuba is permitted to supply 95 per cent of the amount by which the Philippines fails to meet its quota, as well as portions of other unfilled quotas. The limit that Cuba is permitted to supply depends, therefore, on the quotas alloted to it, the marketing requirements fixed by the United States Secretary of Agriculture, and the unfilled portions of other quotas. Whenever United States consumption or inventories decline, the marketing requirements, as set by the Department of Agriculture, are reduced. This causes a reduction in both domestic supplies and imports. This system brings about fluctuations in the volume of sugar imports, but maintains a stable price for sugar in the United States market.[2]

Table IV-5 shows changes in United States consumption, inventories, and imports of sugar during three recessions. As the table indicates, imports fell during the 1948-49 and 1953-54 recessions but rose substantially during the 1957-58 recession.

Despite the fact that total deliveries for domestic consumption in the United States increased slightly in 1949-50, imports of sugar dropped during the twelve months from August, 1949 to July, 1950. This reduction in imports was due almost entirely to the liquidation of inventories. The 1948-49 recession is often termed an "inventory recession",

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[1]ECLA, United States Capacity to Absorb Latin American Products (E/CN.12/226, May 28, 1951), p.56.

[2]For example, the price of raw sugar, wholesale, on the New York market varied only between .054 and .066 cents per pound between January, 1947 and June, 1959.

and this tendency to liquidate inventories extended to sugar. Stocks of raw and refined sugar in 1949, end of the month levels, averaged 19 per cent below 1948. Inventories in September, 1949 were less than half (46 per cent) of those in September, 1948. Since consumption did not vary significantly, and inventories were reduced, the difference was made up by decreased imports. Since sugar prices remained steady, due to the previously discussed stabilizing influences, the decline in the value of sugar imports was approximately equal to the decline in volume.

TABLE IV-5
SUGAR: UNITED STATES CONSUMPTION, STOCKS, AND IMPORTS DURING THREE RECESSIONS
(Per cent decline from preceding 12-month period)

	Vol. of U.S. Sugar Consumption	U.S. Sugar Stocks (raw and refined)	Vol. of U.S. Sugar Imports	Vol. of U.S. Sugar Imports from Cuba	Total Value of U.S. Imports from Cuba
3Q/49-2Q/50	+0.7%	-16.6%	- 9.7%	-10.5%	- 5.9%
3Q/54-2Q/55	-2.1	- 7.8	-12.6	-15.5	-13.9
1Q/58-4Q/58	+4.1	+ 3.8	+15.4	+17.0	+ 9.4

Source: <u>Survey of Current Business</u>

Unlike the 1948-49 recession, domestic consumption of sugar declined during 1954. Total deliveries were down from 1953 by 3.2 per cent. In addition, inventories were reduced in 1954-55, further reducing United States demand for sugar. Because of the reduced demand, due to decreased consumption and inventories, the volume and value of sugar imports fell between the middle of 1954 and the middle of 1955. It is noteworthy that sugar imports from Cuba declined more than total imports of sugar during both the 1948-49 and 1953-54 recessions. This was due to the fact that the Philippines ordinarily does not fill its allowable quota of sugar exports to the United States and Cuba is permitted to add the unfilled portion of the Philippines' quota to its own. During periods of decreased demand in the United States, a fairly constant quantity of Philippines' exports comes closer to filling that country's quota, thus leaving a smaller quota of allowable shipments available to Cuba.

United States domestic consumption of sugar increased during 1958 and sugar stocks were maintained. Total United States sugar production increased nine per cent in 1956-57 and a further 7 per cent in 1957-58. Despite this increased domestic supply, higher quotas were allotted in 1958 to Cuba and to some smaller sugar exporters. This was made possible by the increased levels of consumption and a shortfall in deliveries from Hawaii and Puerto Rico.[1]

The income elasticity of demand for sugar imports is not clear, based on postwar experiences. United States demand for sugar imports declined during the 1948-49 and 1953-54 recessions, but increased during the 1957-58 recession. Therefore, it would be dangerous to draw any rigid conclusions concerning United States demands for sugar during declines in income, based only on analysis of the post-World War II period. During four United States business contractions between 1907 and 1938, however, the value and volume of United States sugar imports demonstrated a fairly definite pattern of decline in response to declines in United States income.[2]

COFFEE

Coffee has traditionally been the most important export of Latin America, in value and in terms of the number of countries selling this commodity abroad - fourteen out of twenty. These republics provided

[1] UN, Commodity Survey 1958, 1959, p.71.

[2] ECLA, United States Capacity to Absorb Latin American Products (E/CN.12/226, May 28, 1951), p.26.

approximately 80 per cent of the world's supplies in the early 1950's. In 1953, coffee accounted for 26 per cent of Latin America's total exports and 44 per cent of the exports of the coffee producing countries.[1] Coffee was the largest Latin American dollar earner in every year of the postwar period until 1958, when it was surpassed by petroleum.

"The principal determinants of United States coffee demand are changes in per capita income and in relative coffee prices."[2] Per capita consumption of coffee varies inversely to changes in the price of coffee relative to prices of other commodities. There has also tended to be a rather direct correlation between changes in per capita income and per capita spending on coffee, although expenditures on coffee have tended to absorb a progressively smaller portion of per capita income since the early 1930's.[3] Demand for the beverage commodities - coffee, cacao, and tea - tends to be more sensitive to price changes than most basic foodstuffs but not much more responsive to income changes, at least in the industrialized countries.[4]

The fluctuating price of coffee during the postwar period was an indication, both of fundamental changes in the structure of the coffee industry and of the short-run inelasticity of coffee supplies. Coffee planting is a long-term investment requiring four to five years before yielding any returns. Once the coffee tree begins to bear fruit, it becomes a form of capital investment which is usually productive for some forty years. Coffee is a labor intensive industry and, since wages are usually paid in coffee, harvesting of the crop will almost always be of

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[1]ECLA, Economic Review of Latin America, August, 1955, p.25.
[2]Ibid., p.28.
[3]Ibid., p.28.
[4]UN, Commodity Survey 1958, 1959, p.84.

advantage to the producer. The loss incurred by not harvesting is greater than the loss that would be suffered by selling the product, no matter how low the price. These conditions lead to a very inelastic supply of coffee.[1]

Between 1930 and 1945, a persistent fall in coffee prices induced the discontinuance of many coffee plantations and the investing of money in other crops and industries. During this fifteen year period, a billion coffee trees, or one-third of the Brazilian plantations, disappeared. In addition, in an attempt to adjust world coffee supplies to world demand, great amounts of coffee were dumped in the ocean, used as fuel, etc. By 1945, Brazil had about two billion coffee trees, and a large proportion of these were partially or almost entirely non-productive. With the end of World War II, and the upward tendency of coffee prices, the planting of coffee trees began again. It has been estimated that nearly 100 million trees per year were planted in Brazil starting in 1949 and the figure was not too far beneath that for the years 1946-48. Due to the interval between investing in and getting returns from coffee, Brazil's coffee production did not increase significantly during the immediate postwar years. In fact, in direct contrast to prewar conditions, the total of exports plus domestic consumption exceeded the production of coffee in every year during the period 1945-50. In 1945, Brazil had large stocks of coffee which had a depressing effect on world prices. By 1949, these stocks were gone.

At the same time that Brazilian coffee production was declining, world coffee consumption, especially that of the United States, was increasing. The decreased capacity of coffee production, increased consumption,

[1]This discussion of coffee production is based on a section in the following publication: ECLA, <u>Recent Developments and Trends in the Brazilian Economy</u> (E/CN.12/217/Add.2, March 26, 1951), pp.76-84.

the exhausted Brazilian stocks, and news of the impending unfavorable Brazilian and Colombian harvests in 1950 sent coffee prices soaring. The price per pound of Santos #4 on the New York market rose from $.261 in April, 1949 to $.490 by the end of that year. By September, 1950, the price had increased another 14 per cent to $.561.[1] The volume of United States coffee imports actually decreased in 1950, due to the poor Brazilian and Colombian harvests and United States buyer resistance to the rising prices, but the value of coffee imports increased from $794 million in 1949 to $1,090 million in 1950 - a 35 per cent increase.

Table IV-6 shows the values and quantities of coffee imports during and surrounding periods of United States business fluctuations in the postwar period. It is evident that fluctuations in volume are mild while fluctuations in the value of coffee imports have been quite severe.

Coffee prices, after the substantial rise of 1949-50, stabilized somewhat during the next three years. There were still upward tendencies present due to the increased per capita consumption in importing countries and the short-run inelasticity of supply in the exporting countries. Between December, 1950 and December, 1953, the wholesale price per pound on the New York market of Santos #4 increased from $.540 to $.613, a slight increase considering the nearly $.28 rise which occurred in 1949-50.

There have been numerous explanations advanced for the increase in the price of coffee which took place during 1953-54; such as, valorization policies on the part of the Brazilian government, a freeze which caused poor harvests in Brazil, and others. At any rate, the price of Brazilian coffee on the New York market rose from $.585 in November, 1953 to $.883 in July, 1954, a 51 per cent increase within the space of eight months.

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[1] Survey of Current Business, 1949, 1950.

TABLE IV-6

VALUE AND QUANTITY OF UNITED STATES COFFEE IMPORTS DURING THREE RECESSIONS

	Brazil	Colombia	Other L.A.	Total L.A.	World Total
			VALUE (mill.of $)		
1948	352.6	206.3	126.7	685.6	696.6
1949	428.8	203.5	146.8	779.1	793.6
1950	566.4	266.6	217.1	1050.1	1090.2
1953	627.9	414.5	326.1	1368.5	1465.1
1954	544.5	461.5	352.0	1358.3	1484.0
1955	486.3	408.3	333.3	1227.9	1356.0
1956	604.7	372.6	324.3	1301.6	1437.7
1957	528.4	349.0	330.9	1208.3	1375.7
1958	406.6	291.0	317.1	1014.7	1170.4
			QUANTITY (mill. lb.)		
1948	1531	703	420	2654	2771
1949	1689	655	514	2858	2918
1950	1259	537	525	2321	2437
1953	1187	741	662	2590	2781
1954	840	649	555	2044	2258
1955	1018	652	622	2292	2598
1956	1310	603	553	2466	2810
1957	1176	549	604	2329	2761
1958	986	562	712	2260	2672

Source: Foreign Trade Reports

Buyer resistance to rising coffee prices played a more important role in the 1953-54 recession than during 1948-49. The quantity of coffee imports into the United States declined by 21 per cent from 1953 to 1954 (29 per cent in the case of Brazil). As a result of this decreased quantity the value of Latin American coffee exports to the United States declined in 1954. It would be difficult, however, to ascertain how much of this reduction in coffee imports should be attributed to responsiveness to price changes and how much to the fall in income during 1954. The impacts of the price and income elasticities of demand undoubtedly reinforced each other in bringing about a decline in the quantity of imports.

As income rose and coffee prices fell during 1955, the quantity of coffee imports increased again - but not sufficiently to offset the falling prices. Consequently, the value of United States coffee imports continued to fall during 1955. The reasons for the reduced coffee prices beginning in late 1955 were (1) reduced consumption in the United States, and (2) excellent harvest conditions in Brazil and other Latin American coffee producing countries. In addition, 1955 was the first year that production was able to take full benefit from the coffee trees planted in the late 1940's and early 1950's under the stimulus of the rising coffee prices of those years.[1]

The weakness that has characterized the markets for primary products during the post-Korean period is particularly evident in the case of coffee. The upward movement in the cyclical production of coffee was still underway in 1958/59.[2] After the long downswing which had started in the 1930's, coffee production was practically doubled between 1944/45 and 1958/59.[3] The severe decline in coffee prices beginning in the first quarter of 1957 was the result of large increases in production stimulated by the high coffee prices of the early 1950's. World coffee production increased by about 16 per cent between 1956/57 and 1957/58. During 1956-58 the coffee market situation was influenced very little by the total level of demand - although a changing structure of demand had considerable influence on the demand for coffee of specific areas.

In addition to the shift in supply, changes in the structure of demand by the United States, the world's largest coffee importer, had an adverse effect on Latin America's coffee exports. The brunt of this change

[1]ECLA, Economic Survey of Latin America 1955, May, 1956.
[2]Diagonal marks indicate growing seasons.
[3]UN, Commodity Survey 1958, 1959, p.84.

in the direction of demand was borne by Brazil. United States imports of soluble, or instant, and "mild" coffees continued to rise during 1957 and 1958. "Mild" coffees may be roughly classified as those types grown in the Western Hemisphere outside of Brazil. Coffee produced in Brazil is termed "Brazilian" or "hard" coffee.[1] A growing African supply profited from the fact that the types of coffee grown in that area are best suited for the production of soluble coffee, for which United States demand has advanced considerably in recent years. As a result of the circumstances affecting the supply of and demand for coffee, Brazil's exports to the United States suffered in two respects - quantity and price - while the exports of other Latin American coffee producers declined in price but increased in quantity.

In summary, the supply picture for coffee has fluctuated so widely that it is difficult to determine whether changes in the quantity sold and price of coffee have been due in any significant degree to changes in income. The decreased quantity of imports in 1954-55 was probably due, to some extent, to the 1953-54 recession; but the major part of this reduction was more likely the result of responsiveness to higher prices. The quantity of imports declined slightly in 1957 and 1958, despite lower prices, and part of the decline may have been brought about by the 1957-58 recession. Nevertheless, it would be most difficult to attribute the declines in coffee imports in 1954 and 1958 to the recessions of those years. A more realistic conclusion would be one which stated that decreases in United States consumer income probably accentuate or mitigate changes in the quantity and value of coffee imports brought about by changes in supply.

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[1]No further distinction between the types of coffee will be made here, other than the fact that, for most purposes, mild coffee is considered superior to hard coffee. However, there are many exceptions to this and a "satisfactory blend" contains many different lots of coffee.

CACAO

Latin American producers of cacao beans account for only 15-20 per cent of total world exports of cacao, but these countries supply approximately 50 per cent of United States imports of this commodity. Cacao has decreased in importance as a Latin American export since 1900, but it is still an important export of the Dominican Republic, Ecuador, and Costa Rica.[1] The quantity of United States imports of cacao has tended downward during the postwar period due to the use of substitutes in the confectionery industry. The portion of United States cacao purchases that has been supplied by Latin American countries has declined from approximately 75 per cent for the period 1909-13 to 47 per cent in the 1946-49 period, but has tended to stabilize at around 50 per cent during the postwar era.[2]

The postwar price of cacao has fluctuated widely. Prices in New York rose rapidly when wartime controls were lifted in the United States, increasing nearly five-fold by the end of 1947. In 1949, they dropped to less than half of their peak 1947 level.[3] The quantity of cacao imports into the United States increased in 1949, mainly in response to the decline in price. It is unlikely that the decline in income during 1948-49 had any adverse effect on cacao imports.

Table IV-7 shows the quantity and value of cacao imports into the United States during periods of economic contraction and recovery since World War II. Brazil is the largest Latin American producer, accounting for about 50 per cent of Latin American cacao exports to the United States during 1948-58. The remainder of Latin America's exports to the United

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[1]ECLA, Recent Developments and Trends in the Brazilian Economy, (E/CN.12/217/Add.2, March 26, 1951), p.65.

[2]ECLA, United States Capacity to Absorb Latin American Products, (E/CN.12/226, April 5, 1951), p.61.

[3]Ibid., p.63.

States is scattered among several countries, the most important being the Dominican Republic.

TABLE IV-7
VALUE AND QUANTITY OF UNITED STATES CACAO IMPORTS DURING THREE RECESSIONS

	Brazil	Other L.A.	Total L.A.	World Total
		VALUE (mill.of $)		
1948	45.2	45.7	90.9	193.7
1949	33.1	22.7	55.8	124.5
1950	42.4	43.3	85.7	167.2
1953	36.8	47.9	84.7	167.3
1954	59.9	77.5	137.4	252.0
1955	46.9	50.0	96.9	184.6
1956	37.5	32.4	69.9	144.6
1957	31.5	40.0	71.5	134.7
1958	36.6	51.6	88.2	172.9
		QUANTITY (mill. lb.)		
1948	134.9	132.4	267.3	558.3
1949	200.1	118.6	318.7	628.8
1950	162.3	149.5	311.8	659.1
1953	124.3	135.7	260.0	565.5
1954	124.2	151.4	275.6	516.2
1955	142.8	145.0	287.8	499.7
1956	154.8	130.0	284.8	559.3
1957	110.3	136.0	246.3	510.6
1958	101.9	131.8	233.7	442.7

Source: Foreign Trade Reports

Cacao prices tended to rise in 1953 as the rate of consumption gradually outstripped production and as world stocks were depleted. Prices received a further impetus with the news that the Gold Coast crop for the 1953/54 season was expected to be 12 per cent below previous estimates.[1] Imports of cacao into the United States declined in 1954, both as a result of the higher prices and because of the substantially lower consumption of chocolate products during the 1953-54 recession. This decline in consumption

[1]UN, Commission on International Commodity Trade, 1955 Survey of Primary Commodity Markets, New York, 1955.

was not enough to offset the higher price and the total value of United States imports of cacao increased in 1954. Increased supplies and the impact of decreased demand caused the price of cacao to fall again in 1955.

Cacao production was 14 per cent lower in 1957/58 than in 1956/57 and consequently, the wholesale price of cacao more than doubled during the sixteen months between March, 1957 and July, 1958. The reduction in the quantity of imports during 1957 and 1958 indicates what has been a frequently observed occurrence - that the price elasticity of demand for cacao imports into the United States is higher than that for most other primary commodities. This is due more to the price resistance of manufacturers than consumers.[1]

United States imports of cacao during 1957 and 1958 fell by 9 per cent and 13 per cent, respectively, from previous years totals. The reduction fell mainly on Brazil whose exports to the United States dropped by approximately one-third between 1956 and 1958. However, the higher prices more than offset the decreased volume and 1958 showed a 28 per cent increase over 1957 in the total value of cacao imports into the United States.

United States imports of cacao are highly responsive to price changes - that is, the price elasticity of demand is relatively high. The income elasticity of demand for cacao imports is also relatively high and fluctuations in income probably play an important role in determining the level of cacao imports. This opinion is supported by a study of the Economic Commission for Latin America, which showed that the value of United States cacao imports declined during three of four recessions between 1907 and 1938.[2]

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[1]UN, Commodity Survey 1958, 1959, p.92.

[2]ECLA, United States Capacity to Absorb Latin American Products, (E/CN.12/226, April 5, 1951), p.26.

CHAPTER V
THE EFFECTS OF POSTWAR UNITED STATES RECESSIONS ON SELECTED LATIN AMERICAN COUNTRIES
- MEXICO, ARGENTINA, CHILE -

Chapters V and VI discuss the effects of the three postwar recessions on the seven largest Latin American trading nations - Mexico, Argentina, Chile, Cuba, Colombia, Brazil, and Venezuela. These seven republics normally comprise 80-85 per cent of the value of Latin America's trade with the United States and approximately one-fourth of the total foreign trade of this country. Like the other thirteen Latin American republics, these seven countries rely on one or two primary commodities for the predominant share of their export earnings.

These countries are, to a large extent, export economies and a large proportion of their foreign commerce is carried on with the United States. Consequently, a decline in United States business activity and imports would be expected to exert a downward force on their balances of payments and domestic economies. This, in turn, should lead to reductions in the imports of these countries from the United States due to the income effect or because of official policies designed to protect foreign exchange reserves.

United States contractions can be expected to have a stronger impact on the balances of payments and domestic economies of the seven countries discussed in the following chapters than on the industrial economies of Western Europe, Canada, or Japan. There are several reasons for this: (1) imports of industrial raw materials and semi-manufactures undergo more severe declines than do other categories of imports during recessions in this country; (2) Latin American countries carry on a larger proportion of their foreign trade with the United States than do the more industrialized nations (Canada and Argentina are obvious exceptions); and, (3) foreign trade comprises a larger sector of the economies of most primary producing countries than of the economies of most industrial countries.[1] In developed economies, investments are larger than exports and, consequently, are the more important generator of business fluctuations. In the underdeveloped countries, exports comprise a larger portion of the total economy than investments. Consequently, fluctuations in exports, rather than fluctuations in investments should be expected to be the more important generator of business cycles.

Chapter V discusses the effects of the postwar recessions on Mexico, Argentina, and Chile. These three countries export mainly those commodities treated in Chapter III - copper, lead, zinc, and wool - which are highly responsive to changes in United States income. Because of this, the balances of payments and internal economies of Mexico, Argentina, and Chile should be particularly sensitive to changes in business activity and imports of the United States.

MEXICO

Mexico's exports are more diversified than are those of most other primary producing countries. Nevertheless, Mexico does not export as wide a range of products as do the industrial countries of Western Europe and the United States and must rely on industrial raw materials and crude foodstuffs for practically all of its export earnings. The dominant feature in Mexico's structure of international trade is that it does about eighty per cent of its total import and export trade with the United States.

[1] Zassenhaus, H.K., "Direct Effects of a U.S. Recession on Imports", Review of Economics and Statistics, August, 1955, pp.231-255.

TABLE V-1
MEXICO: THE STRUCTURE OF FOREIGN TRADE

	1948	1953	1957
Ratio of exports to national income	9%	10%	10%
Ratio of gold and dollar reserves to imports	32%	47%	49%
Per cent of total exports going to U.S.	75%	74%	73% [a]
Per cent of total imports coming from U.S.	87%	81%	78% [a]
U.S. imports from Mexico (mill.of $):			
Total	246	354	430
Metals and manufactures [b]	77	104	108
Coffee	17	69	97

a - 1956
b - mainly copper, lead, and zinc

Sources: Department of Commerce Foreign Trade Reports, United Nations Statistical Yearbook, International Financial Statistics, Federal Reserve Bulletin

As indicated by Table V-1, the ratio of exports to national income for Mexico is approximately 10 per cent - about twice that for the United States. Mexico normally obtains between 80 and 90 per cent of its imports from the United States and depends on the United States for a market for about three-fourths of its exports. The ratio of gold and dollars to annual aggregate imports is shown in Table V-1 in order to give some idea of the strength of Mexico's foreign trade position. The levels of gold holdings and dollar reserves of a country determine, to a large extent, the severity of a decline in exports that a country can undergo without being forced to restrict imports.

The 1948-49 Recession:

United States imports from Mexico declined in the 1948-49 recession coincidentally with the decline in imports of lead, zinc, and copper. The value of imports of these metals from Mexico from mid-1949 to mid-1950 were 24 per cent below the preceding twelve month period. Mexican exports of vegetable fibers and vegetable preparations to the United States also declined during 1949-50. However, the value of coffee imports from Mexico nearly doubled during this period, causing the total value of Mexico's exports to the United States to decline by only 2 per cent. The increase in the value of Mexico's coffee exports to this country was due to the rising price of that commodity during 1949 and 1950.

Despite the fact that Mexican exports to the United States declined slightly during the 1948-49 recession, exports to other areas increased sharply and a favorable balance of payments was attained. As shown by Table V-2, the level of Mexico's gold and dollar reserves more than doubled between the end of 1948 and the end of 1950. Table V-2 also shows that Mexico's real per capita income increased during the 1948-50 period. There were several reasons why the general level of Mexico's economic activity was not adversely affected by the United States recession. In the first place, the fall in metals prices was relatively brief and they soon rose again to record highs in 1950. Secondly, the increased value of coffee sales to the United States nearly made up for the declines in the value of other exports to this country. Third, exports to other areas increased, more than offsetting the decline in exports to the United States. Fourth, the Mexican economy was expanding throughout the period and was too healthy to be dragged down by a temporary decline in sales to the United States.

Despite the increase in total exports, Mexico restricted imports when exports to the United States declined during the third quarter of 1949. Imports of luxuries were prohibited and imports of other non-essential goods were reduced. These measures to reduce imports, as well as to increase exports, were aided by the devaluation of the peso in July, 1948. Largely as a result of these official actions, the value of Mexican imports from the United States during 1949-50 declined 15 per cent compared to only a 2 per cent decline in United States imports from Mexico.

TABLE V-2
MEXICO: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1948-1950

	U.S. GNP (bill.$)	U.S. Imports from Mexico (mill.$)	U.S. Exports to Mexico (mill.$)	Real per Capita Income (1950=100)	Gold and Dollar Reserves (mill.$ end of period)
1948	259.0	246.3	521.3	92	
1Q	248.2	72.1	126.9		...
2Q	257.8	58.8	139.5		198
3Q	263.2	52.8	121.9		...
4Q	267.0	62.6	133.0		189
1949	257.3	243.6	465.6	94	
1Q	259.5	74.4	135.5		...
2Q	257.6	65.4	123.3		...
3Q	256.5	44.2	96.0		...
4Q	255.5	59.6	110.8		267
1950	282.6	317.7	515.5	100	
1Q	264.4	73.5	114.3		244
2Q	275.0	73.2	113.9		224
3Q	287.4	77.5	129.2		291
4Q	303.7	93.5	158.3		415

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook, International Financial Statistics

The 1953-54 Recession:

Although agricultural products comprise the major portion of the value of Mexico's exports (57 per cent in 1954), the metals exert the greater destabilizing influence on that country's balance of payments during United States business declines. For example, as shown in Table V-3, the total value of Mexico's exports to the United States fluctuated widely between 1952 and 1955 while during the same period, exports excluding metals and manufactures showed a steady increase. As a result of the substantial decline in metal imports from Mexico during 1953-54, total United States imports from that country declined 20 per cent between 1952 and 1954.

TABLE V-3
MEXICO: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1952-1955

	U.S. GNP (bill.$)	U.S. Imports from Mexico (mill.$)			U.S. Exports to Mexico (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
		Total	Metals	Others			
1952	347.0	410	170	240	667	106	375
1953	363.2	354	104	250	646	100	341
1954	361.2	328	74	254	634	105	395
1955	391.7	397	96	301	705	118	560

Sources: Survey of Current Business, Foreign Trade Reports, UN Statistical Yearbook, Federal Reserve Bulletin

Mexico's already unfavorable balance of trade deteriorated further in 1953 as increased sales to Western Europe failed to offset the decline in metals exports to the United States. Mexico's exports increased in 1954, however, primarily due to rising agricultural exports to the United Kingdom and Germany.

Mexico's economy underwent a fairly severe contraction in 1953 which was aggravated by the recession in the United States. National income increased in 1954, but the mining sector continued to be depressed until 1955. This can be attributed directly to the United States recession since the major portion of Mexico's mineral output is sold to the United States.[1] United States business fluctuations have an additional impact on Mexico's economy in that a large proportion of the revenues of the Mexican government are derived from taxes imposed on the mining industry. An estimated 37 per cent of the mining industry's gross income was paid to the

[1]Eighty-six per cent of the value and 70 per cent of the volume of the mining industry's output was exported in 1954. The United States took about 76 per cent of the export volume. (Department of Commerce Economic Reports, Part 1, No.55-60, 1955, p.5).

federal government in taxes in 1954.[1]

Mexico's imports from the United States declined very little during 1953-54. This was probably due to the high level of gold and dollar reserves at the end of 1953 which enabled Mexico to withstand a decline in export receipts without being forced to tighten import and exchange restrictions.

The 1957-58 Recession:

United States imports from Mexico increased during 1957-58 despite a decrease in the value of mineral imports. As indicated by Table V-4, the value of Mexico's exports to the United States increased by 14 per cent between 1956 and 1958. This was due to an increase in the value of agricultural exports, excluding coffee, to the United States.

Total exports fell during 1957 and the deficit in Mexico's trade balance continued into 1958 as imports increased faster than exports. A decline in sales to the Netherlands, Belgium, and Germany was responsible for the decline in total exports during 1957.

TABLE V-4
MEXICO: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1956-1958

	U.S. GNP (bill.$)	U.S. Imports from Mexico (mill.$)	U.S. Exports to Mexico (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1956	419.2	400.5	840.6	119	600
1957	440.3	429.7	895.2	...	566
1958	437.7	457.3	885.5	...	562

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

[1]Department of Commerce Economic Reports, Part 1, No.55-60, 1955, p.8.

Economic activity in Mexico was relatively stable during 1957-58 despite the passive balance of payments. A United States recession always causes a pessimistic atmosphere in the Mexican business community but the increase in United States imports from Mexico during 1957-58 helped to stimulate the economy of that country.

Imports into Mexico, both in total and from the United States, increased in 1957 and declined only slightly in 1958. A high level of capital inflow enabled Mexico to increase imports and maintain gold and dollar reserves at previous levels in the face of declining exports during 1957-58.

Summary:

Table V-5 compares the effects of the three postwar recessions on United States mineral imports and trade with Mexico. The value of imports of copper, lead, and zinc, both from Mexico and from the rest of the world, declined substantially during all three recessions. During each of these periods, agricultural exports from Mexico to the United States increased, partially or completely offsetting the decline in United States purchases of the primary non-ferrous metals.

Transactions with the United States have the predominant influence on Mexico's balance of payments, but the United States recessions brought about a passive turn in Mexico's balance of payments only in 1953. In 1948-49, increased sales to other areas, combined with restrictions on imports, brought about a favorable balance of trade for Mexico. In 1958, Mexico experienced a decline in total exports despite increased sales to the United States.

United States recessions noticeably affected the Mexican economy only in 1953. Mexico's national income increased during 1948-49. An increase in exports to the United States had a favorable impact on Mexican business in 1957-58.

TABLE V-5
UNITED STATES MINERAL IMPORTS AND TRADE WITH MEXICO DURING THREE RECESSIONS
(Per cent change from preceding 12-month period)

	Value of Imports of Copper, Lead and Zinc	Value of Imports of Copper, Lead and Zinc from Mexico	Total Imports from Mexico	Total Exports to Mexico
3Q/49-2Q/50	-23.4%	-23.9%	- 1.8%	-15.4%
1953	-15.4	-42.1	-13.6	- 3.2
1958	-32.3	-33.9	+ 6.4	- 1.1

Sources: Survey of Current Business, Foreign Trade Reports

Mexico reduced imports from the United States during all three recessions; but the import reduction reached significant proportions only in 1949-50. The ratio of Mexico's gold and dollar reserves to imports was lower during that period than during the two later recessions. Consequently, tighter import and exchange restrictions were imposed in 1949-50 than during subsequent years in which declines in exports were experienced.

ARGENTINA

Exports make a smaller contribution to Argentina's national income than to the national income of most other primary producing countries. Also, Argentina's foreign trade has been traditionally oriented toward European markets. Consequently, fluctuations in exports to the United States should not be expected to produce severe fluctuations in Argentina's balance of payments or national income.

Table V-6 indicates the importance of trade with the United States to Argentina's economy. It shows that only 15-25 per cent of Argentina's total trade is conducted with the United States. This contrasts to about 50 per cent for Latin America as a whole. The main export of Argentina to the United States during the postwar period has been wool, mainly unmanufactured, although in Argentina's total exports, wool usually ranks third or fourth. The major portion of Argentina's export earnings is derived from wheat and meat sales to Europe.

TABLE V-6
ARGENTINA: THE STRUCTURE OF FOREIGN TRADE

	1948	1953	1957
Ratio of exports to national income (pesos)	15%	8%	12%
Ratio of gold and dollar reserves to imports (U.S.$)	23%	63%	20%
Per cent of total exports going to U.S.	10%	19%	12% a
Per cent of total imports coming from U.S.	37%	17%	20% a
U.S. imports from Argentina (mill.$):			
Total	184	182	130
Wool	83	88	52
Meat products	30	32	26

a - 1956

Sources: Foreign Trade Reports, UN Statistical Yearbook, International Financial Statistics, Federal Reserve Bulletin

The 1948-49 Recession:

United States trade with Argentina declined more than trade with any other Latin American country during the 1948-49 recession. United States exports to and imports from Argentina declined by 66 per cent and 44 per cent, respectively, in 1949.

The value of United States imports of wool, which comprised nearly half of Argentina's exports to the United States, declined 43 per cent in 1949 due to the decline in the production and inventories of the United States textile industry during the 1948-49 recession. Table V-7 shows that the value of United States imports from Argentina were less than half of 1948 figures during the first three quarters of 1949.

TABLE V-7
ARGENTINA: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1948-1950

	U.S. GNP (bill.$)	U.S. Imports from Argen. (mill.$)	U.S. Exports to Argentina (mill.$)	Real per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1948	259.0	180.2	399.9	118	
1Q	248.2	69.1	148.1		470
2Q	257.8	42.0	112.3		389
3Q	263.2	42.0	57.3		374
4Q	267.0	27.1	62.2		357
1949	257.3	97.4	129.3	110	
1Q	259.5	30.2	37.4		368
2Q	257.6	18.8	24.6		397
3Q	256.5	17.3	38.9		...
4Q	255.5	31.1	28.4		417
1950	282.6	205.9	144.6	106	
1Q	264.4	55.8	37.8		...
2Q	275.0	47.4	36.9		...
3Q	287.4	53.2	31.1		...
4Q	303.7	49.5	38.8		518

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

Because of the declining wool exports and a lower level of exports to Western Europe, Argentina's total exports declined 40 per cent between 1948 and 1949. Argentina's total international reserves declined from $1,696 million at the end of 1946 to $747 million at the end of 1949. This decrease in reserves was accentuated by the United States recession and the result was the adoption by Argentina of a complex system of rigid import restrictions and exchange controls.

The national income during this period was adversely affected by four important factors, causing the index of real per capita income to fall from 118 in 1948 to 106 in 1950 (1953=100). These factors were: (1) poor cereal harvests during two successive seasons; (2) the government's program of encouraging industry was not showing favorable results; (3) decreased sales of cereals to Western Europe because of the shortage of foreign exchange in those countries; and (4) decreased sales of wool, hides and skins, and meat products to the United States, attributable to the 1948-49 recession.[1]

The declines in Argentina's national income and reserves of foreign exchange, particularly the latter, caused Argentina to curtail imports beginning in the third quarter of 1948. The value of imports from the United States declined nearly 50 per cent between the second and third quarters of 1948. As a further example of the rigidity of control imposed by the Argentine authorities, United States merchandise exports to Argentina declined steadily from a monthly high of $74.1 million in August, 1947 to a low of $6.1 million in May, 1949.

Argentina was able to attain a favorable balance of trade with the United States during the fourth quarter of 1949 and all four quarters of 1950. This was accomplished because of (1) the recovery of United States industrial activity and imports of wool and hides and skins, and (2) the continuation of import restrictions by Argentina.

The 1953-54 Recession:

The 1953-54 recession had a much different impact on the Argentine economy than did the 1948-49 decline. There were several reasons for this. First, Argentine trade with the United States comprised a smaller portion of Argentina's foreign commerce during the middle 1950's than it did during the late 1940's. This was due to the resumption of prewar trade patterns with an expanding European market. Second, exports were smaller relative to national income. This was due, not to an expanding national income, but

[1]ECLA, Recent Trends and Developments in the Argentine Economy, (E/CN.12/217, Apr.16, 1951).

to a lower level of foreign trade.[1] Third, Argentina's gold and dollar reserves were better able to support the foreign trade of the country during 1953-54 than in 1948-49. This was due both to a lower level of trade and to increased gold holdings and dollar reserves.

United States imports from Argentina proved once again to be responsive to changes in income in 1954. The decline in raw materials needed by the United States textile and leather industries caused United States imports from Argentina to drop by approximately 43 per cent in 1954 - as shown by Table V-8. Wool, hides and skins, vegetable and tanning materials, and meat products suffered declines in shipments to the United States during the recession year of 1954.

TABLE V-8
ARGENTINA: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD DOLLAR RESERVES COMPARED TO U.S. GNP
1953-1955

	U.S. GNP (bill.$)	U.S. Imports from Argen. (mill.$)	U.S. Exports to Argentina (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1953	363.2	181.8	104.1	100	
1Q	361.9	58.6	18.0		485
2Q	369.3	49.2	28.3		519
3Q	366.9	48.8	28.9		520
4Q	359.9	25.2	28.9		503
1954	361.2	102.9	127.5	102	
1Q	358.3	22.9	21.8		543
2Q	357.6	32.1	25.7		550
3Q	358.8	28.3	33.9		578
4Q	367.1	19.6	41.1		531
1955	391.7	126.0	148.2	104	
1Q	375.3	30.0	35.5		523
2Q	384.8	34.5	36.3		528
3Q	392.0	36.6	43.1		536
4Q	402.8	24.9	33.3		509

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

[1]The value of Argentina's GNP in constant 1950 prices was 8,459 million pesos in 1953, down from 9,190 million pesos in 1948. (Department of Commerce, Economic Reports, Part 1, No.55-56, p.4, 1955.)

The decline in United States imports from Argentina in 1954 was similar to the decline in 1949. Certain factors intervened, however, to make a cutback in Argentine purchases from the United States unnecessary. One of these factors was the maintainance of sales to Western Europe, which largely offset the decline in exports to the United States. Second, national income expanded, although at a relatively slow pace, in 1954 and 1955. Third, Argentine imports from the United States were already at a low level, relative to the immediate postwar period, in 1953. Fourth, an improved ratio of gold and dollars to imports enabled Argentina to withstand a decline in dollar earnings without being forced to curtail imports from the United States (compare the ratios of gold and dollars to imports for 1948 and 1953 in Table V-6). Consequently, Argentina's imports, both from the United States and from the rest of the world, increased substantially in 1954 and 1955.

The 1957-58 Recession:

As in the two preceding recessions, the quantity and value of United States imports of wool from Argentina declined substantially. However, during 1957-58, other factors prevented the overall level of Argentine exports to the United States from declining as severely as in 1948-49 or 1953-54. The shortage of beef in the United States brought about a substantial increase in imports of that commodity from Argentina. Consequently, the total value of United States imports from Argentina fluctuated very little during 1956-58. As Table V-9 indicates, imports declined somewhat during the first half of 1958, while the reduction in wool imports predominated. However, increased exports in the last half of 1958 - due to recovering wool sales and increased beef exports - brought the total for that year to a figure slightly in excess of 1957.

Argentina's overall exports declined somewhat in 1958. Increased beef sales to the United States and Western Europe were not sufficient to offset the declines in wool and wheat sales to those markets.

TABLE V-9
ARGENTINA: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1956-1958

	U.S. GNP (bill.$)	U.S. Imports from Argen. (mill.$)	U.S. Exports to Argentina (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1956	419.2	133.5	212.1	101	
1Q	410.8	47.3	46.1		511
2Q	414.9	31.8	48.3		476
3Q	420.5	28.6	57.8		399
4Q	430.5	25.8	60.4		370
1957	440.3	129.8	279.6	103	
1Q	436.3	39.1	75.7		332
2Q	441.2	37.4	82.3		345
3Q	445.6	26.4	63.7		313
4Q	438.9	26.9	57.9		263
1958	437.7	132.6	249.0	...	
1Q	427.1	29.3	51.1		270
2Q	430.4	33.5	52.0		265
3Q	439.8	29.9	65.7		244
4Q	453.0	39.9	80.1		203

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

Argentina had a deficit in its balance of payments during 1956, 1957 and 1958 of $184 million, $335 million, and $238 million respectively. This was largely the result of a high level of capital goods imports for internal expansion without being able to finance those imports with receipts from current exports. The decline in exports during the 1957-58 recession, although slight, served to accentuate Argentina's balance of payments difficulties. Total gold and dollar reserves declined from $511 million in March, 1956 to $203 million in December, 1958. "The continued imbalance of imports over exports and the attendant progressive depletion of gold and foreign exchange reserves impelled the ... Argentine government in May (1958) to impose an import ban, which since has been partially relaxed as demands for essentials have increased."[1] Table V-9 shows that Argentine imports from the United States, after rising substantially in 1957, were reduced during the first half of 1958. As the above mentioned import restrictions were relaxed, imports from the United States increased again in the last two quarters of 1958.

Summary:

Table V-10 compares the effects of the three postwar recessions on United States trade with Argentina. United States textile production and wool imports declined substantially during all three recessions. The declines resulted in large reductions in the quantity and value of wool imports from Argentina. In addition, declines in other sectors of the United States economy during recession periods caused imports of hides and skins and vegetable, dyeing, and tanning materials to decrease during the three recessions. Because of the predominance of these income elastic commodities in Argentina's exports to the United States, fluctuations in United States business activity caused magnified fluctuations in United States imports from Argentina.

Fluctuations in exports to the United States were secondary in importance to changes in exports to Europe as far as the balance of payments and national income of Argentina were concerned during the postwar period. United States recessions accentuated declines in Argentine exports to Europe during 1948-49 and 1957-58. Consequently, Argentina reduced

[1] Foreign Commerce Weekly, Oct.28, 1958, p.S-16.

imports during those two periods. During the 1953-54 recession, however, Argentina's exports to Europe offset a decline in exports to the United States. This fact, plus a stronger international monetary position during 1953-54, enabled Argentina to increase imports from both the United States and Europe.

TABLE V-10
CHANGES IN UNITED STATES TRADE WITH ARGENTINA DURING THREE RECESSIONS
(Per cent figures show changes from preceding twelve-month period)

	Value of U.S. Imports of Wool from Argentina	Total U.S. Imports from Argentina	Argentine Imports from the U.S.
1Q/49-4Q/49	-43.4%	-45.9%	-67.9%
1Q/54-4Q/54	-18.2	-43.3	+22.4
3Q/57-2Q/58	-35.3	-11.3	- 4.2

Sources: <u>Survey of Current Business</u>, <u>Foreign Trade Reports</u>

Argentina's national income declined during 1948-49 when exports to Europe declined and expanded when exports to Europe increased. Since exports to the United States declined during both periods, this is some indication that trade with Europe has a stronger impact on the Argentine economy than trade with the United States.

In summary, fluctuations in United States business activity have a strong impact on imports from Argentina because of the high income elasticity of demand for Argentina's exports to the United States. However, fluctuations in trade with Western Europe have the predominant effect on Argentina's overall balance of payments. Consequently, United States recessions, instead of determining the surplus or deficit position of Argentina's balance of payments, serve either to mitigate or to accentuate changes brought about by fluctuations in the economic activity and imports of Western Europe.

CHILE

The ratio of Chile's exports to national income is normally between 12 and 15 per cent. Sixty to 70 per cent of Chile's exports are in the form of copper, about 50 per cent of which are destined for the United States. Consequently, economic activity in Chile should be expected to be sensitive to fluctuations in United States industrial output and consumption of copper. Table V-11 indicates the importance of foreign trade to Chile's economy. It is worthwhile to note the small value of the ratio of gold and dollars to national income for Chile throughout the postwar period. The size of this ratio is an indication that Chile would not be able to undergo a very severe reduction in export receipts without being forced to restrict imports.

TABLE V-11
CHILE: STRUCTURE OF FOREIGN TRADE

	1948	1953	1957
Ratio of exports to national income	13%	14%	11% [a]
Ratio of gold and dollar reserves to imports	37%	36%	26%
Per cent of total exports going to U.S.	53%	64%	48%
Per cent of total imports coming from U.S.	42%	53%	58%
Value of U.S. imports from Chile (mill.$):			
Total	178	242	196
Copper	133	196	143

a - 1956

Sources: Foreign Trade Reports, UN Statistical Yearbook, International Financial Statistics, Federal Reserve Bulletin

The 1948-49 Recession:

The value of United States copper imports from Chile declined 42 per cent during 1949-50. Since copper comprised three-fourths of total Chilean exports to the United States, this decline in United States copper demand brought about a large decrease in the value of total United States imports from Chile. Table V-12 shows the course of United States trade with Chile during the 1948-49 recession. The decline in United States imports began in the third quarter of 1949, coincident with the decline in total copper imports, and did not recover to previous year figures until the third quarter of 1950.

Declines in Chilean exports to the United States and Western Europe during 1949 caused Chile to undergo a deficit in its balance of payments for the first time since 1930. Both the quantity and the unit value of exports fell and Chile's terms of trade in 1949 were 96.8 as compared to 100 for the base year 1948.

Chile's real per capita income, as shown in Table V-12, declined substantially in 1949 and rose again to 1948 levels in 1950. Changes in national income were brought about primarily by the changing price of copper in Western Europe and the United States.

TABLE V-12
CHILE: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1948-1950

	U.S. GNP (bill.$)	U.S. Imports from Chile (mill.$)	U.S. Exports to Chile (mill.$)	Real Per Capita Income (1952=100)	Gold and Dollar Reserves (mill.$ end of period)
1948	259.0	178.4	105.4	95	
1Q	248.2	47.1	19.6		88
2Q	257.8	47.0	22.5		99
3Q	263.2	41.6	22.1		95
4Q	267.0	42.7	41.2		100
1949	257.3	151.4	142.5	89	
1Q	259.5	52.2	34.6		96
2Q	257.6	46.7	41.0		100
3Q	256.5	29.6	35.8		101
4Q	255.5	22.9	31.1		101
1950	282.6	159.4	71.6	96	
1Q	264.4	32.0	19.8		110
2Q	275.0	41.5	17.5		102
3Q	287.4	37.3	13.3		117
4Q	303.7	48.6	21.0		120

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

Chile's imports from the United States began to decline during the fourth quarter of 1949 - the quarter after the fall in export receipts. Several measures designed to limit imports, particularly from dollar sources, were necessitated by the decline in dollar receipts. Chile took steps toward setting up trade agreements with countries other tnan the United States. Automobiles, which had been the principal import during the first part of 1949, were virtually excluded beginning in September, 1949.[1] By the third quarter of 1950, imports from the United States had been cut to less than one-third of their second quarter, 1948, level. By means of the restrictions on imports, Chile was able to recover its favorable trade surplus in 1950 and to increase its holdings of gold and dollars.

The 1953-54 Recession:

The decline in United States imports from Chile was sharper and more prolonged than the decline in imports from any of the other major Latin American countries. As shown in Table V-13, United States imports from Chile fell from $286 million in 1952 to $242 million in 1953 and $197 million in 1954. The period of steepest decline in copper imports - third quarter, 1953 through second quarter, 1954 - resulted in a 47 per cent reduction in the value of United States imports from Chile. The fall in the value of imports from Chile was mainly due to the decreased volume. The price of copper fell only slightly due to the increased demand by Western European countries.

The decline in United States purchases from Chile was a result of the tendency of manufacturers to liquidate inventories, decreased copper

[1] Foreign Commerce Weekly, October 31, 1949, p.10.

consumption in the United States, and a slowdown in the government stockpiling program as the Korean War drew to a close. Government stockpiling of copper had progressed at a rapid pace during the Korean War, as had the accumulation of manufacturers' inventories. Slowdowns in both of these activities had a strong impact on United States demand for copper. A recovery in copper imports failed to occur until late 1955 as purchases from domestic mines picked up prior to purchases from overseas suppliers.

TABLE V-13
CHILE: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1952-1954

	U.S. GNP (bill.$)	U.S. Imports from Chile (mill.$)	U.S. Exports to Chile (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1952	347.0	286.0	130.2	97	
1Q	341.0	56.0	37.7		102
2Q	341.3	43.7	31.6		95
3Q	347.0	90.3	26.7		100
4Q	358.6	96.0	34.2		121
1953	363.2	242.4	97.7	100	
1Q	361.9	79.7	20.7		128
2Q	369.3	84.9	20.8		129
3Q	366.9	49.3	22.3		134
4Q	359.9	28.5	33.9		121
1954	361.2	197.3	75.1	94	
1Q	358.3	41.6	15.3		102
2Q	357.6	67.3	19.5		103
3Q	358.8	53.7	15.0		117
4Q	367.1	34.7	25.3		112

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

The total value of Chile's exports fell slightly in 1953 but recovered in 1954 as increased exports to Western Europe more than offset the decline in shipments to the United States. Consequently, Chile maintained a favorable balance of payments during the 1952-54 period and its level of gold and dollar reserves did not decline. Despite the continued surplus in its balance of payments, Chile's national income declined due to internal economic factors.

The total value of Chile's imports increased during 1953-55 but purchases from the United States declined in 1953 and 1954. Because of the increase in total exports and imports, combined with decreased trade with the United States, the proportion of Chile's total trade conducted with the United States fell from over 60 per cent in 1952 to 44 per cent in 1954.

The 1957-58 Recession:

As was the case for the two preceding postwar recessions, the contraction in United States copper imports brought about a decline in total imports from Chile. The decline in the value of copper imports was caused by decreases in both the quantity and price of copper. The value of copper imports from Chile in 1958 was only 38 per cent of 1956 levels. Other imports from Chile, notably nitrates and iron ore, increased during 1957-58 but not enough to offset the decline in copper.

Table V-14 compares United States trade with Chile during 1956-58 with the decline in United States gross national product. Total United States imports from Chile declined by 34 per cent between 1956 and 1958. However, not all of this decline can be attributed to the United States recession. A large part of the reduction in Chile's export receipts was caused by falling copper prices resulting from over expansion of the Korean War period.

Chile's balance of payments deteriorated during 1957 and 1958 as the value of copper exports to both Western Europe and the United States declined. Before the 1957-58 period, Chile's balance of payments showed a deficit during only two postwar years - 1949 and 1953. Chile's national income receded from an already low level in 1957-58 and this was largely brought about by the decline in export income. The level of Chile's gold holdings and dollar reserves also fell during 1957 and the early part of 1958.

TABLE V-14
CHILE: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1956-1958

	U.S. GNP (bill.$)	U.S. Imports from Chile (mill.$)	U.S. Exports to Chile (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1956	419.2	235.8	154.4	90	137
1957	440.3	196.4	192.1	88	115
1958	437.7	155.8	147.9	..	140

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

Chile's imports increased in 1957 but imports during 1958 were affected by the sharp decline in foreign exchange earnings and by "government efforts to reduce imports to capacity to pay".[1] Consequently, United States exports to Chile declined by 23 per cent between 1957 and 1958.

Summary:

Table V-15 compares the effects of the three postwar recessions on United States trade with Chile. A decline in domestic copper consumption results in a more severe cut in imports than in domestic production of copper. In addition, as the first two columns of Table V-15 indicate, imports of copper from Chile are usually reduced more sharply than are copper imports from other foreign suppliers. Consequently, a United States

[1]Foreign Commerce Weekly, October 27, 1958, p.S-17.

recession causes magnifications in imports from Chile. During the 1948-49 and 1957-58 recessions, declines in the value of copper imports were mainly due to price reductions, while the decline in 1953-54 was largely the result of a decline in quantity.

TABLE V-15
UNITED STATES COPPER IMPORTS AND TRADE WITH CHILE DURING THREE RECESSIONS
(Per cent change from preceding twelve-month period)

	Total Value of Copper Imports	Value of Copper Imports from Chile	Total Imports from Chile	Total Exports to Chile
3Q/49-2Q/50	-14.3%	-41.8%	-31.2%	-49.7% a
3Q/53-2Q/54	-30.0	-50.0	-46.9	-23.1 b
1Q/58-4Q/58	-34.9	-48.5	-20.7	-23.0

a - The decline in exports to Chile occurred during 1950, lagging the decline in imports by two quarters.
b - The decline in exports to Chile occurred during 1954, lagging the decline in imports by two quarters.
Sources: Survey of Current Business, Foreign Trade Reports

Exports from Chile other than copper exerted a stabilizing effect on that country's economy during the postwar period. Nitrate and iron ore exports were steady or showed increases during all three recessions, and, consequently, the value of total imports from Chile declined less than the value of copper imports.

Chile's balance of payments and national income deteriorated during all three United States recessions. The decline in the balance of payments was least severe in 1953-54 as increased exports to the expanding economies of Western Europe offset the declining exports to the United States. Decreased imports by Western Europe in 1948-49 and 1957-58 accentuated the passive movements in Chile's balance of payments caused by recessions in the United States.

Chile reduced imports from the United States during all three recessions. An interesting fact to note here is that the decline in imports during 1950 and 1954 lagged behind the fall in export receipts by about six months. In view of Chile's weak foreign exchange position during those years, this was unusual, because most Latin American countries during the postwar period restricted imports immediately upon any evidence of a decline in foreign exchange earnings.

CHAPTER VI
THE EFFECTS OF POSTWAR UNITED STATES RECESSIONS ON SELECTED LATIN AMERICAN COUNTRIES - CUBA, COLOMBIA, BRAZIL, VENEZUELA -

This chapter deals with the effects of the postwar recessions on Cuba, Colombia, Brazil, and Venezuela. Although these countries conduct the major share of their foreign trade with the United States, the commodities which they export have been relatively unresponsive to United States business fluctuations. Consequently, recessions in the United States have not caused large fluctuations in the balances of payments and domestic economies of these countries. This contrasts with the experiences of the countries discussed in Chapter V, whose foreign trade and national incomes have been sensitive to business cycles in the United States.

CUBA

The Cuban economy is more dependent on foreign trade than is the economy of any other Latin American country with the exception of Venezuela. Exports have averaged between 32 and 40 per cent of Cuba's national income during the postwar period. This contrasts with approximately 5 per cent for the United States. Table VI-1 indicates the importance of trade with the United States to the economy of Cuba.

Table VI-1 shows that foreign trade is an important factor in Cuba's national income. The major portion of Cuba's foreign exchange earnings is derived from sugar sales - 50 to 60 per cent of which go to the United States. Because of this, fluctuations in United States sugar consumption exert a major influence on Cuba's balance of payments and national income.

TABLE VI-1
CUBA: THE STRUCTURE OF FOREIGN TRADE

	1948	1953	1957
Ratio of exports to national income	42%	39%	36%
Ratio of gold and dollar reserves to imports	97%	108%	48%
Per cent of total exports going to U.S.	52%	61%	65% a
Per cent of total imports coming from U.S.	80%	76%	74% a
U.S. imports from Cuba (mill.$):			
Total	375	431	457
Sugar and related products	312	338	346

a - 1956

Sources: Foreign Trade Reports, UN Statistical Yearbook, International Financial Statistics, Federal Reserve Bulletin

The ratio of gold and dollar reserves to the annual aggregate level of imports has been relatively high for Cuba during the postwar period. Cuba's international monetary position was strong, relative to that of most Latin American countries, at the beginning of the 1948-49 and 1953-54 recessions. This position was weakened somewhat by 1957. Consequently, a decline in Cuba's export earnings during 1957-58 should be expected to produce a sharper and quicker reduction in imports than a similar decline in exports occurring during the 1948-49 or 1953-54 recessions.

The 1948-49 Recession:

The 1948-49 recession has often been termed an "inventory recession" and the tendency to liquidate inventories during that period extended to sugar stocks. The level of inventories of raw and refined sugar in the United States declined approximately 17 per cent between June, 1949 and June, 1950. United States consumption of sugar increased slightly during 1949-50, but the reduction of inventories caused the demand for imports to decline by about 10 per cent during this period.

The reduction in United States sugar imports resulted in a similar decrease in the value of imports from Cuba. However, unlike other exporters of primary products, Cuba seldom suffers a deterioration in its terms of trade when the demand for sugar falls during a United States recession. This is a result of the limitations on sugar imports into the United States by means of direct quota allocations and of the price support policies of the United States Department of Agriculture discussed in Chapter IV. Consequently, the decline in the value of Cuba's exports to the United States during the 1948-49 recession was due almost entirely to changes in volume. In fact, Cuba's terms of trade improved in 1948 and 1949 because decreases in the prices of manufactured goods imported from the United States were greater than the slight decline in the unit value of sugar exports.

Table VI-2 compares United States - Cuban trade and the real per capita income and gold and dollar reserves of Cuba with changes in United States gross national product during 1948-50. A close inspection of this table reveals that the trough of the United States recession occurred in the fourth quarter of 1949. The low point for imports from Cuba, when compared to previous year's figures, was the first half of 1950. Thus, the decline in imports from Cuba lagged behind the decline in general business activity by three to six months.

Cuba's total exports declined during 1948-50 due both to the United States recession and to the reduction of exports to Western Europe because of the balance of payments difficulties of those countries - which was accentuated by the decline in United States imports from Europe during the 1948-49 recession. As a result, Cuba's gold and dollar reserves declined during 1949.

TABLE VI-2
CUBA: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1948-1950

	U.S. GNP (bill.$)	U.S. Imports from Cuba (mill.$)	U.S. Exports to Cuba (mill.$)	Real per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1948	259.0	374.2	441.1	92	
1Q	248.2	94.0	110.1		539
2Q	257.8	103.9	123.2		518
3Q	263.2	104.2	89.8		520
4Q	267.0	72.1	118.0		508
1949	257.3	387.5	370.2	98	
1Q	259.5	109.0	105.3		513
2Q	257.6	109.0	85.9		457
3Q	256.5	96.4	83.1		479
4Q	255.5	72.2	95.9		463
1950	282.6	405.5	450.3	108	
1Q	264.4	98.0	93.7		484
2Q	275.0	95.3	90.9		536
3Q	287.4	131.4	132.5		552
4Q	303.7	80.8	133.2		530

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

Cuba had a favorable balance of payments during 1946-50, although the surplus was reduced after 1946. Because of the continued surplus balance of payments and a higher level of investments, the decline in United States sugar imports had no noticeable effect on the Cuban economy during the 1948-49 recession. Cuba's per capita income and agricultural production increased without let-up during this period.

Despite its reliance on foreign trade, Cuba employs few exchange restrictions or import controls; and these weapons were not brought into play when Cuba's exports declined during 1949-50. One reason for this was Cuba's strong international monetary position. Cuba's imports did decline, however, in 1949, both from the United States and in total. This was caused by a reduction in the imports of capital goods. From the end of World War II until 1948, the increase in capital equipment and materials was very rapid, mainly because of an accumulated demand carried over from wartime. This demand for capital goods seems to have become partially satisfied by 1949 and imports in that year may have been closer to Cuba's long-run requirements for such goods.[1]

The 1953-54 Recession:

Unlike the 1948-49 recession, United States sugar consumption declined during 1954-55 - by 2.1 per cent. In addition to the decline in consumer purchases, sugar inventories were reduced by about 8 per cent. As a consequence of these factors, the volume of sugar imports into the United States during the period from July, 1954 to June, 1955 was 12.6 per cent below the level of imports of the preceding twelve month period. The total value of Cuba's exports to the United States declined by 13.9 per cent during the same period.

Table VI-3 shows changes in United States trade with Cuba during the 1953-55 period. As in the 1948-49 recession, the decline in imports from Cuba lagged behind the decline in over-all business activity by about three months.

Cuba's balance of trade changed from a surplus in 1953 to a deficit in 1954 and 1955. This was brought about by decreased sales to both the United States and Western Europe. Cuba's exports to other areas declined more sharply than did exports to the United States. This was due mainly to the drop in sugar sales to the United Kingdom from $75 million in 1953 to $22 million in 1954. This decline in sales to areas other than

[1]ECLA, Economic Survey of Latin America 1950 - Recent Trends and Events in the Economy of Cuba (E/CN.12/217/Add.5, April 9, 1951), p.20.

the United States was the result of a halt in the stockpiling of sugar following the Korean armistice. The reduced consumer purchases in the United States may have been at least partially caused by a discontinuation of hoarding resulting from the cessation of hostilities in Korea.

TABLE VI-3
CUBA: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1953-1955

	U.S. GNP (bill.$)	U.S. Imports from Cuba (mill.$)	U.S. Exports to Cuba (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1953	363.2	431.0	426.6	100	
1Q	361.9	118.2	114.1		527
2Q	369.3	129.9	97.1		579
3Q	366.9	123.2	103.0		587
4Q	359.9	59.7	112.4		531
1954	361.2	401.4	429.0	105	
1Q	358.3	114.0	96.1		548
2Q	357.6	135.9	111.4		532
3Q	358.8	99.0	104.1		477
4Q	367.1	52.5	117.4		423
1955	391.7	421.7	451.1	119	
1Q	375.3	116.7	113.4		420
2Q	384.8	104.4	112.9		431
3Q	392.0	99.4	101.0		423
4Q	402.8	101.2	123.8		389

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

The level of Cuba's gold and dollar reserves declined during 1954 and 1955 as a consequence of the deficit balances of payments during those years. The ratio of gold and dollar reserves to imports fell from 108 per cent in 1953 to 68 per cent in 1955.

As indicated by Table VI-3, Cuba's national income increased by substantial amounts in 1954 and 1955. Large amounts of public and private investments, especially government spending for public works, leading to

a large increase in the public debt, contributed to a rising national income despite the lower level of exports.[1] Increased exports to the United States and other areas lent impetus to this domestic expansion in 1955.

United States exports to Cuba rose in 1954 and 1955 after a substantial decline in 1953 due to Cuba's severe recession of that year. This increase in Cuba's imports resulted from several factors: (1) a strong international monetary position at the beginning of the period enabled Cuba to undergo a decline in exports without having to restrict imports; (2) domestic expansion caused the demand for imports, especially capital goods, to increase; and (3) Cuba underwent a recession and a decline in imports during 1953 and a large part of the increase in imports in 1954 was the result of purchases which had been deferred from 1953.

The 1957-58 Recession:

In contrast to the two preceding recessions, imports of sugar into the United States were not reduced during the 1957-58 contraction. Total United States sugar production increased in both the 1956/57 and 1957/58 seasons but, in spite of this increase in domestic supplies, higher quotas were allotted to Cuba and to some smaller exporters in 1958. This was made possible by both the increased level of consumption and a shortfall in deliveries from Hawaii and Puerto Rico.[2]

The world sugar market was depressed during the post-Korean War period because of large increases in capacity and output by Cuban and African sugar producers and the world sugar price fell substantially. The United States - Cuba quota agreement and United States price support

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[1]Department of Commerce Economic Reports, Part 1, No.56-26, 1956, p.1.

[2]UN, Commodity Survey 1958, 1959, p.71.

policies offset, to a large extent, the severe decline in the value of Cuba's sugar sales to areas other than the United States. Cuba's sugar exports to the United States during the first half of 1958 showed a $27 million increase over the corresponding period of 1957 - $226 million to $199 million. Meanwhile, Cuba's sales to other countries declined by $80 million - $197 million to $117 million - and this caused the total value of Cuba's sugar exports to show a 13.4 per cent decline during the first six months of 1958 from the corresponding period of 1957.

Thus, the large advances in United States sugar consumption and imports in 1957 and 1958 served as a stabilizing influence on the Cuban economy, which suffered an over-all decline in exports during 1957-58 because of the decline in world sugar prices.

TABLE VI-4
CUBA: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1956-1958

	U.S. GNP (bill.$)	U.S. Imports from Cuba (mill.$)	U.S. Exports to Cuba (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1956	419.2	456.8	521.7	119	347
1957	440.3	482.2	612.2	...	371
1958	437.7	527.8	546.2	...	366

Sources: Survey of Current Business, UN Statistical Yearbook, Federal Reserve Bulletin

Table VI-4 shows Cuban trade with the United States, real per capita income (for years for which figures are available), and gold and dollar reserves during 1956-58. Cuba's dollar reserves remained steady during 1958 but holdings of other currencies declined - as would be expected from the changes in the direction of Cuba's trade during 1957-58.

Despite the increased volume and value of exports to the United

States, the Cuban economy underwent a contraction during 1958. The decline in Cuba's national income was brought about by the decline in world sugar prices and by the unsettled political situation. National income during the first half of 1958 was estimated at an annual rate of $2,120 million, approximately 6.5 per cent below the level of $2,320 million in the first half of 1957.[1]

Because of the decline in income and foreign exchange earnings, Cuba's imports were sharply curtailed during 1958. The restriction of imports applied especially to purchases from the United States. After increasing more than 17 per cent in 1957, the value of Cuba's imports from the United States declined by approximately 11 per cent in 1958. In addition to lower income, decreased foreign exchange earnings, and the unsettled political situation, a reason for the lower level of United States exports to Cuba in 1958 was the tariff and fiscal policy of the Cuban government. This policy was one of protection and was designed to encourage domestic production of a wide range of consumer goods.[2]

Summary:

Table VI-5 compares the effects of the three postwar United States recessions on this nation's sugar imports and trade with Cuba. Domestic consumption declined only during the 1953-54 recession but inventories were reduced during both the 1948-49 and 1953-54 recessions. Imports of sugar declined during the first two recessions but the expansion of consumption and the accumulation of inventories during 1958 caused imports to rise during that year.

Declines in United States sugar consumption and imports have a

[1]Foreign Commerce Weekly, October 27, 1958, p.S-18.
[2]Ibid.

two-fold effect on Cuba's balance of payments: (1) a reduction in the volume and value of exports to the United States, and (2) the reduced volume of exports to the United States diverts sugar supplies to the world market, having a depressing effect on the world price for sugar and the value of Cuba's exports. Cuba's balance of payments moved unfavorably during all three recessions. United States trade with Cuba accentuated unfavorable movements in that country's balance of payments during the first two postwar recessions but had a stabilizing influence during the 1957-58 recession.

TABLE VI-5
CHANGES IN CONSUMPTION AND INVENTORIES OF SUGAR AND TRADE WITH CUBA DURING THREE RECESSIONS
(Per cent figures show change from preceding twelve-month period)

	Vol. of U.S. Sugar Consumption	U.S. Sugar Stocks (raw and refined)	Vol. of U.S. Sugar Imports	Value of U.S. Imports from Cuba	Value of U.S. Exports to Cuba
3Q/49-2Q/50	+0.7%	-16.6%	-10.5%	- 5.9%	- 8.9%
3Q/54-2Q/55	-2.1	- 7.8	-15.5	-13.9	+ 5.9
1Q/58-4Q/58	+4.1	+ 3.8	+17.0	+ 9.4	-10.8

Sources: Survey of Current Business, Foreign Trade Reports

Cuba's international reserves declined during all three recessions but, because of its strong international monetary position at the beginning of the 1948-49 and 1953-54 recessions, Cuba did not tighten its exchange restrictions. A lower level of reserves, combined with declining national income and a desire to encourage domestic industry, caused Cuba to restrict imports during 1958-59 by means of higher tariffs.

Cuba's national income rose during the 1948-49 and 1953-54 contractions in the United States and declined only during the 1957-58 recession. Thus, the only recession of the postwar period during which exports to the United States increased was the one during which Cuba's national income declined. It must be concluded, therefore, that factors other than fluctuations in exports to the United States had a predominant influence on Cuba's internal economy during the postwar period. The primary factor which overshadowed trade with the United States in determining the level of Cuba's economic activity was the tendency of domestic investment and government expenditures to play a larger role, relative to exports, in gross national product. Also, despite the fact that exports to the United States comprised 50 to 65 per cent of Cuba's total exports, the source of the widest fluctuations in Cuba's balance of payments has been trade with areas other than the United States. This is due to the wide price movements in the world sugar prices, whereas the price paid for sugar imports into the United States has been relatively stable.

Cuban imports from the United States declined in two out of the three recessions - 1948-49 and 1957-58. It appears, however, that neither reduction in imports was the result of a decline in exports to the United States. The decline in Cuban imports in 1949-50 was due to the satisfaction of an accumulated demand for capital goods and the decrease in 1958-59 was caused by a decline in export earnings from areas other than the United States.

COLOMBIA

The dependence of Colombia on coffee matches that of the Cuban economy on sugar. According to the Economic Commission for Latin America, "foreign trade is the principal dynamic factor in Colombia's economic activity. The value and volume of exports determine the level of income of the greater part of the population engaged in farm work and consequently, their capacity to purchase manufactured goods".[1]

Table VI-6 shows the importance of foreign trade, particularly trade with the United States, to the Colombian economy. The ratio of exports to national income has varied from 13 to 18 per cent during the postwar period - depending on the price of coffee. About 75 per cent of Colombia's total trade is conducted with the United States and an increasing proportion of this trade has been comprised of coffee. Petroleum, already a small portion of Colombia's exports to the United States in 1948, has tended to become less important as a dollar earner, relative to coffee.

TABLE VI-6
COLOMBIA: THE STRUCTURE OF FOREIGN TRADE

	1948	1953	1957
Ratio of exports to national income	13%	18%	15%
Ratio of gold and dollar reserves to imports	30%	43%	45%
Per cent of total exports going to U.S.	84%	80%	71%
Per cent of total imports coming from U.S.	70%	62%	61%
U.S. imports from Colombia (mill.$):			
Total	236	468	409
Coffee	206	415	373

Sources: Foreign Trade Reports, UN Statistical Yearbook, International Financial Statistics, Federal Reserve Bulletin

Since coffee comprises 20 per cent of the agricultural activity of Colombia and accounts for approximately 80 per cent of total exports, variations in the price of coffee abroad tend to bring about corresponding fluctuations in the balance of payments and the domestic economy of Colombia.

The 1948-49 Recession:

Colombia's domestic economy and international trade were not noticeably affected by the reduction in income in the United States during the 1948-49 recession. The supply situation of coffee ordinarily exerts a

[1] ECLA, Recent Trends and Developments in the Economy of Colombia (E/CN.12/217/Add.4, May 12, 1951), p.3.

far greater impact on the balance of payments of coffee exporting countries than do fluctuations in the economic activity of the coffee importing countries. Table VI-7 shows Colombia's trade with the United States, with income and gold and dollar reserves during 1948-50. This table reveals that Colombia profited greatly from the increase in coffee prices which occurred during 1949 and 1950. The value of exports to the United States advanced only slightly in 1949 - due to the decreased quantity of exports because of poor coffee harvests - but rose nearly 30 per cent in 1950.

TABLE VI-7
COLOMBIA: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1948-1950

	U.S. GNP (bill.$)	U.S. Imports from Colombia (mill.$)	U.S. Exports to Colombia (mill.$)	Real Per Capita Income (1950=100)	Gold and Dollar Reserves (mill.$ end of period)
1948	259.0	236.5	196.2	88	105
1949	257.3	241.3	175.8	99	138
1950	282.6	313.0	233.3	100	127

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook, International Financial Statistics

Colombia's balance of payments improved along with the increase in coffee prices during 1949-50 and the level of gold and dollar reserves increased accordingly. Real per capita income increased 12.5 per cent in 1949 and showed a further upward movement in 1950. Many of Colombia's exchange and import restrictions, which had been tightened in 1949, were loosened in 1950 as a result of the favorable balance of payments brought about by the increased value of exports. Consequently, Colombia's imports from the United States increased in 1950 after having been curtailed in 1949.

Whatever adverse effects the 1948-49 United States recession might have had on the Colombian economy was overshadowed by the rise in coffee prices during 1949-50. The decline in the quantity of coffee imports from Colombia was mainly the result of the decreased availability of supplies. Price and income elasticities of demand may have contributed to this reduction in the volume of purchases, but the main point is that the increased value of imports outweighed the decline in volume and brought about a favorable balance of payments and rising national income of Colombia concurrent with the recession in the United States.

The 1953-54 Recession:

The decline in per capita consumption of coffee in the United States during 1950 was not enough to prevent total expenditures on coffee from rising, due to higher prices. When price increases recurred in 1954, the decline in consumption was more than sufficient to offset the increased unit value.

After stabilizing somewhat between 1951 and 1953, the price of Brazilian coffee on the New York market rose from \$.585 per pound in November, 1953, to \$.883 in July, 1954 - a 51 per cent rise within the space of eight months. The average price of coffee in 1954 was \$.783 per pound compared to \$.585 in 1953. Prices of Colombian coffee reacted similarly to those for Brazilian coffee. Increased buyer resistance in the United States to these higher prices caused the quantity of coffee imports into this country to decline by about 19 per cent in 1954. Consequently, the value of coffee imports into the United States declined slightly in 1954. However, the volume of coffee purchases from Colombia was not reduced as much as that from some other areas - particularly Brazil. As a result the value of United States imports from Colombia increased during 1954.

United States imports from Colombia acted much like those from Brazil during 1954-55, but with some differences. The value of Colombia's coffee exports, and therefore, total exports, to the United States increased during 1954, whereas imports from Brazil declined. This was due to the fact that the decline in demand for Colombian coffee was not enough to offset the increase in prices. During the subsequent period of falling prices, Colombia's exports remained virtually the same in 1955 as in 1954, while the quantity of Brazil's coffee sales to the United States increased by nearly one-fifth. Consequently, Colombia's exports to the United States declined much more sharply in 1955 than did Brazil's. Table VI-8 shows the course of United States trade with Colombia during 1953-55. Imports from Colombia began to decline during the fourth quarter of 1954, when compared to the corresponding period of the preceding year, and did not reach year previous levels again until the fourth quarter of 1955.

TABLE VI-8
COLOMBIA: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1953-1955

	U.S. GNP (bill.$)	U.S. Imports from Colombia (mill.$)	U.S. Exports to Colombia (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1953	363.2	468.1	285.3	100	236
1954	361.2	516.5	343.2	106	308
1955	391.7	442.1	331.4	104	217

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

The decline in the value of United States imports from Colombia may be attributed to two factors: (1) a relatively high price elasticity of demand for coffee during this period which resulted in a large amount of consumer resistance to the increase in prices, and (2) the income elasticity of demand for coffee during the 1953-54 recession, which reinforced consumer resistance to the higher prices.

Colombia's surplus trade position was changed to a deficit position in 1955. Gold and dollar reserves, after accumulating in 1954, declined during 1955. As shown in Table VI-8, changes in per capita national income coincided with changes in exports during 1954 and 1955, rising in 1954 and falling slightly during 1955.

As a result of the decreased levels of exchange reserves and national income, Colombia tightened exchange restrictions in 1955. However, these restrictions merely arrested the upward trend in imports rather than drastically reversing it, as was accomplished by Brazil. United States shipments to Colombia declined slightly in 1955 and were partly financed through temporary measures, such as drawing on reserves and short-term credits.[1]

The 1957-58 Recession:

Total coffee imports into the United States declined in 1958 despite the reduction in price. Imports from Colombia remained virtually unchanged, but the fall in price caused the value of imports to decline approximately 17 per cent in 1958. It is likely that consumer responsiveness to the fall in income during 1958 had a hand in reducing the volume of coffee imports.

The fall in the value of exports to the United States during 1958 was the continuation of the downward movement of Colombian exports which had started in the fourth quarter of 1954. As Table VI-9 shows, Colombia's exports to the United States, after moving upward during the last half of 1957, resumed its downward trend through all four quarters of 1958, compared

[1]Survey of Current Business, February, 1956, p.30.

to year previous figures. In the face of declining export earnings and national income, Colombia was forced to curtail imports. As a result of the lower coffee prices and Colombian import restrictions, commerce between Colombia and the United States was drastically reduced between 1956 and 1958. In 1956, United States imports from and exports to Colombia amounted to $724 million. By 1958, imports had declined $76 million and exports $130 million, bringing the total of imports and exports to only $518 million, a decline of 28 per cent during the two year period.

TABLE VI-9
COLOMBIA: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1956-1958

	U.S. GNP (bill.$)	U.S. Imports from Colombia (mill.$)	U.S. Exports to Colombia (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1956	419.2	409.3	315.1	104	210
1957	440.3	382.2	237.1	...	215
1958	437.7	333.0	184.7	...	241

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

Summary:

Fluctuations in the price of coffee have dominated United States trade with Colombia during the postwar period, just as in the years prior to World War II. When the price of coffee falls as a result of increased supply and reduced consumer demand, the balance of payments and national income of Colombia are adversely effected. Gold and dollar reserves decline and, consequently, Colombian imports from the United States and other countries are curtailed. It is difficult to ascertain how much of the reductions in imports from Colombia in 1954 and 1958 were due to reductions in United States income. However, the remaining part of the relationship between the economies of Colombia and the United States is fairly clear - a reduction in United States imports leads to a deterioration in Colombia's balance of payments and has a depressing effect on the national income of that country, which leads to a reduction in imports from the United States.

BRAZIL

Brazil's dependence on foreign trade is somewhat different from that of most Latin American countries. Although Brazil normally accounts for almost half of the world's total exports of coffee, compared to about one-sixth for Colombia, coffee production makes up a much smaller proportion of Brazil's gross national product than it does of the Colombian gross national product. Coffee comprises between 5 and 8 per cent of Brazil's GNP - depending on the level of world coffee prices - but these percentages do not tell the entire story of coffee's importance to the Brazilian economy. Coffee exports determine Brazil's capacity to import. Exports of coffee have accounted for between 40 and 70 per cent of Brazil's foreign exchange earnings during the postwar period.[1] Consequently, Brazil's balance of payments depends, to a large extent, on the quantity and unit value of coffee exports. A decline in the value of coffee exports hampers Brazil's ability to import capital goods and other types of products needed for the expansion of its economy.

Table VI-10 indicates the importance and distribution of Brazil's foreign trade. There has been a tendency for exports to become less important, relative to national income, as Brazil's economy has expanded at a more rapid pace than has the market for coffee.

[1]The wide range of the ratio of coffee to total exports during the postwar period is attributable to fluctuations in the price of coffee.

TABLE VI-10
BRAZIL: THE STRUCTURE OF FOREIGN TRADE

	1948	1953	1957
Ratio of exports to national income	14%	9%	7%
Ratio of gold and dollar reserves to imports	39%	27%	31%
Per cent of total exports going to U.S.	43%	37%	47%
Per cent of total imports coming from U.S.	52%	33%	37%
U.S. Imports from Brazil (mill.$):			
Total	514	769	700
Coffee	353	628	528

Sources: Foreign Trade Reports, UN Statistical Yearbook, International Financial Statistics, Federal Reserve Bulletin

The 1948-49 Recession:

The increase in coffee prices during 1949 and 1950 dominated Brazil's balance of payments just as it did the balances of payments of other coffee exporting countries. Since coffee's terms of trade are, in effect, Brazil's terms of trade, the impact of the rising price of coffee on Brazil's balance of payments and domestic economy was very great. Brazil's terms of trade improved 8.8 per cent in 1949 and a further 69 per cent in 1950.

Table VI-11 shows the value of United States trade with Brazil during 1948-50. United States imports from Brazil increased from $514 million in 1948 to $715 million in 1950. The increase in the unit value of coffee accounted for the increase since the volume of United States coffee imports from Brazil declined 25 per cent in 1950. This decline in the quantity of imports from Brazil was due to (1) the decreased availability of Brazilian supplies, (2) consumer resistance to the higher prices, and (3) decreased demand by United States consumers as a result of the decline in income during 1949.

TABLE VI-11
BRAZIL: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1948-1950

	U.S. GNP (bill.$)	U.S. Imports from Brazil (mill.$)	U.S. Exports to Brazil (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1948	259.0	513.9	497.3	79	441
1949	257.3	551.9	382.8	83	510
1950	282.6	714.5	353.6	92	543

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

Brazil incurred successive balance of payments deficits with the United States prior to 1949 and its holdings of international reserves declined substantially. When, in addition to the long-term deficit, Brazil's exports to the United States declined by approximately 6 per cent in the first half of 1949 (partly because of the United States recession) Brazilian authorities tightened import restrictions and exchange controls with the result that United States exports of merchandise to Brazil during 1949 and 1950 fell considerably below 1948 levels. The Brazilian exchange situation had begun to improve toward the end of 1949, due to the rising price of coffee. Import controls were retained for a while, however, because of the need to set aside substantial amounts of the new reserves to liquidate a large backlog of commercial collections, estimated to amount to more than $100 million.[1]

The 1953-54 Recession:

The decline in United States purchases of coffee during 1954 - due to the reduction in income and buyer resistance to rising coffee prices - brought about a large reduction in the value of imports from Brazil.

[1]Foreign Commerce Weekly, October 31, 1949, p.9.

Table VI-12 shows the pattern of United States - Brazilian trade during 1953-55. It shows that Brazilian exports to the United States declined by 11.4 per cent in 1954. As coffee prices fell during 1955 and consumption failed to recover 1953 levels, Brazilian exports to the United States declined a further 7.2 per cent.

TABLE VI-12
BRAZIL: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1953-1955

	U.S. GNP (bill.$)	U.S. Imports from Brazil (mill.$)	U.S. Exports to Brazil (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1953	363.2	769.0	296.7	100	423
1954	361.2	681.7	455.9	108	442
1955	391.7	632.5	240.5	108	466

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

The declining value of exports to the United States in 1954 was coupled with a large increase in demand for United States goods in Brazil. This led to a deficit merchandise balance of trade and diminishing gold and dollar reserves in 1954. Consequently, Brazil restricted imports in 1955 and succeeded in reducing imports from the United States in that year to 55 per cent of the 1954 figure.

Brazil's national income advanced in 1954 and remained stable in 1955 despite decreased exports to the United States. This was largely due to an expanding internal economy and increased exports to areas other than the United States. The total value of exports from Brazil actually increased in 1954 despite the decline in shipments to the United States. The proportion of Brazil's exports going to the United States fell from 48 per cent in 1953 to 37 per cent in 1954. This proportion rose somewhat in 1955 when exports to other areas declined.

The pattern of United States trade with Brazil during 1953-55 was similar to that with Colombia. Rising coffee prices led to an increased value of exports during 1953 and the first half of 1954. These high prices, combined with a decline in United States consumer income, resulted in decreased coffee consumption. The lower level of demand offset the rise in prices, causing a decline in total revenue. As a result of the decreased dollar earnings, both Colombia and Brazil imposed import restrictions on United States goods in an effort to alleviate balance of payments difficulties and to protect dwindling international reserve holdings.

The 1957-58 Recession:

The volume of coffee exports from Brazil to the United States declined 25 per cent during 1957-58 because of the trend in consumption away from "hard" Brazilian coffees to "mild" and soluble coffees. Brazil's share of the United States coffee market declined from 46.7 per cent in 1956 to 36.9 per cent in 1958.

TABLE VI-13
BRAZIL: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1956-1958

	U.S. GNP (bill.$)	U.S. Imports from Brazil (mill.$)	U.S. Exports to Brazil (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1956	419.2	745.4	292.7	108	549
1957	440.3	700.2	471.3	...	456
1958	437.7	571.6	528.7	...	463

Sources: Survey of Current Business, Federal Reserve Bulletin, UN Statistical Yearbook

Table VI-13 shows Brazilian trade with the United States, gold and dollar reserves, and real per capita income during the 1956-58 period. It shows that, despite declining exports, Brazil's imports from the United States rose sharply during both 1957 and 1958. Also, the rate of foreign investments in Brazil declined from the exceptionally high 1957 rate.[1] As a result of this combination of circumstances - declining exports and foreign investment and rising imports - Brazil developed a critical exchange shortage. Exchange restrictions were intensified during 1958 and total imports into Brazil were reduced from $1,488 million in 1957 to $1,353 million in 1958, a cutback of 9.1 per cent. This decline in Brazilian imports mainly affected purchases from areas other than the United States and the rate of increase of United States exports to Brazil, although slowed, was not halted. "Economic development continued to be the theme" in Brazil and evidently European goods were less "essential" to the advancement of the Brazilian economy than were products imported from the United States.[2]

Summary:

The quantity of United States coffee imports from Brazil declined during all three postwar recessions. During 1948-49 and 1953-54, the declines in quantity were mainly the result of responsiveness to rising prices accentuated by declines in United States income. During 1957-58, both the switch away from Brazilian coffees and the United States recession contributed to a reduction in the volume of imports from Brazil.

In the 1948-49 recession, the decline in quantity was not sufficient to offset the rise in prices and, consequently, the value of imports increased. The reduction in volume more than offset the price rise in

[1] Foreign Commerce Weekly, October 27, 1958, p.S-17.
[2] Ibid.

1954-55 and brought about a reduction in the total value of imports from Brazil. The decline in quantity accentuated the price decrease in 1957-58.

The reductions in imports from Brazil during 1954-55 and 1957-58 caused deteriorations in the balance of payments, exchange reserves, and economic activity of that country. Consequently, Brazil curtailed imports from the United States and other countries in 1954-55 but increased imports from the United States in 1957-58 while restricting those from other areas.

VENEZUELA

Exports comprise a larger portion of Venezuela's national income than is the case for any other Latin American country. During one postwar year (1950), the ratio of exports to national income reached a high of 55 per cent. More than 90 per cent of Venezuela's exports during the postwar period have been in the form of crude petroleum and petroleum products, although this proportion has tended to decline since 1950 as exports of iron ore have increased.

The United States is Venezuela's largest customer. A much larger proportion of Venezuela's total exports are ultimately destined for the United States than is indicated by Table VI-14. A large part of Venezuela's crude oil production is refined in installations located on the islands of Aruba and Curacao in the Netherlands West Indies prior to being shipped on to Europe or the United States. Venezuela has tended to ship a larger share of its petroleum production directly to the consuming countries since the Venezuelan government has required foreign oil companies to refine increasingly larger amounts of petroleum before shipment.

TABLE VI-14
VENEZUELA: STRUCTURE OF FOREIGN TRADE

	1948	1953	1957
Ratio of exports to national income	..	44%	45%
Ratio of gold and dollar reserves to imports	65%	73%	93%
Per cent of total exports going to U.S.	13%	37%	40% a
Per cent of total exports going to Neth. Antilles	73%	39%	31% a
Per cent of total imports coming from U.S.	73%	67%	59% a
United States imports from Venezuela (mill.$):			
Total	271	441	899
Petroleum and products	224	363	767

a - 1956

Sources: Foreign Trade Reports, UN Statistical Yearbook, International Financial Statistics, Federal Reserve Bulletin

The 1948-49 Recession:

Despite the decline in domestic consumption and production of crude oil, United States imports from Venezuela increased during the 1948-49 recession. Although the quantity of imports increased by about 20 per cent, the value of United States petroleum imports from Venezuela increased only 3.7 per cent in 1949. This was due to the lower petroleum prices brought about by the 1948-49 recession and the decreased European demand. Table VI-15 compares the annual total values of trade with Venezuela to changes in the level of United States gross national product.

A decline in world demand for petroleum, chiefly due to restrictions on dollar purchases by Western Europe and the sterling area arrested the rapid increase of Venezuela's petroleum production that had continued unabated from 1942 through 1948. The decline in total exports from Venezuela was very slight, however, because of the increase in exports to the United States in spite of the 1948-49 recession. Venezuela's production of crude oil dropped only from 77.9 million cubic metres in 1948 (the 1942 figure was 23.5 million cubic metres) to 76.6 million cubic metres in 1949. Exports declined from 74.6 to 73.1 million cubic metres between 1948 and 1949.[1] The total value of Venezuela's exports declined 3.2 per cent in 1949.

TABLE VI-15
VENEZUELA: TRADE WITH THE U.S., AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1948-1950

	U.S. GNP (bill.$)	U.S. Imports from Venezuela (mill.$)	U.S. Exports to Venezuela (mill.$)	Gold and Dollar Reserves (mill.$ end of period)
1948	259.0	270.7	516.7	445
1949	257.3	278.1	518.5	516
1950	282.6	312.3	398.4	458

Sources: Survey of Current Business, UN Statistical Yearbook, Federal Reserve Bulletin

Despite the passive movement, Venezuela maintained a favorable balance of trade in 1949. The terms of trade of that country improved substantially in 1949 as the price of imported capital goods and other manufactures fell further than the price of petroleum.

Venezuela's imports, both in total and from the United States, remained at high levels in 1949. Imports from the United States declined in 1950 and this was probably due to the decline in investments by foreigners in Venezuela in 1949.

The 1953-54 Recession:

The large increase in United States petroleum imports during 1954 was reflected in a corresponding increase in the value of imports from Venezuela. Although the quantity of petroleum imports into the United

[1]ECLA, Recent Facts and Trends in the Economy of Venezuela, (E/CN.12/217/Add.11, April 6, 1951), p.91.

States increased by only 1.9 per cent, rising prices caused the value of such imports to increase by 8.8 per cent. Table VI-16 shows the value of United States - Venezuelan trade during the 1953-55 period. The value of United States imports from Venezuela increased by 14.4 per cent in 1954 and exports to that country rose nearly 10 per cent during the same year.

TABLE VI-16
VENEZUELA: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1953-1955

	U.S. GNP (bill.$)	U.S. Imports from Venezuela (mill.$)	U.S. Exports to Venezuela (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1953	363.2	440.5	413.2	100	595
1954	361.2	503.9	553.4	104	597
1955	391.7	576.3	555.9	108	668

Sources: Survey of Current Business, UN Statistical Bulletin, Federal Reserve Bulletin

A higher level of petroleum sales to Western Europe, combined with increased exports to the United States, caused the total value of Venezuela's exports to increase by 17 per cent in 1954. The increase in imports of petroleum and petroleum products by the United States and other countries gave impetus to Venezuela's domestic economy when the agricultural sector declined in 1954. The rise in national income and export earnings enabled Venezuela to increase both its imports and its international reserves during 1953-55.

The 1957-58 Recession:

Unlike the two preceding recessions, the value of United States petroleum imports from Venezuela declined in 1958. The decline was very slight and the total value of United States imports from Venezuela fell less than one per cent during the 1957-58 recession. Table VI-17 shows, among other items, the value of United States trade with Venezuela during the 1956-58 period. It shows that the level of imports from Venezuela in 1958 was far above that of 1956 despite the slight decline in 1958.

TABLE VI-17
VENEZUELA: TRADE WITH THE U.S., REAL PER CAPITA INCOME, AND GOLD AND DOLLAR RESERVES COMPARED TO U.S. GNP
1956-1958

	U.S. GNP (bill.$)	U.S. Imports from Venezuela (mill.$)	U.S. Exports to Venezuela (mill.$)	Real Per Capita Income (1953=100)	Gold and Dollar Reserves (mill.$ end of period)
1956	419.2	697.5	651.3	119	1058
1957	440.3	898.8	1029.4	135	1554
1958	437.7	892.0	808.0	...	1213

Sources: Survey of Current Business, UN Statistical Yearbook, Federal Reserve Bulletin

Venezuela's total exports declined in 1958 as petroleum demand by European countries slowed down at about the same time as did demand of United States petroleum consumers. Consequently, Venezuela's gold and dollar reserves declined in 1958, as indicated in Table VI-17.

Venezuela's gross national product, which had been expanding at an annual rate of almost 12 per cent a year, slowed its rate of increase during 1958. The principal factor influencing business conditions was the political situation rather than the slight decline in exports, however.[1]

Venezuela's imports, after a 63 per cent increase in 1957, declined in 1958. This decline in purchases from abroad was due to a variety of reasons: (1) a decline in export receipts and foreign exchange reserves; (2) the level of imports in 1957 was abnormally high and could not be

[1]Foreign Commerce Weekly, October 27, 1958, p.S-20.

expected to be maintained and; (3) the Venezuelan government increased tariffs on several commodities under pressure from agriculture and industry for protection against competing imports.[1]

Summary:

The value of United States imports from Venezuela slowed its rate of increase during the 1948-49 recession and declined slightly during 1957-58. The 1953-54 recession did not noticeably affect imports from Venezuela. The tendency of United States oil companies to cut back on domestic sources of supply before reducing production in foreign countries benefitted Venezuela during all three recessions. Table VI-18 shows changes in United States petroleum imports and total trade with Venezuela during the three postwar recessions.

Venezuela has maintained a large surplus balance of trade throughout the postwar period, although decreased exports to Western Europe in 1954 and to both Western Europe and the United States in 1958 narrowed this surplus somewhat.

TABLE VI-18
UNITED STATES PETROLEUM IMPORTS AND TRADE WITH VENEZUELA DURING THREE RECESSIONS
(Per cent figures show change from preceding year)

	Value of Petroleum Imports	Value of Petroleum Imports from Venezuela	Total Imports from Venezuela	Total Exports to Venezuela
1949	+14.9%	+ 3.7%	+ 2.7%	+ 0.3%
1954	+ 8.8	+13.6	+14.4	+ 7.8
1958	+ 6.5	- 2.0	- 0.8	-21.5

Sources: Survey of Current Business, Foreign Trade Reports

[1]Ibid.

Venezuela's national income has not been noticeably affected by United States recessions during the postwar period. Venezuela's total product continued to increase through the 1948-49 and 1953-54 recessions and the slowdown in 1958 was more the result of internal political conditions than the recession in the United States.

Venezuela did not reduce imports from the United States during the first two recessions and the decline in 1958 was due to internal pressures for tariff protection and a return to the import levels of previous years after an exceptionally large increase in 1957 rather than as a consequence of declining exports.

CHAPTER VII
CONCLUSION

The effects of United States business declines on trade with the Latin American republics depend on the type of commodities which those countries export to the United States. The demand for those commodities may be described as either responsive to changes in income in the United States (income elastic) or unresponsive to changes in United States income (income inelastic). Since most Latin American countries depend on one commodity for the major part of their export earnings, the character of demand for that commodity determines the impact of United States recessions on the total value of those countries' exports to the United States.

The seven countries studied in Chapters V and VI may be separated into two categories as far as exports to the United States are concerned: those which export relatively income elastic commodities (Cuba, Venezuela, Brazil, Colombia) and those which export relatively income inelastic commodities (Mexico, Argentina, Chile).

The quantity of United States coffee imports has showed some tendency to decline coincident with declines in income. This relationship is, however, much less than unity and price changes arising from other factors (mainly supply conditions) have caused changes in the value of coffee imports to be largely independent of changes in United States economic activity. Consequently, the fluctuations in United States imports from Colombia, Brazil, and other coffee exporting countries have been due primarily to factors other than changes in United States income.

The income elasticity of demand for sugar imports seems to be somewhere between that for coffee and the non-ferrous metals, based on postwar experiences. United States demand for sugar declined during the 1948-49 and 1953-54 recessions, but increased substantially during the 1957-58 recession. Therefore, it would be dangerous to draw any rigid conclusions concerning United States demand for sugar during recessions based only on experiences of the post-World War II period. During four United States business contractions between 1907 and 1938, the value and volume of United States sugar imports demonstrated a fairly definite pattern of decline in response to declines in United States income.[1] Nevertheless, the fluctuations in sugar imports, and consequently, imports from Cuba, are moderate and seem to have an income elasticity of less than unity.

Domestic production and consumption of petroleum are responsive to changes in income. Despite the income elasticity of demand for domestic petroleum output, the demand for imports of petroleum has expanded during the postwar period at such a pace as to offset possible declines due to United States recessions. As a result, the postwar recessions have not noticeably affected United States imports from Venezuela except to slow the rate of increase in 1949 and to cause a slight decline in 1958.

Imports of wool, hides and skins, and dyeing and tanning materials increased and decreased very much in line with United States business activity during the postwar period. In fact, largely because of the competition of these imports with domestic production, changes in income produced multiplied effects in the demand for these export commodities. Because of the character of the demand for its exports, Argentina's dollar earnings were cut nearly in half during 1948-49 and 1953-54 and only an increase in demand for meat offset declines in wool and other exports to the United States in 1957-58.

[1]ECLA, United States Capacity to Absorb Latin American Products (E/CN.12/226, May 28, 1951), p.26.

United States imports of the non-ferrous metals have been extremely income elastic during the postwar period. United States recessions have brought about substantial declines in domestic consumption of copper, lead, and zinc. Since foreign supplies are reduced sooner and more severely than domestic output, declines in United States income and final purchases cause magnifications in the exports of the metals producing countries (Chile, Mexico, Bolivia) to the United States. The declines in the value of exports have been due to decreases in both quantity and price. Falling metals prices have usually accounted for a larger portion of the declines in total value than have decreases in quantity. This is attributable largely to the inelasticity of supply of these, as for most other, primary commodities. Among the metals exporting countries, Mexico occupies a relatively advantageous position in that its exports are somewhat diversified, and increases in the value of that country's agricultural exports have sometimes been able partially or completely to offset decreases in dollar earnings resulting from falling metals prices.

The fluctuations in exports to the United States have a strong impact on the domestic economies of the Latin American republics. The roles of government and private investment have tended, however, to become more important relative to exports. Consequently, increases in the investment sector of these underdeveloped economies are often able partially or completely to offset declines in exports.

Except for Chile (whose national income declined during all three United States recessions), no clear pattern is immediately recognizable with respect to the relationship between changes in the economic activity of the United States and fluctuations in the economic activity of the countries of Latin America. It seems that fluctuations in exports to the

United States, rather than initiating changes in economic activity in Latin America, have served either to accentuate or mitigate movements in the national incomes of those countries which were initiated primarily by internal forces. For example, a decline in sales to the United States usually was not enough to halt the expansion phase of Latin American countries' business cycles. On the other hand, it seemed that a decline in exports to the United States accentuated contractions in domestic economic activity which were already underway.

Declines in United States imports from Latin American countries during the postwar period usually led to almost immediate declines in United States exports to the same countries. The severity of declines in United States exports to these countries following a drop in imports depended on several factors:

(1) The severity of the declines in United States imports, quite naturally, had much to do with the magnitude of the export declines; usually, the more United States imports fell, the greater was the reduction in exports.

(2) Economic conditions in Europe had much to do with the effects of United States recessions on the balances of payments and domestic economies of Latin American countries. During 1948-49 and 1957-58, declines in European demand for Latin American products accentuated the adverse effects of the United States recessions. On the other hand, increased European imports during 1953-54 offset, to a large extent, the decline in sales of Latin America to the United States. Consequently, these countries were forced to restrict imports during 1948-50 and 1957-59 to a greater degree than in 1953-55.

(3) The size of a country's holdings of international reserves has a large influence on the length of time during which that country can

undergo a decline in its export earnings without deciding, or being forced, to restrict imports. The levels of gold holdings and foreign exchange reserves, rather than changes in income, determined the speed and severity with which Latin American countries restricted imports following a decline in export receipts.

The republics of Latin America, like most underdeveloped countries, normally hold small amounts of foreign exchange relative to imports. Consequently, when exports decline, in order to maintain imports of materials "essential" for economic expansion, rigid controls are imposed on imports of luxuries and other "non-essential items", particularly those from hard-currency areas (namely the United States). Most Latin American countries tightened import restrictions to a greater degree in 1948-49 than in either 1953-54 or 1957-58. This was necessary because of the lower levels of gold holdings and dollar reserves, relative to imports, of those countries during the earlier period.

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