

States
UNITED STATES TARIFF COMMISSION
ECONOMIC CONTROLS
AND
COMMERCIAL POLICY
IN
Chile

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**ECONOMIC CONTROLS
AND
COMMERCIAL POLICY
IN
CHILE**

One of a Series of Reports on
Economic Controls and Commercial Policy
in the American Republics



Washington
1945

UNITED STATES TARIFF COMMISSION

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FOREWORD

This is one of a series of reports on Economic Controls and Commercial Policies in the Latin American Republics.

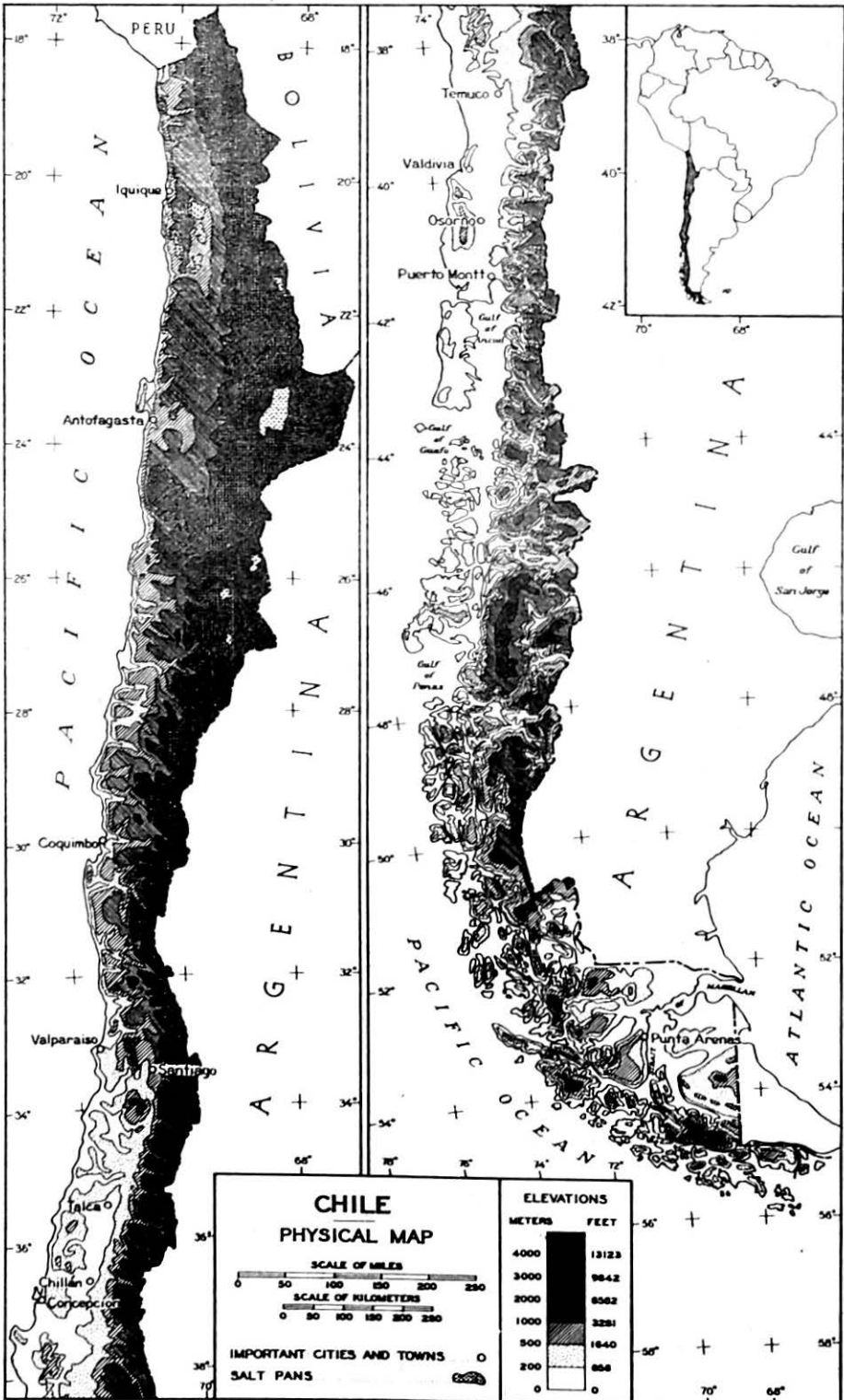
Other work in preparation by the Commission relating to trade problems of the American Republics includes a series of reports under each of the following headings: Mining and Manufacturing Industries; Agricultural, Pastoral, and Forest Industries; and Recent Developments in Foreign Trade.

In the preparation of this report the Commission had the services of David Lynch Allyn C. Loosley, and other members of its staff.

(22759)

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ECONOMIC CONTROLS AND COMMERCIAL POLICY IN CHILE

Introduction

Chile--a summary description.

The Republic of Chile,^{1/} which occupies the entire southern section of South America between the crest of the Andean range and the Pacific Ocean, has a greater inhabited north and south range than any other country in the world. Extending approximately 2,600 miles, its width varies from 46 to 250 miles. Its total area, 296,717 square miles, is slightly smaller than that of California, Oregon, and Washington combined. Chile is bordered on the north by Peru and on the east by Bolivia and Argentina. The greater part of the country is a series of valleys between the Andes and the much lower coastal range; below about latitude 42° S., the coastal range becomes a series of islands which fringe the mainland.

Its extreme length and the variations in altitude give Chile virtually every variety of climate. The country may be divided into three regions-- northern, central, and southern. The northern region, which extends from the Peruvian border to about latitude 32° S., consists, in its more northerly section of sandy desert and barren mountains containing the nitrate and borax deposits. The southern section is a semidesert, rich in a variety of minerals. There is a limited rainfall in the winter months and, with the aid of irrigation, some agriculture is carried on.

Central Chile, from latitude 32° to 42° S., or from about Valparaiso to Puerto Montt, is the agricultural section of the country. It is also the center of the manufacturing industries and contains the principal cities. Between the Andes and the coastal range lies the plain known as the Central Valley of Chile. Here the summers are hot and dry, but the winters are mild, with plentiful rainfall. The soil is fertile and intensively cultivated. In the southern part of this region are extensive forests and mineral deposits.

Southern Chile, from about latitude 42° S. to Cape Horn, is a region of lower temperatures and of heavy precipitation, which in some areas exceeds 100 inches a year. Dense forests are found up to elevations of 5,000 to 6,000 feet, and pasture lands for cattle and sheep are located throughout the area.

According to the census of 1940, the population of Chile totaled 5,001,000,^{2/} about one-half of which was urban. The density is somewhat more than 15 persons to the square mile, but more than three-fifths of the population is concentrated in the central region embracing only one-fifth of Chile's total area. In large parts of the northern desert and semidesert regions the population does not exceed 3 persons to the square mile, and, in the southern Province of Magallanes, it is considerably less than 1 person to the square mile.

^{1/} Officially known as República de Chile.

^{2/} An official estimate for December 1942 gave the population as 5,165,000.

The Chilean economy.^{1/}

Despite the predominance of minerals in its foreign trade, by far the larger part of Chile's population is engaged in agriculture. Although agriculture is carried on in other parts of the country, middle Chile, that region extending from above Valparaiso on the north to Valdivia on the south, is the chief agricultural area. The principal cereal crop is wheat, but large quantities of barley and oats are grown, as well as smaller quantities of rye and corn.

There has been considerable development of fruit growing in the regions surrounding Valparaiso and Valdivia, the principal products being apples, peaches, pears, figs, plums, cherries, apricots, melons, various berries, oranges, and lemons. Grape culture also is an important industry; the fruit is grown not only for table use but also for the rapidly growing domestic wine industry. A wide variety of vegetables is grown, including beans, peas, lentils, chickpeas, potatoes, and onions; large quantities of all of these, except potatoes, are exported. Most of the sugar and cotton consumed in Chile is imported.

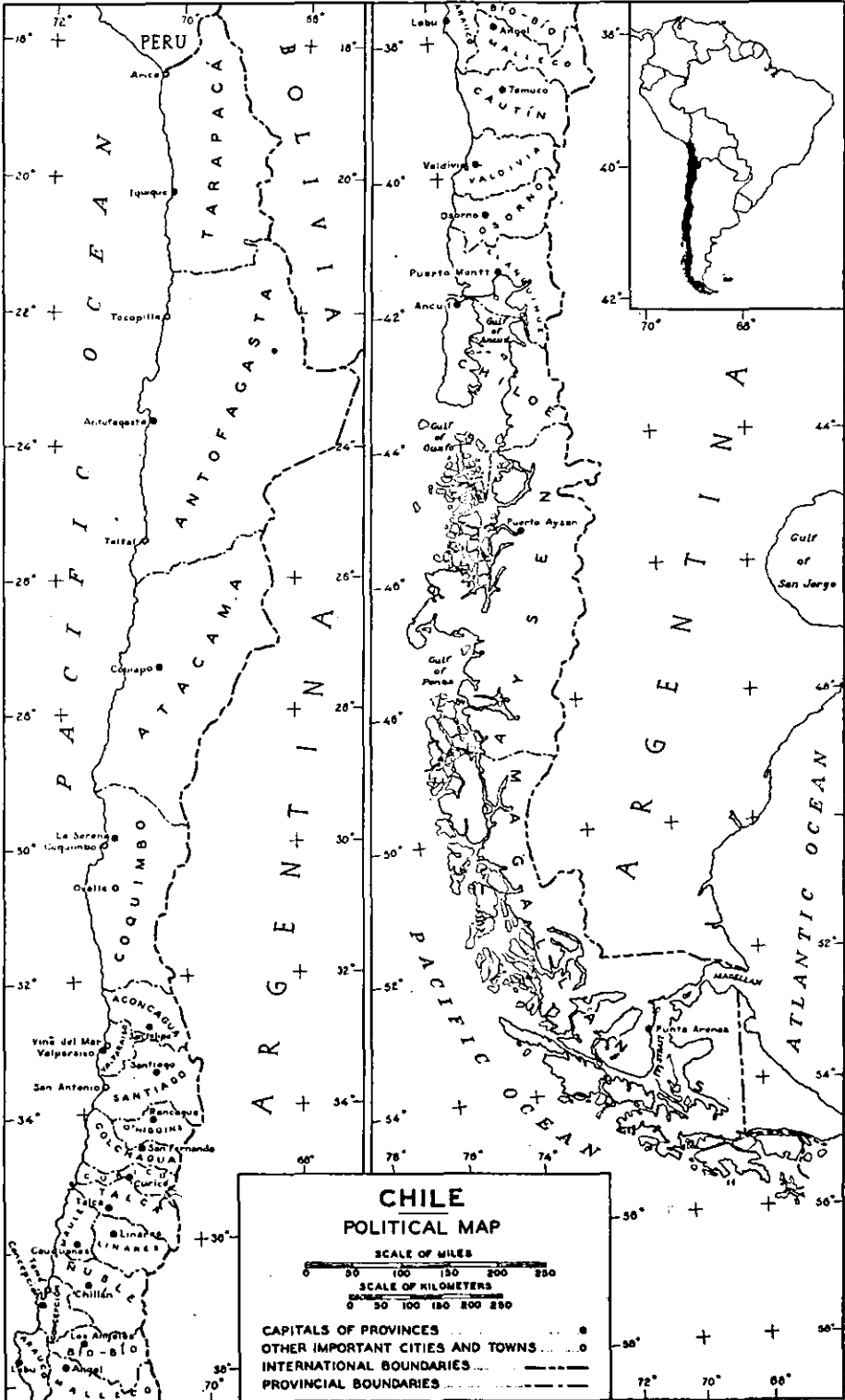
Chile's international trade depends largely on mining, especially of copper, and on the production of nitrates. In 1938 minerals constituted more than 78 percent of the total value of exports. Chile ranks second only to the United States in the production of copper. Chile is the only country in which deposits of sodium nitrate exist in quantities sufficient for commercial exploitation. As a result of the development of synthetic-nitrogen processes in consuming countries, however, nitrate production no longer holds the position it once did in the Chilean economy.

Deposits of copper are found in the coastal range and in the lower slopes of the Andes, in both the northern and central regions. In 1938 Chile furnished 18 percent of the total world output of copper and 70 percent of the total Latin American production. In 1935 nearly 14,000 workers (exclusive of clerical and technical staffs) were employed in the copper-mining industry, which is controlled in large part by United States interests.

Chile, the chief coal-producing country of Latin America, has long had an annual output of about 1,250,000 metric tons. The low quality of Chilean coal, however, as well as the high costs of extraction and the lack of adequate port facilities, has made it impossible to export coal. The iron-ore deposits of Chile have been actively exploited for many years. Production of iron ore in recent years has been about 1.5 million long tons annually, all of which is exported to the United States. Numerous other minerals are mined, including gold, silver, manganese, cobalt, molybdenum, borate of lime, salt, lead, aluminum, bismuth, mercury, mica, zinc, and sulfur.

Much of the region south of Valdivia (between latitudes 37° and 44° S.) is forested and possesses an abundance of commercially valuable timber, including both soft and hard woods, suitable for nearly all construction and industrial uses; the stand of soft woods, however, is limited. In the northern section substantial areas which were originally forested have been cleared for farming; excessive rainfall, characteristic of the southern section, renders lumbering operations there difficult. Despite these climatic and topographical obstacles, more than 600 sawmills are in operation.

^{1/} This brief description of the Chilean economy relates principally to the period before the outbreak of the war.



Chile is an important livestock country. In 1938, however, exports of pastoral products constituted but 7 percent of total Chilean exports, the most important being wool, hides and skins, and fresh and frozen meats. Sheep raising is the most important pastoral activity. In 1910 the number of sheep in the country was 1.6 million; by 1912 it had increased to about 4 million, at which level it remained until after 1925. Since 1929 the number of sheep and lambs in Chile has been somewhat in excess of 6 million, about two-fifths of which have been grazed in the southern Province of Magallanes. Beef cattle raising in Chile is largely for the domestic market, although quantities of cattle hides are exported. The number of cattle in 1937 was nearly 2.5 million. Goats, hogs, and horses also are raised, as well as cattle for dairy purposes.

According to data for 1940, about 116,000 persons were employed in 4,169 principal manufacturing establishments. Most manufacturing takes place in the Santiago and its vicinity. Only two other districts, Valparaiso and Concepción, have any considerable significance in manufacturing. As a result of industrial development, the importation of many consumer goods has virtually been eliminated. In the decade 1929-38 there was a marked increase in the Chilean production of cotton and woolen, as well as of rayon and silk textiles. Most Chilean manufacturing is on a small scale, however, and costs of production are relatively high. The principal products manufactured are foodstuffs and beverages, textiles, chemical products, leather and leather goods, and metal products.

Pre-war foreign trade.^{1/}

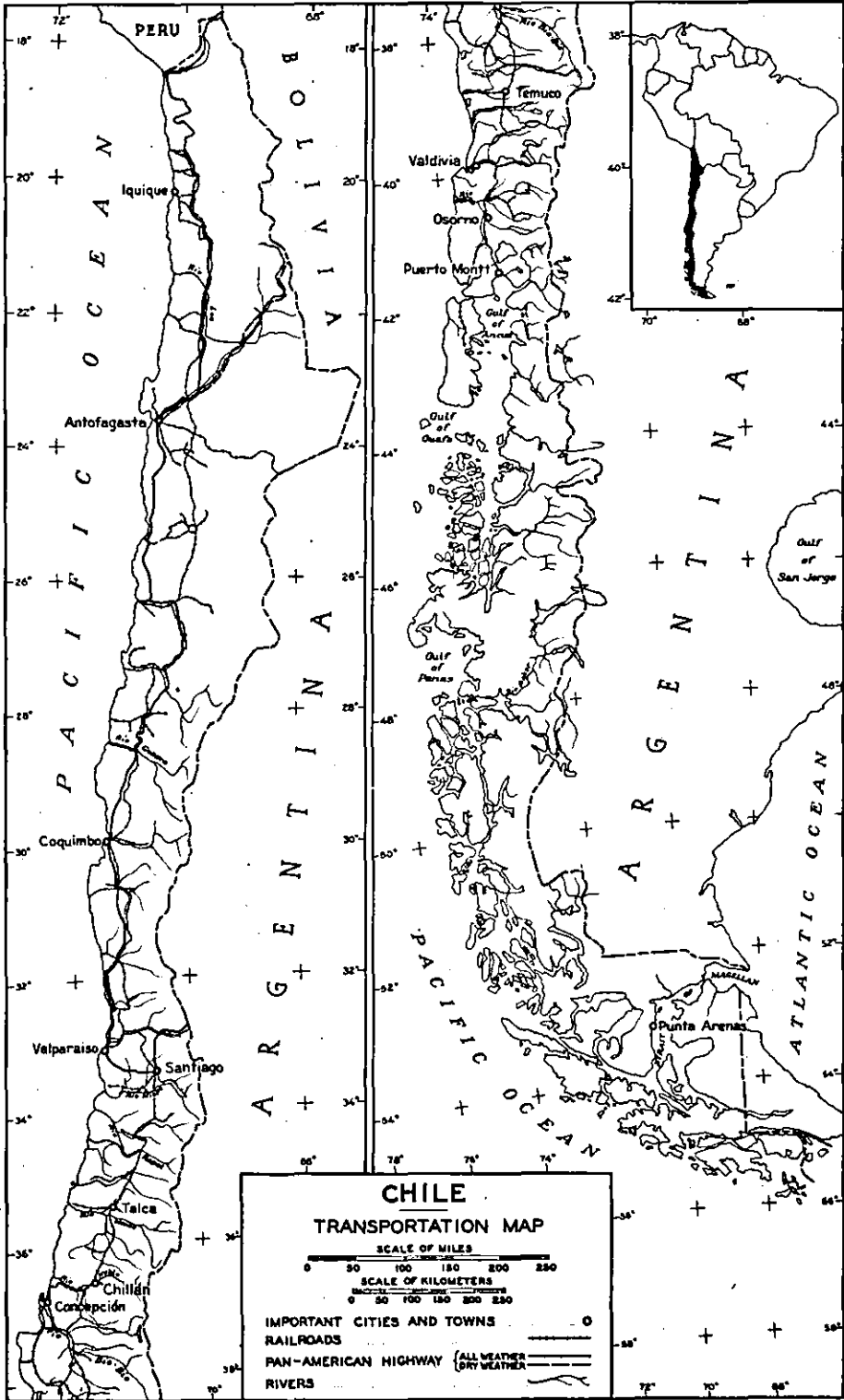
In 1938 Chile ranked sixth among the nations of Latin America in value of foreign trade and fourth among those of South America. Its exports were valued at 682 million pesos of 6 pence gold (141 million dollars),^{2/} or about 8 percent of all Latin American exports and nearly 10 percent of those from South America. Imports into Chile in 1938 amounted to 499 million pesos (103 million dollars), or 7 percent of the value of all commodities imported into the 20 Latin American countries, and nearly 9 percent of those imported into the 10 South American Republics.

The value of exports from Chile usually exceeds that of imports into the country. In 1938 the export balance was 184 million pesos of 6 pence gold (39 million dollars); in 1937, however, it reached 519 million pesos (107 million dollars). The average annual export balance in the 10 years 1929-38 was 228 million pesos. Mining enterprises are largely controlled by foreign companies; a substantial part of the value of Chilean mineral exports, therefore, does not become available to the country in the form of foreign exchange.

The most notable features of the Chilean export trade are the dominant positions occupied by copper and nitrate, the recent shift in the positions of the two commodities, and the small volume of agricultural and pastoral exports. In the period 1900-13, nitrate accounted for 75 percent of all Chilean exports, while copper constituted only 5 percent; by 1938, however, exports of copper represented nearly 50 percent of total exports whereas nitrate had declined to about 20 percent. The principal markets for Chilean exports in 1938 were the United Kingdom (22 percent), the United States (16 percent), Germany (10 percent), and Belgium (8 percent).

^{1/} The effects of the war on the foreign trade of Chile are discussed in U. S. Tariff Commission, Recent Developments in the Foreign Trade of Chile, 1945 [processed].

^{2/} Chilean trade statistics are recorded in pesos of 6 pence gold. Since 1934 this "trade" peso has been equivalent to \$0.2061 in United States currency.



In the decade 1929-38 the import trade was greatly influenced by the development of domestic manufacturing, which was stimulated by import duties, the depreciation of the peso, and the policy of the Exchange Control Commission of allocating exchange, insofar as possible, only for commodities considered essential and which were not manufactured within the country. Chilean imports consisted chiefly of textiles and their manufactures; unworked iron and steel and iron and steel manufactures; machinery, accessories, and tools; chemical products; transport material and accessories; and miscellaneous manufactured products (chiefly consumer goods). In 1938 manufactured products (not including processed foodstuffs) accounted for more than three-fourths of total imports, in value. The principal sources of Chilean imports in 1938 were the United States (28 percent), Germany (26 percent), and the United Kingdom (10 percent).

General Character of Economic Controls and Commercial Policy

The Government of Chile currently maintains numerous controls over both the internal economy and the foreign trade of the country. Governmental measures affecting foreign trade are directed to a variety of objectives such as the raising of an important part of national revenue, the protection of domestic industries, the promotion of industrialization, the mitigation of difficulties associated with exchange shortages, the allocation of available foreign exchange, and the control of the flow of strategic materials. Internal controls are directed to the achievement of social and economic objectives, which embrace the stabilization of the important nitrate industry, the raising of public revenue, the promotion of manufacturing and industrialization, the stabilization and rationalization of industrial production, the stimulation of agricultural production and exports, the conservation of materials essential to the domestic economy, and the control of prices and inflation.

Customs duties are the major source of national revenue in Chile but have been increasingly used in recent years for protective purposes. Administrative control of the tariff is characteristic, with broad discretionary powers delegated to the President. There are minor taxes on imports in addition to those provided for in the tariff act. Export taxes, which in the past were of great importance, now play a minor role in Chilean foreign trade; such taxes are still imposed but on a very limited group of commodities. The present license and quota system for imports was inaugurated in 1932; permits are required for all imports, and quotas may be established on imports of any commodity. Foreign exchange control has been in effect since 1931; private exchange transactions are prohibited, and all such activities are subject to the control of the Exchange Commission and the Central Bank. Chile has supplemented its exchange-control system by the negotiation of a series of compensation and clearing agreements. Before the outbreak of the war in 1939 these agreements played a vital role in the trade with nearly a dozen countries. Measures taken since the beginning of hostilities have been those designed to prohibit or control the reexport of strategic war materials, to control the destination of exports of Chilean-produced metals, and to embargo the export of certain products essential to the domestic economy.

The depression beginning in 1929 and the outbreak of international hostilities a decade later created serious disturbances in the Chilean economy. Measures have been adopted, therefore, designed, in part, to alleviate these dislocations and, in part, to provide for the long-range expansion of domestic industry. Some of these measures established new governmental agencies, which have assumed an influential position in the

economic life of the nation. Among these are the following: the Development Corporation, the Agricultural Export Board, the Commissariat General of Subsistences and Prices, the National Supply Board, the Petroleum Supply Board, and the Rubber Supply and Control Commission. Before the creation of these agencies the most important Government controls related to the nitrate industry.

In 1930 Chile abandoned its export tax on virtually all nitrates. The Cosach Corporation (Compañía de Salitre de Chile), organized by the Government at that time to exercise a monopoly of the production and sale of all nitrates, has been replaced by the semi-official Chilean Nitrate and Iodine Sales Corporation. This corporation has been granted a monopoly of the sales of all nitrates and iodine and shares its profits with the National Government to the extent of 25 percent.

The Development Corporation was organized by the Government in 1939 and has been very influential in the economic life of the nation. It has stimulated industrial production, financed new industries, constructed hydroelectric plants, built up stock piles of certain commodities, and taken other measures to stabilize the economy during the war crisis. The Agricultural Export Board created in 1930 has authority over the marketing and export of agricultural products. Its power to impose maximum and minimum prices for wheat and wheat products has been exercised frequently. The Commissariat of Subsistences and Prices has been active since 1939. Designed originally to rationalize industrial production, this agency has used its broad powers extensively to control production and prices. Under the impact of the war the Commissariat has functioned as the chief price-control agency and has assisted in rationing scarce materials. Three additional agencies that have been formed to direct the conserving and rationing of certain categories of goods are the Petroleum Supply Board, which has inaugurated a system of rationing of petroleum products; the Rubber Supply and Control Commission which performs similar functions with regard to rubber; and the National Supply Board, which has power to regulate the importation, distribution, and consumption of all vital materials not controlled by special boards.

Economic Controls and Commercial Policy before 1940

Like other republics of the Western Hemisphere, Chile had embarked on a program of trade and exchange regulation and assistance to industry before 1940. In fact, it was the second nation in the Americas to adopt exchange control (1931), and its program of economic control in general has been somewhat more extensive than that inaugurated by most of the other countries of the new world. Before the outbreak of World War II, these controls included the tariff and other charges against imports, export duties, exchange control, licenses and quotas, compensation and clearing agreements, a nitrate sales monopoly, a national development corporation, an agricultural control board, and an agency empowered to rationalize basic industries.

The tariff.

The basis of the present Chilean tariff is found in the act of 1928.^{1/} Until the 1930's the tariff was imposed principally for revenue. Increasing use of it, however, has since been made for protective purposes; such a trend was manifested in the important modifications of the basic law of 1928 made by decree in 1931 and 1932.^{2/} From time to time since, other changes have been effected, by unilateral action or by international agreement.

^{1/} Law No. 4321, Diario Oficial, February 27, 1928.

^{2/} Decree Law No. 296 of May 20, 1931; and Decree-Laws No. 547 and 548 of 1932.

The law designates the prescribed rates as the "minimum" tariff but provides that the Executive may make temporary reductions below this level. The prescribed "minimum" rates apply only to countries which do not discriminate against Chilean exports; in other words, to countries which grant most-favored-nation tariff status to Chilean products. The Executive has been given the power to raise duties by as much as 50 percent on imports from countries which discriminate against or place unreasonable restrictions on imports of Chilean products. These rates are applied only for penalty purposes.

The tariff duties of Chile are almost exclusively specific rather than ad valorem, being expressed in pesos per unit of weight, count, volume, and so forth. The rates of duty are specified in gold pesos; for customs purposes the peso has continued to be valued at sixpence gold.^{1/} Historically, the commercial policy of Chile has been to extend equal treatment to all nations, except for preferences on the products of bordering countries. In trade relations with the world at large, the general practice has been to follow the most-favored-nation policy with an unconditional interpretation. Since 1931, however, Chile has moved definitely toward the use of its tariff for bilateral bargaining.

Executive control of the customs tariff has become a very significant characteristic of Chilean policy. The authority of the Chilean Executive to determine and modify the effective tariff rates is broad and to a great extent discretionary; moreover, that authority has been used extensively. The President has been vested by the Congress with the following powers:

- (1) To reduce tariff rates on prime necessities. The maximum reduction allowable under the law is 50 percent.
- (2) To reduce import duties in commercial agreements with other countries whenever the economic interest of the country make it advisable. These reductions are limited in operation to a period of 1 year unless ratified by legislative authority.
- (3) To raise tariff rates on imports "analogous" to goods produced locally in adequate quantities. The determination of what imports are "analogous" to Chilean products is left to the Executive. On imports found to be in this category the Executive may increase duties by not more than 35 percent of the basic rate and subject the prices of both imports and corresponding domestic products to such regulation as he deems appropriate. This measure was designed to implement the nation's recent program of economic development.
- (4) To increase rates upon commodities from countries which discriminate against Chilean exports. The import duties specified in the basic law of 1928 constitute the "minimum" tariff and are to be applied only to countries which likewise apply their minimum tariffs to Chilean products. The President may increase up to 50 percent the duties on imports from countries which do not grant Chilean products most-favored-nation treatment or which do not accord reasonably liberal treatment to Chilean products. In the case of duty-free articles, he is authorized to impose rates up to the equivalent of 15 percent ad valorem.

^{1/} The equivalent since 1934 of about \$0.20 United States currency. Since 1937 the foreign-exchange value of the Chilean peso has varied from 3 to 5 cents United States currency.

(5) To cancel or alter the above modifications when the circumstances which motivated them no longer obtain.

(6) To assimilate or incorporate additional items into the tariff schedules by the interpretation of existing rates. From time to time occasions arise which require the interpretation of existing rates and the designation of the treatment to be accorded items of trade not specifically mentioned in the tariff. This power is usually exercised by the General Customs Board (Junta de Aduanas).

Additional imposts on imports.

In addition to duties provided by the tariff law, other charges are levied against imports. These include a so-called statistical tax, a warehousing tax, and transfer charges through the customs. The statistical tax involves a charge imposed in lieu of consular invoice fees and after 1930 amounted to $3\frac{1}{2}$ percent of the c.i.f. value of all imports. The warehousing tax is collected by the customs houses for services rendered and usually is levied as a fixed percentage of the total amount of duties collected. The third charge, known as "movilización," is strictly a port charge for the maintenance of port services.

Export duties.

By 1939 export duties had ceased to play a prominent role in Chilean public finance. During the more prosperous years of the nitrate industry the export tax on nitrates alone paid as much as 68 percent of the cost of the Central Government. The duty on exports of nitrate and iodine was completely removed at the time the Chilean Nitrate and Iodine Sales Corporation was established in 1934; by 1937 export taxes had ceased to contribute as much as 1 percent of the national revenue. At the outbreak of World War II, however, export duties were still levied on shipments of boric acid, hides and skins, dried and canned fruits, and iron ore.

The system of exchange control.

The collapse of world commerce following the economic crisis of 1929 and the manifold restrictions on trade imposed by the major industrial nations to curtail imports and to promote economic self-sufficiency created serious problems for many countries of Latin America. The consequent reduction in the value of their exports created shortages of exchange with which to service the foreign debt and to purchase essential imports. Like other nations of the Western Hemisphere, Chile, attempted to meet these difficulties in part by the introduction of exchange control.

Exchange operations in Chile have been subject to a somewhat variable degree of Government control since the passage of the law of July 30, 1931.^{1/} This law created an Exchange Control Commission (Comisión de Cambios Internacionales). The Commission was given control over exchange and thereby over imports and exports. The law prohibited the exportation of gold, except as authorized by special permits, and also prohibited private exchange transactions or trade contracted in terms of foreign currencies. Complete control over foreign exchange was delegated to the Central Bank of Chile (Banco Central de Chile).

^{1/} Law No. 4973, July 30, 1931, modified by Law No. 5107, April 19, 1932.

The Exchange Control Commission was authorized^{1/} to require exporters to surrender foreign exchange to the Central Bank at the official rate up to 20 percent of the value of Chilean exports. The actual percentages set by the Commission have ranged from the maximum for a few articles to as low as 1 percent. Exporters have had to guarantee that the balance of the foreign-exchange value of each shipment would be used only for authorized purposes. They have thus been permitted to utilize the balance in payment for approved imports or to sell it to third parties for that purpose. Originally it was intended that the exchange rates for these balances should be determined in a relatively free market, but the exchange transactions conducted through channels other than the Central Bank also were brought under official control. Controlled exchange rates,^{2/} other than the official rate, have been established (the export draft rate and the controlled "free" rate—D/P). The Exchange Commission has determined the purposes for which the balances—the foreign exchange received by the exporters not required to be surrendered to the Central Bank at the official rate—might be used or the rates at which such balances or portions of such balances can be sold by the exporters.

The basic laws establishing exchange control provided special treatment for four important export products—copper, nitrates, iodine, and iron; these exports create the major portion of foreign exchange in Chile. In recognition of the fact that industries producing these commodities have been financed by foreign capital and have current obligations to pay interest and dividends and to amortize capital, they have been exempted from the provision that all exchange balances arising from exports must be made available for approved imports. For exports of these commodities only the equivalent of the domestic costs of production are delivered to the exchange authorities at specified rates varying from time to time.

Importers have had to make all payments subject to the regulations of the exchange authority. They have been required to apply to the Exchange Control Commission to receive preauthorization (autorización previa) or import permits. Such permits are granted in most instances on a quota basis. Before the goods are allowed to enter the country, three separate authorizations must be secured: (1) Preauthorization, (2) entry authorization, and (3) exchange authorization. The proceeds of exports to countries with which Chile has compensation agreements, are not, as a rule, freely available for the purchase of imports; consequently, control arrangements vary. The usual practice has been to issue import licenses (preauthorization) to the importers of goods from these countries; the issuance of such licenses depends almost wholly upon the extent to which arrangements can be made to import an equivalent value of Chilean products in return.

Chile has followed a program of husbanding its exchange and budgeting its balances in order that they may be used for the more urgent purposes. The policy has been to give preferential exchange rates, or to extend priority in granting permits, to the importation of commodities considered to be national necessities. When these commodities are imported from several countries, preference is given to those countries which purchase the largest amount of Chilean exports.

The law of 1932 authorizes the Central Bank to determine the exchange rate for the peso. This rate is known as the official rate. By 1940

^{1/} Decree -Law No. 646, September 26, 1932.

^{2/} In 1939 the average selling rates for Chilean exchange were as follows: Official rate—\$0.0517; export draft rate - \$0.04; curb market rate - \$0.0307; and free market rate (D/P) - \$0.0322.

there were four rates at which foreign exchange transactions were made: The official rate, the export draft rate, the curb rate, and the free rate. In addition, there were various compensation rates which applied only to the trade with countries with which compensation agreements had been negotiated. By 1940 virtually no exchange at the official rate was available to private importers. Funds surrendered to the Central Bank at this rate were used chiefly (1) for the service of the foreign debt by the Chilean Government and its agencies, and (2) for the payment of imports by authorized agencies of the Government. At the close of 1939 the export draft rate was not generally available for most goods imported; exchange in this market was obtainable only for a restricted list of "necessity" commodities. Dealings on the curb, or the so-called "black market", were illegal and usually involved the transfer of funds which did not have the approval of the exchange authorities. The legalized free rate, often designated as D/P (disponibilidades propias—or "private exchange funds"), was established March 8, 1939. On that date, Chilean banks were authorized by the Exchange Control Commission to deal in curb (uncontrolled) exchange. Exchange available for this market consisted of miscellaneous checks, drafts, travelers' checks, drawings under letters of credit, mail and cable transfers, gold exports, and in general sources other than exports of commodities. Previously, most of these funds had found their way into the curb market. The demand for D/P exchange came partly from those authorized to import certain types of goods but not authorized to obtain exchange cover at the export draft rates, and partly from those making remittances abroad on account of profits, rent, interest and amortization on foreign-owned capital. When the legalized free rate was first established only imports of luxury products were ordinarily covered by payments at the D/P rate.

License and quota controls.

In order to supplement and facilitate the administration of other trade restrictions, Chile inaugurated a system of licenses and quotas for imports. Quota restrictions, or other controls which in effect had the general characteristics of quotas, were of three types: (1) Official quotas, (2) systematic exchange allocation on a quota basis, as previously described, (3) non-recurring allocation of given amounts of exchange for specified imports.

The first type, official quotas, was provided for by the law of 1932¹ establishing the basic license and quota system. The system is administered by the Commission of Import Licenses. Quotas may be established for the total imports of any specified product and also for the imports thereof from any specified country. Before 1940 such quotas had been established for only a few products, including sugar, bananas, calcium carbide, flat glass, electric-light bulbs, wheat, jute bags, and woollens.

Systematic exchange allocation provides a second type of quota. Import permits (preauthorization) are required of all importers. The right of the exchange authorities to grant or refuse permission to import has been exercised as a right to maintain quantitative limitations on imports of particular goods.

The third type of control, frequently referred to as a quota, arises in connection with the day-to-day allocation of exchange when such allocation is accompanied by a quantitative restriction on imports. In addition to preauthorization, the Exchange Control Commission has exercised the right to grant or refuse authorization to purchase the exchange necessary to cover imported goods. This very process of conserving and assigning balances results in a system of "exchange allocation quotas."

¹ Decree-Law No. 138, Diario Oficial, July 29, 1932. This act was superseded by Law No. 5202, Diario Oficial, July 24, 1933.

Limited use also has been made of export quotas. The Executive was authorized by the Congress to fix quotas on agricultural exports. In the decade prior to 1940 quotas were fixed for a few commodities, including melons, garlic, and beans. These measures were inaugurated, at times, to preserve the domestic supply, to check rising prices, and, at times, to stabilize the supply of Chilean products in foreign markets. Quotas on melons, shipped to the New York market were invoked on a recurring annual basis to safeguard producers and shippers from the loss that would result from excessive exports.

Commercial treaties and agreements.^{1/}

Under the Chilean Constitution the Executive has the power, subject to ratification by the National Legislature, to negotiate and sign all treaties, including compensation and clearing agreements. Since 1930, the negotiation of all treaties and international agreements has been carried on under the direct guidance and control of a special inter-departmental committee.

Chile has supplemented its exchange-control system by the negotiation of a series of compensation agreements which have usually provided that imports from the other countries concerned shall be in an agreed proportion to the Chilean goods sold to them. These agreements may operate to favor the importation of products from the countries with which such agreements are in effect. Thus, total imports from Germany under the compensation agreement increased from 25 million gold pesos (5 million dollars) in 1934 to 100 million gold pesos (20 million dollars) in 1936, and to 129 million gold pesos (27 million dollars) in 1938.

In the decade before 1940 formal compensation or clearing agreements had been concluded with the following countries: France (1932, 1934, 1935, 1936); Belgium (1933, 1938); Spain (1933); Sweden (1933); Denmark (1934); Germany (1934, 1935); the Netherlands (1934); Switzerland (1934); and Czechoslovakia (1934, 1936). Private compensation or clearing agreements of the Chilean Nitrate Sales Corporation or Chilean banks had been in effect with nitrate or banking organizations in Denmark (1933) Austria (1934); Brazil (1934, 1940); Italy (1934); and Bolivia (1937).

At the close of 1939 most-favored-nation treaties or agreements were in force with Argentina (1938), Brazil (1936), Colombia (1926), Germany (1934), the United Kingdom (1934), and the United States (1938); in addition, there were agreements with Belgium (1938), the Netherlands (1939), and Peru (1939), exchanging reciprocal tariff concessions as well as most-favored-nation agreements.

Nitrate sales monopoly: The Chilean Nitrate and Iodine Sales Corporation.

The Chilean Government has for many years participated directly in the control of the nitrate industry which produces one of the country's principal exports. Prior to 1930, the export tax on Chilean nitrates equivalent to (\$12.33 United States currency per metric ton since 1897) had been a major source of Government revenue. In 1930 Cosach (Compañia de Salitre de Chile), was organized; to this corporation was granted a monopoly over the production and export of nitrate. The Government assumed a one-half interest in the corporation and it therefore was to

^{1/} See U. S. Tariff Commission, The Foreign Trade of Latin America, 1942, pt. 2, vol. 1, pp. 112-113.

participate in the earnings. An important step at this point was the elimination of the export tax.

The incorporation of Cosach represented an attempt to reorganize the Chilean nitrate industry in order to relieve the distress which had followed the first World War and the rise of the synthetic nitrate industry. Producing companies in Chile were merged into a single consolidated enterprise, and it was anticipated that this consolidation would lower the selling price of Chilean nitrate and improve its position in the world markets. This was to be achieved, first, by eliminating the burden of the export tax and, second, by lower costs of production through the economies of concentrated control and management. This venture, however, was unsuccessful; under the burden of heavy fixed charges the company defaulted on its bonds. Both the price and foreign purchases of Chilean nitrates declined sharply following 1930.

On January 8, 1934, the Chilean Nitrate and Iodine Sales Corporation (Corporación de Ventas de Salitre y Yodo de Chile) was organized and Cosach was dissolved. It is through this agency—a semiofficial public corporation—that the Government now exercises its control over the industry.^{1/} The Corporation is not concerned directly with the production of nitrates, but it has a monopoly over all sales and exports. It was given the exclusive right for 35 years to purchase nitrate and iodine from all producers at cost and to distribute them in the world market.

After a short period in which provision was made for an assured income to the Government, the Corporation was directed to divide the profits, 25 percent to the Government and 75 percent to the producers. The Government share of the profits is earmarked for the service of Chile's foreign debt. The Corporation assigns production quotas and, in order to prevent competitive production and sales, distributes the income to the participating companies on the basis of the established quotas, regardless of which company's product is actually sold.

The Development Corporation.

The Development Corporation (Corporación de Fomento de la Producción), which is financed and controlled by the Government, will probably prove to be the most important and extensive direct participation by the Government in the actual economic operations of the country for some time to come. Created in April 1939^{2/} following the destructive earthquake in January of that year, the Corporation was formed with the stated objectives of providing a planned industrial development of Chile, raising the standards of living, and improving the Chilean balance of international payments. An extensive program was drawn up to assist agriculture, industry, and mining. The plan called for the expenditure by the Corporation of 90 million pesos to promote agriculture. The projects included financing the importation and purchase of improved agricultural machinery; providing credits for the purchase of fertilizer; the formulation of programs to improve the quality of breeding stock, to develop orchards, and to improve plant husbandry; and irrigation projects.

The most impressive of the projects to aid industry was one providing for the development of hydroelectric power throughout the country. This called for the financing of numerous small electric plants and the formation of larger regional generation enterprises. Additional projects under way before the outbreak of the war included a program to construct

^{1/} Of the Corporation's 11 directors, 5 are chosen by the Government, 5 by the nitrate companies, and 1 (the chairman) by the directors themselves.

^{2/} Decree-Law No. 6334, April 29, 1939.

refrigeration plants, operations to improve transportation facilities (including highways and railroads), the development of the fishing industry, and the construction of a merchant marine.

A total of 25 million pesos was allocated for various mining undertakings, including the development of copper-oro production, the installation of copper and gold smelters and refineries, and the construction of an electric steel furnace.

State control of the petroleum trade.

Regulation of the petroleum trade, more comprehensive in its authorization than in its application, was embodied in two decrees promulgated in 1932. Chile is entirely dependent on imports of petroleum. The first^{1/} decree reserved to the State the exclusive right of importing, distributing and selling petroleum products. The second^{2/} reaffirmed the basic premise set forth in the earlier law, but provided for a less intensive control. The first law has never been invoked. Under the second law two varieties of control have been applied; in 1932 it became the basis of a system for rationing gasoline, which was abandoned in 1933 but renewed in 1942. In December 1937 this law was invoked in connection with the regulation of the prices of gasoline throughout the Republic.^{3/}

The Agricultural Export Board.

The Agricultural Export Board (Junta de Exportación Agrícola) an independent governmental agency, was created in 1930.^{4/} This board, composed of seven members appointed by the Executive, was given general administration of a law designed to encourage the production and exportation of agricultural products. It was authorized to administer the payment of bounties and export subsidies to develop new foreign markets and to fix prices of agricultural products in the domestic market. Early in 1931 the Board fixed a minimum price for wheat; in 1933 it used its authority to extend a previously imposed export bounty on oats.

In 1935 the powers of the Board were greatly extended.^{5/} Authority was given to it to trade in wheat and its derivatives which enabled it to purchase wheat on its own account and to export it, or, in the case of necessity, to act as an importer. This authority carried with it the right to purchase any equipment or plant essential to the execution of its export-import activities. The Board could, likewise, fix the prices of bread and flour.

Since its inception, the Agricultural Export Board has assumed a role of increasing importance. In 1939, its authority was again extended and broadened to include the right to buy, sell, and deal in other agricultural products as well as wheat.^{6/} In the exercise of its responsibilities the Board has not only controlled maximum prices of wheat, flour, and bread, but has used its influence to secure modifications of railway freight rates.^{7/}

^{1/} Decree-Law No. 5124, Diario Oficial, May 17, 1932.

^{2/} Decree-Law No. 519, Diario Oficial, September 5, 1932.

^{3/} Decree-Law No. 144, Diario Oficial, December 2, 1937.

^{4/} Law No. 4912, December 18, 1930.

^{5/} Law No. 5713, Diario Oficial, October 4, 1935.

^{6/} Law No. 6421, Diario Oficial, October 10, 1939.

^{7/} In July 1942 the functions of the Agricultural Export Board were taken over by the Institute of Agricultural Economy (Instituto de Economía Agrícola).

The Commissariat General of Subsistences and Prices: Price and production control before 1940.

One of the newest and most active agencies of economic control before the outbreak of the war was the Commissariat General of Subsistences and Prices (Commissariat General de Subsistencias y Precios) whose authority rests on the Law Governing Overproduction adopted in 1932.^{1/} This law was not placed in effect until July 1939,^{2/} but since then it has been applied with increasing vigor. Broad powers were granted to the Commissariat. It can declare an industry in a state of overproduction, and thereafter control prices, close plants, grant import monopolies, restrict the expansion of new plant capacity, fix standards for the quality and containers of regulated products, take measures to prevent hoarding and speculation, and modify the customs duties on goods competing with the articles subjected to regulation. It has authority to designate commodities to be "articles of prime necessity" and to subject the industries concerned to regulation with regard to manufacture, importation, exportation, distribution, transportation, quality, weight, and measurement. The Commissariat was fairly active in the exercise of these powers even before the outbreak of the war; numerous decrees were issued, fixing prices and regulating the trade of a wide variety of articles of common consumption, including rice, potatoes, coal, sugar, alcohol, candles, shoes, beans, and wheat.

Economic Controls and Commercial Policy Since the Outbreak of the War

The outbreak of the war in September 1939, created serious dislocations in the economy of Chile. Foreign sources of raw materials and supply were disrupted, and established markets were lost. A crisis in shipping prevented the usual movement of goods to countries still able and willing to purchase them, and the blockade closed other markets completely. Established industries producing such commodities as iron ore, wool, lentils, and fruit were confronted with critical conditions because of the wartime loss of markets, but as a result of the war, the production of nitrate expanded and that of copper reached a record high. These disruptions of foreign markets brought about a further deterioration in an already complicated exchange problem. A shortage of raw materials and other basic essentials became acute in numerous industries. To meet these difficulties the Chilean Government adopted official measures to mitigate dislocations and to preserve so far as possible the stability of the domestic economy. Moreover, the commitments made by the Chilean Government to promote hemispheric solidarity,^{3/} and the action of January 20, 1943, severing diplomatic relations with Germany, Italy, and Japan, called forth new measures to implement this policy.

Modification of import duties.

Since the beginning of the war tariff changes in Chile have been sporadic. There have been few increases in import duties. By Executive decree the rates on undressed fur skins and light refrigeration equipment was increased in 1941. In addition, numerous articles not specifically provided for in the tariff schedule were given definite classification. More significant, however, were the tariff reductions. Recently the Government of Chile has followed a policy of reducing the tariff rates which apply to articles of prime necessity. In accordance with this pol-

^{1/} Decree-Law No. 281, Diario Oficial, August 17, 1932, and Decree-Law No. 520, August 30, 1932, Diario Oficial, August 31, 1932.

^{2/} Decree-Law No. 1649, Diario Oficial, November 14, 1939.

^{3/} Conferences of Foreign Ministers of the American Republics--Panama, 1939, Resolution IV, Habana, 1940, Resolution XII; and Rio de Janeiro, 1942, Resolution XIII.

icy, a series of decrees in 1940 reduced rates of duty or extended the duration of previous reductions on several items. Reductions were granted on fuel oil, kerosene, and jute fiber; previously reduced rates on imported sheep were extended for an additional 3 years. In the same year an acute coal shortage in Chile led to a suspension of the duty on coal. Likewise, a lower rate on gasoline was established in order to check the rise in domestic price. Concessions were granted on specified grades of naphthols to assist the development of the aniline industry. Government purchases of imported cement by the Development Corporation were exempted from all import charges.

In 1941 whisky and other distilled liquors from the United States were accorded more favorable treatment formerly granted only to French products. Concessions were made on articles declared to be prime necessities and of vital importance to low income groups, including sugar and fuel oils. The rate of duty on asphalt used for public roads was lowered. Construction materials, imported by the Government-owned Reconstruction and Relief Corporation, were admitted free of duty. Additional items receiving favorable tariff treatment in 1941 were safety-razor blades, tourist literature, trophies, and gifts. In the first months of 1942, there were reductions in duty on hemp and jute bags and wheat flour. Inasmuch as most of the downward revisions apply to articles of prime necessity or to raw materials which have a rather strategic role in industry, these reductions are not inconsistent with the established program of fostering domestic industry, although they do represent something of a reorientation of the country's foreign trade policy.

New taxes on exports.

Two measures to tax exports have been adopted since the outbreak of the war; both were designed primarily to increase revenue. The first increased the loading and unloading charges on both exports and imports.^{1/} Portions of the increased revenue derived were earmarked for the development of commercial aviation. The second imposed an export tax on beans, chickpeas, kidney beans, lentils, and vetches; the proceeds of this tax were allocated to combat plant diseases. The new copper tax law^{2/} initiated early in 1942 at times has been referred to as an export tax. Although in its incidence, the tax bears some resemblance to an export tax, it is, strictly speaking, an extraordinary tax on the income of copper-producing establishments. It is estimated that this tax will provide the Chilean Government with about 14 million dollars per year.

Quota system continued.

Additional import and export quota restrictions imposed in recent years represent no modification in, but rather a continuation of, previous policy. Few export quotas have been imposed. Recurring annual quotas have been designated for exports of melons to New York. Tartars and argols were put on an export quota basis in order to conserve the supply of those raw materials for national manufacturers.

Import quotas have had a much wider application. Since 1939, import quotas have been established or renewed upon edible oils, calcium carbide, flat glass, electric-light bulbs, jute bagging, automobiles, and woolen goods. These restrictive measures were designed in part to implement the policy of fostering domestic manufacture and in part to facilitate the program of exchange allocation. The restrictions applied to woolen textiles, electric-light bulbs, and calcium carbide are protective in nature. Chile has a new electric-bulb industry which sought protection. The

^{1/} Decree-Law No. 6602, Diario Oficial, August 1, 1940.

^{2/} Decree-Law No. 7160, January 20, 1942.

calcium carbide quota was intended to vary inversely with production in Chilean factories. The application of quotas on automobiles was in response to exchange problems created by the war. The exchange authorities found it desirable to curtail the importation of automobiles and other "luxury" items and to allocate the available exchange to more essential imports.

Not all quota modifications were in the direction of more severe limitations on the imports concerned. Some import quotas have been increased, as illustrated by those on woolen goods, jute bagging, sugar, Argentine beef, and fuel oil. The concession on Argentine beef was effected by an amendment to the Argentine trade agreement of 1933. The increased quotas on sugar and fuel oil continued the Government's policy of relaxing restrictions on prime necessities.

Commercial agreements extended and concluded.

Chile has negotiated four new commercial treaties since 1939. Less than 1 month before the Soviet occupation of Estonia in 1940, an agreement was reached with the latter country providing for reciprocal most-favored-nation treatment. Three similar agreements, which served to strengthen economic collaboration in the Western Hemisphere, were negotiated. Those with Venezuela (1941) and Mexico (1943) extended reciprocal unconditional most-favored-nation treatment, and one with Canada, provided for reciprocal tariff concessions as well as most-favored-nation treatment. In addition, a number of conventions and agreements were concluded which extended the duration of previous arrangements. Pacts guaranteeing most-favored-nation treatment were concluded with six countries: Argentina (1940), Brazil (1942), Colombia (1942), Germany (1941), the United Kingdom (1941), and the United States (1940). Agreements which extended existing reciprocal tariff concessions were concluded with Belgium (1941, 1942); the Netherlands (1940, 1941); and Peru (1940).

One result of the war has been the negotiation in 1941 of a payments agreement with the United Kingdom. This step was designed to give Chileans more ready access to sterling exchange and to grant Chilean imports from the United Kingdom somewhat preferential exchange rates. Another measure was the extension of the German payments agreement (1941) which was renewed regardless of the serious inroads that wartime measures had made upon the trade with that country.

Exchange control: The use of free exchange expanded.

Wartime dislocations drastically disrupted Chilean foreign trade and with it the Chilean exchange situation. Lost markets meant lost export balances with which to purchase essential materials and to meet current foreign obligations. Increased utilization was made of exchange rationing, and considerable delay was experienced by importers during the early period of the war.

The general effect of the steps taken since March 8, 1939 (when D/P, or private exchange transactions were legalized) has been to bring to the legalized free market most of the funds that formerly went to the curb exchange and, in addition, to create new sources of exchange at the higher rate of 31 pesos to the dollar.^{1/} The new free rate represents a definite trend toward one rate for all exports, since exporters have been authorized to make wide use of the D/P rate. Importers have been

^{1/} In 1942 the average selling rates for Chilean exchange were as follows: Official rate--\$0.0517; export draft rate--\$0.04; curb market rate--\$0.0312; and free market rate (D/P)--\$0.0321.

required to make increasing use of the D/P rate. In 1941 the Exchange Control Commission restricted the use of the export-draft market to a small list of imports of prime necessities and required the use of D/P exchange for all other import transactions. By the middle of 1942 the more favorable D/P rate had become the effective rate for nearly all imports.

The National Foreign Trade Council.

By Executive decree ^{1/} of September 23, 1942, the Exchange Control Commission, the Export Control Service, the Commission of Import Licenses, and the National Supply Board were consolidated into one composite body, known as the National Foreign Trade Council. The Council, directed by a board of 12 members, has broad supervisory and advisory powers over foreign trade in general, and, in addition, assumes those formerly exercised by its constituent bodies. Administrative officers immediately responsible to the Directive Council (Board of Directors) are a Manager, a Director of Exports, and a Director of Imports.

The duties formerly assigned to the Exchange Control Commission are now delegated to the National Foreign Trade Council. In the place of the old Exchange Commission there has been established within the Council a permanent commission consisting of one member of the Directive Council (by rotation), the Manager of Imports, and the Director of Exports. The general policies as well as the staff of the Exchange Control Commission will be continued. In the allocation of foreign exchange, preference will be given as before to imports of raw materials for domestic industry, articles of prime necessity, and drugs. The new agency is instructed to direct the flow of exchange and commerce so as to stabilize Chile's balance of international payments.

The work of the Commission of Import Licenses has also been taken over. Authority is granted to require import permits (Solicitud previa) or licenses, or to establish quotas, whenever the national interest requires it.

It is probable that the activities centering around the Director of Exports will be particularly significant. In 1940 Chile took steps to standardize and enhance the reputation of its products in foreign markets. The new Foreign Trade Council is now charged with this responsibility. The promotion of Chilean exports is to be one of its chief and most important functions; it is also instructed to promulgate rules and practices of inspection, marking, standardization, packing, and weighing.

In addition to the duties and responsibilities of the new Foreign Trade Council already enumerated, the decrees setting forth its powers contain numerous grants of authority which are capable of very broad interpretation. The powers delegated are apparently sufficiently flexible to permit the Council to become influential in all aspects of foreign trade and national commercial policy.

Wartime embargo of essential export products.

In 1941 the Chilean Executive was authorized to prohibit the export of a wide range of essential products, whether of domestic or foreign

^{1/} Decree-Law No. 14164, September 23, 1942, Diario Oficial, October 7, 1942. The regulations setting forth the organization and powers of the new commission were outlined in Decree-Law No. 28208, Diario Oficial, October 24, 1942.

origin.^{1/} This law, primarily an emergency measure occasioned by wartime conditions, was designed chiefly to prevent the export of essential products and materials without official authorization. The measure, part of a program adopted by the nations of the Western Hemisphere^{2/} to mobilize their industrial resources and to control the flow and destinations of strategic materials, served to protect the domestic economy from the loss of materials essential to industry, and as a restraint against the practice by the belligerent nations of making excessive purchases in the Chilean market. In July 1941,^{3/} the Executive placed an embargo on exports of about 200 articles, including minerals, metal manufactures, chemicals, machine equipment, tools, railway materials, and electrical equipment. These regulations were soon modified to permit exports and reexports to other nations in the Western Hemisphere that had established acceptable export restrictions.^{4/}

Controlled exports of strategic metals.

Chile constitutes the largest single source of copper in the Western Hemisphere other than the United States; it also possesses significant resources of other minerals including antimony, cobalt, lead, manganese, mercury, molybdenum, tungsten, and zinc. In accordance with the resolutions adopted by the Foreign Ministers at Panama and Rio de Janeiro recommending the mobilization of industrial resources and strategic materials for the defense of the Western Hemisphere, Chile, on January 26, 1942, entered into an agreement with the Metals Reserve Company of the United States. The company agreed to purchase all Chilean exportable surpluses of ores and concentrates of the nine strategic metals mentioned above, as well as gold, subject to specified maximum quantity limitations for each metal at stipulated prices.^{5/} In return, Chile agreed to impose export controls in order to prevent these and other critical materials from reaching the Axis.^{6/} By the use of export licenses and other trade controls, exports of these strategic materials were restricted to: (1) Metals Reserve Co. or its properly designated agency, (2) duly authorized United States purchasers, (3) the British Empire, (4) countries designated by the United States or the United Kingdom, and (5) republics of the Western Hemisphere having approved export-control systems. These restrictions became effective in February 1942 and were modified and renewed in August 1942.^{6/} A similar contract negotiated with the Defense Supplies Corporation early in 1942 and revised on July 1, 1942, arranged for the purchase of all shipments of nitrates by the Chilean Nitrate and Iodine Sales Corporation.

The Development Corporation in wartime.

The young and vigorous Development Corporation has played a role of increasing importance because of the war. In addition to its original function of developing new industries and aiding those already established, the Corporation has been called upon to take measures to stabilize the economy in the face of wartime dislocations. It has initiated and financed the accumulation of stock piles of essential materials, and imported idle industrial plants from the United States. Its latest balance sheet of June 30, 1942,^{7/} lists its assets as 950 million pesos (approximately 38 million United States dollars), of which 600 million represented loans to industrial firms, 125 million were investments in stock companies, 70 million were in the form of stocks of raw materials, and 72 million represented Government-owned hydroelectric plants.

^{1/} Law No. 6984, July 8, 1940, Diario Oficial, July 12, 1941.

^{2/} See Conferences of Foreign Ministers of the American Republics, Rio de Janeiro, 1942, Resolution III.

^{3/} Decree No. 1211, July 16, 1941, Diario Oficial, July 26, 1941.

^{4/} Decree No. 1408, August 14, 1941.

^{5/} See the section on wartime embargo of essential export products.

^{6/} Decree-Law No. 228, February 17, 1942.

^{7/} Foreign Commerce Weekly, January 9, 1943.

Industrial-plant expansion, sponsored and financed by the corporation, did much to fill the gap due to wartime export restrictions of other countries and current shipping shortages. The list of projects which it has sponsored is impressive and includes: the development of the merchant marine, the construction of plants for the recovery of mercury and magnesium, the establishment of a motion-picture industry, the development of gold and copper-smelting facilities, the construction of shipyards, the erection or expansion of numerous factories, and the expansion of the fishing industry.^{1/}

One of the most extensive projects of the Development Corporation has been the erection of a number of hydroelectric plants to be owned and operated by it, thus tapping Chile's great waterpower potential and making power available for domestic industry. It has been instrumental in collecting stocks of materials essential to the home economy, particularly drugs and chemicals, the supply of which suffered serious disruptions from the war. It has promoted and financed chemical and drug corporations authorized to conserve the supply, regulate the trade, and control the prices of these essentials. Other stocks held by the Corporation include agricultural, industrial, and mining machinery, as well as iron and various other raw materials. In cooperation with the United States Government, two idle cement plants have been purchased, dismantled, and shipped to Chile,^{2/} coal production has been expanded, the lumber industry developed, textile production enlarged, pipe lines built, and a hemp-fabricating plant constructed. The Corporation has been, and continues to be, a vital influence in maintaining the domestic economy and offsetting the disruptions created by the war.

Emergency powers of the Executive.

A recent outstanding piece of legislation was the Extraordinary Economic Powers Law^{3/} of July 18, 1942, commonly referred to as the Emergency Law. By this measure the Congress delegated wide powers to the Executive, authorizing him to adopt such administrative, economic, and financial measures as might become necessary for the defense of the country and the preservation of the domestic economy. In addition, a new Ministry of Economy and Commerce was created, and the Commissariat of Subsistences and Prices became a part of that agency. The Executive was authorized to reorganize governmental administrative departments, declare emergency zones in which civil rights might be suspended, and expropriate private property if necessary in the national defense.

Conservation and rationing of vital materials.

The disruptions brought about by the war--the Allied blockade, the crisis in shipping, and the export controls initiated by the warring nations--have caused a serious shortage of industrial materials in Chile. The marked depletion of stocks of these essentials has constituted a threat of increasing magnitude since the war's inception. The most acute shortage has been that of iron and steel products. Another urgent situation was caused by the reduced shipments of petroleum. Other critical shortages of materials have included drugs, automobiles, nonferrous metals, tires, and construction materials.

The National Supply Board.--To cope with this problem, the Minister of Commerce issued a decree on February 26, 1942, creating the new National Supply Board (Junta Nacional de Abastecimiento). This board was granted broad powers to regulate the importation, distribution, and consumption

^{1/} Commercial Intelligence Journal, December 5, 1942, p. 522.

^{2/} Chilean Gazette, January 1941.

^{3/} Law No. 7200, Diario Oficial, July 21, 1942.

of all vital products, raw materials, and manufactured goods. It has power of initiative to promote and facilitate the importation of essential supplies and may, where deemed necessary, appoint rationing boards. When the National Foreign Trade Council was organized in September 1942 it assumed the functions of this agency.

The Petroleum Supply Board.—Curtailed imports of petroleum and petroleum derivatives called forth special controls for those products in April 1942. A specially created Petroleum Supply Committee announced the inauguration of a temporary gasoline-rationing system. This program was designed primarily to assure busses and trucks an adequate supply to continue necessary operations and to avoid, if possible, a paralyzation of the transportation system. A permanent rationing system became effective on May 1, 1942. This system was modified in July and in November 1942 a new agency, the Petroleum Supply Board, was created and charged with the responsibility of rationing gasoline.^{2/} In rationing gasoline preference is given to essential industries and productive activities. In addition, all sales of Diesel and fuel oil have been made subject to regulation by the same agency. Importers are required to declare the stocks on hand as of November 30 and to furnish monthly statements of sales and stocks. All sales are prohibited unless authorized by the Petroleum Supply Board or its agency.

Other measures adopted to support this general program include the creation of a National Traffic Regulation Board (Comisión Reguladora del Tránsito) charged with initiation and enforcement of restrictions limiting the activities of motor vehicles in order to conserve both tires and gasoline. Since 1938 legislation has required the compulsory addition of domestic alcohol to the lower grades of imported gasoline.^{2/} Rulings during the latter part of 1942 provide for the addition of an increased percentage of alcohol.

Price control: Recent activities of the Commissariat General of Subsistences and Prices.

In addition to its other duties, the Commissariat General of Subsistences and Prices has been assigned two related responsibilities as a result of the war—the control of wartime prices and rationing of specified vital commodities.

Prices and the cost of living in Chile have increased markedly in the past several years. They rose steadily following the outbreak of the war, and the advance continued through 1942. During the first 9 months of 1942, wholesale prices increased 36 percent, and the cost of living, 27 percent. The index of living costs rose from 187 in 1939 (1928=100) to 332 in December 1942. Numerous forces have combined to cause these increases. An important cause of inflation has doubtless been the credit policy of the Central Government, resulting in the financing of many new enterprises through the expansion of public credit rather than from accumulated savings. Easy credit policies of the Central Bank have also been a contributing factor; the Bank's credits increased 15 percent in the first half of 1942 and 27 percent in 1941. Moreover, in 1942 the notes of the Central Bank in circulation had reached a record high of 2,208 million pesos; this represents an increase since 1939 of nearly 90 percent, as is shown by the following index of money in circulation: 1939=100, 1940=116, 1941=148 and 1942=191. The depreciation of the peso in foreign exchange was also an inflationary factor; almost

^{1/} Ministerial Order No. 16, Ministry of Economy and Commerce, November 16, 1942.

^{2/} U. S. Foreign Service Report, No. 292, Santiago, December 19, 1942.

^{3/} Decree-Law No. 1719, Diario Oficial, June 9, 1938.

all imports must now be covered in the D/P market at the higher rate of 31 pesos to the United States dollar. In addition to these influences shortages of material resulting from foreign-export controls and shipping restrictions gave rise to competitive bidding for available supplies. Other causes of the current rise in prices were reported to be increased costs of production, increased wages, and speculative activities prompted by inflation itself.

Chilean opinion, both official and private, has indicated increasing concern over these inflationary trends. The Central Bank has issued frequent warnings, and the National Administration has given considerable study to the problem.^{1/} The activity of the Development Corporation to increase domestic production represents one remedial measure; the rationing programs already described is another, and the enlarged functions of the Commissariat is a third.

In addition to the numerous measures taken by the Commissariat General of Subsistences and Prices to broaden its pre-war controls, one measure in particular was designed to check inflation and to establish "ceiling prices" for all retail commodities. Shortly after the outbreak of the war, the Commissariat imposed a general prohibition against retail prices higher than those prevailing on August 25, 1939. Where it has been considered necessary, wholesale prices also have been regulated.

The broad regulatory powers possessed by the Commissariat enabled it to supplement the activities of the National Supply Board as a rationing agency. During the months following the outbreak of the war the acute shortages of numerous articles were met by price controls and regulations governing distribution and consumption.^{2/} In March 1942 the Commissariat created a Rubber Supply and Control Commission (Comisión de Control de Distribución y Abastecimiento del Caucho) in order to mitigate the seriousness of shortages of rubber.

The Agricultural Export Board continues to exercise control over the price of wheat and wheat products; the emphasis, however, has changed somewhat from maximum to minimum prices. In October 1941 a commission was appointed to study the cost of producing wheat in order to determine prices to be paid for the forthcoming crops.^{3/} The authority of the Board was reaffirmed by a decree of January 15, 1942, designating it as the sole agency in charge of the administration of the price-control program for wheat.^{4/} At about the same time the official minimum price for the nation's principal crop was set. This was the first time since 1939 that the Government had established a guaranteed minimum rather than a maximum price for wheat. The stated purpose of this policy was to stimulate wheat production, which purpose it seems to have achieved.

Post-War Problems Relating to Controls and Commercial Policy

The economic controls imposed by Chile on its foreign and domestic trade, both before and since the outbreak of the war in Europe, have been to a very substantial degree the result of economic and political forces originating outside the country. The world-wide depression operated to

^{1/} See United States Foreign Service Report No. 192, Santiago, October 16, 1942.

^{2/} The following list of articles is representative of those which have been so regulated by the Commissariat: Aluminum ingots, matches, tin plate, iron products, tires and inner tubes, paper products, sewing machines, sacking and jute, and electrical supplies. Special treatment was accorded rubber.

^{3/} United States Foreign Service Report No. 256, Santiago, January 30, 1942.

^{4/} In July 1942 the functions of the Agricultural Export Board were taken over by the Institute of Agricultural Economy.

restrict purchasing power, thus greatly reducing the capacity of most countries to pay for imports. The consequent decline in international trade was further aggravated by the adoption of measures designed to curtail imports, to check adverse trends in international trade balances, and to promote greater economic self-sufficiency. These developments imposed great difficulties on practically all nations, especially on certain of the smaller ones, but they bore with particular severity upon countries the economies of which were largely dependent on the production of raw materials.

Although in the period immediately before the outbreak of the war, there had been some alleviation of the foregoing trends and international trade as a whole had increased, many countries continued to adhere—in part because of the growing sense of international insecurity—to programs of economic self-sufficiency which had come into being in the earlier depression years. With the outbreak of the war, the trend toward economic self-sufficiency was again accentuated, in part for obvious reasons of national defense, but also because of the disruption of trade channels and the inability of many countries to obtain supplies from customary sources. This inability to secure supplies from the usual foreign sources resulted in, or gave new impetus to, programs of self-sufficiency in many Latin-American countries, including Chile. Production of many articles has been initiated or expanded in Chile to meet the domestic demand no longer supplied by imports. At the same time, however, war demands for essential materials has been reflected in Chile in the substantially increased production of copper, nitrates, iodine, and other minerals.

After the war, therefore, Chile will have a twofold problem:

(1) To find adequate markets at remunerative prices for its export products, and (2) to determine the future of its war-born or war-expanded industries that are producing for domestic consumption. To a very substantial degree the ability of Chile to cooperate in the liberalization of trade barriers in the post-war period will depend upon its success in marketing its major export products. Should markets not be forthcoming, the Chilean economy may be so disrupted as to evoke restrictive controls both for the preservation of exchange and currency reserves and for the protection of industry supplying domestic needs.

The future of nitrate and copper.

After the war, Chile may be confronted with a severe readjustment of the nitrate and copper industries. Under war conditions the nitrate industry has expanded considerably, and copper exports have reached an all-time high. The State depends for a substantial part of its revenue upon the extraordinary income tax placed upon producers of copper and upon its share of the profits of the Nitrate Sales Corporation. In both of these industries Chile may face a world-restricted market with overexpanded production facilities. In the past Chile has participated in international commodity-control programs dealing with these products, and may find it expedient to do so again.

Even before the war the nitrate industry suffered severely from the rapid rise in the production of synthetic nitrate throughout the world. The present war will leave an expanded and more efficient synthetic industry to aggravate the problem. The required adjustments, however, may not be insurmountable. Following the near collapse of the industry after 1929, it underwent a thoroughgoing reorganization; costs were reduced and the export tax eliminated. These measures, together with technological improvements of the last several years, suggest the possibility of maintaining a profitable industry.

Similar problems will face the Chilean copper industry when war-expanded purchases cease. Demand for war purposes increased world produc-

tion from 2,230,000 metric tons in 1937 to 2,863,000 in 1942; Chilean production in the same period increased from 413,000 to 480,000 metric tons,^{1/} or an increase of more than 16 percent. A return to pre-war conditions may necessitate a program of curtailment and readjustment. Nevertheless, it is entirely possible that the immediate demand for raw materials created in the post-war period of reconstruction may enable Chile, at least for a limited period, to market all its product at the current rate of output.

Commercial policy and political considerations resulting in trade controls, both national and international, are likely to be matters of dominant concern to the copper and nitrate industries. The interests of these two great Chilean industries will be closely linked with the extent and rapidity of general economic recovery throughout the world after the war. The development of an expanding world economy would greatly reduce the pressure upon these two industries, and would also make less necessary the application of a rigorous program of self-sufficiency by the Government of Chile. For such industries as the nitrate and copper industries, it would lessen the incentive for entering into restrictive international agreements or arrangements for the limitation of production and exports of these products.

The contracts with the Metals Reserve Co., for the sale of copper and other metals and with the Defense Supplies Corporation for nitrates have been a dominant factor in the recent expansion of these industries. Sudden termination of these contracts at the close of the war would probably subject the Chilean economy to severe strain. If, on the other hand, they are permitted to operate for a period in order to allow for necessary readjustments to the world markets, or if exports under the contracts are gradually reduced, these industries will be able to make a more orderly transition from war to peace than would otherwise be possible.

Anticipated demands for State support.

The protective tariff, the rationalization of industry, the work of the Development Corporation, the rise of war-born industries, and the aid extended by the Agricultural Export Board may give rise to future claims and demands by interested groups for an extension of governmental protection. Industries benefiting from protective tariffs in recent years may be expected to work for their continuance. Industries which have secured the aid of the Commissariat in curtailing plant expansion, restricting output, and imposing price controls will likely seek to perpetuate the privileges and benefits of these State-imposed cartelization measures.

The Development Corporation has encouraged and financed the construction or expansion of new plant capacity. It seems apparent that many of these undertakings will promote a healthy development of the Chilean economy; however, some of these industries fostered by the protective tariff, the extension of government credit (which has some of the elements of a subsidy), and government planning, will be apt to make new demands for favorable commercial treatment and consideration. Moreover, since the Government through the Development Corporation has a direct financial interest in many of these projects, it is not inconceivable that the initiative for such aid may come from the Government itself. A somewhat similar situation is found in the Agricultural Export Board which, through subsidy and price fixing, has encouraged expansion in the production of certain agricultural products. Producers thus encouraged may feel that there is an obligation on the part of the Government to continue its support. The shortage of certain products created by the war, together with the extension of aid by the State, has called forth a number of new factories or industries; claims are likely to be made in their behalf once world markets become available to domestic consumers.

^{1/} Production in 1941 was 502,000 metric tons.

Exchange control.

Should there be substantial losses in the value of exports of nitrate and copper after the war, it is likely that there will be an acute shortage of exchange with which to pay for essential imports. Under such conditions the exchange-control authorities might find it necessary to take additional measures to husband and allocate the exchange reserves and to protect the domestic economy.

Future commercial policy.

The recent position of Chile, the pressure of internal economic events, and the problems of post-war readjustment may combine to place impediments in the way of a liberal foreign-trade policy. At the outbreak of the war, Chile was committed to a bilateral bargaining approach to world trade, together with the use of tariffs, licenses, quotas, and exchange control. These and other measures are possible obstacles which may prevent Chile's maximum contribution to, or participation in, a revived world prosperity.

Although the Chilean economy is somewhat unique, particularly with regard to the basic articles of export, many of its problems are similar to those of other countries of Latin America. Its general economic position will be improved when the channels of trade afford freer access to the markets and raw materials of the world and when commerce is unencumbered by many of the barriers created since 1920. Any nation, particularly one of the raw-material-producing countries of Latin America, finds it difficult to adopt a commercial policy in opposition to the world trend. The departure from a liberal trading policy was world-wide in scope and the return, by the very nature of events, must depend upon the measures adopted by the great industrial trading nations in cooperation with each other and with the smaller powers.

