

Book Review**Mexican Economy 1939-1950**

The Economic Development of Mexico, Report of the Combined Mexican Working Party, Published for the International Bank for Reconstruction and Development by The Johns Hopkins Press, Baltimore. Pages 392, including 153 tables and 5 maps. Price \$ 10

IN Latin America, Mexico and Argentina present contrasting pictures of economic development, in Argentina, the land has been opened up only recently and there was no long established agriculture with its primitive techniques and pressure of population to hamper progress. As the Economic Survey of Latin America, 1949 points out, "The population grew in strict relation to the technical and economic development, which in turn was due to a strong and continuous stimulation from abroad". In Mexico, on the other hand, land has been well settled for ages, the problem of population pressure was already acute when Argentina's development had hardly commenced, and the low productivity of agriculture was its characteristic feature in common with the older countries of the West. Mexico entered into economic relationship with the world, "not by means of its age-old subsistence agriculture, but by means of the working of mineral resources. . . ." But these activities absorb only a small proportion of the Mexican population. Although substantial changes have taken place in the economy of Mexico during the last ten years, the major portion of the population remains unaffected by these strong external stimuli.

The report of the Combined Working Party on the economic development of Mexico devotes its attention to an examination of the developments in the Mexican economy during the last ten years. Its terms of reference provided for a study of the economy's capacity to absorb foreign capital; this was interpreted by the party to imply mainly a study of developments during the last ten years together with an examination of the prospects during the next few years.

This approach of the Combined Mexican Working Party to the problem of the "long-term trends in the Mexican economy with special reference to Mexico's capacity to absorb additional foreign investment," differs markedly from that of the World Bank Mission to Ceylon. No clear picture of the economy, for example, is presented, showing the character of the economy, the relation of the different

sectors to each other and the broad problem that the country faces. A historical study of economic developments particularly during a recent period is always valuable and where the period is one in which significant changes in the pattern of the economy have taken place, the value of the study is enhanced, but such a study cannot in any way be a substitute for the kind of survey of the economy which was made for Ceylon. It may at most be a supplement to such a study and the report of the Combined Mexican Working Party, therefore, suffers in its approach to the problem. A reader may go through the whole book without having acquired an understanding of the basic problems facing the economy, except by a process of piecing together, information detailed in different chapters.

The report opens with a study of the changes in the national income which have occurred during the years from 1939 to 1950. "Greater productive capacity and increased use of capital equipment accumulated over a long period of time prior to 1939 produced a notable rise in Mexico's national income from 1939 to 1950. The Combined Mexican Working Party estimates that the real net domestic product more than doubled over these years and that on the average the annual increase exceeded 7 per cent". The report proceeds to analyse this increase in national income into its constituent parts, which shows that progress has been achieved in all sectors, except in mining in which production actually declined.

National income rose at such a rate due to the existence of unused productive capacity at the beginning of the period, which enabled the economy to react to the stimulus provided by the war and by post-war developments. Contiguity to the United States also enabled Mexico to obtain some capital equipment from that country and it was thus helped to respond to the stimulus of the war to the fullest possible extent. Of course the increase in national income during this period was not without its costs. Railroads, power plants and communication facilities were made to carry heavier loads than before without much new investment, "although often

with reduced efficiency."

The period under study has been divided into two parts, with the end of the war forming the natural dividing point. Progress during the post-war period was slower and it was slowest where it had previously been most rapid. This was the obvious result of the using up of unused capacity to a point where increased production could hardly be brought about as rapidly as before. That there still remained the capacity to increase production without much additional investment in certain fields was apparent, for example, from the eighteen per cent increase in railroad freight traffic achieved during the period. The same applied to electric power production, while in the petroleum industry the existence of plentiful and easily developed reserves in the Poza Rica field provided the opportunity for increasing production.

Nevertheless, the smaller increments of the post war real domestic product were achieved at much greater cost than the higher increments of the previous period. The analyst of the results achieved during the two periods suggests certain conclusions, which provide an approach to the future. The relation between investment and output was less favourable in 1-46-1950, and the growth of domestic product slower, because excess capacity had been greatly reduced or eliminated in most fields by 1946. Moreover, when new investments were made, production failed to respond as quickly as previously, partly because of renewed competition from industrial countries and partly because public facilities and auxiliary industries lacked capacity to expand output. This was true although investments increased greatly "mostly for industrial equipment and motor vehicles."

This period of economic development "intensified the commercialization of an essentially subsistence economy". Commerce, therefore acquired an increasing importance in the economy, with industry also following suit. A movement of population from the poorer, rural areas to the urban centres and the newer improved farming areas was stimulated. The inflation also encouraged the tendency towards a

commercialisation of the economy.

This picture must be seen against the background of the rapid growth in population, which rose at a rate of 1.8 per cent per annum in 1940 and at an average of 2.9 per cent per annum in 1947-49, one of the highest rates of population growth in the world. The average per capita increase in net product, was, therefore, 40 4.5 per cent during the whole period falling from 5.9 per cent in the war period, to 2.9 per cent in the post-war.

The increase in per capita income permitted an increase in consumption, but, "as a result of the shift in the distribution of incomes in favour of profits and against wages and salaries, it is probable that a large part of the increase in consumption in 1939-50 was enjoyed by a small part of the population". Now as the higher income class accounts for a large part of the demand for consumer goods, the non-availability of these during the early war period resulted in a high volume of saving. The increasing availability of consumer goods in the late war and post-war period, however, increased consumption and reduced savings as a proportion of national income. Apart from the disparity in incomes produced by the higher profits, the industrial workers and agricultural workers in the newer agricultural regions were able to obtain for themselves a much higher standard of living than that of those living in the older unimproved fanning areas.

Since the Combined Working Party's main task was to examine the capacity of the economy to absorb foreign capital, the method of financing the tremendous investment during this period is of some importance. Between 1939 and 1950, investment was largely financed from domestic savings, only a small proportion coming from abroad. This high rate of domestic savings was made possible by the unequal distribution of incomes, an inequality which was enhanced by the developments during the period such as the inflation and the commercialization of the economy referred to above. The nonavailability of consumer goods was another factor favouring domestic savings.

An analysis of the total investment during this period suggests, however, that the public sector was coming to occupy an increasingly important place, particularly after 1947. Partly this can be explained by the need for the development of public works and commercial facilities arising out of the tremendous growth which had taken place in

the other sectors of the economy. During the post-war period it was occupying an increasingly important place because it had not been fed adequately in the earlier period when the private sector was fed by forced private savings.

This study of the period upto 1950 must provide the basis for an analysis of future lines of development and for the policy that must be followed to ensure a maintenance of the rate of progress achieved so far. During the next few years, since unused resources have been already utilised, there is little hope of expanding production without new investment. New investment is likely to be necessary in fields which are unlikely to yield as quick results as have been achieved from investment in the past. Social overheads will have to be built up through heavy public investment, the results of which are likely to be only seen indirectly. At the same time, increased availability of consumer goods will reduce private saving and hence private investment. The reduced profitability of investment will also operate in this direction. The inequality of income distribution, though perhaps favouring increased private savings, also reduces the market for the products of industry at the same time as this has to face increased foreign competition. Capital equipment, which has been used intensively during this period, will require replacement through investment, which will not increase production in any way but merely prevent the possibility of a reduction.

What is the prospect? "The return from total investment in the next decade," the report says, "will depend on the extent to which official resources and (through appropriate policies) private funds are able to exploit the possibilities for offsetting lower immediate yields from increased outlays for public facilities, other long-term investments and maintenance and replacement of capital equipment". But what possibilities exist in this direction? The tenor of the report suggests that they are highly limited, and the only comment that the report can offer is that "The Mexican economy has now reached a point where, the imco-ordinated selection of projects is no longer likely to bring the same results as in the past".

The balance of payments position of the country' deserves very careful study, particularly where the main object is to consider how much foreign capital the economy can absorb. The report concludes that, from several points of view, "the

outlook for the balance of payments is favourable". This is because the servicing of the current debt involves the using up of only a small portion of the existing foreign earnings. Also, exports have shown flexibility in relation to changes in demand in the United States, which forms the main market for Mexico. Nevertheless, the report argues that "the balance of payments must be considered exceedingly vulnerable in the absence of a development programme" in the next ten years. It suggests that unless the problem of ensuring the selection of projects likely to ensure high returns, is solved, "The advantages of foreign loans become as uncertain for the borrower as for the lender". This planned development would have to be accompanied by measures to reduce the inflationary effects of investment expenditure, so that danger to the balance of payments could be avoided.

As can be seen, the approach of the Combined Mexican Working Party is not without advantages in the peculiar situation that faces Mexico. Nevertheless, the lack of a general survey of the economy and its problem is certainly a serious defect in a report of this kind, The Working Party has brought together a wealth of information, much of it available for the first time. The large number of tables provide this information in a compact form. Not all this information has been analysed in the body of the text, so that it will be of great use to those who wish to work further on Mexico's economic problems.

Overseas Training for Stanvac Employees

The twenty-fifth Indian member of the staff of Standard-Vacuum Oil Company to be sent to the United States for advanced training, Mr P A Dunbar, left Bombay by air last week.

The training programme was inaugurated to implement the company's policy of advancing as many Indians as possible to positions of higher responsibility. The courses under the programme cover all phases of petroleum marketing including retail merchandizing, accounting, sales organization, employee relations, etc. Mr Dunbar will be given advanced training in technical industrial lubrication engineering and will visit some of the large industrial undertakings in the United States to study the latest lubrication techniques.