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## Argentine Postwar Economic Policies

1 In the following paragraphs we try to describe the economic policies by means of which Argentine authorities tried to cope with the country's economic difficulties during the post war years, particularly after 1949.

The official approach, it is clear, paid much attention to the foreign sector of the economy. This is, however, hardly surprising since, from the early fifties and up to the present, policy-makers have been struggling within the constraints imposed by the balance of payments. It is a basic hypothesis of this paper that the general « appreciation » of the situation, and the strategies devised to meet it have remained substantially the same under all governments regardless of their political affiliations: tactics may have varied but the underlying conception — one might call it a « model » of the economy, though the word was not used by the officials themselves — has been practically unchanged all along.

The various constraints and structural rigidities which shape Argentine's economic activities are very similar to those found in many other countries of Latin America and have seriously limited the choice of policies. It is not intended here to criticize the policies actually chosen nor to explain why the country has not been able to free itself from the constraints just mentioned. The object is rather to describe the « policy model », showing its permanence over the years and indicating the ways in which it narrowed down policy-choices.

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2 The « model » which seems implicit in the Argentine post war economic policies may be simplified as follows:

Let us assume that the economy has two principal sectors, i.e. agricultural (A) and industrial (B). A produces food, which is partly consumed abroad and partly absorbed by the domestic market. Non-food agricultural products are neglected for simplicity. B manufactures only consumer goods, which are entirely absorbed within the country. In this model, it is unnecessary for Argentina to import finished manufactures, but she is obliged to import industrial materials and equipment to be used exclusively by the B sector. Thus, the current output and the rate of growth of B jointly determine import *requirements*, while the output of A, less internal food consumption, determines import *capacity*. It is assumed that foreign markets for foodstuffs are no problem, in the sense that whatever quantity the country wishes to export will be sold at the ruling world price. Thus, the balance of trade depends on four things:

- (a) the supply of A, which is assumed to be very inelastic.
- (b) the internal demand for A, which depends on the level of domestic income, and is large even when incomes are not very high.
- (c) the value of raw and semi-finished materials needed for the current production of B.
- (d) the value of equipment needed for the expansion of the B industry.

A trade deficit may, of course, be financed by an import of capital, or by the use of short-term credit and reserves. Changes in the terms of trade will have important effects on the trade balance, given the physical quantities involved. In symbols, the balance of payments T is:

$$T = (A - C_a) - (M_c + M_i + M_k) + Z + L$$

where  $C_a$  is internal consumption of A;  $M_c$  is imports of consumer goods,  $M_i$  is imports of industrial inputs-raw materials, fuels, intermediate goods;  $M_k$  is capital goods imports;  $Z$  is foreign capital inflow, and  $L$  is monetary adjustments through short-term credit and the use of reserves. Within this framework of assumptions balance of payment difficulties have produced the policy reactions described in the following paragraphs.

3 *Policy 1:* Most governments during the period made efforts to expand exports. The expansion of exports depends on the availability of exportable surpluses and on the existence of adequate foreign demand. To increase the supply of exports, it is necessary either to expand the agricultural output (A) or to reduce domestic absorption ( $C_a$ ) of exportables. The expansion of agricultural output has been a central aim of many governments, but few have been able to succeed in implementing it efficiently. This may be due to the fact that the betterment of the conditions of production of the agricultural sector is plainly a long run type of policy requiring deep changes in the existing structure. Most governments tended to focus their efforts

on the solution of immediate problems. It is also possible that the institutional resistances met by the authorities in the agricultural sector could only be overcome by a degree of concentration which governments felt they could not attempt without giving rise to problems in other sectors of the economy. The objective of expanding A was stated, albeit rather vaguely, as early as 1945 in the report of the Post War Council. The intention was more political than economic: the Council spoke of « reducing speculation in land values » and « increasing the number of owner-producers ». In 1949, the idea gathered strength in view of the decline in exports and the lack of external means of payment. At that time, measures were proposed <sup>(1)</sup>, (a) to fix more favorable prices for the farmers; (b) to facilitate easy credit to agricultural producers; (c) to import equipment; (d) to increase the immigration of foreign agricultural workers as a means of solving the rural labor shortage arising as a consequence of urban expansion. By 1951, official opinion had begun to grasp the fact that the solution of the agricultural problem was a necessary condition for progress in the industrialization of the country. An indication of this is to be found in « Hechos e Ideas », a journal which reflected the government's opinions:

« We need to consolidate and advance one of the fronts of the revolution, ... the national agricultural front. The agricultural question is important to the existence and survival of the revolution. It is not just one among the many problems of the revolution: *It is the fundamental problem*. Such has clearly been the understanding of the leader when he took the decision to grant to agricultural sector and to its moral and economic needs the priority which it requires » <sup>(2)</sup>.

This was written in 1951. Practical measures, however, did not start being fully applied until 1952/53. In 1952, better prices were offered for agricultural products and government investment in agriculture was expanded. In the Second Five-Year Plan (1953) agricultural expansion was stated to be a fundamental objective. « ... in order to achieve a maximum and better production which will satisfy internal consumption and give exportable surpluses which will contribute to insure the economic independence of the country » <sup>(3)</sup>.

The measures intended to achieve this objective were: Better prices, « planned » credit <sup>(4)</sup>, colonization, mechanization, and promotion of ownership of land by producers. After the abrupt change of political conduction in 1955 the need to raise agricultural production was stressed again with still greater emphasis. In its *Memorias* of 1955 the Central Bank points out that increased agricultural production is « important for the security and progress of industry, which depends more than ever on an accelerated and vigorous recovery of

1 Banco Central, *Memorias*, 1949.

2 « La Cuestión Agraria Argentina de 1951 », *Hechos e Ideas*, October 1951, p. 137.

3 Second Five-Year Plan, Buenos Aires, 1953.

4 Based on a study of the conditions and qualities of the soil in the different areas of the country, so that credit would be granted to the crops most suited to each region.

agricultural production ». The measures proposed at that time were reminiscent of past years: better prices, and exchange rates favorable to exports. Also in 1955, the Prebisch Plan <sup>(5)</sup> found it necessary to boost agricultural production. The policies advised were: a) to raise agricultural prices, b) to eliminate price controls, c) to increase imports of agricultural equipment. In 1957, 1958 <sup>(6)</sup> and subsequent years, the question arises again and again particularly since the response of agricultural production to better conditions did not come up to the expectations of policy makers. The liberation of the grain trade, and the further increases in prices, have been part of the measures insisted upon.

4 *Policy 2*: The alternative to increasing agricultural output, as a means of improving exports, is to reduce internal consumption of exportables. This is a measure full of political risk, which has only been tried for short periods and as an emergency. The slogan of « austerity » began to be heard around the early fifties. In 1951 it was decided that until increases in agricultural production should be forthcoming the policy ought to be one of curtailment of internal consumption of exportables <sup>(7)</sup>. In 1952, the idea was brought into the Second Five-Year Plan, which incorporated in its prescriptions the necessity of practicing « austerity » <sup>(8)</sup>. In 1955, after the « Revolución » the new provisional government had to decide whether to satisfy internal demand at the cost of a shortfall in exports, or whether to risk labor unrest and high industrial costs (through increases in wages) in order to satisfy external demand and reduce the scarcity of foreign exchange. The government in power in 1959 facing identical problem, tried the same solution:

5 *Informe del Sr. Asesor Económico y Financiero de la Presidencia de la Nación*, Dr. R. Prebisch, *Memorias del Banco Central*, 1955.

6 Two fundamental measures for the revival of agriculture were in the opinion of Frondizi, mechanization and « technification ». A. Frondizi, *Política Económica Nacional*, Buenos Aires, 1963.

7 *Memorias*, 1951, Banco Central de la República Argentina. Also in this respect, see the *Revista de Comercio Exterior* for 1951, an official publication; « ... given the uncertain perspectives in 1951, it was attempted to promote exports... for this purpose measures were taken to create the popular acceptance of a (program) of austerity in order to increase exportable surpluses ».

8 Subsidies, however, were maintained, thus neutralizing the effect of the « austerity » measures. It is clear that « austerity » measures were at the time transitory measures only to be applied for very short time. It is possible, even, that a difference of view may have existed between the executive office and the technical staff who thought it advisable to include the word « austerity » in the Second Five-Year Plan. In this connection the following paragraph is illuminating: « We know very well that if we wanted to increase exports and to accumulate a foreign exchange surplus, we could do it by selling in foreign markets part of what is consumed at present, by the Argentine people; but this only could be realized as it is done in other parts at the cost of the starvation and the misery of our people. We prefer, instead, to continue our bad system, according to some people, of supplying first the Argentines and then sending the remainder to supply the foreigners ». J. Perón, « Plan Económico 1952 - Ejecución y Control », *Hechos e Ideas*, March, 1952.



« The contraction of the internal consumption, caused fundamentally by the elimination of price controls, is evidently a transitory situation necessary to maintain and expand our meat exports... » (9).

Later on, one of the Ministers of Economics (Alvaro Alzogaray) attempted the same policy. Referring to the situation a commentator pointed out (10): « Alsogaray developed... a campaign to convince the population that it must consume less meat in order to be able to import material for the railways ».

5 *Policy 3*: At times, governments despaired of both policies — they felt they could neither expand agricultural output, nor reduce internal consumption because of the social implications of such a policy (11), they turned their attention to what may be called the « fish-and-chicken alternative »; that is, they tried to divert consumer demand towards non-exportable types of food. This was attempted by almost every post war government.

6 *Policy 4*: The need to increase exports also moved the authorities to consider the possibilities of developing « non-traditional » exports and new markets. Until the late forties, the « traditional » markets for agricultural products presented no problem, in the sense that demand was always sufficient to absorb whatever quantities the country could export. The post-1955 governments, however, began to be concerned lest these markets should contract, or at any rate fail to expand sufficiently to be consistent with the growth of the economy. Hence the insistence on developing new lines of exports to new markets. Frondizi's government promised that:

« We will not cease in our multiple and diversified efforts to overcome the resistance and discrimination in our traditional markets... We will work without pause to... open new markets for our primary products and for our industrial products » (12).

To seek new markets for traditional exports had been an old aspiration of Argentine policy makers. Already in 1945 the National Postwar Council indicated the necessity of seeking new outlets for agricultural commodities; but the idea never went further than discussion. More recently, two lines of policy have been proposed: first the « semi-heterodox » under which new markets are to be sought only in the non-Communist world; secondly, the « fully heterodox » which advocates extending foreign trade to all new countries Communist or not.

9 A. Frondizi, *Mensaje al Honorable Congreso de la Nación*, May 1, 1960.

10 Cf. the introduction by J. Bullrich to A. Frondizi, *Política Económica Nacional*, Buenos Aires, 1963.

11 It is understandable that governments hesitate to take measures to restrict the internal consumption of exportables, since the burden of the reduction falls on the poorer sections of the community.

12 Frondizi's message of January 1962.



7 The idea of exporting *manufactures*, on the other hand, is a relatively new one, though it was proposed as early as 1946 by the « Revista de Economía Argentina ». In 1952 a Commission for the Promotion of Exports was formed with the object of stimulating exports of industrial and semi-industrial product. In 1954, a Commission for the Popularization of Argentine Products <sup>(13)</sup> was created with the role of promoting exports of manufactured commodities. In 1955, the Prebisch Plan proposed, as one of its principal recommendations, that encouragement should be given to the exporting of industrial products. The diversification of exports was an important line of policy under the Frondizi administration. The *Memorias* of the Banco Central in 1960 pointed out very clearly that: « if industry does not organize itself with the aim of conquering external markets... industrial expansion runs the risk of getting into difficulties ».

8 *Policy 5*: Another method of improving (or at any rate checking the fall in) export earnings, is to try to obtain better prices for the country's export commodities. After 1949, this idea appears frequently in official pronouncements <sup>(14)</sup>. The creation of IAPI (Institute for the Promotion of Argentine Foreign Trade) was justified, at the time of its setting-up, as a means of obtaining better prices <sup>(15)</sup>. By 1952, pressures from the foreign trade sector was so great that a plan for the defense of prices was drawn up. In later years, the idea recurred continually in the minds of policy-makers. The Banco Central *Memorias* of 1957 point out that export prices have gone down because of the effect of US surpluses in foreign markets. The same publication remarks that it is absolutely necessary for the country to improve the prices of its exports. The same idea was emphasised later on:

« ... This situation (the decline of agricultural prices in the international market) must be corrected by means of a better orientation of trade, diversification of markets, and an energetic defense of export prices » <sup>(16)</sup>.

9 *Policy 6*: The obvious alternative to increasing export earnings, as a means of dealing with balance-of-payments problems, was to attempt to reduce the country's import bill. Action along this line took three forms — attempts to cut the demand for finished consumer manufactures, so as to reduce the derived demand for imported inputs; direct restriction on the imports themselves; and encouragement of the domestic production of import-substitutes. These three approaches will be considered in turn. Measures to reduce overall demand have been tried by various governments. Monetary

13 This is a rather free translation of its Spanish title — « Comisión para la Difusión de Productos Nacionales ».

14 The « *Revista de Comercio Exterior* » (an official publication) points out bargaining became much more energetic after 1949.

15 Particularly by IAPI's ability to act as a monopolist. As Perón put it — « It (IAPI)... had the opportunity to oppose to the *only buyer*, the *only seller*, and prices went up ». *Hechos e Ideas*, December 1949.

16 Frondizi's Presidential Message of May 1st., 1958.

and credit restrictions, along with fiscal and budgetary measures (17) were employed in various combinations: in the later fifties, the government even went to the length of postponing salary payments to its own employees and failing to settle accounts with its suppliers. Obviously, the more successful such policies were in reducing aggregate demand, the more discontent and opposition they aroused: labor unions protested the unemployment which resulted, while business firms were put into serious difficulties by the reduction in sales turnover. This could, indeed, be advanced as a strategic objection to this method of cutting imports: all the governments which tried it were eventually forced by general discontent to back down.

10 Direct restriction of imports has been practiced since the 'thirties. Here, « direct » is used in the sense that the measures (tariffs, prohibitions, quotas, licenses, prior deposits of foreign exchange, exchange control, etc.) are applied directly to imports instead of attempting to reduce them at one remove through effects on general demand. Imports of consumer goods have long been restricted by tariffs with the object of fostering import-substitutes; to the extent that the latter have been forthcoming, the scope for further reduction of consumer goods imports has been narrowed. Also, certain limits have been imposed by the existence of trade agreements with various countries under which their acceptance of Argentine exports was conditional on Argentine's importing certain consumer goods from them; obviously, there would have been no point in stopping these imports as long as the government thought that the export markets involved were essential outlets for Argentine trade. With raw and intermediate materials, on the other hand, great efforts to limit imports have been made. As early as 1948, the Central Bank was of the opinion (in its *Memorias* of that year) that « the large demand for imports makes it imperative to apply rigorously selective criteria in the granting of exchange licenses ». In 1949, the fall in exports and the running-down of the exchange reserves induced a mood of great caution in government agencies concerned with imports; by 1953, at the start of the Second Five-Year Plan, the government admitted that « the shortage of foreign exchange has frequently made it very painful to use this scarce asset for the purchase of imports. We have often had to restrict the use of imported materials in certain sectors » (18). In 1958, the same note was heard: « In the short run, the only effective solution is that of cutting imports to the bone. If we tackle the job seriously, with a sense of urgency, we shall be able to ensure a supply of imports indispensable for our national development without prejudicing the national interest by creating shortages of foreign exchange. We need a *rational* limitation of imports » (19). The careful atten-

17 A particular aspect of this was the attempt to reduce the scale of activity of the nationally-owned enterprises (railroads, etc.) so as to reduce the inflationary effects of their deficits, and also to cut down on their demands for foreign exchange with which to buy foreign equipment (e.g. rolling-stock for the railroads). Such attempts were never very successful.

18 Speech to the *Congreso General de la Industria*, 1953.

19 Message to Congress, May 1958.

tion which was given to possible ways of economising foreign materials gave rise to a whole « language » of import-restriction, designed to separate the « deserving » industries (to which the authorities would grant permission to import inputs) and the « undeserving » (to be denied such permission). The former were described as « natural », « useful » and « intra-marginal »<sup>(20)</sup>; the latter as « artificial » and « marginal ». « Rationalization » as a slogan frequently heard: in 1952 the *Revista de Comercio Exterior* argued for « rationalising industrial inputs », while in the Second Five-Year Plan of 53/57 it was laid down that the state would promote rationalization of the use of raw materials; Frondizi's Message to Congress, also indicates that the idea was in the minds of the authorities in 1958.

11 Among the raw materials imported, oil had great importance. Energy requirements grew in step with the development of industry, and the country came to depend more and more on imported fuel since domestic oil reserves were exploited relatively little before 1958. The increasing diversion of foreign exchange to the purchase of oil meant that it was proportionately more difficult to find the means of paying for other materials figuring in the import-bill, which were also very important for industrial growth. As early as 1953, the Second Five-Year Plan recognised the need to develop the country's own oil resources, and looked to enlisting the help of private enterprise for the purpose. At the beginning of 1955, negotiations were begun with the U.S. firm California Argentine, with the object of bringing foreign capital into the business of oil exploration and extraction<sup>(21)</sup>. After 1955 the head of the Provisional Government declared that « with respect to the oil problem the government believes it to be necessary and desirable to obtain the contributions of private and public foreign capital and international technical knowledge »<sup>(22)</sup>. In 1958, the government announced the signature of a large number of contracts with foreign oil companies which have been intensely discussed in the country<sup>(23)</sup>.

12 Apart from attempting to reduce imports of materials required for *current* industrial production, the authorities tried on occasions to cut down the importation of capital equipment even though this was likely to inhibit

20 Editorial in *La Prensa*, 12 March 1953.

21 B. de Castro, *El Desarrollo Económico Argentino* (Buenos Aires, 1955), argued that foreign capital would be needed to develop Argentina's oil because « examination of the annual reports of oil undertakings operating at present in Argentina makes it clear that the chief problem they encounter in expanding their output is the lack of proper modern equipment ». The country could not afford the foreign exchange to buy such equipment outright; the only solution, therefore, was to encourage direct foreign *physical* investment.

22 General Lonardi's radio address to the nation, 26 October 1955.

23 Rogelio Frigerio (who was a collaborator of Frondizi's at the time) has written: « We had to lighten the import sector... so we decided to make full use of our own oil... In the oil question, we emphatically put aside the idea of entrusting oil exploitation exclusively to state agencies (i.e. YPF), and we signed contracts with foreign companies, mostly U.S. » (R. Frigerio, *Los cuatro años*, Buenos Aires, 1962, pp. 63-4).

the country's industrial growth. This sometimes meant that, in certain line of manufacturing, it was not even possible to take care of depreciation; it also conflicted with the other policy (to be discussed presently) of building up the production of import-substitutes. The result was that capital-goods imports became very « humped », with peaks in 1945-8, 1951, 1955 and 1958-60, and troughs in the intervening years; to some extent, this instability was imparted to domestic investment also.

13 The third line of policy directed toward economising imports has been the encouragement of import substitution. By the early 'sixties, Argentina has succeeded in replacing almost all foreign consumer goods by domestically-produced equivalents. To replace foreign materials and equipment, however, was a different matter: obviously, the very progress made in substituting consumer manufactures left few resources over for investment in « basic » industries other than transportation and public utilities. Yet the post-1949 conditions, with worsening terms of trade and difficulties in increasing export supply, made governments feel that import-substitution of intermediate products and even of capital goods was highly desirable <sup>(24)</sup>. The country has not yet solved this dilemma, but during the 'fifties has made some attempts to develop « intermediate » industries by attracting direct foreign investment.

14 *Policy 7*: If, after doing its utmost to increase export earnings and reduce the import bill, a country still finds itself in deficit, there remains the possibility of obtaining capital from abroad either by loan or through direct investment. In the 1940's, of course, this was not in question for Argentine: indeed, she was repaying foreign debt. But in 1950, an Argentine mission obtained credits of U.S. \$ 150 millions from a group of U.S. banks; while the Second Five-Year Plan envisaged the possibility of attracting foreign investment — « to achieve the aims of the Plan, we must accept the movement into our country of the numerous foreign manufactures who are willing to come and invest their capital in our economy » <sup>(25)</sup>.

Another sign of increasing willingness to attract foreign investment was a law of 1954 laying down conditions for it, and the negotiations of the same year with the Ex-Im Bank to obtain credit for the San Nicolás Steel Mills, as well as with private concerns such as the California Oil Company. After 1955 the trend grew: in that year, Prebisch advised that foreign capital should be obtained in larger quantities: as he put it, « if the present crisis of development is to be overcome rapidly, it is necessary to obtain foreign loans and investment ». The 1957 *Memorias* of the Central Bank called for

24 « While we do not produce our own raw materials, we shall be exposed to the danger of a breakdown in the industrial order — a breakdown to which we should also be exposed if we were to destroy our consumption capacity through a lack of purchasing power... We must struggle to obtain our own Argentine raw materials for our industry ». From Perón's speech to the 1953 *Congreso General de la Industria*.

25 J. Perón, 1952.

« international co-operation, public and private » to promote the production of oil and steel. It was around 1958 that the greatest efforts in obtaining investment from overseas were made <sup>(26)</sup>.

15 From this short summary of government attitudes and measures, it is clear that the chief constraint was felt to be in the foreign trade sector. Even though with differences in degree it was generally accepted all along the post war years that industrial growth was the objective which should be nationally pursued. The balance of trade and payments were thus given careful attention because the shortage of foreign exchange could hamper industrial development given the economic conditions described in paragraph two.

26 A good summary of the philosophy underlying the government's decision to attract foreign capital can be found in the introduction to A. Frondizi, *Política Económica Nacional*, Buenos Aires, 1963.