

The Depreciation of the Peso and Trade between Italy and Argentina

by

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1. — Since the beginning of the year the results of the new economic policy adopted by President Peron and his chief economic advisor, Miranda, have been claiming the attention of the business world everywhere as affecting the rapid fall of the dollar-peso exchange rate, and of those with the currencies of all other countries trading with Argentina.

The progressive depreciation of the Argentine *peso*, as of all the other Latin American currencies, dates far back.

Fifty years ago the *peso* was a silver coin of 27.11 gr. 900/1000 fine, of a rather higher value than the U.S. dollar. Today, although the dollar has been officially devalued by 40%, and although its purchasing power has fallen to less than half the pre-war figure, one can buy on the open market 8 paper *pesos* with one dollar. Therefore, in half a century, the Argentine currency has lost approximately 95% of its value.

The most striking and rapid depreciation occurred during June and July of this year, followed by no sign of recovery in the ensuing months. At the end of May the *peso* could still buy on the open market a quarter of a dollar, or 125 Italian lire; today it will only buy one eighth of a dollar or 70-80 lire.

The increased speed of this fall may be partly due to a decree issued early in June in the hopes of checking bear speculation and of restoring confidence in the stability of the currency. This decree ordered that quotations on the free market (known elsewhere as the "black" market, but in Argentina it operates publicly and its rates are notified in bold type on all the daily papers) may not exceed by more than one tenth those of the so-called free

official market. The results of this repressive measure were, of course, the same as those always noted in similar cases. The free market went underground, dollars became scarce, and their price has risen steadily although officially it has been stabilised at 530 *pesos* for 100 dollars.

2. — Unfortunately, our old Europe has had many such experiences, and this special case would be of little interest did it not offer some special features of its own; for in Argentina the situation of the currency would seem to be in sharp contrast with that of the budget and the trade balance.

If we are to accept the official figures—and there is no reason for rejecting them—the financial year closed on December 31, 1947, with a surplus, unprecedented in the last thirty years, of 500 million *pesos*, arising from an increase of real over estimated receipts amounting to 850 million *pesos*. Moreover, this satisfactory financial situation was accompanied by the favorable trend of the balance of trade. While it is true that there was a striking increase in the volume of imports, whose value rose from 2332 million *pesos* in 1946 to 5331 million in 1947, yet exports also rose from 3973 to 5331 million, so that the trade deficit only amounted to 20 million *pesos* on total exchanges valued at 10,684 million.

To judge by these figures only, it would seem that at the beginning of 1948 the state of national finances and the trade balance was such as to assure complete monetary stability. Nor was that all; Argentina took no part, not even indirectly, in the world war. Undoubtedly that war had for her some unfavourable

reactions, as the country was often in serious difficulties due to the impossibility of obtaining supplies of many of the manufactured goods she was accustomed to import from abroad, but the advantages were perhaps greater than the disadvantages, as the war raised the demand for the products of her agriculture and livestock.

The substantial nature of these advantages is clearly shown by the marked increase of the gold and foreign bill reserves held in the country or in the form of balances abroad, which rose from 1.3 milliard *pesos* at the beginning of 1940 to 5.65 milliard at the end of 1946.

But as from 1947 the trend turned. During the following 12 months these reserves fell by 2 milliard *pesos*, while the note circulation rose by 1281 million, and the Central Bank advances showed a much heavier increase, rising from 3,719 to 8,639 million *pesos*. This inflationary trend became more marked in the first four months of 1948 during which the note circulation increased by another 220 million *pesos* while credit inflation was still more marked.

The apparent contradiction between the financial and the monetary situation is readily explained by the fact that the national budget is flanked by that of the I.A.P.I. (Argentine Institute for promoting Foreign Trade), opened in July 1946 for financing the Government export monopoly of the staple agricultural products: wheat, corn, meat, oils and fats, hides and skins, etc. The receipts from these exports, which were expected to yield very large profits, are used to pay for the imports of the materials required for carrying out the five year plan for the industrialisation of the country.

To finance this quasi total monopoly of foreign trade, most of the sources of credit had to be made available for the Government, and for this purpose not only was the Central Bank nationalised but almost all the bank deposits existing in the country had to be deposited with it, so that the commercial banks can dispose freely only of their capital and reserves for carrying on their business, and of those additional amounts fixed by the Central Bank, which however may only be used for financing purposes that the Central Bank prescribes.

In this way almost the total amount of bank deposits has been made available for financing the Government's economic policies, and that ample use has been made of this possibility is shown by the fact that the loans made by the Central Bank to the Government rose from 4.7 milliard *pesos* in December 1946 to 8.1 milliard in December 1947, being an increase of 3.4 milliards, almost all of which went to meet the needs of the I.A.P.I.

It is therefore evident that the considerable surplus with which the budget closed in 1947 was only obtained because the deficit of more than 3.5 milliard *pesos* incurred by the Government Institute for Foreign Trade did not figure in the accounts, the said deficit being covered by increasing the note circulation and by credit inflation.

3. — Argentina's new economic policy was introduced less than two years ago, and therefore any attempt to judge of its results would be altogether premature. The official reasons given for its adoption are two: to do away with the monopoly in the export of agricultural staples exercised by a comparatively small number of very powerful foreign concerns; and to favour the rapid industrialisation of the country.

The first of these reasons, which would not seem to be groundless when we compare the conditions in the Argentine Republic with those existing in the other South American countries more or less dominated by the great capitalistic forces of North America, is closely linked up with the nationalistic policies prevailing in Argentina, the self-appointed champion of the independence of the Latin American Republics in their relations with the United States. And this nationalistic policy is frequently held responsible for the monetary crisis which, it is claimed, has been intensified in the last twelve months by efforts made by the American government and by American high finance to secure the failure of Argentina's attempt at economic independence.

There may be some truth in the rumours to this effect, so widely current in that country; but there can also be no doubt that the main cause of the crisis is to be sought in the policy

for the rapid industrialisation of a country whose economic structure is prevalently agricultural and pastoral.

An inevitable consequence of the industrialisation plans has been a great increase in the imports of instrumental goods (see table I).

TABLE I
Imports of industrial Goods in 1945, 1946 & 1947

	Millions of pesos		
	1945	1946	1947
Iron and other metals and metal products	168.7	389.3	936.5
Machinery and vehicles	51.1	325.1	1,349.7
Stones, earths, etc.	44.6	62.-	1,150.-
Fuel and lubricants	96.9	182.8	396.6
Rubber and rubber goods	14.3	79.8	152.1
Totals	375.6	1,039.0	3,984.9

The very rapid growth of these imports, which have increased more than tenfold in the course of two years, and in the ratio of 1:7, is apparently offset by the larger exports of cereals, meat, hides and skins, wool and linteed, whose value in the same two years has risen from a total of 1,912 million to 4,621 million *pesos*.

But this balance is, to a large extent, only a paper one. The I.A.P.I. has used its monopoly of the export trade in agricultural staples and livestock products to purchase them at a fiat price, definitely below that ruling on the market, fixing it, for the 1947-48 wheat crop, at 200 *pesos* per metric tons for those growers who deliver their wheat within the first week of July 1948 and at 180 *pesos* for those who deliver it after that date, while the price at which it is sold abroad has been fixed at 600 *pesos*.

In this way, on an exportable surplus reliably estimated at 4 million tons, the I.A.P.I. should have realised, on wheat alone, a profit of 1,600 million *pesos*. And as similar measures have been taken for most of the other exports it looked as if it would be easy to secure the 3.5 milliards required for balancing imports and exports.

But facts have belied these rosy expectations. With few exceptions of no great importance, the sales prices fixed by the I.A.P.I. were ac-

cepted only by those countries which had an urgent need of securing supplies and who, being unable to pay for more than a small part by their exports, obtained credit on the Argentine market. The result of this has been that a very large part of the exports of farm products, have been paid to the I.A.P.I. by the Central Bank. Last June there were hopes of coming to an agreement with the administrators of the Marshall Plan for the purchase of the whole stock of Argentine wheat; but an agreement was not reached and this failure was followed by a further and more rapid fall of the *peso*.

In this way, the burden of realising the five year plan has been borne to a large extent by the farmers and stock-breeders, and perhaps to a still greater extent by the mass of consumers who are suffering from the effects of monetary and credit inflation.

The general price index has risen from 100 in 1939 to 200.8 in 1945, 216.5 in 1946, and 231.1 in 1947. This rise, which is rather lower for manufactured goods than for farm products only because of the very high level the former had reached during the war, is considerably below that of the means of payment which in the same period had increased more than fourfold.

This situation differentiates the monetary crisis in Argentina from those of other countries and makes it — at least for the present — much less alarming than those experienced by many European countries. It is probably due to the great abundance of foodstuffs, and more especially of wheat and meat, that have made it possible, even in the worst period of the crisis at the end of last June, to keep the cost of living, at least as far as food is concerned, considerably below the level prevailing in our countries.

This great abundance of agricultural production both in relation to the population and in absolute figures, ought to make it possible and indeed probable to stabilise the Argentine currency, provided a policy be not adopted entailing further gross economic errors that would definitely compromise the chances of rehabilitating the *peso*.

This is not the place for discussing the pros and cons of the five year plan which aims above all at creating conditions favourable to the rapid industrialisation of the country. The fear above mentioned that in case of another war the country might be unable to procure essential manufactured products is certainly not groundless, and it is shared by all those countries that have found it advantageous to specialise in a few lines of production only. Driven to its ultimate consequences, it is a fear which leads to the economic absurdity of autarky.

It must also be admitted that during this period Argentina, and more especially Buenos Ayres and its port, have been enjoying a period of intense activity and great prosperity.

Any doubts we felt about the success of the plan arise from the dangers implicit in the excessive rapidity with which this transformation from a purely agricultural to an industrial economy is being made, at the cost of heavy sacrifices to agriculture.

In the last eight years the area under wheat has been steadily and strikingly reduced. The population of this country with an area eight times that of Italy, with its vast expanses of prairie almost all situated in the temperate zone, numbers barely 16 million, of whom more than one third live in the Capital and in towns of over than 100,000 inhabitants. And the urban population is rapidly growing, attracted by the new industries which pay higher wages than those earned on the land.

The lack of farm labor is a subject of general complaint, yet at a time when half Europe is suffering from over-population and unemployment, nothing is being done to create in the under-populated country-districts conditions of life which would attract rural emigration. Thus, while endeavouring to create new and uncertain sources of wealth, there is danger that what have hitherto been Argentina's great and assured resources may be allowed to decay.

While I would not venture to express a judgment which might be premature, yet it would seem to be beyond doubt that the country's monetary difficulties will grow more and more serious should the importation of industrial raw materials — metals, machinery and

manufactured goods — steadily and progressively increase without a corresponding increase in the exports of the products of the soil.

But should these industrial imports be distributed over a longer number of years, and should a commercial agreement with the United States provide for the export of cereals and other products of the farm and of animal husbandry at advantageous prices and against payment in dollars, then it will be possible to overcome the crisis of the *peso* with relative facility.

4. — Conditions in the Argentine Republic and its economic policies are matters of special importance for Italy whose emigrants have played and still may play so important a part in the development of the country with which, largely owing to this emigration, Italy has important trade relations.

The number of emigrants who entered Argentina between the years 1857 and 1939 is reckoned at 6,800,000, and of these 3 million were Italians and 2 million Spaniards. Of the total number 3,600,000 settled permanently in the country, of whom about 1,600,000 of Italian origin; of these about half have acquired citizenship. The highest figures were those for the twenty years preceding World War I, when the annual average for immigrants of all kinds stood at 91,000 of whom more than half were Italians. From 1914 to 1939 the average fell to 39,000, with a further decline during the second World War.

With a view to the rapid industrialisation of the country, President Peron encourages immigration as the only means for meeting the serious insufficiency of labor, both as regards numbers and quality. Thus 1947 marked a revival with 39,114 immigrants of whom 24,935 Italians, and this movement showed a marked increase in the first quarter of 1948, the only one for which the data have already been published. The Italian contingent alone amounted to 15,352 persons. The figure is certainly a large one, and approaches the average for the twenty years when immigration from Italy touched its peak, but it is still far below the needs of both countries and below the figure provided for by the agreement between the two Governments.

As a matter of fact, the purpose the Argentine negotiators probably had in view was that of replacing by Italian peasant emigrants the native agricultural population who are leaving the farms for the factories and the attractions of city life to an extent which is causing anxiety. But this purpose has not been attained. Of the 4,000 emigrants who land on an average each month in Argentina only a very small quota is accounted for by men enrolled under the agreement between the two Governments; the greater number are persons going to join relations already settled in Argentina, or called by Italian or Argentinian intrepeneurs, and they almost all swell the number of the industrial workers settled in the towns.

The peasants, who prior to 1914 accounted for almost all our emigration, are now a very small minority and this may be accounted for by two reasons: a probably temporary improvement in the conditions of agricultural workers in many parts of Italy due to war economy; and still more the unattractive conditions that Argentine agriculture offers the emigrant, especially in those areas where the need for labor is most felt but where the lack of roads and means of transport, of all forms of social service works, and above all of dwellings, is keenly felt.

Under these conditions a revival of large-scale agricultural emigration will not be possible unless the Government provides the prerequisite conditions by carrying out public works and above all by building and equipping villages; or unless private capitalists or co-operative societies provided with the necessary capital, take the place of the Government, securing from it the concession of large zones to be improved and equipping them in such a manner as to attract large groups of peasant families.

5. — Commercial relations, no less than emigration, are closely related to the plan for the rapid industrialisation of the country. It is this plan which has raised the total value of Argentina's foreign trade from the three and a half million *pesos* at which it stood from 1938 to 1945 to a maximum of 10.5 mil-

lion in 1946 and 1947; a sudden jump of which only half can be explained by currency depreciation, while the other half is accounted for by a real increase of volume. Imports are now growing much more rapidly than exports, and the trade balance, which was steadily favourable from 1941 to 1946, in which year it closed with a credit balance of 1,641 million *pesos*, closed in 1947 with a debit balance of 19 million, although a large part of the exports are sold on credit.

The very heavy demand for fuel, meals and above all machinery has led to an enormous increase in the imports from the United States, which have risen from an average value of 165 million *pesos* per annum in the three year period 1943-45, to 665 million in 1946, and to no less than 2,431 million in 1947, offset by exports for only 513 million *pesos*. On the other hand, the trade balance between Argentina and Great Britain closed in that year with a credit of 1,150 million *pesos* in Argentina's favor.

Until 1945 trade with Italy had practically ceased; it revived on a small scale in 1946 when goods valued at 90 million *pesos* were exported to Italy against imports valued at 57.6 million. This trade increased more than fourfold in 1947 when imports from Italy, consisting mainly of finished products, amounted to 273.7 million *pesos* against exports to that country for a value which exceeded that sum by nearly 2 million *pesos*.

This promising revival has become yet more marked in the current year, under the agreement of October 13, 1947, which will remain in force until the end of 1951. Under it Italy has undertaken to purchase 700,000 tons of cereals and large quantities of fats and frozen meat, and in return she has been granted a credit not to exceed 700,000,000 *pesos* at a preferential rate of interest, repayable within 25 years.

On her side, Italy is to facilitate the export to Argentina of a large number of commodities — chiefly industrial — listed in the agreement, as also any other goods she may have available for export.

Thanks to the credit granted and to our urgent need of cereals, this agreement reacted