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THE 1940s IN LATIN AMERICA

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The 1940s in Latin America

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"The world of the thirties, which was Keynesian for one reason—because the working of the price-mechanism was so largely suspended by Depression—was succeeded by the world of the forties which was Keynesian for quite another reason—because the price-mechanism was superseded by controls." John Hicks (p.992, 1979)

I. INTRODUCTION

The 1940s, broadly defined as the years between the German attack on Poland and the winding down of the Korean conflict, witnessed the golden age of import-substituting industrialization in Latin America. Particularly during 1945-52 the economic performance of Latin America shone relative not only to those of Africa and Asia, but also those of Europe and Japan. The acceleration in industrialization and urbanization which started in the early 1930s continued through the 1940s and into the early 1950s. An increasingly confident public sector also continued during the 1940s trends started during the earlier decade.

Latin American policy-makers looked back with satisfaction to the performance and structural changes registered between the late 1920s and the early 1950s. The economies of the region had on the whole showed remarkable resilience in the face of unusually frequent and severe shocks emanating from the international economy. First came the collapse of the old international economic order in the early 1930s, fundamentally a negative external demand shock (Díaz Alejandro 1980 and 1981). The 1940s witnessed not just further negative as well as positive demand shocks, but also severe supply disruptions. Had these shocks been foreseen in the late 1920s few would have forecasted that by the early 1950s Latin American economies not only had adjusted

to them, but in the process had built up a substantial domestic industry while drastically reducing its reliance on foreign capital and trade. Many years later one could see in the 1945-52 euphoria the seeds (for some countries) of troubles to come, yet any observer looking around the world during those years could find few areas where the future looked more promising, both economically and politically, than in Latin America.

While the 1930s shocks elicited quite heterogeneous responses from different types of Latin American countries, the 1940s prosperity was widespread, although the intensity naturally varied from country to country. A typology based not on intensity of prosperity but on policies seems more interesting for the late 1940s and early 1950s. Countries with medium or large domestic markets, and which on the whole reacted to the 1930s shocks vigorously, by the early 1950s had diverged in their policies. Some, such as Mexico and Peru, realigned their exchange rates and import-repressing policies so as to increase incentives to foreign trade. Others, such as those in the Southern Cone and Brazil, strengthened import-repressing mechanisms, giving low priority to foreign trade. Central American, Caribbean and other smaller countries (including those still under colonial rule), followed passive and open policies, which during the 1930s had proven catastrophic for many of them but that in the circumstances of the 1940s and early 1950s carried them along the prosperous tide emanating from North America.

The rest of the paper is organized as follows. The sequence and nature of disturbances generated by the international economy will first be examined. This will be followed by an analysis of the policies adopted by Latin American countries to cope with those shocks and with

other pressures emanating domestically. Then the resulting economic performance will be discussed. The paper will close with some remarks about the state of the Latin American economies during the early 1950s.

II. EXTERNAL SHOCKS AND TRENDS

September 1939 meant both a loss of export markets and a decline in sources of supply to Latin America. At first the negative demand shock predominated, and some policy-makers feared a replay of the early 1930s. By December 1941 it had become clear that supply shortages were to be the major problem. Imports into the region reached a trough during 1942-43, not because of a lack of demand or foreign exchange but either because there were no goods to be found, or because there were no ships to transport them. Supply conditions in most countries improved thereafter, by how much depending on geographical and political proximity to the United States, but remained a major constraint and preoccupation, so that the outbreak of hostilities in Korea during June 1950 triggered a massive import binge.

Rationing and price controls complicate the interpretation of the usual foreign trade indicators. Nevertheless, as a broad generalization it can be said that the Latin American terms of trade, defined as the ratio of export to import prices, witnessed an upward trend during the 1940s, which continued their recovery from the trough reached during 1930-34, and which culminated during 1950-54. There are of course deviations from this average trend; exporters of temperate foodstuffs saw their terms of trade peak during 1945-49, while coffee exporters witnessed an unusual bonanza during 1950-54. Did the postwar peaks in terms of trade surpass those of the late 1920s? Such long term comparisons of price indices are notoriously treacherous,

particularly given the sharp change which occurred in the Latin American import bill between those two periods. Recorded price data show that at least for the largest countries (Argentina, Brazil, Colombia and Mexico) the postwar peaks in terms of trade surpassed or practically reached the 1928-29 levels.

While the terms of trade improved with only minor hiccups, such as the one in 1949, the aggregate export quantum for the region as a whole was sluggish. Shipping shortages account for a decline between 1935-39 and 1940-44, but the recovery in the regional export quantum thereafter was slow, so that by 1950-54 it was hardly above the 1935-39 levels. In per capita terms of course it had declined, a decline which reached spectacular dimensions for Argentina, but which was not registered by all republics. Indeed, while the collapse of exports during the 1930s was witnessed throughout Latin America, by the late 1940s and early 1950s export performance became more heterogeneous. That heterogeneity was due not only to the "commodity lottery" but also to the variety of domestic policies regarding foreign trade, as will be discussed below. In some cases per capita exports by the early 1950s were above even the levels reached during the late 1920s, while in other countries it was substantially below.

The import quantum is a more interesting statistic during the 1940s than the purchasing power of exports. During 1940-44 the former is substantially below the latter, a situation reversed after the war. For the region as a whole, imports collapsed during 1940-44 to levels not far above those of the depressed conditions ten years earlier. Domestic producers of import-competing goods and services saw their foreign competition practically disappear, but their capacity to supply

machinery and equipment, fuels and many raw materials and intermediate goods was limited. Even more so than during the 1930s the fall in per capita imports did not mean a corresponding increase in the per capita domestic production of importable goods; it was also accompanied by lower consumption of previously imported goods and lower investment in machinery and equipment. After the war the regional import quantum recovered sharply, so that by 1950-54 it was more than twice the 1940-44 level and about 80 percent above the 1935-39 level. The regional aggregate hides greater variance during the postwar than during the 1930s, so that by 1950-54 one has Argentina with imports below 1935-39 levels, while El Salvador and Venezuela have import levels sharply above 1935-39. Mexico is one of the very few countries whose import quantum did not fall during the war.

The postwar recovery of foreign trade left per capita imports of major Latin American countries below levels reached during the 1920s. Table 1 shows that in this sense recovery from the Great Depression was incomplete in key countries, such as Argentina and Chile, whose particular experience was to exert a disproportionate influence on postwar Latin American economic thinking. It may be noted that 1928 and 1929 were for some countries unusually prosperous years relative to the rest of the 1920s, while for others they already registered foreign trade indicators below those obtained earlier that decade, as in the Cuban case. It appears that countries whose foreign trade had lagged behind those of the rest of Latin America up to the 1920s were to experience the fastest postwar import expansion, as in the cases of Ecuador, El Salvador and Venezuela.

Table 1

Per Capita Import Quantum
(1935-39 = 100)

	<u>1928-29</u>	<u>1950-54</u>
Argentina	169	64
Brazil	172	159
Colombia	154	124
Chile	221	101
Cuba	195	175
Ecuador	149	193
El Salvador	195	254
Mexico	157	154
Venezuela	240	312

Sources: Cuban imports at current prices were obtained from Dirección General de Estadística, 1959. They were deflated by the United States Wholesale Price Index, obtained from Census, 1960. All other data obtained from Naciones Unidas, 1976.

Unexpected changes in autonomous capital movements, which aggravated the crisis of the early 1930s, provided few shocks during the 1940s and early 1950s simply because of the shrivelling of international financial flows. Both loans from external public agencies, such as the Export and Import Bank of the United States, as well as private foreign investment occurred at levels which were fairly predictable and relatively unimportant from a balance of payments viewpoint. The most significant changes in the capital account of Latin American balance of payments during the 1940s and early 1950s were the financial counterparts to the real disturbances described earlier: when foreign supplies shrank foreign exchange reserves rose, and when foreign supplies expanded reserves dwindled. It will be seen below that the management of reserve changes provided serious challenges for policy makers, both at the macroeconomic level and regarding their optimal use in time and purpose.

By the late 1930s it was reasonably clear that laissez-faire was finished in international economic relations; by the late 1940s Latin American policy makers could base their actions on disconcertingly different yet plausible assumptions regarding the future evolution of the international economy. The gloomy could focus on international political tensions, the devastation and uncertain recovery of Japan and Europe, dramatized by the collapse of the return to sterling convertibility in 1947, and renewed fears of depression in the United States, where a sharp recession occurred in 1949. Optimists could point to the Marshall Plan, new economics and new international institutions as harbingers of an expansive international economy. This debate was not to be settled in some countries until the early 1960s.

III. POLICIES

Deciding what was transient and what was permanent was harder than usual in the 1940s. Policies which had more or less settled down by the late 1930s, after the confusion earlier that decade, had to be reconsidered. The instruments forged then, however, became very handy and were further strengthened and applied, not always felicitously. In a decade characterized all over the world by the politization of economic relations, even more so than during the 1930s, Latin American governments continued to expand their economic role, both in macroeconomic policy and regarding long-term development. As during the 1930s, the balance of payments provided a compelling focus of attention, and this section will first review policies primarily aimed at dealing with disequilibrium in the external accounts, turning later to other macroeconomic policies as well as to those directed at longer term targets.

A. Balance of Payments Policies: The Current Account

Exchange rates during the 1930s moved, in Latin American countries able and willing to manipulate them, in a direction contributing to the restoration of both external and internal balance. Sharp nominal and real depreciations in those "reactive" countries provided potent stimuli to import substitution in agriculture, industry and services. As reserves began to accumulate after 1941, the possibility of nominal appreciations began to be discussed in reactive countries; while steps in that direction were insignificant, a clear trend toward real appreciation with respect to the United States dollar appeared, mainly because domestic inflations outpaced that in the United States. Countries which even during the 1930s passively kept their peg to the United States dollar, or modified it only slightly, while also maintaining a high degree of trade and financial

openness, continued those policies during the 1940s, and their price levels appeared to have followed inflationary trends in dollar prices fairly closely.

Before and after the war policymakers in reactive countries had to weigh a large number of conflicting signals and considerations in deciding what to do with nominal exchange rates. Even in countries where domestic inflation was higher than in the United States, at least during the first half of the 1940s, gold and foreign exchange reserves rose and terms of trade improved. With demand for exports and supply of imports subject to controls by Allied powers, elasticity analysis of possible exchange rate changes seemed pointless. Foreign rationing, price controls and shipping shortages encouraged counterparts in domestic administrative controls; under these conditions price-level effects of exchange rate changes were also open to question. Not surprisingly, during the war there were few exchange rate adjustments.

The postwar exchange rate decisions were more complex, even assuming that major industrialized countries would gradually allow a greater role to price-oriented market forces. The prolonged suspension of normal market mechanisms made estimation of reasonable exchange rates a complicated task: it involved guessing at least about future terms of trade and capital flows. Countries with substantial pre-war trade and financial links to Europe had also to evaluate prospects for European exchange rates and the impact of European devaluations with respect to the dollar. Faced with these circumstances, Brazil, Southern Cone and some other countries maintained overvalued currencies well into the 1950s, preferring to rely during most years on exchange and import controls to manage the balance of payments. Multiple exchange rates, including gray and black ones, proliferated, but

those used in most transactions were in real terms substantially below those registered during 1935-39 (exchange rates are here defined as units of domestic currency per one dollar).

By 1950-54 Argentina, Brazil, and Chile, had become archetypes of overvalued currencies buttressed by controls. Fears that devaluations would exacerbate inflation and worsen the terms of trade, elasticity-pessimism (hardly limited to Latin America during those years) plus perceived domestic redistributive effects were the intellectual props of this system of trade and exchange controls. Its defenders argued that it channelled rents from the export sector, including extraordinary postwar terms of trade, toward capital formation in industry and social overhead capital via the supply of foreign exchange at cheap rates for the importation of machinery, equipment, and intermediate goods complementary to domestic production. Goods and services competing with local output were kept out, maintaining the extreme protectionism given by World War II circumstances. After World War I, it was claimed, incipient industry was allowed to suffer from renewed foreign competition; import and exchange controls were to avoid a repetition of those events.

Other countries willing and able during the 1930s to adjust exchange rates did so again by the late 1940s and early 1950s, partly induced by European devaluations, thus avoiding the overvaluation and extensive controls of Argentina, Brazil and Chile. Mexico and Peru are examples of lesser reliance on administrative quantitative controls; these countries by the late 1940s and early 1950s had increased their real exchange rates above their immediate post-war lows.

In countries with extensive import and exchange controls, tariffs lost importance during the 1940s both as sources of government revenues and as instruments of balance of payments and protectionist policies.

While not all Latin American countries joined the General Agreement on Trade and Tariffs (GATT), in the more open economies the postwar trend was for a standstill or a decline in tariffs relative to the late 1930s.

As a result of both the manipulation of import-repressing mechanisms and domestic economic structure, by the late 1940s the composition of imports differed among Latin American countries. In Central American and Caribbean countries consumer goods made up about half of the import bill; in the Southern Cone that proportion was only 15 percent. Capital goods accounted for one-fifth of all imports into Central America and the Caribbean, and around 40-45 percent in the more industrialized countries in the region (United Nations, 1964, p.20). Even in countries where the share of consumer goods in imports was relatively low, as in Brazil, fears were expressed that the postwar import surge had included too many superfluous and luxury items, partly because the foreign availability of those goods had returned to normal faster than supplies of capital and intermediate goods. Inconvertible European currencies often had few attractive alternative uses to the purchase of consumer goods. The first report of the United Nations Economic Commission for Latin America noted with alarm that trade projections of the European Recovery Program foresaw large increases of exports of consumer goods to South America, apparently ignoring the industrialization which had occurred in those countries, and their needs for capital and intermediate goods (United Nations, 1949, p.258).

On the whole, policy instruments designed primarily to manage the current account of the balance of payments were given a more explicitly protectionist tilt during the 1940s and early 1950s than during the 1930s. Particularly in South America and especially after the immediate postwar bonanza, the import repressing mechanism grew in complexity; while

during the 1930s all policy instruments made all imports more expensive, after the war some imports were deliberately cheapened (e.g., capital goods and imports using abundant inconvertible currencies) while others were made prohibitively expensive. This system carried a large potential for aggravating price distortions which had already appeared during the war.

B. Balance of Payment Policies: The Capital Account

The management of gold and foreign exchange reserves, the latter partly inconvertible, was the central capital account concern during the 1940s. Reserves rose sharply after 1941; as the range of foreign goods which could be purchased with them was limited until the decade was well advanced, and because their foreign exchange component, mainly dollars and pound sterling, could be maintained only in financial instruments earning interest rates well below actual and expected inflations in those currencies, early in the war a number of proposals were advanced to "repatriate" foreign debt, settling in many cases 1930s defaults, and to purchase assets owned by foreigners.

By 1948, about half of the accumulated Latin American current account surpluses of the previous decade had been used to repatriate foreign debt and to purchase direct foreign investments (United Nations, 1949, p.224). British railroads were bought in Argentina, Brazil and Uruguay; public utilities were also acquired in several countries; Mexico settled with oil companies which had been nationalized in 1938. Combined with war-time measures against investments owned or controlled by Axis nationals, by the late 1940s these policies left Latin America with the lowest levels of foreign debt registered this century, and probably also with the lowest percentage of the capital stock owned by foreigners which was to be witnessed this century, particularly outside Cuba and Venezuela.

There have been few detailed studies which could help determine the ex-post economic profitability of these settlements and purchases, or their ex-ante economic rationality. One suspects that the evaluation would depend heavily not only on the specific details of each settlement but also on assumptions regarding the opportunity cost of the foreign exchange reserves, particularly those of inconvertible currencies. It is now known, and surely it must have been suspected then, that the United Kingdom seriously considered repudiating the liabilities it had accumulated during the war (Bolton, 1972).

By 1948 preoccupations regarding foreign exchange reserves had returned to 1930s-type concerns with shortage, particularly of dollars, and especially in countries with traditional current account surpluses with Europe and deficits with North America. There was renewed interest in external sources of long-term capital, which after the catastrophes of the 1930s were limited practically to loans from the Export-Import Bank of the United States, the newly-created International Bank for Reconstruction and Development, and private direct foreign investment. The inflow from these sources, however, remained meager relative to aggregate capital formation. Latin American policy-makers were dismayed at the abruptness with which the United States government switched its attention from Latin American development to the reconstruction of Europe. A number of important Latin American investment projects had received financial and technical support from the United States during the war, and expectations had been created that such measures would be continued and expanded after the war. A rebirth of that war-time economic alliance (which excluded Argentina) was to wait until the Alliance for Progress, creating in the meanwhile frustration and resentment among Latin American policy makers.

C. Macroeconomic and Other Policies

By the late 1930s reactive Latin American countries had developed the will and the means to contain deflationary shocks coming from abroad. Both in 1937-38 and in 1940 the new policies were tested, and were found to be robust. But after 1940 the external shocks were to be quite different from those of the 1930s: in most years they raised aggregate demand and contracted aggregate supply. Bottlenecks in specific sectors were often more visible than general supply problems. Countries had to switch rapidly from fighting deflation to combatting inflation. The struggle against inflation was less successful than that against deflation, so during the 1940s most Latin American countries registered price level increases no smaller than those witnessed in the United States.

During 1932-40 changes in the money supply of reactive Latin American countries had been dominated by domestic credit expansion; starting in 1942 large reserve acquisitions became the major source of increases in the money supply. Towards the end of the war domestic credit expansion added to monetary growth and when reserves declined during the late 1940s, the contractionary effect on domestic liquidity were more than offset by domestic credit. With the exception of the Argentine Central Bank, few monetary authorities had adequate anti-inflationary controls and even those in Argentina were weakened after 1943 (Triffin, 1945).

Expansion in domestic credit went partly to support new development programs for private agriculture, housing and industry, and partly to cover public sector deficits. While the tax structure had been modestly diversified in many countries during the 1930s, the sharp fall in imports during the war reduced the base of customs duties, still a major source of public revenues. Even as output rose, tax revenues shrank.

Defense programs were added to the developmental expenditures started in the 1930s. With no significant bond markets either abroad or at home, by the end of the war many governments had turned to their monetary authorities for deficit financing.

The postwar import binge sharply expanded the tax base in Caribbean and Central American countries, but the more industrialized republics importing mostly capital and intermediate goods had to continue their search for other public revenue sources. Some found taxation of exports favored by unusually high prices an attractive device, implemented either directly or via public marketing boards. Income and indirect taxes introduced during the 1930s were expanded. Nevertheless, even during the late 1940s and early 1950s, monetary authorities remained a major source of public sector financing. Some observers perceived a structural inelasticity in the revenue machinery of Latin American governments, and an irresistible momentum in their development programs, particularly outside Central America and the Caribbean. These smaller countries, plus Ecuador, Mexico, and Venezuela, managed to keep their inflations not much higher than that of the United States by no later than the mid-1950s.

The war encouraged the public sector activism which had developed during the 1930s. Rationed foreign supplies of fuel, machinery and in many cases foodstuffs had to be allocated in ways compatible with the wartime spirit of national unity. A minimum of concern had to be shown for security needs, whether the country was closely linked to the Allies, as were Brazil and Mexico, or neutral like Argentina. Regulatory authorities for agriculture, commerce and industry were strengthened or created; foreign trade controls were of course refined; prices and wages

came under closer public sector scrutiny. Public credit institutions and public enterprises producing oil, steel, transport services, electricity and armaments were expanded or started. The Armed Forces, which in some countries had shown interest in industrialization at least since the 1920s, became very active in investment programs both in heavy industry and social overhead capital.

The postwar witnessed a relaxation of some of these controls but the public sector remained actively involved in ambitious developmental and defense programs, much more than during the 1930s, and with a more explicit and self-confident commitment to industrialization and other long-term goals. The Armed Forces in Argentina and Brazil were to retain and expand their role in heavy industry and social overhead capital to this day. Public credit institutions whose creation could be advocated as correcting informational imperfections in domestic capital markets, particularly at their long-term end, in some cases expanded with the support of Central Banks during the late 1940s and early 1950s, providing credit at interest rates lower than domestic inflations. Controls over many key prices, such as those for necessities, public utilities, and transport, were retained in Brazil and the Southern Cone countries well into the 1950s. European conditions encouraged the vigorous postwar role of many Latin American public sectors at least in two ways: as noted earlier the dim outlook for European currency convertibility and recovery induced many nationalizations of European-owned assets; and the examples of growing British and French public sectors led many observers to conclude that laissez-faire and private enterprise, so battered during the 1930s and the war, were obsolete and would have a very limited role to play in the postwar world.

During the 1930s trade unions had been encouraged by several governments in the region, such as those in Brazil, Colombia and Mexico; urbanization and industrialization also promoted this trend from below. Trade union influence and strength peaked in such countries during the war, when corporatist, centrist and leftist organizers on the whole worked together to expand those organizations. Not long after the war, governments increasingly controlled or manipulated the trade union movement, or encouraged by the cold war, suppressed their leftist segments, which were also fragmented by divisions between stalinists and anti-stalinists. In spite of the expansion in the demand for labor registered during and after the hot war, in most countries urban labor markets were kept soft by continuing inflows from the labor-abundant countryside. In addition, several Latin American countries again received substantial numbers of European immigrants after 1945, even when their governments relied on trade union support, as in Argentina. In spite of their weaknesses, by the early 1950s trade unions in most countries had significant influence at least in public and other large urban enterprises, and in modern transport. Particularly in their bargaining with foreign-owned firms, they commanded considerable governmental and popular support.

IV. PERFORMANCE

Even in countries performing reasonably well during the 1930s, structural change was more impressive than overall growth; during that decade some economic activities stagnated or collapsed while others surged ahead. In contrast, during 1941-51 all Latin American countries and nearly all major economic activities (with the important exception of agriculture and livestock, especially in the Southern Cone) grew

at rates which exceeded population expansion and were high relative both to previous experience and to performance in the rest of the world. Output growth outpaced capacity expansion during the war, but during 1945-51 the opposite occurred, as a result of a remarkable investment boom. Between the end of the war and 1953 the Latin American capital stock increased by one-third (United Nations, 1954, p.3). The growth momentum was maintained until the early 1950s, in spite of distortions and misallocations whose negative impact became clearer later in the 1950s.

A. Macroeconomic Performance

South American countries experiencing a vigorous recovery from the depression during 1933-39, registered more modest expansions in their Gross Domestic Products (GDPs) during 1939-45. This was the case in Argentina, Brazil, Colombia and Chile, where capacity limitations became particularly acute during the war. While national accounts data are scarcer for Central American, Caribbean and other smaller countries, it appears that they followed the war-induced acceleration in GDP growth occurring in North America. Mexico maintained the growth momentum achieved since the early 1930s, thanks to favorable access to external supplies (Naciones Unidas, 1978).

The second half of the 1940s witnessed an average annual growth in Latin American per capita GDP of more than three percent; all groups of countries participated in this remarkable performance (United Nations, 1964, p.6). The postwar boom came to an end during the first half of the 1950s in the Southern Cone and some Caribbean countries, such as Cuba, but it continued in coffee exporting countries, as well as in Ecuador, Mexico, Peru and Venezuela. For the region as a whole, per capita GDP grew at the still substantial rate of two percent per annum

during the first half of the 1950s. Adjusting GDP for terms of trade changes makes the 1945-50 boom even more impressive, yielding for those years an average yearly growth, for the region as a whole, of more than four percent in per capita real income. As the presence of foreign capital in the region, particularly outside Cuba and Venezuela, had declined sharply by the late 1940s, those increases in real income accrued overwhelmingly to Latin Americans. For the region as a whole, net factor payments abroad had declined to around two percent of GDP by the late 1940s; interest and profit of foreign capital accounted for about ten percent of Latin American foreign exchange earnings at that time.

During the war the capital stock in all major sectors was intensively used; shortages of machinery and equipment often meant that even repairs had to be improvised and obsolete capital was kept operating. Investment surged after 1945, absorbing a good share of the foreign exchange reserves accumulated during the war and of the improvements in the terms of trade. The gross investment coefficient in GDP during 1945-49 for the region as a whole reached 18 percent and remained only slightly below that figure during 1950-54 (United Nations, 1964, p.11). Current domestic savings plus those carried out during the war financed practically all of the investment boom, which extended both to the construction needs of accelerated urbanization and the replacement and expansion of capacity in the form of machinery and equipment. Imports of capital goods also contributed to the absorption of technological change which had taken place during the late 1930s and early 1940s. The investment surge occurred both in the public and private sectors, with the latter accounting for approximately 70 percent of gross capital accumulation. While external supply conditions gradually improved

after 1945, specific supply shortages bedevilled investment projects well into the 1950s. The priority given by the United States to European recovery and the Korean War delayed or distorted more than a few Latin American investment projects for lack of desired machinery and equipment. Because of her non-aligned stance in international relations, Argentina was especially vulnerable to such complications in capital formation.

Replacement, modernization, and urbanization needs also influenced the structure of private consumption after the war. Automobiles, television sets, and refrigerators, as well as nylon stockings and soft drinks were eagerly sought in the rapidly expanding cities. Local industry could meet only part of those needs, and by the early 1950s severe foreign exchange shortages were to make imported automobiles an exotic luxury good in Brazil and the Southern Cone. Urban middle classes, frustrated by their lack of access to many imported durable consumer goods turned to luxury housing while waiting for the local manufacture, typically by foreign corporations, of the desired commodities.

B. Foreign Trade and Sectoral Performance

Much of the evolution of Latin American foreign trade during the 1940s and early 1950s can be explained simply as a consequence of exogenous shocks and trends emanating from the rest of the world. But not all. Especially by the early 1950s different exchange rate and trade policies were reflected in contrasting export performances. Foreign exchange earnings continued to grow in many Central American and Caribbean countries, as well as in Ecuador, Mexico, Peru and Venezuela, while tending to stagnate in Brazil and the Southern Cone. Some country shares in total regional exports changed dramatically relative to the late 1920s and 1930s, partly because of domestic policies and partly due

to luck in the commodity lottery. Argentina had represented more than one third of the exports of all Latin American republics in 1928, and one quarter in 1938; by 1954 it accounted for only 13 percent of that total. The corresponding Venezuelan shares rose from 4 percent in 1928, to 15 percent in 1938 and to 22 percent by 1954. The Latin American share in world exports in 1954 was about what it had been in 1928, and was higher than in 1938. That share, however, peaked in 1948. (United Nations, 1954, pp. 124 and 137).

The war accelerated a tendency toward export diversification already visible during the late 1930s. Argentina, Brazil and Mexico exported substantial amounts of manufactured products, even to South Africa. New items entered the export bills of many countries and there was a trend toward more domestic processing of traditional exports, partly to save shipping space. There was also an increase in intra-Latin American trade, and proposals for closer Latin American economic integration blossomed at that time, particularly in the Southern Cone. After 1945, however, both the boom in primary product prices as well as domestic policies induced a retreat from those trends, so that by the early 1950s the Latin American export bill was again heavily concentrated in relatively few commodities with little processing. Coffee, petroleum, sugar and wool accounted for more than half of the region's exports. In 1937 those four commodities represented about one third of the region's exports, and the top four items then (petroleum, coffee, maize and wheat) added to less than forty percent of all exports. (United Nations 1949, pp. 276-278, and United Nations, 1954, p.132). Both manufactured exports and intra-Latin American trade shrivelled after the war; the share of exports going to the United States was much higher in the late 1940s than a decade earlier, but tended to decline as Europe and Japan recovered.

In 1953 a report of the Economic Commission for Latin America remarked:

"Although at one time the aims of Latin American economic development were assumed to include liberation from the burden of imports, the facts show that this objective is very far from being achieved" (United Nations, 1953,p.xx1).

While such peculiar liberation had not been accomplished, imports of goods and services for the region as a whole had been compressed below 15 percent of GDP by the late 1940s and early 1950s, no doubt below corresponding figures for the late 1920s. The openness of Central American and Caribbean countries was of course above the regional average, while Brazil and the Southern Cone by the early 1950s had foreign trade shares in GDP lower than most Western European countries. Sustaining aggregate growth which exceeded that for foreign trade implied very different growth performances in various branches of economic activity. We now turn to examining such sectoral differences, which generally continued the structural changes of the 1930s.

Industry, broadly defined to include mining, construction and electricity, was the star performer while rural activities barely kept up with population growth, when the region and sectors are taken as a whole. Comparing 1950-54 with 1936-40 the following average annual percentage growth rates are obtained for the major components of the region's GDP (United Nations, 1964,p.26):

Crops, livestock, hunting and fishing	2.4
Mining and quarrying	6.0
Manufacturing	5.9
Building	6.5
Transport and communication	6.0
Trade and finance	4.9
Government	5.1
Other services	3.7
<u>Total GDP</u>	<u>4.4</u>

During the same period, the export quantum grew at an annual rate of only 0.5 percent (Naciones Unidas, 1976, p.25); thanks to the improving terms of trade the import quantum expanded at a higher rate, but still below that of GDP. Population growth accelerated throughout the period, averaging around 2.4 percent per annum, and reaching 2.7 percent per annum by 1950-55. The expansion of urban population was of course higher, and accelerated from 3.4 percent per annum during 1940-45 to 4.5 percent per annum during 1950-55 (United Nations, 1954, p.29).

In the more industrialized countries of the region, excepting Mexico, manufacturing growth during the war slowed down from the rates registered during 1933-39, and was also below postwar industrial expansion. The negative impact of shortages of complementary imported goods turned out to be greater than the positive effect of the near disappearance of competitive imports. Much of the 1930s industrial expansion in Argentina, Brazil, Colombia and Chile was based on intensive use of existing capacity both in manufacturing and in social overhead capital; the further squeezing of installed capacity during the war, in spite of frequent feats of technological improvisation, began to run into insurmountable problems. Without imported machinery it was difficult to start new manufacturing activities and absorb foreign technological breakthroughs. Electricity, fuel and transport, besides inputs used more directly in the manufacturing process, spare parts, machinery for repairs and capacity expansion, all became extremely scarce at "any" price. Electricity output expanded very fast between the late 1930s and early 1950s, but demands generated by urbanization and industrialization grew even faster, so shortages persisted in many countries well into the 1950s.

As the supply constraints became easier in the immediate postwar, manufacturing output soared and diversified, in spite of remaining shortages of nontradeable inputs and of some imported complementary items. The more industrialized countries on the whole maintained a protectionist stance toward competitive imports, ranging from the extreme, as in Argentina, to the moderate, as in Mexico. The postwar manufacturing boom showed signs of faltering in 1949, and experienced a more serious setback in 1952-53.

The less industrialized Latin American countries, which during the late 1930s were far from using their full capacity, saw their manufacturing output grow during the 1940s faster than in the previous decade; during the war many of them also benefitted from geographical and political proximity to the United States. Even by 1950-54, however, manufacturing in these countries still represented around 10 percent of GDP, while in Argentina, Brazil and Chile it was above 20 percent (United Nations, 1954, pp. 27-28). For Latin America as a whole the share in GDP of mining, manufacturing, plus construction was below that of rural activities in 1936-40; by 1950-54 this was no longer the case.

Within manufacturing, sectors which had spearheaded import-substituting growth during the 1930s, such as cotton textiles, building materials and light metallurgical and chemical activities, continued their remarkable expansion into the 1940s; during the war, textile exports added modest impetus to industrial expansion in Argentina, Brazil and Mexico. War shortages of intermediate inputs, such as steel, and of machinery and equipment encouraged at least concern with expanding "heavier" industrial activities; preoccupation in the Armed Forces with military supplies reinforced that trend, especially in South America. During the

early 1940s the United States, fearing a prolonged war, encouraged industrial expansion in several closely allied Latin American countries, notably Brazil. Many of the projects started to expand the domain of the "Arsenal of Democracy", such as the Volta Redonda steel mill, entered production after the end of the war, by which time the United States government had lost interest in directly encouraging that type of industrialization in Latin America. Argentina went its own way during the 1940s, going as far as starting an atomic energy program.

Production of rayon yarn, pig iron, and sulphuric acid, which before the war was found typically in just a few of the more industrialized countries, spread rapidly after 1945. Nevertheless, for the region as a whole by 1950-54 the traditional branches of manufacturing (food processing, tobacco, textiles, clothing, building materials) still dominated manufacturing output, and many of them remained home and handicraft operations. Imports of machinery and equipment made up a very large fraction of gross investment in these goods, even in the most industrialized Latin American countries.

Manufacturing growth during the late 1940s and early 1950s began to show a characteristic which would become even more disturbing in later years: a specific branch of production would grow very fast during a couple of decades or so, using up-to-date technology, until home output had displaced imports; afterwards that sector would grow only modestly, and its installed capacity would gradually age and fall behind technological and product improvements abroad. In that import-substituting cycle, "dynamic" industries gradually turned into "vegetative" ones not only regarding growth rates but also in their technological levels and product quality. In the more industrialized

countries one began to see not just the old dichotomy of handicrafts and modern factories, but a whole spectrum of average labor productivities, or "technological densities", with the latest import-substituting branches having the highest productivity, if measured at domestic prices including protection incentives.

Tariff-jumping direct foreign investment had contributed to import substitution in Brazil and the Southern Cone at least since the 1920s and continued to play a modest role during the 1930s. Even during the war United States corporations invested in Latin American manufacturing; after 1945 such investments multiplied spurred by protection and the fast expansion of regional markets. The technology supplied by foreign corporations became crucial for the advance of import substitution into newer and more complex branches in chemicals, metallurgy and transport equipment. The gross inefficiencies induced by the combination of excessive protection and direct foreign investment, especially outside Brazil, were to culminate in several countries with the establishment of inchoate automobile industries. The compelling economic logic and the nationalistic mystique of the industrialization efforts of the 1930s and early 1940s were gradually eroded by the increasing visibility of inefficiencies and direct foreign investments during the postwar.

Construction boomed during the 1940s and early 1950s even more than manufacturing; in several countries this continued 1930s trends. Explosive urbanization and the increasing use of automobiles and trucks generated an almost insatiable appetite for cement. Table 2 shows remarkable per capita growth rates for apparent cement consumption in most countries, even when 1925-28 is taken as the base. The table also shows a catching-up with United States consumption levels which occurred in many countries for this indicator of development. Cement was a major import substituting

Table 2

Per Capita Apparent Cement Consumption: Relative
to the United States and Growth Rates, 1925-1953

	Per Capita Consumption (U.S. equals 100)		Average annual growth rates, percentages	
	<u>1925-28</u>	<u>1950-53</u>	<u>1925-28/1950-53</u>	<u>1935-38/1950-53</u>
Cuba	33	35	0.5	8.1
Uruguay	29	51	2.6	4.9
Argentina	22	41	2.8	2.4
Puerto Rico	19	83	6.3	9.6
Chile	19	39	3.3	3.2
Venezuela	17	66	6.0	11.4
Panama	15	27	2.8	3.1
Costa Rica	11	17	1.9	1.8
Dominican Republic	9	19	3.4	8.3
Jamaica	8	18	3.6	5.1
Peru	7	18	4.0	6.6
Brazil	6	16	4.5	7.0
El Salvador	5	9	2.3	6.2
Colombia	5	22	6.2	8.1
Mexico	5	22	6.8	8.4
Ecuador	3	9	4.8	5.4
Guatemala	3	8	4.3	7.0
Honduras	2	5	3.6	4.9
Haiti	2	3	1.7	6.8
Nicaragua	2	8	6.1	4.2
Bolivia	2	5	4.2	4.9
Paraguay	1	2	2.1	1.2
United States	100	100	0.3	4.6

Sources: Data obtained from European Cement Association, 1967. Apparent consumption refers to production plus imports minus exports.

industry, growing at an annual rate of more than 11 percent between 1925-28 and 1935-38, and at an almost 9 percent annual rate between 1935-38 and 1950-53, for the region as a whole. These growth rates could not have been based just on a more intensive use of installed capacity; substantial investments and imports of machinery must have taken place in the cement industry. While during the late 1920s Latin America produced only 36 percent of its cement consumption, the corresponding figure for 1935-38 was 78 percent, and for 1950-53 it was 85 percent.

Petroleum extraction and refining were also encouraged by the spread of the automobile. Even before Mexican frictions with foreign oil companies culminated in the 1938 nationalizations, the Venezuelan oil boom had gathered momentum. During the 1930s the net returned value to Venezuela from the activities of foreign oil companies on its soil was quite small, but this situation was changed in the mid-1940s when the Acción Democrática government pioneered the fifty-fifty formula for splitting rents. In 1938 Venezuela accounted for 59 percent of world petroleum exports; by 1948 that share was down to a still impressive 54 percent, declining during the 1950s as Middle East deposits were favored by oil companies (United Nations, 1964, p.139). Petroleum extraction was significant but less important in Argentina, Colombia, Peru and of course Mexico; in these and other Latin American countries oil production and marketing was dominated by state enterprises. During the 1940s and early 1950s those national enterprises had difficulty in expanding production due partly to a reluctance of foreign suppliers of equipment and credit (including the World Bank) to deal with them, unless international oil companies were part of the arrangements.

Other extractive activities, both traditional and new, received impetus from the war. A number of mining projects were encouraged by the United States government to satisfy wartime needs such as a nickel plant in Cuba and several ventures in Brazil. The outbreak of Korean

hostilities renewed interest in these mining projects, but briefly. By 1952-53 mining faced depressed international prices.

The same broad trends and signals which induced import substituting industrialization after the late 1920s also encouraged rural activities to turn from exporting toward producing for the domestic market during the 1930s and 1940s. The aggregate output of exportable rural commodities, such as coffee, wool, and bananas, remained practically unchanged between 1934-38 and 1950-53, while production of goods destined almost exclusively for domestic consumption rose by more than fifty percent (United Nations, 1954, p.135). Some crops underwent expansions comparable to those of dynamic manufacturing branches; rice output, for example, more than doubled between 1934-38 and 1950-53. War devastation in the Far East, which favored many Latin American exports, contributed to such import substitution.

The share consumed domestically of even rural exportable output rose, most dramatically in Argentina. Countries which historically had exported primary products but imported food became conscious of their vulnerability on the export side during the 1930s and on their import side during the early 1940s. A sober observer noted in 1948:

"Experience has shown that in the present uncertain state of international trade, specialization is a gamble that a responsible government must try to avoid. The least that nations with agricultural opportunities, such as abound in most areas of Latin America, should aim at is to be able to feed themselves from their own produce, so that they can sit out a depression without suffering actual starvation" (Wallich, 1948, p.162).

Faced with uncertain external prospects and often discouraged by domestic policies, producers of exportable primary products in many countries did little to modernize their production methods. Pampean techniques and Cuban sugar yields, for example, during the early 1950s

were little changed from what they had been in the late 1930s. Greater technological dynamism was shown by some import substituting rural activities; capitalist farming producing for the domestic market spread rapidly during the 1940s and early 1950s, even as traditional subsistence farming remained the predominant rural mode of production in the poorest countries of the region. Even Mexico, which underwent a serious land reform during the 1930s, by the early 1950s had a rural sector encompassing productive units of vastly different productivities. Since the 1930s, Mexico, Central American and other countries expanded areas under cultivation by investing in irrigation and roads.

The vast and heterogeneous service sector also engaged in import substitution during the 1940s. Shipping shortages during the war induced the expansion of national merchant marines; insurance, banking, and commercialization of imports and exports came under greater national control in the more advanced countries. Foreign exchange earnings from services such as tourism and workers' remittances became significant items in the balance of payments of Mexico and Caribbean countries. In those countries which maintained administratively complex import-repressing mechanisms into the 1950s, some commercial and government services received substantial quasi-rents; while precise information is unavailable, it seems reasonably clear that not all of the terms of trade gains siphoned off from the traditional export sector during the late 1940s and early 1950s found their way into investment in manufacturing and productive social overhead capital. A significant share appears to have filtered on the way into services of sundry nature.

C. Income distribution and welfare

If national accounts data for the 1940s are spotty, those for income distribution are practically nil. Discussion of changes in income distribution becomes highly speculative. A possible clue to those trends may come from examining changes in the allocation of the labor force, and productivity in the different sectors of the economy.

By the late 1930s almost 60 percent of the economically active Latin American population was in agriculture, livestock, forestry and fishing. By 1955 that share was about 50 percent. Between the late 1930s and the early 1950s the average labor productivity gap between rural and non-rural activities widened but only slightly, with the latter reaching 3.7 times the former by the end of the period (United Nations, 1964, pp. 29-31). A very rough summary of Latin American development during those years may be given by saying that ten percent of the labor force was reallocated from a rural low-productivity sector to a non-rural high-productivity sector, with modest increases occurring in the average productivity of each sector, but without a narrowing of the productivity gap between them.

It would be erroneous to associate that reallocation with a shift "from agriculture to industry." Much of the increase in non-rural employment came from construction and a large variety of services, from the highly productive to those disguising unemployment. The heterogeneity within non-rural activities regarding average labor productivities must have been as high as that within the rural sector. For the region as a whole, manufacturing proper employed little more than 14 percent of the active population by the early 1950s, only three times those engaged in construction. The acceleration of urbanization during the 1940s had a momentum largely autonomous from the growth of manufacturing.

It may also be noted that the share of population living in areas regarded as rural (localities with less than 2,000 inhabitants) was around 8 percentage points higher than the share of the labor force engaged in rural productive activities throughout the 1940s and early 1950s (United Nations, 1964, p.29).

The employment gains in manufacturing, construction and other relatively high-productivity urban activities must have raised the economic welfare of those fortunate to be among the hired, but the impact of these trends on measures of income distribution, such as Gini coefficients, is moot. The postwar boom and populist policies in several countries led to increases in the share of wages in the value added of some urban activities, but it is unclear how much of those gains survived post-1951 softer labor markets plus inflationary conditions. In the countryside the 1930s and 1940s witnessed important structural changes in land and labor allocation among subsistence farming, capitalist farming for domestic markets and production of traditional exportables. In some countries, notably Mexico in the 1930s and Bolivia in the 1950s, public policy led to important changes in land tenure. A plausible case (but weaker than for the urban sector) could be made that improvements in average rural welfare levels occurred up until the early 1950s, but little can be said regarding the evolution of standard measures of inequality, either within sectors or for the economy as a whole. What was clear by the early 1950s was that hopes that industrialization would by itself induce greater equality and eliminate poverty had been misguided. The postwar boom had left behind highly visible symbols of disparity between rich and poor, as with luxury urban housing near mushrooming shantytowns, and between a

handful of dynamic cities, often bureaucratic rather than industrial centers, and the rest of Latin America.

Educational and health indicators suggest slow but steady welfare improvements, while remaining far behind those of industrialized countries. The proportion of illiterates in the population of 15 years and older around 1950 had fallen to 14-15 percent in Argentina and Uruguay, and to 20-22 percent in Chile, Costa Rica and Cuba. It was still 89 percent in Haiti, 71 percent in Guatemala, and more than 50 percent in Bolivia, Brazil, Dominican Republic, El Salvador, Honduras, Nicaragua and Peru (United Nations, 1954, p.60). Among the rural population, the percentage of illiterates was of course even higher, reaching 67 percent in Brazil and around 40 percent even in Cuba, Chile, and Panama.

By the late 1940s death rates had fallen to less than 10 per thousand inhabitants in Argentina and Uruguay, to less than 15 in Cuba, and to less than 20 in Chile, Costa Rica, Mexico, Nicaragua, Panama, Paraguay and Venezuela (United Nations, 1954, p.77). Bolivia, Guatemala and Haiti presented the worst death rates. Nevertheless, as in the rest of the world, medical breakthroughs during the 1940s raised health standards in most countries independently of economic growth performance.

V. THE 1940s LEGACY

By the early 1950s most Latin American economies showed structural characteristics sharply different from those of the late 1920s. The share of foreign trade in GDP was cut; in many countries per capita foreign trade was also below pre-depression levels. The foreign debt

slate had been wiped almost clean; direct foreign investment had shifted toward manufacturing for the domestic market and away from exporting activities and social overhead capital, especially outside Cuba, Central America and Venezuela. Public sectors had expanded their role in production, credit and regulation. Population growth had accelerated in most countries and internal migrations had become far more important than those across borders, leading to unprecedented expansion of major cities. Partly due to the decline of foreign trade, partly due to urbanization and new products, the structure of private consumption had also undergone important changes.

Reviewing the 1930s and 1940s most Latin Americans could feel lucky, at least relative to the rest of humanity. The Spanish and the Chinese Civil Wars, World War II, the depth of depression in the United States, Stalinist purges, the political dependence of Asia and Africa, and the pains of decolonization in India and elsewhere could be viewed by Brazilians and Mexicans as remote events that "could not happen here any more." Old aspirations regarding industrialization and control over foreign investment seemed on the way to become realities. Some progress had also been made in democratizing Latin American societies; trade unions had expanded and political life had become more open and pluralistic in several countries. In contrast with the ideological, religious, and ethnic frenzies of Europe, India, and even North America, most Latin Americans viewed themselves then as tolerant, a view largely correct at least in relative terms, and demonstrated by the many refugees who found a haven in the region. With the exception of the Chaco War, the Colombian violence, and the outrages of Central American and Caribbean tyrannies, some of which had been installed by the United States Marines, the 1930s and 1940s witnessed little political blood-letting in Latin America.

Excepting Argentina, political and economic relations between Latin America and the United States improved markedly during the presidencies of Franklin Delano Roosevelt, reaching a height of intimacy during the war. Latin American complaints rose after 1945, when the United States turned from intimacy to aloofness, while Latin America, with the devastation of Europe and Japan, had become more dependent on United States supplies and markets than before the war. Complaints were wide-ranging: wartime exchange accumulations, derived from exports at ceiling prices imposed by the United States, melted under the heat of dollar inflation; development loans, promised at Bretton Woods, were hardly visible; wartime promises regarding long-run commodity price stabilization were forgotten; the Marshall Plan threatened a shortage of investment goods as well as of credits; the International Monetary Fund seemed unable to achieve the convertibility of European currencies; and the United States moved away from the International Trade Organization, preferring to concentrate on the narrower principles of the General Agreement on Tariffs and Trade, viewed less favorably by Latin American countries. Our previously quoted sober observer wrote in 1948 words still relevant many years later:

"Recent vacillations seem to indicate that as a nation the United States has not yet succeeded in defining clearly and realistically what its interests in the Latin American sphere are. If the United States knew...what it primarily wanted from Latin America, whether it be help in the maintenance of democratic ideals, or markets and sources of raw materials, or military and political support, it would not so easily find itself blowing hot and cold in quick succession". (Wallich, 1948, pp. 157-158).

The outbreak of the Korean hostilities briefly suggested a return to wartime intimacy, but by 1952 Latin American-United States relations had returned to a state of unrequited obsession which was to last until 1958-59.

Latin American economic thinking came into its own during the 1940s. Young technocrats participated in debates at Bretton Woods and at the Havana conference on the International Trade Organization, meeting not only the leading international economists of the day, but also each other, finding common concerns and forging all-Latin American interests. The creation of the United Nations Economic Commission for Latin America was the major impetus behind such Latinoamericanization of fresh economic approaches. Starting with its report for 1948, the pages of "ECLA" or "CEPAL" imaginatively discussed topics of intense interest not only within the region but also outside, ranging from trends in the terms of trade, to international comparisons of industrial structure, and to the links between GDP and export growth (see especially United Nations, 1949, p.16, for Chenery-without-regressions). Latin Americans were also active in the staffs of Keynes' "lusty twins"; although by the early 1950s the twins looked stunted and even deformed, Latin Americans in the International Monetary Fund helped to shape ideas such as the absorption approach to devaluation and the early, flexible versions of the monetary approach to the balance of payments.

Some of the ideas generated in that postwar ferment proved more fruitful than others. In retrospect, one may argue that the times encouraged too much optimism in some matters, and excessive pessimism in others. The growth of manufacturing which had occurred since the early 1930s, in spite of external supply and other disruptions, generated confidence, particularly in Brazil and the Southern Cone, that further stages of industrialization could proceed with just a bit more effort in domestic savings and somewhat more careful planning. Blocks of industries, it was felt, could be checked off sequentially: once

import substitution had been completed in one, it could be left alone without claims on imported machinery and new technologies, using the scarce foreign exchange to import the machinery and technologies needed for the next stage of import substitution. Had postwar technology stood still in branches of manufacturing such as textiles, that approach may have made sense; but it did not, and plants so new in the 1930s had become obsolete by the 1950s, incapable of exporting or indeed survival without a protection greater than when they had been infants. Many who talked about the need to view comparative advantage dynamically overlooked the dynamics of industrial technical change.

The many solid achievements of import-substituting industrialization led some to downgrade those of pre-1929 export-oriented growth. The many ills of Latin American society were rigidly associated with pre-1929 openness to international trade and finance. False hopes were therefore aroused that the relative closing of the 1930s and 1940s would alleviate poverty, reduce unemployment, improve income distribution, promote democratization, eliminate dependence on foreigners, and make the state willing and able to improve social welfare. By the late 1950s many had switched their faith from import-substituting industrialization to revolution as the way to achieve those goals.

The postwar terms of trade boom was viewed by influential observers as a transient blip in an irreversible declining trend going on at least since 1910-14. Pessimism regarding the outlook for international trade was rife from either Cambridge (Schumpeter, 1943, p.124) to Santiago de Chile. Many thought that whatever international trade survived, it would have to be managed by political treaties, bilateral and multilateral. Some of that pessimism had dissipated by the late

1940s, only to be reactivated by the Korean War. By 1952 a few may have foreseen the forthcoming international trade expansion; if so, they appear to have kept reasoned forecasts to themselves.

Export-pessimism was not carried as far as allowing a serious decline in the export quantum, except in the Argentine case. Brazil, for example, simply gave low priority to diversifying exports, maintaining its coffee exporting potential intact; it had enough land and labor available to promote import substitution without damaging its exportable surplus. Peruvians and Mexicans recovered from their pessimism more quickly than Brazilians, while Central Americans appeared resigned to live during the 1950s with whatever the international economy decided to do. Thus, some countries were in a better position than others to respond to the international trade expansion unfolding in the 1950s and stretching into the 1970s. The costs of the lag in jumping on the new export bandwagon also varied, depending in qualitatively obvious but perhaps non-linear ways on size of the domestic market, and on the extent of accumulated policy bias against exporting.

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