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Appendix A

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TABLE A.1
 Arithmetic Means for Major Economic Variables During Phases and Subphases
 of the Chilean Exchange Control Regime, 1908-71

Line No.	Variables	1908-27	1928-30
	PHASE	III-IV	IV
1.	Foreign sector		
1.1	Prices		
1.1.1	PLD-NER (1/27/59=1.00)		1.64
1.1.2	1960 U.S. \$ per escudo	304	200
1.1.3	Free or black-market rate/NA rate		1.00
1.1.4	EER/NA rate		
1.1.4.1	Consumption goods (1965=100)		
1.1.4.2	Investment goods (1965=100)		
1.1.5	Terms of trade		
1.1.5.1	Export unit value/import unit value (1965=1.00)	1.44 ^a	1.46
1.1.5.2	Copper returns: export unit value/import unit value	1.16 ^a	1.06
1.1.6	Import premium rate		
1.1.7	PLD-EER		
1.2	Quantities		
1.2.1	Import goods		
1.2.1.1	Consumption		
1.2.1.2	Investment		
1.2.1.3	Intermediate		
1.2.2	Imports/total supply		
1.2.2.1	Consumption		
1.2.2.2	Investment		
1.2.3	Export goods		
1.2.3.1	Agriculture		
1.2.3.2	Mining		
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1.2.4.1	Import value (constant U.S. \$)	2.5	-4.1
1.2.4.2	Export value (constant U.S. \$)	3.5	-11.7
1.2.5	Trade statistics: Chile's major trading partners		
1.2.5.1	Imports recorded by Chile/exports recorded by others		
1.2.5.2	Exports recorded by Chile/imports recorded by others		

STATISTICAL TABLES

1931- 39	1940- 46	1947- 51	1952- 55	1956- 58	1959- 61	1962- 64	1965- 70	1971
I-II	II	II	II	III	IV	II	III	II
2.54	1.53	0.79	0.61	0.79	0.77	0.73	0.69	0.57
66.0	31.0	14.7	4.78	1.44	0.95	0.58	0.15	0.05
1.25	1.11	1.70	2.66	1.44	1.01	1.70	1.55	4.06
	0.99	1.27	1.49	1.06	0.99	1.03	0.96	
	1.25	1.24	1.30	0.96	0.97	1.01	0.96	
0.90	0.66	0.68	0.91	0.89	0.86	0.94	1.18 ^b	
0.96	1.39	1.93	2.65	1.93				
	0.76 ^d	0.73	1.43	0.87	0.58	0.58	0.50	
	8.48	4.42	3.35	4.29	4.30	4.00	3.60	
	0.35	0.31	0.30	0.30	0.33	0.35	{0.32 0.16}	0.19
	0.15	0.24	0.27	0.37	0.35	0.35	{0.33 0.36}	0.22
	0.50	0.45	0.43	0.34	0.32	0.30	{0.34 0.44}	0.59
	0.04	0.03	0.03	0.03	0.04	0.05	{0.04 0.02}	0.03
	0.16	0.19	0.24	0.32	0.37	0.36	{0.32 0.40}	0.28
	0.13	0.13	0.09	0.09	0.08	0.08	0.04	0.03
	0.79	0.80	0.81	0.83	0.84	0.85	0.86	0.84
	0.07	0.07	0.09	0.08	0.08	0.06	0.10	0.13
-3.0°	6.3	12.7	3.8	4.3	6.1	-1.8	6.0	6.1
0.8°	6.2	12.8	7.0	-5.5	7.3	7.2	11.0	-11.7
		1.21 ^e	1.36	1.17	1.15	1.20	1.07	
		0.95 ^e	1.00	0.98	0.94	0.92	0.95	

TABLE A.1 (concluded)

Line No.	Variables	1908-27	1928-30
	PHASE	III-IV	IV
1.2.6	Other		
1.2.6.1	Exports less imports (mill. 1960 U.S. \$)	11.2	7.6
1.2.6.2	QR index		
1.2.6.3	Export capacity to import (1965=1.00)		1.03
1.2.6.4	Net foreign reserves held by banking system (mill. U.S. \$)		
1.2.6.5	Foreign debt at yr. end/exports for yr.	0.87	1.23
1.2.6.6	Taxes: related to foreign trade/total	0.83	0.63
1.2.6.7	Imports/GDP	0.52	0.38
1.2.6.8	Exports/GDP	0.58 ^a	0.44
1.2.6.9	Import taxes/import value	0.13	0.25
2.	Cyclical variables		
2.1	Rate of change of GDP deflator (%)	4.1	-3.0
2.2	Capacity utilization for GDP	0.93	0.91
2.3	Unemployment rate in Santiago in June		
3.	Resource allocation		
3.1	Composition of GDP		
3.1.1	Production sectors		
3.1.1.1	Agriculture	0.21	0.17
3.1.1.2	Mining	0.10	0.10
3.1.1.3	Industry	0.13	0.11
3.1.2	Final demand		
3.1.2.1	Private consumption		
3.1.2.2	Invest. in structures and equip.		
3.1.2.3	Govt. current expend.	0.05	0.11
3.2	Agriculture deflator/GDP deflator	1.07	1.03
3.3.	Role of govt.		
3.3.1	Savings: govt./total		
3.3.2	Invest.: govt./total		
3.3.3	Govt. deficit/GDP		
3.3.4	Taxes/GNP		
4.	Income distribution		
4.1	Aver. wage/consumption deflator (1965=1.00)		
4.2	Wage share of GDP		
5.	Rates of real growth		
5.1	GDP per capita	1.5	-0.9
5.2	Industrial GDP	2.2	-3.8
5.3	Agriculture GDP	2.6	2.2
5.4	Invest. in structures and equip.		
5.5	Marginal gross capital-output ratio		

	1931- 39	1940- 46	1947- 51	1952- 55	1956- 58	1959- 61	1962- 64	1965- 70	1971
	I-II	II	II	II	III	IV	II	III	II
6	7.8	-0.1	0.1	3.2	-9.7	1.2	9.1	19.6	-110.9
03	0.48	0.94	0.95	0.98	0.96	0.92	0.96	0.95 ^e	
23		0.47	0.48	0.62	0.65	0.71	0.85	1.23 ^b	
53		7.0	89.1	79.1	29.9	-60.0	-246.	-17.0 ^e	
38		0.37	0.35	0.29	0.21	0.21	0.21	0.18	2.51
44	0.14	0.09	0.09	0.09	0.10	0.12	0.12	0.13	0.14
25	0.17	0.19	0.15	0.12	0.11	0.12	0.13	0.12 ^e	0.12
0		0.22	0.24	0.22	0.17	0.20	0.21	0.17 ^e	0.26
91	8.5	15.1	20.8	47.8	37.6	19.3	35.4	31.7	20.0
17	0.81	0.93	0.90	0.91	0.90	0.92	0.96	0.95	1.00
10						0.072 ¹	0.053	0.062	0.052
11	0.20	0.15	0.14	0.12	0.13	0.13	0.11	0.10	0.10
03	0.09	0.10	0.08	0.06	0.04	0.07	0.07	0.06	0.06
11	0.14	0.18	0.21	0.22	0.21	0.19	0.19	0.19	0.20
11		0.77	0.79	0.79	0.80	0.80	0.77	0.76	0.78
03		0.08	0.10	0.10	0.10	0.11	0.13	0.11	0.11
	0.08	0.08	0.09	0.10	0.10	0.10	0.10	0.10	0.10
	0.92	0.98	1.01	1.14	0.99	0.94	0.92	1.06	
		0.30	0.22	0.13	0.18	0.28	0.24	0.44	
		0.44	0.45	0.56	0.48	0.38	0.35	0.45	
		0.01	-0.00	0.02	0.02	0.04	0.04	0.02	0.10
		0.14	0.15	0.16	0.18	0.21	0.20	0.24	
		0.57	0.67	0.74	0.77	0.78	0.92	1.12	
		0.58	0.64	0.63	0.63	0.60	0.64	0.67	
9	-1.1 ^a	2.2	1.2	0.9	1.4	1.2	1.6	2.5	6.0
8	2.6 ^a	7.5	6.3	6.8	-1.4	2.8	4.9	5.1	12.1
2	1.5 ^a	1.2	0.9	1.7	10.7	-2.9	0.7	2.9	5.8
		7.0	3.8	4.6	2.7	15.1	2.6	4.0	-7.7
		2.7	3.3	3.1	2.8	3.1	3.4	2.4	

Notes to Table A.1

NOTE: The underlying data for virtually all the series listed are from the national accounts of Banco Central [1956b-73b], CORFO, and ODEPLAN, and unpublished data from these three institutions. For 1940-71, exact sources, procedures used to make data from various sources comparable, and evaluation of the data for all series, except as indicated below in the notes for individual variables, are given in Behrman [1974:Chap. 3]. Data before 1940, except as noted below, are based on estimates from Ballesteros and Davis [1963] linked by 1940 values. For the earlier period, it was assumed that the GDP deflator was perfectly correlated with the wholesale price index and that government consumption was perfectly correlated with government product.

1.1 The national accounts exchange rate, which enters into the calculation of series 1.1.1 to 1.1.4, is a weighted average of the various legal nominal exchange rates in effect in each period; it is used by CORFO and ODEPLAN in the preparation of the national accounts.

1.1.1 Indicates the cost of foreign exchange (exclusive of tariffs, related charges, and import premiums) in constant-value escudos. The base date of January 27, 1959, was chosen because Instituto de Economía [1963:203] and Leftwich [1966:407] suggest that, given the trade regime then in effect, this rate was very close to equilibrium.

1.1.2 Number of current dollars required to purchase one escudo or 1,000 pesos (the unit used before 1960), adjusted to 1960 dollars by use of the GNP deflator for the United States (Council of Economic Advisers [1972]). This variable provides a measure of the decline in real terms in the foreign exchange value of the Chilean currency over time. Ratios in 1960 dollars for 1908-60 are from Hurtado [1966:Table 14]. Current dollars, 1960-69, from French-Davis [1971:286]; 1970-71, unpublished data of the Central Bank.

1.1.3 The numerator is the legal free-market NER, if a legal free-market existed. Otherwise (in most cases), the black-market rate is used. The ratio is an indicator of the dispersion among exchange rates resulting from exchange policy. Since it is a measure of currency demand in illegal markets, it also measures the restrictiveness of exchange control in official markets.

1.1.4 Effective exchange rates are discussed more fully in section 5.1. The ratios reflect the relative favoritism granted under the foreign trade regime to consumption and investment imports.

1.1.5.2 The numerator (1925=100) is that part of the unit value of copper exports by large-scale mining enterprises which is returned to Chile in the form of factor payments, intermediate input purchases in the domestic market, taxes, and related payments. From the point of view of the owners of large-scale mining operations, the exchange rates for these return flows are often unfavorable. See Reynolds [1965:381].

1.1.4.1 and 1.1.4.2 U.S. deflator is from Council of Economic Advisers [1972].

1.1.5.1 Before 1940, from Mamalakis [1971b:527, 661].

1.1.6 Average premium on competitive and noncompetitive imports. For each of these categories of imports the rate equals $[(1.0 + \text{implicit tariff rate})/\text{EER}] - 1.0$ or $[(\text{domestic price}/\text{c.i.f. price})/\text{EER}] - 1.0$. The ITRs for 1961 are from Table 5.3; the EERs, from Table A.7; description of the ITRs is given in Appendix B; the source of the ratios of price indices is given in Table A.8. In effect, the rate indicates the extent to which the ratio of domestic to foreign prices for imports exceeds the effective exchange rate. Premiums may be received by importers because of the existence of effective quantitative restrictions. However, several qualifications concerning this interpretation are warranted. (i) Disequilibriums between domestic and foreign prices due to adjustment lags may result in a positive or a negative premium. Given the Chilean history of inflation (series 2.1), such disequilibriums may be of considerable importance. (ii) Water in the tariffs implies a negative premium. (iii) Even if the premium arises purely from effective quantitative restrictions, the government (not only private importers) may be the recipient of part of the premium through government imports.

1.1.7 See Table A.8 and text discussion accompanying the table.

1.2.1 and 1.2.2 In each pair of braced figures for 1965-70, upper figure is for 1965-66 and is comparable with figures for earlier years. Lower figure is for 1967-70 and is comparable only with figure for 1971.

1.2.4.1 and 1.2.4.2 Before 1940, from *Anuarios Comercio Exterior*, as given by Hurtado [1966:Table 10].

1.2.5.1 and 1.2.5.2 From IMF and IBRD [1953-72]. These comparisons are measures of the order of magnitude of evasions of the Chilean foreign trade regime by illegal transactions, under the assumption that all transactions are recorded by the trading partner. If there were no unrecorded transactions in the Chilean trade statistics, a discrepancy of about 10 per cent would be expected due to the difference between the f.o.b. value of exports and the c.i.f. value of imports. For a full discussion of the merits and the shortcomings of this procedure, see Bhagwati [1969]. Chile's eight major trading partners accounted for 76 per cent of imports and 85 per cent of exports in 1948-70. The average percentage share of the eight countries in total Chilean trade in this period was as follows: United States, 41.4; Federal Republic of Germany, 9.5; United Kingdom, 9.5; Argentina, 7.0; Netherlands, 4.2; Japan, 3.1; Italy, 3.1; and France, 3.1.

1.2.6.1 Data before 1940 are from *Anuarios Comercio Exterior*, as given by Hurtado [1966:Table 10]; deflator is from Council of Economic Advisers [1972]. For recent years, this series is not always identical to that implied by the probably more reliable estimates in Table 8.1.

1.2.6.2 For 1952-69, estimate by Ffrench-Davis [1971:302] based on a careful examination of Central Bank documents. For earlier years, I extended the series on the basis of an estimated relation between the Ffrench-Davis series and series 1.1.7; the correlation coefficient between the two is 0.70, which is significant at the 1 per cent level for 18 observations. In the words of Ffrench-Davis, the index is intended to summarize the effects of "prohibitions, quotas, administrative delays, prohibitive tariffs, and import deposits."

1.2.6.3 Value of exports divided by the unit value of imports.

1.2.6.4 Data for 1940-46, 1947-51, and 1952-69 are apparently not comparable.

1.2.6.5 Based partly on Humud [1969:100, 225-228, 241-242]. Public debt only before 1930; public debt plus government-guaranteed private debt after 1930.

1.2.6.6 Based partly on Humud [1969:100, 225-228, 241-242]. Numerator includes import taxes, export taxes, implicit taxes on local cost of production for large-scale mining, and direct taxes on large-scale mining. Denominator includes all taxes (including taxes of the social security system).

1.2.6.7 and 1.2.6.8 Before 1940, from *Anuarios Comercio Exterior*, as given by Hurtado [1966:Table 10].

1.2.6.9 Before 1940, from Humud [1969:100, 238].

2.2 Capacity is defined by the trend-through-the-peaks method; the series is, therefore, a measure of actual production at a particular time compared to the secular trend in production. This method tends to overstate capacity utilization near the end points since the presence of peaks before or after the sample period may change the trend line, but it does provide a useful and definable measure of short-run fluctuations relative to historically feasible levels of capacity. For discussion of the advantages and limitations of the method, see Behrman [1973b].

3.2 Before 1940, based in part on data from the National Statistical Service as given by Mamalakis [1965:131].

3.3.2 Numerator includes government direct investment and government-financed investment.

4.1 Secular trend is used, rather than actual employment data, which is unavailable for the country as a whole for any extended period of time. As a result, the wage level is understated when unemployment is high relative to when unemployment is low. When unemployment is high the number employed is below the secular trend. Since the actual wage bill is divided by the trend rather than the actual number employed to get the average wage, the wage is understated.

4.2 Includes self-employed individuals.

5.5 Defined not in growth terms but as the ratio of gross value of investment in structures and equipment during a phase or subphase to the change in real gross domestic product in the same period.

- a. For 1915-27.
- b. For 1965-66.
- c. For 1925-27.
- d. For 1946 only.
- e. This rate is an overstatement of the growth which would have had to occur for it to move from the value for the last year of the previous period to the last year of this period at a constant rate because of the initial decline and subsequent increase in the underlying variable.
- f. For 1948-51.
- g. For 1965-69.
- h. Excluding 1917, 1918, and 1920.
- i. For 1960-61 only.

TABLE A.2
 Exponential Growth Rates and Phase-Coincident Deviations from Growth for
 Real Values of Exports, Imports, Gross Domestic Product, and Capacity, 1940-65

Dependent Variable: Log of Real Value of	Coeff. of Time	Adjustment to Growth Rate								Constant	R ² SE	DW p
		1940- 55	1956- 58	1959- 61	1962- 64	1956, 1959, 1965						
Exports	0.015 (5.5)	-0.024 (4.8)	-0.017 (3.8)						7.45 (216.3)	.74 [.09]	2.2 [0.12]	
Agriculture	-0.018 (1.7)				0.014 (2.0)				5.18 (37.3)	.40 [.16]	1.8 [0.31]	
Mining	0.018 (3.2)	-0.023 (2.7)	-0.016 (3.0)					7.09 (75.8)	.73 [.10]	2.5		
Large-scale mining	0.001 (0.2)	-0.022 (2.2)	-0.015 (2.3)					7.13 (64.4)	.31 [.12]	2.8		
Industry	0.019 (1.2)						0.023 (1.6)	4.53 (23.5)	.20 [.34]	1.6		
Services	0.112 (5.7)				-0.011 (1.9)		-0.022 (4.6)	3.82 (13.2)	.89 [.12]	2.2 [0.71]		
Imports	0.064 (11.6)	-0.023 (3.6)	-0.017 (3.1)	-0.006 (1.1)			-0.013 (3.1)	6.73 (277.2)	.97 [.07]	1.6		
Consumer goods Staples	0.045 (4.3)	-0.017 (1.1)						5.18 (38.0)	.75 [.20]	1.9 [0.46]		

(continued)

TABLE A-2 (concluded)

Dependent Variable: Log of Real Value of	Coeff. of Time	Adjustment to Growth Rate						\bar{R}^2 SE	DW p
		1940- 55	1956- 58	1959- 61	1962- 64	1956, 1959, 1965	Con- stant		
PHASE		II	III	IV	II				
Imports (contd.)									
Durables	0.040 (5.3)	-0.025 (1.8)	-0.019 (1.5)			4.13 (45.0)	.54 [.26]	1.6	
Secondary	0.058 (4.3)					3.15 (19.0)	.75 [.24]	1.7 [0.50]	
Capital goods									
Machinery and equipment	0.088 (10.3)					4.49 (44.7)	.94 [.15]	1.8 [0.49]	
Transportation-related	0.140 (9.4)		0.020 (1.1)			3.31 (27.1)	.85 [.37]	1.7	
Intermediate goods	0.015 (5.5)	-0.024 (4.8)	-0.017 (3.8)		-0.028 (1.8)	7.44 (216.3)	.74 [.09]	2.24 [0.12]	
Services	0.092 (9.2)		-0.013 (1.2)	0.011 (1.2)		4.01 (33.5)	.85 [.21]	2.0	
Gross domestic product	0.038 (49.1)		-0.002 (1.3)	-0.002 (1.8)		9.13 (1,129.)	.99 .03	2.3	

Agriculture	0.020 (10.3)	0.007 (2.14)	0.006 (2.2)	7.22 (367.)	.88 [.06]	2.1
Mining	0.018 (4.8)	-0.024 (3.4)	-0.039 (6.3)	6.78 (140.)	.77 [.11]	2.0 [0.17]
Construction	0.064 (16.5)	-0.014 (2.1)		5.18 (105.)	.95 [.10]	2.0 [0.25]
Industry	0.038 (18.0)	0.012 (3.2)	-0.004 (1.6)	7.49 (291.)	.96 [.06]	1.6 [0.21]
Services	0.038 (21.3)	-0.004 (1.4)		8.08 (406.)	.95 [.06]	1.9
Government	0.051 (16.0)	0.014 (2.7)		6.45 (189.)	.93 [.10]	2.0
Consumption						
Private	0.040 (46.2)			8.87 (1,182.)	.99 [.02]	1.7
Government	0.047 (28.2)			6.67 (353.)	.97 [.06]	1.8
Investment (noninventory)	0.060 (11.3)			6.66 (107.)	.94 [.10]	1.7 [0.45]
Government direct and financial	0.051 (6.4)	0.019 (1.3)	-0.011 (1.0)	5.86 (63.4)	.64 [.27]	1.8
Capacity of gross domestic product	0.032 (7.8)		-0.001 (1.0)	9.30 (101.)	[.998] [.01]	1.2 [0.93]

Notes to Table A.2

NOTE: Two hypotheses are tested in each case: (i) that phase-coincident deviations in the growth rate occurred for the 1940-55 or the 1962-64 Phase II periods, the 1956-58 Phase III years, or the 1959-61 Phase IV liberalization; and (ii) that deviations in the growth rate occurred in the first year of each of the three liberalization attempts (i.e., 1956, 1959, and 1965).

The sample period is not extended further because consistent data are lacking before 1940 and after 1965. (The components of exports and imports are consistent only for 1947-65.) As of this writing (1971), two sets of Chilean national accounts are available: CORFO accounts for 1940-65 and ODEPLAN accounts for 1960-71. The CORFO accounts, which are used here, are preferred because they contain a substantially larger number of observations. For comparisons between them see Behrman [1974:Chap. 3].

The regressions were carried out by the method of ordinary least squares. For each regression, the dependent variable is the logarithm of the real value of the variable, and the independent variables include a constant, a time trend, multiplicative dummy variables multiplied by the time trend (with nonzero values for the years indicated in the column heads), and a first-order autocorrelation coefficient (ρ), in brackets, estimated by the Cochrane-Orcutt procedure in cases in which the hypothesis of correlation is not rejected by the Durbin-Watson statistic (DW). The figures in parentheses are the absolute values of the t statistics. For a two-tailed test with 20 degrees of freedom (approximately the number in each regression), a t statistic of 0.7 is significantly nonzero at the 50 per cent level; a t value of 1.3 is significantly nonzero at the 5 per cent level; and a value of 2.8 is significantly nonzero at the 1 per cent level. The coefficient of any dummy variable for which the absolute value of the t statistic is less than 1.0 is restricted a priori to zero. \bar{R}^2 is the corrected coefficient of determination, and SE is the standard error of estimate.

TABLE A.3
Implicit Tariff Rates (ITR) and Effective Protection Rates (EPR)
for 92 Products, 1967
(per cent)

Sector ^a and Product	ITR	EPR	Sector ^a and Product	ITR	EPR
1. Agriculture, fishing, forestry			12. Textiles		
Sunflower seed	-26	-39	Fabrication of yarn and fabrics		
Potatoes	-17	-21	Combed wool fabrics	80	63
Pork meat	0	-18	Carded wool fabrics	80	83
Rape	-5	-13	Polyester yarn	92	140
Rice	-9	-13	Combed wool yarn	90	152
Wheat	-3	-11	Dyed linen	130	547
Cattle meat	4	4	Carded wool yarn	90	821
Corn	16	13	Cotton thread for retail sale	130	1,641
Chicken meat	50	39			
9. Food products			13. Footwear and clothing		
Packing and preserving of fruits and vegetables:			Shoe manufacture		
Canned fruits and vegetables	22	33	Ladies shoes	20	26
Canned peaches	27	81	Children's shoes	20	32
Packing and preserving of fish products:			Sewed men's shoes	20	33
Sardines in oil	28	20	Glued men's shoes	20	46
Tuna in oil	28	38	Clothing manufacture		
Natural salmon	28	47	Men's shirts	0	-35
Mill products			Jacket	23	-5
Flour	0	0	Suit	30	1
Rice	50	524	Pants	52	33
Sugar refinery			14. Wood and cork		
Sugar	100	1,078	Sawmills		
Other products			Sawed lumber	0	-4
Spaghetti	0	-5	15. Furniture		
Oil	41	1,830	Ordinary wooden furniture	0	-5
10. Beverages			16. Paper and paper products		
Wine industry			Papers, cardboard, and cellulose	44	95
Wine (bottling)	14	-21	17. Printing and publishing		
Beer industry			Books, reprints, 20,000 vols.	0	-24
Beer	0	-25	Books, reprints, 3,000 vols.	0	-20
11. Tobacco			Books, 1st ed., 20,000 vols.	0	-10
Cigarettes	0	-13	Books, 2nd ed., 3,000 vols.	0	-6
			18. Leather and leather products		
			Tanyard and finishing shops		
			Leather box calf	25	18

TABLE A.3 (continued)

Sector ^a and Product	ITR	EPR	Sector ^a and Product	ITR	EPR
19. Rubber products			Pipes without pressure	10	-6
Tires	125	304	Moldings	20	12
20. Chemical products			23. Basic metals		
Fabrication of paints, varnishes, and lacquer			Basic industries of steel and iron		
Anticorrosive paint	54	85	Cast iron melted for making steel	20	35
Oil paint	54	103	Flat steel bars	30	34
Enamel paint	54	102	24. Metal products		
Latex paint	54	113	Metal packing		
Toilette articles			15-kg. liquid gas cylinder	61	61
Toothpaste	0	-62	Tools		
Cosmetics and perfumes	65	42	90-l. handcart	0	-38
21. Petroleum and coal products			Other metal products		
Petroleum refineries:			Bolts and nuts	16	9
Petroleum refining	50	900	12-1. "Califont" (water heater)	73	80
Derivatives of coal:			4-plate stove	88	117
Carbide	60	1,380	"Infrano" stove	244	320
22. Nonmetallic mineral products			25. Nonelect. machinery		
Fabrication of glass and glass products			Metalworking machinery		
Plane, cathedral, and mosaic	170	3,500	20-ton eccentric press	43	58
Fabrication of cement and porcelain			Winch (1.5 mm. × 180 mm.)	50	69
Sanitaries	0	-6	Drill (column up to 20 mm., 8 speeds)	75	102
Table service	25	18	26. Elect. machinery		
Glazed tile	60	46	Elect. industrial machinery and apparatus		
Electric isolators	50	56	Elect. engine, 5 HP, 1,500 RPM	162	701
Fabrication of cement and lime			Elect. engine, 2 HP, 1,500 RPM	162	780
Cement and lime	27	29	Equip. for radio and television		
Cement products for construction			23" TV set	125	113
Rippled sheets	0	-46	Radio	345	607
Cellulose rippled sheets	0	-25	Record player	340	1,400
Plane sheets	0	-17	Elect. equip. and manufacture		
T-5 pressure pipes	10	-17			
Cellulose plane sheets	0	-15			
T-4 pressure pipes	10	-14			

TABLE A.3 (concluded)

Sector ^a and Product	ITR	EPR	Sector ^a and Product	ITR	EPR
Household food mixer	94	116	Fabrication of bicycles and other motorless vehicles	300	555
Refrig., 9 cu. ft.	98	121			
Vacuum cleaner	85	132	Bicycles	300	555
Refrig., 7.5 cu. ft.	136	194			
Refrig., 6 cu. ft.	130	190			
Washing machine	105	580			
27. Transportation equipment			Mean	54	217
Naval constructions			Standard deviation	71	512
370-ton barge	0	-14	Range	371	3,562

SOURCE: Estimates by de la Cuadra as presented in de Castro and de la Cuadra [1971:38-46]. For details concerning the calculation of these rates, see the discussion of ITR1 and EPR3 in Appendix B.

a. The sectoral numbers are those of ODEPLAN and, hence, of Jeanneret [1971].

TABLE A.4
Correlation Coefficients Among Alternative Sets of Estimates of Implicit Tariff Rates (ITRs), Effective Protection Rates (EPRs), and Domestic Resource Costs (DRCs), 1961, 1967, and 1968

	Implicit Tariff Rates			Effective Protection Rates				Domestic Resource Costs	
	1961 (1)	1967 (2)	1968 ^a (3)	1961 (1)	1961 (2)	1967 (3)	1968 ^a (4)	1961 (1)	1968 ^a (2)
ITRs									
1961 (1)	1.00		0.60		0.77			0.71	
1967 (2)		1.00				0.50			
1968 ^a (3)	0.60		1.00				0.78		
EPRs									
1961 (1)				1.00	0.43				
1961 (2)	0.77			0.43	1.00		-0.56	0.79	
1967 (3)		0.50				1.00			
1968 ^a (4)			0.78	-0.56			1.00	-0.51	
DRCs									
1961 (1)	0.71				0.79		-0.51	1.00	
1968 ^a (2)									1.00

SOURCE: Table 5.3 contains the underlying data. In the calculation of each correlation coefficient, the maximum number of sectors possible is included after all the blanks in Table 5.3 have been excluded. This table includes only correlation coefficients significantly nonzero at the 5 per cent level. Of course the matrix of correlation coefficients is symmetric but both halves are included to make the table easier to read.

a. For exports only.

TABLE A.5
**Correlation Coefficients^a Between Implicit Tariff Rates, Effective Protection Rates, and Domestic Resource
 Costs and Selected Sectoral Economic Variables, 1961, 1967, and 1968**

Sectoral Characteristics	Implicit Tariff Rates (ITR)		Effective Protection Rates (EPR)			Domestic Resource Costs (DRC)	
	1961 (1)	1967 (2)	1961 (1)	1967 (3)	1968 ^b (4)	1961 (1)	1968 ^b (2)
1957 manufacturing census							
Plant/total capital					-.61		.62
Average wage					-.48		-.69
Capital/value added					.61		.92
Capital per worker							
1957 industrial concentration							
Labor force		.56					.55
Fixed capital							
1961/1953 product				-.42			
1961 average tariff rate on intermed. inputs			.72	.58	-.68	.46	
1962/1957							
Gross product							-.88
Gross value added							-.80
1962 input-output table							
Exports/domestic production	-.51						-.52
Imports/domestic production		.49					

(continued)

TABLE A.5 (concluded)

Sectoral Characteristics	Implicit Tariff Rates (ITR)		Effective Protection Rates (EPR)		Domestic Resource Costs (DRC)			
	1961 (1)	1967 (2)	1968 ^b (3)	1961 (1)	1967 (2)	1968 ^b (4)	1961 (1)	1968 ^b (2)
1962 input-output table (contd.)								
Domestic production ratios								.57
Intermediate/total								-.54
Private consumption/total			.62					
Investment/total	.56							
Government/total			.70					.54
Import ratios								
Private consumption/total	.56		.54					
Investment/total		.49						
Components of gross value added/ domestic production								.43
Imported inputs		.62	-.50					
Salaries	-.46		-.78					
Wages	-.44		-.65					

Employers' social security taxes	-.49	-.75		
Total labor payments	-.49	-.75		
Other factor payments		.44		
Indirect taxes and subsidies	-.45	.71		
Depreciation		-.54		
Gross value added		-.72	-.55	
1967 manufacturing census				
Labor payments/domestic production				-.64
Imported inputs/domestic production		.46	.49	-.53
Value added/domestic production			-.43	.66
Average wage				.74
Capital per worker				
1967 intermediate inputs/gross product				.51
1967 manufacturing census/1957 manufacturing census				
Average labor price		.59		.81
Value added/capital				
Value added/gross product			.48	
Labor payments/gross product	.42			.43
Capacity in horsepower		.56		-.72
Plant				
Electrical energy consumed		-.54		
Value added		-.55		
Plant/total capital		.58		.82

Notes to Table A.5

a. The column headings refer to those of Table 5.3. The sectoral economic variables are from the following sources: 1957 manufacturing census data from DEC [1960a:42-43, 70-71, 95-96, 106-107, 131-132] and Instituto de Economía [1963:100, 103-104], 1957 industrial concentration data from Lagos [1966:80, 96, 97, 170], 1961/1953 production from data in Instituto de Economía [1963:90], 1961 average tariff rate on intermediate imported inputs from unpublished data calculated by Jeanneret and presented in Bacha and Taylor [1973], related data of 1962 input-output table from ODEPLAN [1970], 1967 manufacturing census data from INE [1970:19-80], and 1967 data calculated by de la Cuadra and presented in de Castro and de la Cuadra [1971:38-44]. All correlation coefficients which are significantly nonzero at least at the 5 per cent level are included. Sectoral characteristics for which correlation coefficients were calculated but which were in no case significantly correlated with the variables indicated in the column headings include value added per unit of capital and the ratio of capital to gross value of output for 1957; firm size, firm size plus degree of concentration, and concentration by gross value of output for 1957; the change in concentration of the labor force between 1937 and 1957; the ratio of investment goods of domestic origin to domestic production and the ratios of intermediate goods of foreign origin and of government-consumed goods of foreign origin to imports from the 1962 input-output table; the ratios of the capital stock, of the horsepower capacity, of plant, and of electric energy consumed to gross product, the average tariff rate on intermediate inputs, and the ratio of value added to capital for 1967; capital per worker and the ratio of intermediate imports to gross product for 1967 relative to 1957; and the 1967-to-1962 ratios of gross product and of gross value added.

b. For exports only.

TABLE A.6
Correlations Between Selected Sectoral Economic Variables and 1967-to-1961
Ratios for Implicit Tariff Rates (ITRs) and Effective Protection Rates (EPRs)^a

Sectoral Characteristics	Ratio of ITR2 to ITR1	Ratio of EPR3 to EPR2
1957 manufacturing census		
Plant/total capital		-.64
Value added/capital		-.49
Capital per worker		.69
1957 industrial concentration: labor force		
1961/1953 product	.49	
1962 input-output table	.44	
Import ratios		
Private consumption	.49	-.46
Government	.55	
Components of gross value added/domestic production: imported inputs	.53	
1967 manufacturing census: value added/domestic production		-.47
1967 manufacturing census/1957 manufacturing census		
Average labor price	.62	.43
Value added/gross product		-.46
Labor payments/gross product		.47
Capacity in horsepower	.47	
Value added	.55	
Plant/total capital		.82

SOURCE: See Tables 5.3 and A.5.

a. Only coefficients that are significantly nonzero at the 5 per cent level are shown. ITR2 and EPR3 are for 1967; ITR1 and EPR2 are for 1961. However, it is assumed in these comparisons that there are no empirically significant definitional differences between ITR1 and ITR2 and between EPR2 and EPR3. See Appendix B for definitions and for a discussion of the importance of the differences in definition.

TABLE A.7
 Chilean Average Annual Nominal and Effective Exchange Rates, 1931-72
 (escudos per U.S. dollar)

Phase and Year	Nominal Exchange					
	Official (special after 1942) (1)	Export Draft (2)	Gold (3)	Wine (4)	Free Funds (parity after Dec. 1946) ^a (5)	Black or Free Market ^b (6)
I-II						
1931	.00826					0.014 ^e
1932	.01405	.03338				0.025 ^e
1933	.01334	.03318				0.034 ^e
1934	.00964	.02507				0.025
1935	.01933	.02426				0.025
1936	.01938	.02605	.035 ^e			0.028
1937	.01937	.02558	.034 ^e		.028	0.026
1938	.01937	.02495	.034 ^e		.028	0.027
1939	.01937	.02498			.031	0.032
1940	.01937	.02498			.031	0.033
1941	.01937	.02490			.031	0.032
1942	.01937	.02500			.031	0.032
1943	.01937	.02500			.031	0.032
1944	.01937	.02500			.031	0.032
1945	.01937	.02500			.031	0.032
1946	.01937	.02500			.031	0.034
1947	.01937	.02500			.031	0.047
1948	.01937	.02500			.031	0.061
1949	.01937	.02500	.1236		.031	0.075
1950	.01937		.1367		.031	0.092
1951	.01937		.1345	.110	.031	0.090
1952	.01937		.1647	.133	.031	0.122
1953	.01937		.1896	.170	.05175	0.188
1954	.01937			.245	.110	0.335
1955	.01937			.350	.110	0.565
III						
1956	.01937				.110	0.526
1957					.110	0.800
1958					.110	1.100

Rates (NER)

Bank Market		Special Commer- cial (9)	Pro- visional (10)	Central Bank (11)	Brokers' (12)	National Accounts ^c (13)	Import EER ^d (14)
Spot (7)	Future (8)						
						0.0083	
						0.014	
						0.032	
						0.032	
						0.024	
						0.024	
						0.025	
						0.025	
						0.025	
						0.025	0.033
						0.030	0.038
						0.030	0.036
						0.030	0.035
						0.030	0.035
						0.030	0.036
						0.030	0.037
						0.032	0.039
0.0430						0.036	0.044
0.0430						0.038	0.049
0.0430		.050	.060		0.090	0.051	0.063
0.0900 ^e		.050	.060		0.085	0.057	0.071
0.1132		.050	.060		0.124	0.066	0.082
0.1102		.050	.060		0.174	0.076	0.094
0.1228					0.290	0.104	0.123
0.205					0.540	0.181	0.219
0.453				0.499	0.534	0.351	0.432
0.621				0.620	0.694	0.624	0.749
0.793				0.788	1.000	0.715	0.846

TABLE A.7 (concluded)

Phase and Year	Nominal Exchange					
	Official (special after 1942) (1)	Export Draft (2)	Gold (3)	Wine (4)	Free Funds (parity after Dec. 1946) ^a (5)	Black or Free Market ^b (6)
IV						
1959					.110	1.059
1960						1.057
1961						1.059
II						
1962						1.750
1963						3.060
1964						4.750
III						
1965						5.35
1966						5.95
1967						6.50
1968						9.50
1969						14.25
1970						22.60
II						
1971						54.70
1972						219.6

Rates (NER)

Bank Market		Special Commer- cial (9)	Pro- visional (10)	Central Bank (11)	Brokers' (12)	National Accounts ^c (13)	Import EER ^d (14)
Spot (7)	Future (8)						
1.047				1.045	1.055	1.049	1.254
1.051				1.049	1.051	1.049	1.269
1.051				1.049	1.051	1.049	1.292
1.142				1.142	1.751	1.153	1.455
1.875	2.452			1.874	3.011	1.871	2.293
2.372	2.741			2.373	3.204	2.418	2.850
3.128	3.310			3.131	3.739	3.237	3.847
3.955	4.000			3.955	4.649	4.000	4.711
5.031	5.031			5.031	5.697	5.080	5.991
6.787	6.787			6.787	7.818	6,860	8.031
8.974	8.974			8.974	10.145	9.040	10.436
11.552	11.552			11.552	13.503	11.83	13.899
12.36 ^f	12.36			12.36	20.285 ^g	13.47	
19.67 ^f					35.4 ^g	21.87	

Notes to Table A.7

SOURCE: The black-market rates for 1931-71 are from Baerresen [1969:17] and Pick's [1948-71]; for 1972, from verbal reports. The national accounts rate is from CORFO and ODEPLAN sources as presented in Mamalakis [1971b:527] for 1931-39 and in Behrman [1974] for 1940-71. The gold and wine rates are from Ellsworth [1945:56-57] and Baerresen [1969:12]. All other data are from Central Bank sources and are largely presented in Jul [1969:149-150] and in Libano [1970:730]. Before 1960 the Chilean currency was the peso, which equaled 0.001 escudos.

a. After June 1959, calculations of the IMF for Chilean reserves and balance of payments have been based on the bank rate.

b. End of June for 1948-72. The black-market NER is the EER for nonbulk marginal goods, services, and capital transactions. The black-market rate approximates the EER and not the NER for such transactions because tariffs, taxes, and other charges generally are avoided in those cases in which the black market is the source of foreign exchange. There may be a cost due to risk, however, because of the illegality of dealing in this market.

The black-market rate must be interpreted with care because this market is somewhat narrow (although information about it seems to be widespread in the commercial centers of Santiago and Valparaiso), and may be affected by risk aversion because of its illegality. Risk aversion would shift both the demand and the supply curves downward. The direction of the effect on the price of foreign exchange would be uncertain. One might hypothesize that the supply curve would shift less than the demand curve, since suppliers in this market are largely foreigners for whom the penalties arising from convictions for operating in this market have been less than for nationals. On the other hand, the probability of arrest for black-market operations may be higher for the more visible foreigners than for nationals, which would have a countervailing effect. In any case, attempts to suppress the black market in any manner (except for lessening the degree of overvaluation in the legal market) have been very infrequent—especially before the Allende government. The black-market PLD-NER—or the discrepancy between it and the comparable legal rate—is one useful index of the extent to which demands for foreign exchange are not being satisfied in the legal market(s) because quantitative restrictions are being used to ration the available foreign exchange at the existing overvalued legal rate(s).

The following regression provides some support for this interpretation (*t* ratios are shown in parentheses; elasticities at sample means, in brackets):

$$\begin{aligned}
 \text{PLD-NER}^{BM} &= 29.7\text{QRFD} + 0.113 \sum_{t=0}^L (\text{PLD-NER}^{BM} - \text{PLD-NER}^{NA}) - 23.5 \\
 &\quad (3.8) \quad (4.2) \quad (3.2) \\
 &\quad [5.2] \quad [0.1] \\
 \bar{R}^2 &= 0.84, SE = 0.532, DW = 1.3; \text{ years covered, 1950-65}
 \end{aligned}$$

where

BM = black market;

NA = national accounts;

QRFD = French-Davis quantitative restrictions index (line 1.2.6.2 in Table A.1);

L = first year of start of last stabilization plus liberalization attempt (1956, 1959, 1965).

Variations in *QRFD* alone are consistent with 65 per cent of the variance in the *PLD-NER*^{BM}. The second term on the right is the sum of the difference between the *PLD-NER*s

for the black market and for the legal market(s) since the initiation of the last attempt at stabilization with liberalization. It represents the cumulative pressures for another liberalization attempt due to the disequilibrium system and, thus, motivation for speculative capital flight. (A somewhat different interpretation of the regression is possible. The second term may represent a distributed lag of the quantitative restrictions index. In such a case the entire right-hand side is a distributed lag of this index, which may represent expectations concerning future quantitative restrictions.) Together the two right-hand variables are consistent with 84 per cent of the variance in the *PLD-NERSM*. (Prima facie, the elasticities may be misleading indicators of the relative contribution of the two right-hand variables because the coefficient of variation is much larger for the second than for the first of the two.) The inclusion of additional variables does not significantly increase the correlation.

c. Weighted average of legal exchange rates. For 1971, it is a weighted average of the bank market and brokers' market rates described in notes f and g.

d. The EER for imports is the national accounts exchange rate adjusted to include the average import tax rate (line 1.2.6.9 in Table A.1) and the import prior-deposit-cost rate calculated from prior-deposit cost estimates made by French-Davis [1971:269].

e. End of year. EER for imports is the average number of escudos paid for a one-dollar international transaction, including all charges for tariffs and other taxes and the interest costs of prior deposits. The figures shown are in each case the higher (by 0.0005) of two rates for gold.

f. As of December 13, 1971, the bank market rate was subdivided into four rates: A at 12.21 escudos per dollar, B at 15.80, C at 19.00, and D at 25.00. As of August 7, 1972, the escudo under these rates was devalued and three new lists were added so that the structure became the following: A or E at 20.00 escudos per dollar, B or F at 25.00, G at 30.00, C at 40.00, D at 80.00, and higher rates for nontraditional exports deemed desirable. The rate in the table is the weighted average of the two basic B rates.

g. The rate of 28.00 escudos per dollar, which was established in July 1971, was replaced by three rates as of August 2, 1972: Area I, 36.00; Area II, 46.00; and Area III, 85.00. The rate indicated in the table is the weighted average of the 28.00-escudo rate and the basic 46.00-escudo rate.

TABLE A.8
**Price-Level-Deflated Effective Exchange Rates, Premiums Included, for Major
 Production Sectors and Subsectors and Demand Components, 1946-70**
 (1965 escudos per dollar)

Phase and Year	1. Agric. and Forestry (1)	2. Fishing (2)	3. Coal Mining (3)	6. Nitrate Mining (4)	9. Food Prod. (5)	10. Beverages (6)	12. Textiles (7)	13. Footwear (8)	14. Wood and Cork (9)	16. Paper Prod. (10)	18. Leather Prod. (11)
II											
1946	5.872		14.974	3.831	6.257				5.881		
1947	4.864		11.140	2.964	9.877	8.782	8.436		3.623	6.474	
1948	4.359		9.818	3.061	7.796	6.939	6.400		3.498	6.394	
1949	4.946	1.973	9.936	3.337	8.135	8.578	6.908	14.513	4.302	6.052	
1950	5.174	1.959	9.798	3.208	7.789	7.805	7.339	14.147	3.639	6.086	
1951	4.731	2.393	9.788	3.000	7.082	7.488	6.530	12.622	3.530	5.959	
1952	4.817	2.386	10.639	3.024	7.958	8.406	7.623	12.078	3.710	5.967	
1953	5.323	2.023	11.847	3.156	7.483	8.297	9.439	11.769	3.584	5.114	
1954	5.488	2.484	11.605	3.545	7.462	7.498	11.022	12.062	4.181	4.369	
1955	5.940	2.507	31.150	5.852	8.881	7.136	16.942	18.836	6.476	6.814	12.961
III											
1956	5.460	3.628	29.237	3.675	7.969	6.957	17.704	17.171	5.467	6.492	12.417
1957	5.238	3.464	30.078	2.654	7.440	8.220	16.192	14.486	5.160	6.221	10.804
1958	4.557	3.357	4.078	4.711	6.691	9.108	11.633	13.333	4.356	6.924	9.415
IV											
1959	4.501	3.321	5.199	4.241	6.440	7.798	10.566	13.496	3.978	6.219	9.704
1960	4.717	3.583	4.596	3.910	6.254	7.454	9.903	12.571	4.496	5.609	9.827
1961	4.668	3.950	4.472	3.264	5.942	7.247	9.206	11.590	4.407	5.060	8.521

II												
1962	4.725	3.764	4.432	5.915	6.690	9.075	11.449	4.422	4.638	8.713		
1963	4.668	3.105	4.679	5.939	6.692	9.956	11.403	5.173	4.809	10.003		
1964	4.593	2.800	4.873	5.896	6.869	9.821	11.245	4.959	5.099	10.951		
III												
1965	4.120	3.113	5.254	5.969	6.746	9.585	10.938	4.876	5.832	10.457		
1966	4.035	3.836	5.924	5.680	5.703	8.611	9.975	4.317	5.268	8.629		
1967	4.137	2.780	5.405	5.318	5.238	7.905	8.942	4.166	4.746	8.109		
1968	3.867	2.702	3.743	5.202	5.324	7.107	8.205	4.953	4.280	6.939		
1969	4.045	2.161	3.687	4.803	5.116	6.922	7.524	4.693	4.028	5.890		
1970	3.769	1.640	3.211	4.572	4.515	8.491	8.590	5.995		6.044		
Mean	4.745	2.860	9.983	3.590	7.109	9.722	12.134	4.554	5.585	9.336		
Stand. dev.	0.589	0.691	8.271	0.803	1.307	3.136	2.734	0.814	0.848	2.016		

Ratio:
stand. dev.
to mean

(continued)

TABLE A.8 (continued)

Phase and Year	19.	20.	21.	22.	23.	24.	26.	28.	1-28.	3-8.	9-28.
	Rubber Prod. (12)	Chemical Prod. (13)	Petroleum and Coal Prod. (14)	Nonmet. Mineral Prod. (15)	Basic Metals (16)	Metal Prod. (17)	Elect. Mach. (18)	Other Mfg. (19)	All Sectors (20)	Mining ^a (21)	Mfg. (22)
II											
1946				15.394	12.129				8.982	5.327	11.331
1947		6.426	6.692	12.464	10.049				7.734	4.930	9.504
1948		7.055	5.798	12.035	9.746				6.800	4.506	8.212
1949		8.602	6.744	10.610	9.769				7.519	4.254	8.876
1950		7.634	6.720	10.055	7.833				7.144	4.470	8.242
1951		6.736	6.128	10.099	6.142				6.450	4.079	7.499
1952		7.577	6.230	11.150	7.253				7.029	4.170	8.246
1953		8.912	5.609	11.255	6.514				7.111	4.345	7.985
1954		8.021	4.863	8.297	6.211				6.948	3.792	7.610
1955		7.654	4.378	8.228	5.644	7.210			8.216	3.390	8.805
III											
1956		8.037	4.981	8.778	5.590	6.946			7.824	4.040	8.585
1957		6.702	5.268	9.236	5.546	6.678			7.470	4.123	8.248
1958	6.259	6.364	5.711	9.152	6.008	5.580	8.705	8.491	6.765	4.435	7.797
IV											
1959	6.523	6.716	5.451	8.873	5.890	6.053	7.381	8.334	6.598	3.953	7.531
1960	6.842	6.770	5.236	8.354	5.784	5.676	7.159	7.657	6.505	3.860	7.302
1961	6.595	6.333	4.897	7.803	5.419	5.191	6.692	7.345	6.170	3.526	6.888

TABLE A.8 (concluded)

Phase and Year	Construc. Mat. (23)	Intermed. Prod. (24)	Consumer Goods ^a (25)	Invest. Goods ^a (26)	Imports ^a (27)	Competitive Imports ^b (28)	Non-competitive Imports ^c (29)	Raw Material Imports ^d (30)	Exports ^a (31)
II									
1946	9.301	9.087	15.447	12.922	9.948	7.263	12.580		5.385
1947	7.172	7.289	13.979	9.363	8.432	6.158	10.629	10.054	4.906
1948	6.943	7.062	13.081	8.739	7.374	5.626	8.836	8.010	4.253
1949	7.080	7.426	13.244	8.402	7.024	6.382	9.501	7.725	3.926
1950	5.959	6.744	12.948	8.117	7.012	6.343	9.046	7.635	4.178
1951	5.236	5.957	12.108	7.371	6.656	5.708	8.413	7.417	4.328
1952	5.898	6.422	11.900	7.158	6.828	5.948	9.302	6.997	4.757
1953	5.563	6.504	11.714	7.289	5.859	6.376	9.005	6.038	4.284
1954	5.366	6.316	11.846	6.636	4.756	6.311	8.864	5.597	3.123
1955	6.080	7.539	11.719	5.819	4.560	6.555	11.044	5.447	3.380
III									
1956	6.002	7.499	11.167	5.830	5.498	6.353	10.476	6.950	4.104
1957	5.813	7.152	10.647	6.766	7.559	6.038	10.133	8.854	4.338
1958	5.908	7.262	10.346	6.734	6.679	5.604	8.741	8.848	3.521
IV									
1959	5.857	7.002	10.033	7.073	6.861	5.625	8.265	7.458	4.002
1960	5.911	6.972	10.068	6.266	6.065	5.721	7.931	6.913	3.773
1961	5.419	6.497	9.925	6.268	5.517	5.517	7.509	6.497	3.297

II										
1962	5.158	6.202	9.874	5.962	5.174	5.446	7.336	5.893	3.289	
1963	5.024	6.235	9.655	6.268	5.229	5.241	7.433	7.169	3.528	
1964	4.653	6.107	9.424	6.528	5.462	4.927	7.426	6.823	3.309	
III										
1965	4.834	5.976	9.296	6.158	5.489	4.614	7.457	5.318	3.739	
1966	4.757	5.666	8.760	6.236	4.793	4.507	6.922	4.632	4.046	
1967	4.587	5.650	8.586	5.737	4.734	4.578	6.356	4.438	3.650	
1968	4.818	5.583	8.240	5.555	4.564	4.447	6.100		3.640	
1969	4.742	5.529	7.779	5.132	4.122	4.450	5.710		3.772	
1970	4.365	5.155				4.189	5.684			
Mean	5.698	6.593	10.908	7.014	6.091	5.597	8.428	6.891	3.939	
Stand. dev.	1.073	0.861	1.936	1.635	1.392	0.807	1.723	1.416	0.557	
Ratio:										
stand. dev.										
to mean	0.188	0.130	0.177	0.233	0.228	0.144	0.204	0.205	0.141	

Notes to Table A.8

NOTE: To calculate EERs on a disaggregated level for Chile is very difficult. In attempts by the government to pursue stabilization and distribution goals in an environment with very high inflation rates (cf. line 2.1 in Table A.1), foreign-sector policies have been changed with great frequency—and often with great specificity (see Part II, above). To trace the changes in the implicit legal charges related to international transactions on a detailed level, therefore, is an enormous task.

Even if one had adequately chronicled such legal changes, however, a person would not really have EERs because of the large number of exemptions. Many of these exemptions are very difficult to detect, as the following anecdote illustrates: An apparently innocuous three-day suspension of the duties on sugar resulted in a considerable premium to the importer because a shipfull of sugar was waiting for the suspension in the Valparaiso harbor. During those three days, the cargo was unloaded and passed through customs. A quantity of sugar equal to a considerable portion of Chilean annual consumption entered the country duty-free. (In an interview on May 17, 1972, Ana Maria Jul related this and other similar events she had uncovered in Central Bank interviews as part of her research on Chilean international economic policies.)

For 1962, more specific evidence of the importance of such exemptions is available. For that year, I compared the tariff-equivalent rates implied by the legal rates plus prior-deposit costs for 58 categories of goods (Beca, Galvez, and Imperatore [1969:125-126]) with the tariff-equivalent rates actually paid on the same items. The unweighted mean of the actual rates equaled 55 per cent of the mean of the legal rates; the entire difference can be accounted for by the exemptions. The dispersion of the actual rates, as measured by the standard deviation or by the ratio of the standard deviation to the mean, is much smaller than for the legal rates. A regression of the actual rates on the legal rates follows:

$$\begin{aligned} \text{Actual rates} &= 0.245 \text{ legal rates} + 0.348 \\ &\quad (6.5) \qquad (5.2) \\ \bar{R}^2 &= 0.44, SE = 0.37 \end{aligned}$$

Note that the dispersion of the actual rates is much smaller than that of the legal rates. Exemptions apparently substantially reduce the distortions implied by the legal rate structure. Therefore, the legal rates are quite misleading.

Because of the problems just described, time series for premium-inclusive EERs [EER(PI)s] rather than disaggregated EERs are presented in this study. The former are defined to be the ratio of domestic prices (net of normal distribution costs) to c.i.f. prices. EER(PI)s are equal to EERs if the premium rate is zero (see Table A.1, note for line 1.1.6).

The PLD-EER(PI)s in this table are based on the following procedure:

i. For a number of aggregate domestic price indices and for the 220 most important products underlying the Chilean consumer and wholesale price indices, comparable international price indices were located and examined critically. The most comparable components of the U.S. wholesale price index, consumer price index, and GDP deflator were chosen because all other alternatives were incomplete or unstable. In any case, in 1950-68, the United States provided 440 per cent of the value of Chilean imports from the second-largest supplier country.

ii. Ratios of domestic to international prices were calculated for each of the Chilean price indices for 1946-70.

iii. The time series were normalized to be consistent with the 1961 ratios of domestic to c.i.f. price estimates of Jeanneret [1971]. For this base year, near the end of the most liberal post-World War II phase, the import premium rate was relatively low.

iv. The disaggregated series were averaged with equal weights to obtain the subsectoral estimates and other aggregates.

v. All series were divided by the Chilean GDP deflator, with 1965 equal to 1.00.

The resulting series primarily reflect the combined patterns of PLD-EERs and import premiums for production subsectors and various demand aggregates plus such factors as changes in domestic distribution margins in percentage terms, in those cases in which the consumer price index is used; changes in international shipping costs in percentage terms; changes in the relative quality of Chilean versus U.S. products; changes in the degree of domestic market power; changes in product composition; and time lags in adjustment between foreign and domestic prices. The variances in these additional factors appear to be dwarfed, however, by the variances in the PLD-EERs and the import premiums.

SOURCE: All series are based on aggregations of 220 underlying disaggregated series, unless otherwise noted. Data sources include the Council of Economic Advisers [1972] for the U.S. price indices and deflators; Jeanneret [1971] for the 1961 domestic-to-c.i.f. price ratios; Behrman [1974] for the Chilean GDP deflator; and Banco Central [1945-73b], Behrman [1974], and DEC [1957-70b] for the Chilean price indices and deflators. The means and standard deviations are for all nonzero observations.

a. Numerator based on Chilean GDP deflator.

b. Includes industries identified in columns 1, 12-14, and 16-19 (subsectors 1, 19-21, 23, 24, 26, and 28 in the classification by ODEPLAN [1970] and Jeanneret [1971:159]).

c. Includes industries identified in columns 2, 3, 5-11, and 15 (subsectors 2, 3, 9, 10, 12-14, 16, 18, and 22 in the classification used by ODEPLAN [1970] and Jeanneret [1971:159]).

d. Based on imported raw materials component of Chilean wholesale price index.

TABLE A.9
**Correlation Coefficients^a Among Price-Level-Deflated Effective Exchange Rates,
 Premiums Included, for Major Production Sectors and Subsectors and
 Demand Components, 1946-70**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
1. Agriculture & forestry (1)	1.00												
2. Fishing (2)		1.00											
3. Coal mining (3)	.74		1.00										
4. Nitrate mining (6)				1.00									
5. Food products (9)	.66		.62		1.00								
6. Beverages (10)	.63				.75	1.00							
7. Textiles (12)	.62		.80	.49			1.00						
8. Footwear (13)	.85		.78	.58	.88	.65	.72	1.00					
9. Wood & cork (14)			.38	.61	-.43	.62		1.00					
10. Paper & paper products (16)	.40		.51		.70	.66	.40	.82	1.00				
11. Leather & leather products (18)	.85		.70		.90	.64	.83	.89	.78	1.00			
12. Rubber products (19)	.90	.75			.89	.81	.74	.85	.54	.89	1.00		
13. Chemical products (20)	.83		.53		.78	.76		.74	.46	.73	.76	1.00	
14. Petroleum & coal products (21)	.48		-.53		.75	.84		.54	-.59	.60	.60	.75	
15. Nonmetallic mineral products (22)	.60				.65	.79		.57	.62	.66	.67	.76	
16. Basic metals (23)	-.59				.40		-.42		-.51	-.71			
17. Metallic products (24)	.91		.80		.92	.69	.89	.93	.76	.74	.68	.96	
18. Electric machinery (26)	.55	.58		.92	.86	.90	.76	.80	-.60	.87	.59	.80	
19. Other manufacturing (28)				.95			.73	.62		.84			
20. All sectors (1-28)	.90		.70		.79	.81	.52	.94	.74	.87	.87	.87	
21. Mining (3-8)	.63				.71	.90		.66	.74	.70	.82	.76	
22. Manufacturing (9-28)	.82		.58		.76	.85		.90	.78	.86	.84	.86	
23. Construction materials	.62				.55	.74		.78	.71	.66	.65	.73	
24. Intermediate products	.76		.55		.59	.78	.53	.91	.81	.80	.80	.75	
25. Consumer goods	.69	-.44	.40		.74	.73		.70	.60	.87	.89	.79	
26. Investment goods	.44	-.42				.67			.52		.80	.49	
27. Imports					.45	.77		.43	.68		.72	.43	
28. Competitive	.93		.62		.75	.81	.41	.84	.56	.80	.83	.95	
29. Noncompetitive	.87		.73		.78	.78	.55	.94	.78	.89	.86	.81	
30. Raw materials					.54	.75			.59		.73		
31. Exports									.46				

a. Includes all correlation coefficients among the series in Table A.8 that are significantly nonzero at the 5 per cent level. The results indicate the consistency of the impact across subsectors and demand categories of changes in the foreign-sector regime.

TABLE A.10
 Percentage Changes in Ratios of Effective Exchange Rates, Premiums Included,
 to National Accounts Nominal Exchange Rate for Major Production Sectors
 and Subsectors and Demand Components, 1947-70

Phase and Year	1. Agric. and Forestry (1)	2. Fishing (2)	3. Coal Mining (3)	6. Nitrate Mining (4)	9. Food Prod. (5)	10. Beverages (6)	12. Textiles (7)	13. Footwear (8)	14. Wood and Cork (9)	16. Paper Prod. (10)	18. Leather Prod. (11)
II											
1947	-0.8		-10.9	-7.3	88.9				-26.2		
1948	-4.9		-6.5	9.5	-16.3	-16.2	-19.5		2.3	4.7	
1949	28.1		14.2	23.0	17.8	39.5	21.8		38.8	6.8	
1950	-8.8	-13.4	-14.0	-16.2	-16.5	-20.7	-7.4	-15.0	-26.2	-12.3	
1951	-0.9	32.2	8.1	1.2	-1.5	3.8	-3.6	-3.3	5.0	6.0	
1952	7.9	5.6	15.2	6.8	19.1	19.0	23.7	1.4	11.4	6.1	
1953	20.7	-7.3	21.6	14.0	2.7	7.8	35.3	6.5	5.5	-6.3	
1954	25.5	49.5	19.3	36.7	21.4	10.0	42.2	24.8	42.0	4.0	
1955	9.1	1.8	170.7	66.5	20.0	-3.9	55.0	57.5	56.2	57.3	
III											
1956	-24.9	18.1	-23.3	-48.7	-26.7	-20.4	-14.7	-25.5	-31.0	-22.2	-21.8
1957	-30.7	-31.1	-25.7	-47.8	-32.6	-14.7	-34.0	-39.1	-31.8	-30.8	-37.2
1958	-4.1	6.7	-85.0	95.4	-0.9	22.0	-20.8	1.3	-7.0	22.6	-3.9

TABLE A.10 (continued)

Phase and Year	19. Rubber Prod. (12)	20. Chemical Prod. (13)	21. Petroleum and Coal Prod. (14)	22. Nonmet. Mineral Prod. (15)	23. Basic Metals (16)	24. Metal Prod. (17)	26. Elect. Mach. (18)	28. Other Mfg. (19)	1-28. All Sectors (20)	3-8. Mining (21)	9-28. Mfg. (22)
II											
1947				-3.0	-0.8				3.0	10.7	0.4
1948		16.3	-8.1	-2.3	2.8				-6.7	-3.0	-8.3
1949		37.6	31.3	-0.4	13.1				24.8	6.6	22.0
1950		-22.6	-13.1	-17.4	-30.1				-17.2	-8.4	-19.0
1951		-4.4	-1.2	8.7	-15.0				-2.2	-1.1	-1.4
1952		19.2	7.7	17.0	25.1				15.5	8.3	16.5
1953		28.5	-1.5	10.3	-1.8				10.5	13.8	5.8
1954		9.6	5.5	-3.3	16.1				19.0	6.3	16.0
1955		-3.7	-9.1	-7.0	-8.3				19.2	-9.8	16.7
III											
1956		-14.3	-7.1	-12.9	-19.1	-21.3			-22.2	-2.7	-20.4
1957		-39.8	-23.6	-24.0	-28.4	-30.6			-31.0	-26.3	-30.6
1958		4.6	19.4	9.1	19.3	-7.9			-0.2	18.4	4.1

TABLE A.10 (concluded)

Phase and Year	Construc. Mat. (23)	Intermed. Prod. (24)	Consumer Goods (25)	Invest. Goods (26)	Imports (27)	Competitive Imports (28)	Non-competitive Imports (29)	Raw Material Imports (30)	Exports (31)
II									
1947	-7.6	-3.9	8.3	-13.2	1.4	1.5	1.1		9.0
1948	2.6	2.7	-0.7	-1.0	-7.2	-3.1	-11.8	-15.5	-8.0
1949	15.1	18.7	14.3	8.5	7.5	28.0	21.4	8.9	4.2
1950	-26.6	-20.8	-14.8	-15.8	-13.0	-13.3	-17.0	-13.8	-7.2
1951	-4.8	-4.3	1.2	-1.6	2.7	-2.5	0.6	5.1	12.1
1952	19.4	14.3	4.1	2.9	8.7	10.4	17.2	0.0	16.5
1953	3.0	10.6	7.5	11.2	-6.2	17.1	5.8	-5.6	-1.5
1954	17.4	18.2	23.1	10.8	-1.1	20.5	19.8	12.8	-11.2
1955	14.3	20.4	-0.1	-11.5	-3.2	4.7	25.7	-1.8	9.2
III									
1956	-19.4	-18.8	-22.2	-18.2	-1.5	-20.8	-22.5	4.1	-0.9
1957	-30.1	-31.1	-31.1	-16.2	-0.7	-31.4	-30.2	-8.0	-23.7
1958	11.9	11.8	7.0	9.6	-2.6	2.2	-4.9	10.0	-10.6

TABLE A.11

Ex Post General-Equilibrium Elasticities of Important Economic Variables in Chile with Respect to Changes in Foreign-Sector Factors
(1 in a column heading designates the first year of the simulation; 4, the third year)

Line No.	Variables	1. Changes in			
		Base Simulation ^a		1.1 All Exports	
		1	3	1	3
1.	Balance of payments				
1.1	Exports	-.03	-.01	.1	.2
1.1.1	Agricultural	-.08	-.19	.5	.4
1.1.2	Mineral				
1.1.2.1	Large-scale	-.03	-.01	.2	.2
1.1.2.2	Other	-.05	-.01	.0	-.1
1.1.3	Industrial	.12	.15	-.2	.5
1.1.4	Services	-.03	-.03	.0	-.0
1.2	Imports	.03	-.02	.2	.1
1.2.1	Consumption				
1.2.1.1	Staple	-.05	-.01	-.1	-.1
1.2.1.2	Durable	-.09	-.20	-.1	-.0
1.2.1.3	Secondary	.12	.31	-.4	-.7
1.2.2	Investment				
1.2.2.1	Machinery and equip.	-.00	-.05	.0	.4
1.2.2.2	Transport. related	.06	-.04	.1	-.1
1.2.3	Intermediate	.12	-.00	.7	.2
1.2.4	Services	.06	.03	.4	.2
1.3	Other				
1.3.1	Surplus on current acct. ^b	-.31	.02	-1.1	.4
1.3.2	Net bank intl. reserves ^b	-.23	-.22	.1	.2
1.3.3	Govt. deficit financed abroad ^b	-.95	-.10	-92.2	4.3
1.3.4	Black-market rate	.06	-.02	.3	-.1
2.	Cyclical fluctuations				
2.1	Real capacity utilization	-.01	-.00	.0	.1
2.2	Price stability				
2.2.1	GDP deflator	-.01	.02	.3	-.1
2.2.2	Money supply	-.07	-.01	.2	-.0
2.2.3	Monetary base	-.12	-.07	.1	.2
2.2.4	Govt. deficit	-.09	-.01	-.4	.3
2.2.5	Net central bank foreign reserves ^b	-.35	-.32	.1	.3
3.	Resource allocation				
3.1	Product/intermediate input price				
3.1.1	Agriculture	.08	-.03	.1	.2
3.1.2	Mining	.02	-.03	.6	.1
3.1.3	Industry	-.01	-.03	-.1	.1

Foreign Conditions				2. Changes in Chilean Intl. Economic Policy					
Unit Values				2.1 Exchange Rates					
1.2 All Imports		1.3 U.S. Indus. Prod. Index		2.1.1 All Legal Exch. Rates		2.1.2 Brokers Market Rate		2.1.3 Bacha & Taylor Equilibrium Rates	
1	3	1	3	1	3	1	3	1	3
-4	-2	.2	.0	.2	.0	.0	.1	.04	.06
-2	.1	.1	-.1	.3	.4	.0	.2	.10	.19
-4	-4	-.1	.2	.2	.0	-.0	.1	.04	.03
.0	.2	1.5	-.0	.0	-.0	.0	.0	.00	.04
-2.4	-.5	-.1	-.7	.9	-.2	-.1	.3	.43	.29
-.2	-.2	.0	.1	.1	-.1	.2	.2	.04	.01
-.2	-.3	.1	.0	-.1	-.1	.0	.0	-.03	-.05
.1	-.2	-.1	-.1	-.1	-.3	-.0	-.0	-.03	-.21
-.2	-.1	-.1	-.2	.1	-.2	-.0	-.0	.05	-.07
-.4	-1.1	-.2	.3	-.6	-1.2	-.1	-.2	-.18	-.54
.1	-.4	.0	.2	-.0	.0	.0	-.0	.01	.03
.4	.0	.1	.2	-.1	.3	.0	-.1	-.05	-.00
-1.0	-.2	.1	-.1	.0	.0	.0	.1	-.01	.03
-.1	-.3	.3	.0	-.1	.1	.0	.1	-.07	-.03
-1.9	-.0	.6	.1	.9	.2	-.1	.7	.23	.46
-1.0	-.8	.1	.6	.1	.5	-.1	.3	.03	.21
102.2	8.7	-1.3	-6.7	-19.1	2.3	6.6	.9	-.79	-1.66
.7	.3	.2	.0	.6	.2	.1	-.1	.20	.39
-.2	.0	.0	-.0	-.0	.1	.0	.1	-.01	.04
.6	.2	.2	-.0	.6	.3	.1	-.1	.22	.45
-.1	-.1	.2	.0	.2	.3	.1	-.0	.05	.35
-.7	-.3	.1	.4	-.1	.1	-.1	.3	-.05	.17
.5	.6	.0	-.6	-.1	.2	.0	.0	.04	.03
-1.4	-1.0	.2	.9	.2	.6	-.1	.4	.04	.28
.1	.1	.0	-.2	-.1	.1	.0	.1	-.03	-.02
-.7	-.2	-.1	-.0	.1	-.1	-.0	.0	.07	.01
-.1	-.1	-.0	.1	-.1	-.1	-.0	-.1	-.02	-.00

2
4
2
1
5
0
1
1
0
7
4
1
2
2
2
1
1

TABLE A.11 (continued)

Line No.	Variables	1. Changes in			
		Base Simulation ^a		Prices and Exports	
		1	3	1.1	All Exports
3.2	Labor force (secular movements)				
3.2.1	Agriculture	-.00	-.02	-.0	-.0
3.2.2	Mining	-.00	-.01	-.0	-.0
3.2.3	Industry	.05	.10	-.0	-.0
3.3	Capital stock				
3.3.1	Agriculture	.02	.00	-.0	.1
3.3.2	Mining	.04	.03	.0	-.0
3.3.3	Industry	.02	.05	-.0	-.0
3.4	Production capacity				
3.4.1	Agriculture	-.08	-.08	-.0	-.0
3.4.2	Mining	-.07	-.06	.0	.0
3.4.3	Industry	.10	.11	-.0	-.0
3.5	GDP				
3.5.1	Agriculture	-.07	-.12	.1	.2
3.5.2	Mining	-.07	-.10	.5	.1
3.5.3	Industry	.05	.03	.1	.3
3.5.4	Goods/services	-.01	-.03	.2	.2
4.	Distribution of income and resources				
4.1	Factorial				
4.1.1	Real wage	.02	.05	-.1	-.3
4.1.1.1	Agriculture	.04	.03	-.1	-.4
4.1.1.2	Mining	-.02	-.06	-.2	-.2
4.1.1.3	Industry	-.08	-.07	-.2	-.4
4.1.1.4	Government	.04	-.07	-.2	-.2
4.1.2	Wage share in income	.04	.11	-.2	-.4
4.2	International				
4.2.1	Net factor income from abroad ^b	.07	-.19	-1.0	.0
4.3	Intertemporal				
4.3.1	Consumption/product	-.00	-.03	.0	.0
4.4	Public vs. private				
4.4.1	Taxes/deflator	-.03	-.00	.1	.1
4.4.1.1	Import	-.08	.03	-.1	.1
4.4.1.2	Large-scale mining	.01	-.22	1.5	.3
4.4.2	Govt. consumption/product	-.05	.03	.1	-.0
5.	Economic growth-related variables				
5.1	GDP	-.00	-.01	.0	.1
5.2	Gross national savings ^b	-.08	.01	.1	.2
5.2.1	Personal ^a	-.46	1.06	-1.9	-95.3
5.2.2	Business ^a	-.42	-.90	3.8	56.6
5.2.3	Government ^b	.32	-.03	.7	-.3
5.3	Capacity	-.01	.01	.0	.0
5.3.1	Investment	.04	.01	.0	.1
5.3.2	Capital stock	.00	.01	.0	-.0

Foreign Conditions				2. Changes in Chilean Intl. Economic Policy					
Unit Values				2.1 Exchange Rates					
1.2 All Imports		1.3 U.S. Indus. Prod. Index		2.1.1 All Legal Exch. Rates		2.1.2 Brokers Market Rate		2.1.3 Bacha & Taylor Equilibrium Rates	
1	3	1	3	1	3	1	3	1	3
-0	-0	-0	-0	-0	-0	-0	.0	-00	-02
-0	.0	-0	.0	-0	.0	-0	.0	-00	.01
-0	-1	-0	-1	-0	-1	-0	.0	-00	-06
-1	-0	-0	-0	-0	.1	-0	.0	-01	-01
-0	.3	.0	-0	.0	-0	.0	.1	.01	.12
.1	-0	-0	-1	-0	-1	-0	.0	-01	-05
-0	-0	-0	-0	-0	-0	-0	.0	-00	-02
.0	-0	.0	.0	.0	.0	.0	.0	.00	.00
-0	-1	-0	-1	-0	-1	-0	.0	-00	-06
-2	-0	.1	-0	.0	.2	.0	.1	.00	.09
-5	-1	.0	-0	.1	-0	-0	.1	.05	.14
-2	-1	.1	-1	-0	.2	.0	.1	-02	.05
-2	-2	.1	-1	.1	.0	.0	.1	.02	.06
-4	-4	-1	.1	-4	-5	-0	-1	-10	-23
-3	-5	-1	.2	-4	-5	-0	-1	-13	-19
-5	-5	-2	.0	-3	-6	-1	-0	-08	-26
-3	-4	-1	.2	-4	-5	-1	-1	-09	-22
-5	-4	-2	.1	-4	-5	-1	-0	-09	-20
-2	-5	-1	.1	-3	-7	-1	-1	-10	-17
-1.4	-6	-6	-1	-1.8	-8	-2	.1	-61	-79
.1	-0	-0	.0	.0	-0	-0	-0	.00	-02
-4	-2	-0	.0	-1	-1	-0	.1	-03	-06
.0	-7	-1	.4	-5	-4	-1	.0	-19	-39
-1.3	-6	-1	.1	.2	-4	-1	.1	.16	.19
.1	.1	-0	.0	.0	-2	-0	.0	.02	-03
-2	.0	.0	-0	-0	.1	.0	.1	-01	.04
-1.4	.4	.3	-1	.2	.4	.0	.3	.05	.26
5.3	-122.8	-7	25.4	-2.9	-151.8	-4	-13.4	-81	-51.63
7.8	80.4	3.2	-20.3	8.2	91.7	1.2	17.0	2.28	36.92
-1.7	-1.0	-2	.7	-5	-4	-2	.0	-17	-28
.0	.0	-0	-0	.0	.0	.0	.0	.00	-00
-0	.2	.0	-2	.0	.0	.0	.0	.00	-01
-0	.0	.0	-0	.0	-0	.0	.0	.00	-01

(continued)

TABLE A.11 (continued)

Line No.	Variables	2. Changes in Chilean			
		2.3 Quantitative			
		2.2.1 Import Tax Function × 0.9		2.3.1 All QR Indices	
		1	3	1	3
1.	Balance of payments				
1.1	Exports	.01	.02	-.7	.2
1.1.1	Agricultural	.01	.01	2.5	1.3
1.1.2	Mineral				
1.1.2.1	Large-scale	.01	.02	-.7	-.3
1.1.2.2	Other	.00	.00	.0	-.7
1.1.3	Industrial	.11	.06	-8.9	4.0
1.1.4	Services	.01	.01	-.9	-.3
1.2	Imports	.00	.01	-2.4	-.1
1.2.1	Consumption				
1.2.1.1	Staple	-.01	.01	-3.2	.2
1.2.1.2	Durable	.01	.01	-2.2	-1.8
1.2.1.3	Secondary	.02	.02	-3.5	-5.2
1.2.2	Investment				
1.2.2.1	Machinery and equip.	-.00	.00	-1.4	-.9
1.2.2.2	Transport. related	-.00	-.01	-4.2	1.8
1.2.3	Intermediate	.01	.01	-.4	.3
1.2.4	Services	-.00	.02	-4.6	.7
1.3	Other				
1.3.1	Surplus on current acct. ^b	.14	.06	10.6	.6
1.3.2	Net bank intl. reserves ^b	.01	.04	.7	1.4
1.3.3	Govt. deficit financed abroad ^b	4.18	-.16	101.4	-6.2
1.3.4	Black-market rate	-.03	-.01	8.0	2.6
2.	Cyclical fluctuations				
2.1	Real capacity utilization	.01	.00	.1	.2
2.2	Price stability				
2.2.1	GDP deflator	-.03	-.01	1.6	1.5
2.2.2	Money supply	.00	.01	1.0	1.5
2.2.3	Monetary base	.01	.03	.5	.6
2.2.4	Govt. deficit	.02	-.01	.4	-.4
2.2.5	Net central bank foreign reserves ^b	.02	.05	1.0	1.9
3.	Resource allocation				
3.1	Product/intermediate input price				
3.1.1	Agriculture	.00	.01	.4	.7
3.1.2	Mining	.02	.01	-.8	-1.0
3.1.3	Industry	-.00	-.00	-.6	-.9

International Economic Policy (continued)

Restrictions

	2.3.2 Allocation of Imported Capital		2.4.1 2 × Cost Rate for Import Prior Deposits		2.5.1 Export Subsidies: 10% for Agric. and Indus. Exports	
	1	3	1	3	1	3
.2	.03	.04	.02	.10	.01	.00
1.3	-.02	.01	.03	.02	.04	.01
.3	.02	.03	.02	.13	-.00	.00
.7	.00	.01	.00	.01	.00	-.00
1.0	.26	.20	.20	.23	.18	.01
.3	.02	.02	.01	.05	.00	-.00
.1	.04	.05	.00	.02	.00	.00
.2	.16	.12	-.00	.03	-.00	-.00
1.8	.01	.03	.01	.04	-.00	-.00
5.2	.04	.29	.02	.23	-.01	-.01
.9	-.00	.01	-.00	-.01	.00	.00
1.8	-.00	-.02	-.02	-.07	.00	.00
.3	.01	.03	.02	.04	.01	.00
.7	.03	.05	-.00	.02	.01	.00
.6	-.06	-.01	.20	.54	.04	.01
1.4	.04	.02	.11	.56	.01	.01
5.2	-46.72	-1.89	-14.09	-2.25	6.92	-.02
2.6	-.04	-.05	-.05	-.19	.01	.00
.2	.03	.06	.02	.00	.00	.00
1.5	-.04	-.04	-.03	-.17	.01	.00
1.5	.01	-.02	.09	-.09	.01	.00
.6	.03	.01	.08	.41	.01	.01
.4	-.08	-.26	-.07	-.18	.03	-.00
1.9	.05	.03	.15	.75	.01	.01
.7	.17	.39	-.01	-.04	.00	.00
1.0	.05	.06	.02	.09	-.00	-.00
.9	-.06	-.16	.01	.01	-.00	-.00

TABLE A.11 (continued)

Line No.	Variables	2. Changes in Chilean			
		2.2.1 Import Tax Function × 0.9		2.3 Quantitative	
		1	3	2.3.1 All QR Indices	3
3.2	Labor force (secular movements)				
3.2.1	Agriculture	.00	.00	-.0	.4
3.2.2	Mining	-.00	.00	-.0	.0
3.2.3	Industry	.00	.01	-.0	1.0
3.3	Capital stock				
3.3.1	Agriculture	.00	.00	-.1	.1
3.3.2	Mining	-.00	-.01	.0	.8
3.3.3	Industry	.00	.00	-.0	.2
3.4	Production capacity				
3.4.1	Agriculture	.00	.00	-.0	.4
3.4.2	Mining	.00	-.00	.0	-.0
3.4.3	Industry	.00	.01	-.0	.9
3.5	GDP				
3.5.1	Agriculture	.01	.01	1.0	.7
3.5.2	Mining	.01	.01	-.5	.6
3.5.3	Industry	.01	.01	.8	1.5
3.5.4	Goods/services	.00	.01	.8	1.4
4.	Distribution of income and resources				
4.1	Factorial				
4.1.1	Real wage	.02	.01	-1.1	-2.7
4.1.1.1	Agriculture	.01	.00	-.9	-1.9
4.1.1.2	Mining	.02	.01	-1.6	-4.4
4.1.1.3	Industry	.02	.00	-1.4	-3.4
4.1.1.4	Government	.02	.01	-1.5	-3.0
4.1.2	Wage share in income	.01	.01	-1.2	-3.1
4.2	International				
4.2.1	Net factor income from abroad ^b	.06	.02	-4.0	-5.8
4.3	Intertemporal				
4.3.1	Consumption/product	-.01	-.00	-.1	.2
4.4	Public vs. private				
4.4.1	Taxes/deflator	.01	.01	-.9	-.7
4.4.1.1	Import	-.09	.01	-4.1	-1.9
4.4.1.2	Large-scale mining	.04	.02	-2.3	-1.2
4.4.2	Govt. consumption/product	-.01	-.00	-.5	-1.0
5.	Economic growth-related variables				
5.1	GDP	.01	.00	.1	.2
5.2	Gross national savings ^b	.07	-.00	-1.0	-1.6
5.2.1	Personal ^a	.25	2.22	-15.6	-1030.5
5.2.2	Business ^a	-.21	-1.44	34.4	414.2
5.2.3	Government ^b	-.02	.03	-2.7	-1.0
5.3	Capacity	.00	.00	.0	.0
5.3.1	Investment	-.00	.01	-1.3	1.5
5.3.2	Capital stock	-.00	.00	-.1	-.1

TABLE A.11 (continued)

Line No.	Variables	2. Changes in Chilean			
		2.6 Policy Toward			
		2.6.1 Exch. Rate for Large-Scale Mining	Exch. 3	2.6.2 Aver. Direct Tax Function × 0.9	Aver. 3
		1	3	1	3
1.	Balance of payments				
1.1	Exports	.2	.2	.01	.01
1.1.1	Agricultural	.1	.3	.00	.01
1.1.2	Mineral				
1.1.2.1	Large-scale	.3	.2	.01	.01
1.1.2.2	Other	.0	.0	.00	-.00
1.1.3	Industrial	-.1	.4	.02	.02
1.1.4	Services	.0	-.1	.00	-.00
1.2	Imports	.1	.0	.00	.00
1.2.1	Consumption				
1.2.1.1	Staple	-.1	-.1	-.00	.00
1.2.1.2	Durable	-.1	-.0	.00	.00
1.2.1.3	Secondary	-.2	-.6	-.00	-.01
1.2.2	Investment				
1.2.2.1	Machinery and equip.	.0	.0	-.00	.00
1.2.2.2	Transport. related	.0	-.1	-.00	-.00
1.2.3	Intermediate	.1	.2	.01	.00
1.2.4	Services	.2	.1	.01	.00
1.3	Other				
1.3.1	Surplus on current acct. ^b	.6	.8	.06	.02
1.3.2	Net bank intl. reserves ^b	.1	.3	-.00	.01
1.3.3	Govt. deficit financed abroad ^b	170.2	2.6	2.99	.01
1.3.4	Black-market rate	.2	-.0	-.00	-.00
2.	Cyclical fluctuations				
2.1	Real capacity utilization	.0	.1	.00	.00
2.2	Price stability				
2.2.1	GDP deflator	.2	-.0	-.00	-.00
2.2.2	Money supply	.2	.0	.00	.00
2.2.3	Monetary base	.1	.3	-.00	.01
2.2.4	Govt. deficit	.8	.2	.01	-.00
2.2.5	Net central bank foreign reserves ^b	.1	.5	-.00	.01
3.	Resource allocation				
3.1	Product/intermediate input price				
3.1.1	Agriculture	.0	.2	-.00	.00
3.1.2	Mining	-.1	.0	-.00	.00
3.1.3	Industry	-.0	-.2	-.00	-.00

International Economic Policy (continued)

Large-Scale Mining

2.6.3 Invest- ment × 1.1		2.6.4 Mining Exports		2.7.1 Foreign Debt Shift Toward Internal Financing of Govt. Deficit	
1	3	1	3	1	3
-.00	.01	.7	-.0	.00	-.03
-.00	.01	.1	.6	.00	-.08
-.00	.01	1.0	.0	.00	.00
.00	.00	1.0	.0	.00	-.02
.00	.02	-.7	-.2	-.00	-.26
-.00	.00	.1	-.2	.00	-.01
.00	-.00	.2	-.0	.00	-.01
.01	-.01	-.1	-.4	-.00	-.00
-.00	-.01	-.2	-.1	-.00	.02
-.01	.00	-.6	-1.0	-.00	.21
.00	-.00	.1	.2	.00	-.01
.00	-.01	.2	.1	.00	-.02
.00	.01	.5	.1	.00	-.02
.00	.00	.9	-.0	.00	-.02
-.03	.07	2.6	.1	-.01	-.17
-.01	.04	.5	.1	.00	-.23
-.13	-.07	50.4	.9	-.84	3.17
.00	-.01	.6	.1	.00	.02
.00	.00	.0	.2	.00	-.02
.01	-.01	.5	.0	.00	.01
.01	-.01	.5	.1	.00	.03
-.01	.03	.4	-.1	.00	.05
-.00	.00	.2	.1	.00	-.08
-.02	.05	.7	.1	.00	-.30
.01	.01	.1	.2	.00	-.08
-.00	.01	-.3	-.2	.01	-.02
-.00	-.01	-.1	-.2	-.00	.07

TABLE A.11 (concluded)

Line No.	Variables	2. Changes in Chilean			
		2.6 Policy Toward			
		2.6.1 Exch. Rate for Large-Scale Mining		2.6.2 Aver. Direct Tax Function $\times 0.9$	
		1	3	1	3
3.2	Labor force (secular movements)				
3.2.1	Agriculture	-.0	-.0	.00	.00
3.2.2	Mining	-.0	.0	-.00	.00
3.2.3	Industry	-.0	-.0	.00	.00
3.3	Capital stock				
3.3.1	Agriculture	-.0	.1	.00	.00
3.3.2	Mining	.0	.1	.00	.00
3.3.3	Industry	-.0	.0	-.00	.00
3.4	Production capacity				
3.4.1	Agriculture	-.0	-.0	.00	.00
3.4.2	Mining	.0	.0	.00	.00
3.4.3	Industry	-.0	-.0	.00	.00
3.5	GDP				
3.5.1	Agriculture	.1	.2	.00	.00
3.5.2	Mining	.0	.1	.02	.00
3.5.3	Industry	.1	.3	.00	.01
3.5.4	Goods/services	.1	.2	.01	.00
4.	Distribution of income and resources				
4.1	Factorial				
4.1.1	Real wage	-.1	-.2	.00	-.00
4.1.1.1	Agriculture	-.1	-.3	.00	-.00
4.1.1.2	Mining	-.2	-.2	.00	-.00
4.1.1.3	Industry	-.1	-.3	.00	-.00
4.1.1.4	Government	-.2	-.1	.00	-.00
4.1.2	Wage share in income	-.1	-.4	-.00	-.00
4.2	International				
4.2.1	Net factor income from abroad ^b	-.9	-.0	-.01	.00
4.3	Intertemporal				
4.3.1	Consumption/product	-.0	-.0	-.00	-.00
4.4	Public vs. private				
4.4.1	Taxes/deflator	-.0	.0	-.00	.00
4.4.1.1	Import	-.1	-.1	.00	-.00
4.4.1.2	Large-scale mining	-.1	.2	-.08	.01
4.4.2	Govt. consumption/product	-.0	-.0	-.00	-.00
5.	Economic growth-related variables				
5.1	GDP	.0	.1	.00	.00
5.2	Gross national savings ^b	.3	.3	.03	.00
5.2.1	Personal ^a	-.8	-72.2	.05	-1.00
5.2.2	Business ^a	3.2	48.4	.05	.59
5.2.3	Government ^b	-.2	-.1	-.03	.00
5.3	Capacity	.0	.0	.00	.00
5.3.1	Investment	.0	.1	.00	.00
5.3.2	Capital stock	.0	.0	.00	.00

International Economic Policy (concluded)

Large-Scale Mining

2.6.3 Invest- ment × 1.1		2.6.4 Mining Exports		2.7.1 Foreign Debt Shift Toward Internal Financing of Govt. Deficit	
1	3	1	3	1	3
-0.00	-0.00	-0.0	-0.1	-0.00	-0.01
-0.00	.00	-0.0	.0	-0.00	.00
-0.00	-0.00	-0.0	-0.1	-0.00	-0.02
-0.00	-0.00	-0.0	.1	-0.00	-0.02
.06	.05	.1	.2	.00	-0.01
-0.00	-0.00	-0.0	-0.1	-0.00	-0.01
-0.00	-0.00	-0.0	-0.1	-0.00	-0.01
.00	.00	.0	.0	.00	.00
-0.00	-0.00	-0.0	-0.1	-0.00	-0.01
.00	.01	.1	.3	.00	-0.04
-0.00	.01	.1	-0.0	.00	-0.01
.00	.01	.2	.4	.00	-0.07
-0.00	.00	.2	.2	.00	-0.04
-0.00	.00	-0.3	-0.5	-0.00	.07
-0.00	-0.01	-0.2	-0.4	-0.00	.13
-0.01	.00	-0.5	-0.5	-0.00	.04
-0.01	-0.00	-0.4	-0.5	-0.00	.10
-0.01	-0.00	-0.4	-0.3	-0.00	.05
-0.00	-0.00	-0.3	-0.3	-0.00	.11
-0.01	.02	-1.7	-0.2	-0.01	.04
-0.00	-0.00	-0.1	-0.0	.00	.01
-0.00	.01	-0.2	.0	.00	.00
-0.00	.01	-0.4	.0	-0.00	.09
-0.01	.02	-0.4	-0.3	.01	-0.02
-0.00	-0.00	-0.1	-0.1	.00	.04
.00	.00	.0	.2	.00	-0.03
.01	.02	.6	.4	.00	-0.13
-0.02	.97	-2.2	-223.4	-0.02	20.00
.07	.25	8.4	81.1	.04	-15.16
-0.00	.02	-0.8	-0.1	.00	.08
.00	.00	.0	-0.0	-0.00	-0.00
.03	-0.00	.1	-0.0	.00	-0.07
.00	.00	.0	-0.0	.00	-0.00

Notes to Table A.11

NOTE: The simulation period is 1962-64. All underlying data are in constant escudo or index terms, except lines 1.3.2 and 2.2.5, which are in dollars; line 1.3.3, which is in escudos per dollar; and lines 2.2.2-2.2.4, which are in escudos.

All simulations are dynamic in that lagged simulated values of endogenous variables are used whenever it is possible to do so. Elasticities are defined as the ratio of the percentage deviation from the base simulation values for the series listed on the left to the percentage deviation from the base simulation values for the variables identified in the column headings. Instead of elasticities, proportional deviations from the base simulation (or, in the case of the base simulation itself, from the actual data) are given for those simulations for which elasticities are not easy to define; those cases are identified in the notes following.

For either elasticities or proportional deviations, those variables defined as differences between two flows (lines 1.3.1-1.3.3, 2.2.4, 2.2.5, 4.2.1, and 5.2.1-5.2.3) have relatively large deviations from the base simulation value. In all simulations except for columns 2.1.3, 2.2.1, 2.6.3, and 2.7.1, changes indicated in the column heading occurred only for the first year of the simulation, and in all subsequent years, the variable assumed the base simulation values.

Col. 2.1.3 Bacha and Taylor [1973] estimate that the equilibrium rates for the first three years of the simulation period equal the actual national accounts rate multiplied by 1.45, 1.35, and 1.61. The figures shown are the proportional deviations resulting from use of these adjusted rates. The Bacha-Taylor derivation is based upon a Robinson-Metzler-type model in which fiscal and monetary policies are not included explicitly (other than foreign trade taxes), imports and exports depend only on their own prices, an attempt is made to abstract from short-run cyclical effects, and the equilibrium exchange rate is defined to be "that which prevails in a floating foreign exchange market where all import restrictions and export subsidies are removed." The underlying price elasticities utilized for these estimates are -2.0 for import demand, 3.0 for export supply, ∞ for import supply, and -9.0 for export demand. (The absolute values of these import demand and export supply elasticities seem surprisingly large in light of the estimates presented above in Chapters 6 and 7. Bacha and Taylor claim that estimates of elasticities based on historical data are biased downward because of the effects of quantitative restrictions and uncertainty. However, attempts were made to include these effects in the estimation of the functions presented in Tables 6.3 and 7.2.) The Bacha and Taylor partial-equilibrium model clearly differs from the macroeconomic general-equilibrium model utilized in this study in a number of important respects. Nevertheless, the consequences of utilizing their equilibrium exchange rates within the present general-equilibrium model are of considerable interest because of the consensus of a large group of economists that the Chilean escudo was overvalued by the order of magnitude of the Bacha and Taylor estimates in the 1960s: Jeanneret [1971:165] estimates the ratio of the equilibrium to the actual rate to have been 1.68 for 1961; Hachette [1966:50] estimates 1.45 for 1961 and 1.63 for 1962; Selowsky [1970:41] gives 1.35 for the late 1960s; and Bacha and Taylor give 1.50, 1.40, 1.30, and 1.24 for 1965-68 and 1.25 for April 1969.

Col. 2.2.1 The figures shown are proportional deviations from base simulations resulting from multiplication of the tax function by 0.9 in the first year of the simulation. To obtain elasticities with respect to the level of real import taxes, these proportional deviations must be divided by -0.9.

Col. 2.3.1 Each index is changed by the same deviation of 1 percent from the base value, although for some of the indices (in particular, for the widely used French-Davis index) such a change is relatively large in comparison to historical variations in the index. Other variables in the model, e.g., the black-market exchange rate or the export capacity to import, or various dummy variables, which also represent the effects of quantitative restrictions are not changed exogenously, but some of these variables do change endogenously and substantially (see lines 1.3.2, 1.3.4, and 2.2.4).

Col. 2.3.2 The proportional sectoral distribution of investment-goods imports is assumed to deviate from that which actually prevailed on average from 1962 through 1966 toward an alternative which favors agriculture and mining at the expense of industry.

For all years of this simulation, the sectoral allocation of imported capital in proportional terms is changed from 0.03 to 0.15 for agriculture, from 0.18 to 0.25 for mining, from 0.37 to 0.18 for industry, from 0.16 to 0.17 for the rest of the industries combined, except transportation (unchanged at 0.19) and utilities (unchanged at 0.06). Such imports of capital goods are assumed to enter the sectoral investment functions with fixed coefficients; i.e., the deviation from actual average investment imports allocated to a specific sector, multiplied by a coefficient representing the average ratio of total to imported investment in the sector in 1962-66, is assumed to affect investment in that sector directly by an additive term (the data used for calculating the sectoral ratios and the average sectoral distribution of investment imports are from Meza [1967]). In interpreting the results presented here, it should be kept in mind that the model is specified so that an increment in capital stock during year t results in an increment in capacity only in the year $t + 1$. Therefore, the first-year impacts do not include a shift in the distribution of capacities across sectors even though a shift in the distribution of investment does occur. Note also that the figures shown are proportional deviations from the base simulation, not elasticities.

Col. 2.3.1 For this simulation, investment in large-scale mining was made exogenous and held at the base value except for a 10 percent increase in the first year. Because of the very low level of investment in large-scale mining in the first year, due to growing dissatisfaction of Chile with the *Nuevo Trato* and of the foreign-owned mining companies with the failure of the Chilean government to provide long-term tax and exchange rate guarantees and guarantees against expropriation (see subsection 4.2.1, above), a 10 percent increase is not particularly large in absolute terms nor is the impact of this increment particularly large.

Col. 2.4.1 The actual import prior-deposit cost rate was very low in 1962, and the rate was therefore doubled in this simulation, from 0.0097 to 0.0194; the proportional deviations shown are for this doubled rate.

Col. 2.5.1 The subsidy is at a rate equal to a 10 percent increase in world prices for these exports for the first year of the simulation. Since the change amounts to an infinite increase in these subsidies relative to the zero base, elasticities cannot be defined. The figures shown are proportional deviations from the base simulation.

Col. 2.6.2 Function for average direct taxes from large-scale mining multiplied by 0.9. The figures shown are proportional deviations.

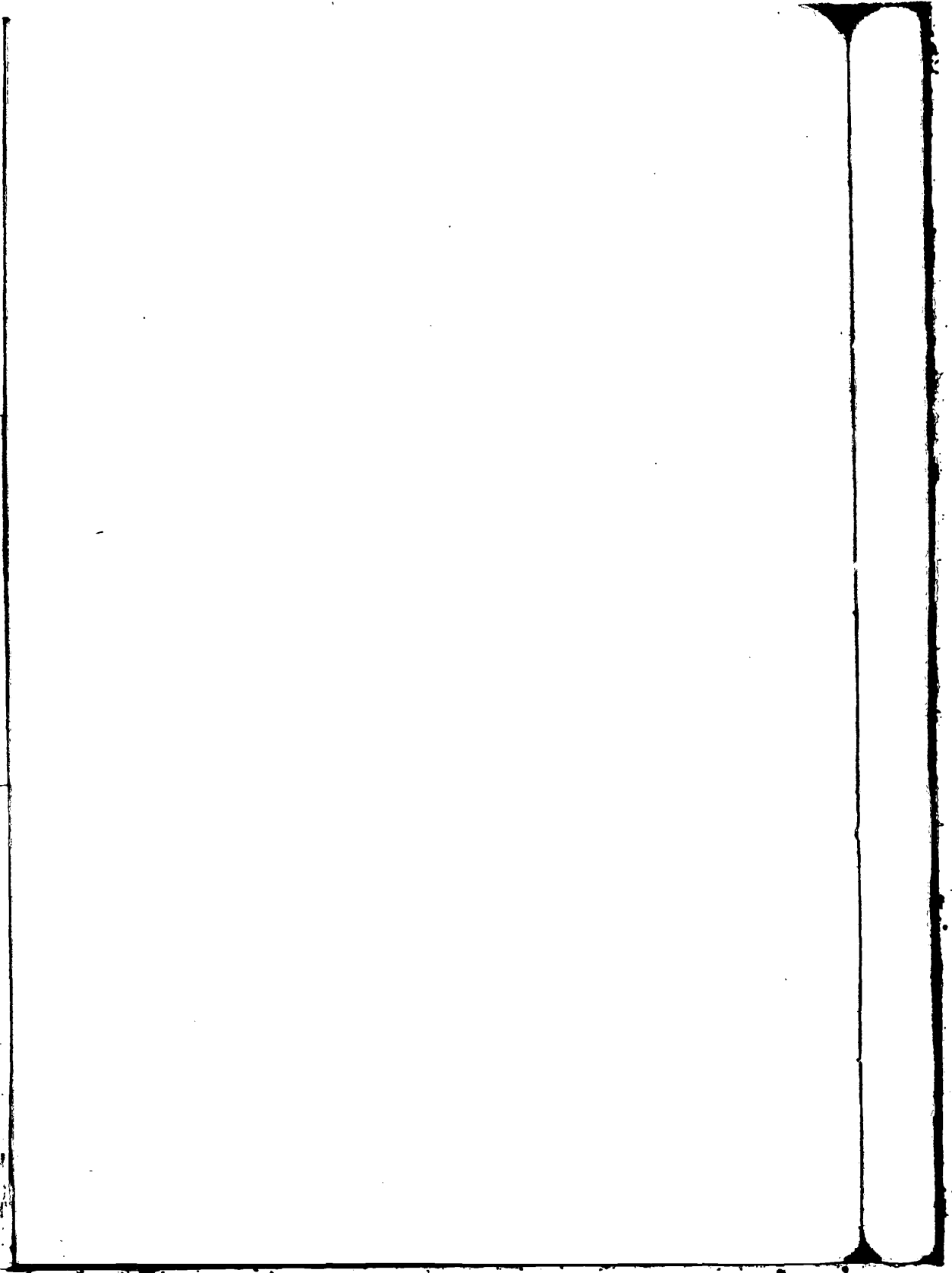
Col. 2.6.3 Investment in large-scale mining is made exogenous at the base simulation level except that the first-year value is multiplied by 1.10. The figures shown are proportional deviations.

Col. 2.6.4 Exports from mining are made exogenous at the base simulation level except for a first-year change which is assumed directly to affect mining inventory levels. Assumed changes in mining exports are based on an estimate of -4.0 for the price elasticity of demand for Chilean copper. The figure of -4.0 is based on Chile's share of sales in the world market and estimates of price elasticities in the world market for total world demand and for supply from other countries. For example, see Bacha and Taylor [1973] or de Castro and de la Cuadra [1971:17].

Col. 2.7.1 In each year, half of the government deficit beyond that financed by the banking system is assumed to be financed abroad. For all the other simulations, all the changes in the government deficit from the base level are assumed to be financed externally by a shift in the composition of capital movements between private and public flows, reflecting the great dependence of Chile on foreign sources for such financing in recent phases. Because the government deficit financed abroad in the first year of the base simulation is so small, the change in method is applied in all three years of the simulation. Since this change does not permit a meaningful interpretation of elasticity, proportional deviations are shown.

a. Proportional deviations from actual values.

b. The very large values for this variable in some cases reflect the fact that the actual value and, also, the base simulation value are very close to zero. Therefore, the sign of the elasticity or of the deviation is more pertinent than the magnitude.



Appendix B

Definition of Measures of Protection and Costs Used in Table 5.3

In this appendix, definitions and sources for the ITRs, EPRs, and DRCs included in Table 5.3 are given, and then the empirical importance of some definitional distinctions is explored.

B.1 DEFINITIONS AND SOURCES

ITR1. Jeanneret [1971:153–159] estimated these 1961 rates by the following steps. First, she classified the approximately 5,000 import items for July–September 1961 in conformity with SITC categories and with the 1962 Chilean input-output table. She then determined the tariff equivalent of various protective policies (including special regimes and prohibitive policies) on each item and aggregated the individual-item tariff equivalents to the four-digit SITC level by using domestic import weights. Finally, she further aggregated the four-digit SITC level averages to the subsectoral level of the 1962 input-output table by using world trade weights in order to lessen downward biases due to import responses to the tariff structure.

Although problems exist in the underlying calculations because of a certain degree of arbitrariness in making various sets of data compatible and in averaging and because of price differences that are due to quality differences, this set of estimates is the most thorough and the best available for Chile.

ITR2. These estimates are unweighted arithmetic averages of the 92-item estimates of de la Cuadra [1971] for 1967 (see Table A.3), who used the 1967 manufacturing census, customs data, and direct interviews with producers.¹

The 92 items include the most important products in each use category and at least one representative item for each two-digit SITC industrial division. The aggregation procedure introduces a bias of unknown direction.

ITR3. Bacha and Taylor [1973] averaged the tax rebate or drawback rates for individual products in order to obtain ITRs for sectoral exports for 1968. The resulting estimates probably overstate average sectoral subsidies because in many sectors very few products received drawbacks.² Nevertheless, they are the best available indicators of incentives for sectoral exports in the late 1960s.

EPR1. Jeanneret [1971:159] calculated these estimates for 1961 from ITR1 and from data in the ODEPLAN [1970] input-output table for 1962. She calculated domestic net value added from the input-output data by subtracting depreciation and indirect taxes minus subsidies from gross value added; subtracting trade and transportation costs from both the output and input sides in order to shift from user to producer prices; and adding the value added in the production of nontraded inputs to the value added in the processing industry in question, following the Cordon [1966] procedure.

If, in fact, substantial substitution among intermediate inputs is possible, the use of an input-output table based on 1962 data may lead to an understatement of the use of imported inputs because of the foreign-exchange crisis of that year (see section 1.4). Unfortunately, no other Chilean input-output study is yet available; so all the alternatives based on Chilean input-output coefficients suffer from this same deficiency.

EPR2. Bacha and Taylor [1973] also started from the ITR1 for 1961 and the input-output data for 1962. They corrected for specific differences between world and domestic prices of intermediate-goods imports by utilizing unpublished ODEPLAN data such as that in Table B.1 under the assumption that no arbitrage occurred.³ They based their estimates on the Hufbauer [1968] formula, with gross value added supplemented by the value added of inputs of nontradable goods as in the Cordon procedure.⁴

EPR3. These estimates are unweighted arithmetic averages of the 92-item estimates of de la Cuadra [1971] for 1967 (Table A.3). The data sources are the same as for ITR2. These rates are focused on gross value added. Non-traded goods are assumed to be supplied at constant costs (or, equivalently, the EPR on home goods is zero), as Balassa [1971:17-18, 321-325] has recommended.⁵ The direction of bias due to the aggregation procedure is unknown.⁶

EPR4. Bacha and Taylor [1973] calculated these estimates in the same way as EPR2, except that the 1968 export-oriented ITR3s were used for the final-product prices. Therefore, ITRs for inputs are assumed to be identical to those in ITR1 for 1961, and the intermediate-input coefficients are assumed to be the same as those in 1962. Since the size of sectoral subsidies is probably

TABLE B.1
 Ratios of Domestic Prices to c.i.f. Prices by Sectoral Destination
 and End Use, 1962

Sector ^a of Destination	Use		
	Investment	Intermediate	Consumption
1 Agriculture, fishing, and forestry	1.20	1.31 1.56	1.76
4 Iron mining		2.54 2.32 1.25	
9-13, Food, beverages, tobacco, textiles, footwear, clothing, and leather	1.40	2.04 1.75	3.31 2.12 4.65 1.80
14-17 Wood, furniture, paper, printing, and publishing	1.51	1.32 2.10 1.20 1.63	2.05 1.79 1.77 4.63
19-21 Rubber, chemical, petroleum, and coal products		1.75 1.58 1.60	2.23 2.28
22 Nonmetallic minerals		2.30	2.87
23 Basic metals	1.55	1.67	
24 Metallic products	1.50	2.12	3.00
	1.40	2.11	4.62
	1.45	2.38	4.11
	1.48	2.54	
Total	1.44	1.69	2.71

SOURCE: Department of Social Accounts in ODEPLAN as presented in Jul [1969: 152].

a. The sectoral numbers are those of ODEPLAN; see Table A.3, above.

overstated in the ITR estimates (see below), effective protection for exports is probably overestimated in EPR4.

DRCI. Bacha and Taylor [1973] constructed these 1961 estimates from ITR1, the 1962 input-output table, and average sectoral capital-output ratios for 1962-1967; they assumed a shadow rate of return of 20 per cent on capital.⁷

DRC2. Bacha and Taylor [1973] calculated these estimates in the same manner as those for *DRC1* except that the 1968 export-oriented ITR3s were used for the final-product prices. They assumed that the ITRs and intermediate-input coefficients have been stable since the early 1960s, as they did for *EPR4*.

B.2 EMPIRICAL IMPORTANCE OF SOME DEFINITIONAL DISTINCTIONS

B.2.1 Aggregation Factors.

i. Guisinger and Schydlosky [1971:279] conclude that the consistency between ITRs and EPRs increases as aggregation increases.⁸ In the limit, of course, they must be correct in that the ITR is identical to the EPR at the one-sector level of aggregation. A comparison of the correlation between ITR2 and EPR3 with the correlation between the ITRs and EPRs in Table A.3 provides a test of their claim because the former pair is only an aggregated version of the latter. For the 28-sector aggregation the correlation coefficient is 0.50. For the 92-product aggregation, the correlation coefficient is 0.52. Thus, this example does not support the Guisinger and Schydlosky conclusion.

ii. The Jeanneret estimates permit the exploration of the impact of weighted versus unweighted averaging. In addition to the 28-sector estimates in ITR1 and EPR1, Jeanneret presents 57-sector estimates in Balassa [1971: 66-67]. Unweighted averaging of the 57-sector estimates provides alternative ITRs and EPRs at the 28-sector level that are identical to ITR1 and EPR1 except for the weights in the averaging. The more these alternative estimates are correlated with ITR1 and EPR1, respectively, the less important is the choice of the averaging procedure. In fact, this example suggests that the choice of weights is quite important. For the ITRs, the correlation coefficient is 0.67, which is significantly nonzero at the 5 per cent level, but which implies a substantially different cross-sectoral pattern. For the EPRs, the correlation coefficient is not significantly nonzero at the 5 per cent level.

iii. Extreme values on a more disaggregate level may substantially affect the cross-sectoral pattern on a more aggregate level. To investigate this possibility, an alternative set of EPRs was constructed from Table A.3 by excluding the highest and lowest product estimates within each sector that had three or more products. For the sectors so chosen, the correlation between this alternative set of EPRs and EPR3 is 0.99. Thus, the estimated sectoral averages are about the same whether or not the underlying extreme individual product rates are included.

B.2.2 Variations in EPR Definitions.

i. Balassa and Cordon have emphasized the importance of alternative treatments of nontraded inputs (see EPR1 and EPR3 in section B.1). Jeanerret [1971:159] presents alternative EPR estimates which are identical to EPR1 except that the Balassa procedure is followed. The range and the standard deviations are somewhat smaller for the estimates based on the Cordon formula. The correlation coefficient between the two sets of estimates, however, is 1.00. In respect to the cross-sectoral pattern, therefore, the distinction in the treatment of nontradable goods does not seem to be important.

ii. Lewis and Guisinger [1968] criticize EPR definitions in which the difference between domestic and international value added is compared to international value added because such definitions (under the assumption that international value added is positive) give an EPR which is bounded by -1.0 as domestic value added approaches zero. For small values of domestic value added relative to international value added, in other words, quite large proportional differences in domestic value added imply very little change in the EPR. Therefore, Lewis and Guisinger propose that the difference between domestic and international value added be compared to domestic value added, not to international value added.⁹ Bacha and Taylor [1973] present a set of EPR estimates which is identical to EPR2 except for this change. De la Cuadra [1971] likewise presents an alternative set of EPR estimates which is identical to EPR3 except for this change. In both cases the correlation coefficient between the estimates in Table 5.3 and the alternatives with domestic value added in the denominator is 0.81.¹⁰ The implications of such an alternative for cross-sectoral patterns in these two cases, therefore, do seem to be significant, but not overwhelmingly so.

iii. The distinctions between EPR1 and EPR2 are primarily two. First, EPR1 is based on net value added, while EPR2 is constructed from gross value added because the depreciation estimates are questionable. Second, EPR2 incorporates information about varying ITRs for different end uses (i.e., lower rates for intermediate inputs), but EPR1 does not. The impact of these two differences is quite substantial. Apparently because of the use of the more gross measure, the EPR2 estimates vary much less across sectors than do the EPR1 estimates. For EPR2, the range and standard deviation are 4.88 and 1.17. For EPR1, the corresponding figures are 28.98 and 5.52. Moreover, the correlation coefficient between the two sets of estimates, while significantly nonzero at the 5 per cent level, is relatively low—0.43 (Table A.4).

B.2.3 Variations in DRC Definitions.

Bacha and Taylor [1973] present alternative sets of DRC estimates which are identical to DRC1 and DRC2, respectively, except that the sectoral returns on capital implied by the input-output data are utilized instead of a 20 per cent shadow rate. The effects of this alternative treatment of the returns on capital are quite substantial. The alternative DRC estimates vary much less across sectors. For the alternative to DRC1, the range and standard deviation across sectors are 3.15 and 0.74 compared to 21.09 and 5.98 for DRC1 itself. For the alternative to DRC2, the range and standard deviation across sectors are 0.30 and 0.10 compared to 3.39 and 0.86 for DRC2. Moreover, the patterns across sectors are substantially different. The correlation coefficient between DRC1 and its alternative is 0.73, and that between DRC2 and its alternative is 0.53. The use of the proper definition of the return on capital, therefore, is of substantial empirical importance.

B.2.4 Consistency Among the Alternative Measures.

i. Cohen [1971:139] concludes that "one learns a lot—but not everything" about the EPR structure by looking at the ITR structure. He finds that in 15 of the 26 cases that he examined the ITR structure could predict more than half of the variance in the EPRs and that 23 of the 26 relevant correlation coefficients were significantly nonzero at the 1 per cent level. The implication of the estimates in tables 5.3 and A.4 is that in the Chilean case less is learned about the EPR structure from the ITRs than Cohen found on the average in his 26 cases. Two of the four correlation coefficients are significantly nonzero at the 1 per cent level, and in only two of the four cases could the ITR structure predict more than half of the variance in the EPRs.¹¹ For Chile, therefore, the returns to the additional work involved in calculating EPRs are higher than Cohen claims is the case generally.

ii. Under strong assumptions, ITRs, EPRs, and DRCs imply the same shadow price of foreign exchange.¹² Not surprisingly, those special conditions did not exist in Chile in the 1960s. Despite their absence, the extent to which the alternative measures are consistent in their variations across sectors is an interesting question. The off-diagonal blocks of correlation coefficients in Table A.4 provide an answer. If one includes all elements in these blocks, the answer is, "Not very consistent." Of the 26 relevant correlation coefficients, only 5 are positive and significantly nonzero at the 5 per cent level and for only 3 pairs would one set of estimates predict as much as half of the variance in the other. This conclusion, however, reflects more the changes in the regime over time that are discussed in Part II than intermeasure differences.¹³ Among the 9 coefficients for which both sets in the pair refer to the same year, in fact, con-

siderably greater consistency is found. Five of these coefficients are positive and significantly nonzero at the 5 per cent level. In their case, estimates for one variable in each pair correlated would predict at least half of the variance in the other.

NOTES

1. De la Cuadra is not clear about the dates of the interviews but the timing of his writing is consistent with interviews as late as 1970, when the international economic regime was more liberal than in 1967.

2. On the basis of Jul's [1969] study, moreover, there is doubt that drawbacks equaled the difference between domestic and f.o.b. prices as generally as Bacha and Taylor claim. The existence of some effective quotas (especially for agricultural goods), for example, implies that the drawback rates overstated incentives to export.

3. The assumption of no arbitrage among end uses may not be as strong as it seems on the face of it because in many sectors the goods for intermediate use are quite distinct from those for consumption or investment use.

4. However, they made no attempt to distinguish between tradable and nontradable inputs used in earlier stages for the production of nontradable goods.

5. The Balassa treatment of nontradable goods tends to overstate the cost of such goods at world prices, and to underestimate value added in world prices and to overestimate effective protection of domestic value added. However, the results in section B.2 below indicate that the choice between the Cordon and the Balassa treatments of nontradable goods makes little empirical difference.

6. Basevi [1971] and Tumlrir and Till [1971] discuss some of the relevant considerations for such aggregation. The discussion below, in section B.2, suggests that the exclusion of extreme values before aggregating does not significantly affect the cross-sectional pattern.

7. The studies by Bitar and Trivelli [1971] and Taylor [1973a], however, suggest that the shadow rate of return on capital in Chile may have been somewhat lower than 20 per cent in the 1960s.

8. Guisinger and Schydrowsky find a consistent pattern without exceptions for eight countries, including Chile. For Chile, on a 10-sector level of aggregation, they report a coefficient of determination (corrected for degrees of freedom?) of 0.81. For 56 sectors, they report a coefficient of determination of 0.56. This comparison is based on partially unpublished estimates by Jeanneret.

9. If E_1 is the EPR with domestic value added in the denominator and E_2 is the EPR with international value added in the denominator, then the relationship between E_1 and E_2 is $E_2 = E_1 / (1 + E_1)$. If E_1 is zero, E_2 also is zero. If E_1 is not zero but is greater than -1.0 , E_2 is less than E_1 , but has the same sign. As E_1 approaches -1.0 from above (i.e., domestic value added approaches zero), E_2 approaches positive infinity. If E_1 is less than -1.0 (i.e., if either domestic or international value added is negative, but not both), E_2 is positive.

10. On the 92-product level of Table A.4, however, the correlation coefficient is somewhat lower—0.59.

11. Table A.4 contains correlation coefficients for 28 sectors. The correlation coefficient is 0.52 for the 92-product aggregation. The square of the correlation coefficient indicates the extent which one set of estimates is consistent with the variance in another.

12. Krueger [1972a:54] demonstrates that DRCs and EPRs are identical if "(1) all goods are traded (or tradable); (2) there are no transportation costs; (3) factors of production are perfectly mobile within the domestic economy but perfectly immobile internationally; and (4) all domestic markets are perfectly competitive." However, as Balassa and Schydlosky [1972:67] note, the first assumption is redundant given the second assumption. The purpose of the fourth assumption presumably is to eliminate any discrepancies between market and shadow prices, but would seem to require the explicit assumption of no externalities in addition to that of perfect competition. In any case, there is no reason why in principle shadow prices could not be used instead of market prices for EPR calculations as well as for DRCs if that would better serve the purpose of the estimation.

ITRs and EPRs, of course, become identical if there are no intermediate inputs or if the nominal protection on the intermediate inputs is identical to that on the final product.

13. The lack of significant coefficients among elements in the on-diagonal blocks (which refer to intrameasured differences primarily because of the different timing of the estimates) also suggest this qualification. Among the 10 relevant correlation coefficients, only 2 are positive and significantly nonzero at the 5 per cent level, and in no case would one set of estimates predict as much as half of the variance in the other set in the pair.

Appendix C

Impact of Devaluation in a Simple Keynesian Model

C.1 A SIMPLE KEYNESIAN MODEL

Consider the following simple Keynesian model:¹

$$Y = Y(L, K); Y_K > 0, Y_L > 0, Y_{KK} < 0, Y_{LL} < 0, \quad (C.1)$$
$$Y_{LK} = Y_{KL} > 0$$

$$\frac{w}{p} = Y_L \quad (C.2)$$

$$C = C(Y - T - \delta K - \frac{M^* + B}{p}, i - \pi); 1 > C_1 > 0, C_2 < 0 \quad (C.3)$$

$$I = I(Y_K - (i + \delta - \pi)); I' > 0 \quad (C.4)$$

$$M = M(Y, p, x, p^M, q); M_Y > 0, M_p > 0, M_o < 0, M_{p^M} < 0, M_q < 0 \quad (C.5)$$

$$X = X(p^X, x, w); X_{p^X} > 0, X_x > 0, X_w < 0 \quad (C.6)$$

$$Y = C + I + G + X - M + \delta K \quad (C.7)$$

$$\frac{M^*}{p} = m(i, Y); m_i < 0, m_Y > 0 \quad (C.8)$$

$$T = T(Y, M, X, \pi); T_Y > 0, T_M > 0, T_X > 0, T_\pi < 0 \quad (C.9)$$

$$S = p^X X - p^M M + F(i, q); F_i > 0, F_q \geq 0 \quad (C.10)$$

C.1 is an instantaneous production function for the output of a single good (Y). The inputs are services from labor (L) and the stock of capital (K). The production function is assumed to be characterized by positive but diminishing marginal products and a positive dependence of the marginal product of capital on employment. As is characteristic of all "Keynesian" analysis, the equilibrium of the economy is considered for a period of time so short that the growth of capital is ignored.

C.2 is the demand for labor under the assumption that firms are perfectly competitive in the labor market. Therefore, they hire labor until its marginal product (Y_L) equals the real wage (w/p), where w = nominal wage and p = domestic price level; w is assumed to be given at a point in time because there are strong unions in part of the modern sector; because a condition similar in its effect to an "unlimited supply of labor" prevails in the traditional sector; and because of government wage policies.

C.3 states that consumption (C) depends on perceived disposable income and the real rate of interest ($i - \pi$), where i = nominal interest rate and π = expected rate of inflation. Perceived disposable income is equal to the real value of wage payments (Lw/p) plus dividend payments, under the assumption that there are no retained earnings ($Y - Lw/p - \delta K$), minus taxes net of government transfers (T) minus the perceived rate of capital loss on the real value of the public's net claims on the government due to expected inflation $[(M^* + B)\pi/p]$. These net claims consist of the nominal money supply (M^*) and the nominal value of variable-coupon government bonds (B). This disposable income concept measures the amount of income that the public expects it could consume and still leave the real value of the sum of its paper and physical assets intact.

C.4 describes the aggregate net investment behavior of firms given that there is no market for existing stocks of capital. The assumed behavior is a neoclassical response to the difference between the marginal product of capital (Y_K) and the cost of capital.² The cost of capital depends on the rate of interest on bonds (i), the rate of physical depreciation of capital (δ), and the anticipated rate of increase of prices of newly produced capital goods (π).

C.5 is an import function. Imports (M) are assumed to be positively related to income (Y) and the domestic price level (p) and negatively related to the exchange rate in terms of escudos per dollar (x), the c.i.f. price of imports (p^M), and quantitative restrictions (q).

C.6 is the export function. Exports (X) are assumed to be positively related to the f.o.b. price (p^X) and the exchange rate (x), but negatively related to the wage rate (w).

C.7 is the equilibrium condition for aggregate demand and aggregate supply, where G is government expenditures in real terms.

C.8 is the demand for real monetary balances (M^*/p) as a function of the nominal interest rate (i) and real output (Y). Initially, it is assumed that the central bank exogenously controls the stock of money.³ In addition to money, another asset is composed of variable-coupon nominal bonds issued by the government (B). Households are assumed to regard bonds as a perfect substitute for equities issued by firms to finance investments. When household portfolios are in equilibrium with respect to the real balance of money, given the household balance sheet, they also are in equilibrium with respect to bonds or equities, or both. Therefore, separate relationships are not required for these alternative assets.

C.9 determines total real taxes (T) as a direct function of total income (Y), imports (M), and exports (X) and as an inverse function of the expected rate of inflation (π). The foreign trade variables are included because of the very important role they have had in Chilean government revenues. Inflationary anticipations have an inverse effect because the legal penalties for delayed payment of nominal taxes often have been outweighed by the reduction in the real value of late payments due to inflation. Given exogenous real government expenditures, the tax function determines the size of the government deficit. C.11 gives the government flow budget constraint at any point of time (where dot accents above variables denote derivatives with respect to time):

$$G = T + \frac{\dot{B}}{p} + \frac{\dot{M}^*}{p} \quad (\text{C.11})$$

C.10 is the surplus on the balance of payments in dollars (S). It equals the dollar value of exports ($p^X X$) minus the dollar value of imports ($p^M M$) plus net capital inflows (F). The last are assumed to respond positively to internal interest rates (i). They also depend on quantitative restrictions (q), but the sign of this dependence is unclear because there are effects in opposite directions. If quantitative restrictions are increased, net capital inflows may rise because outflows are limited by the restrictions. On the other hand, capital flight may occur and potential inflows may be frightened off by the increased restrictions.

C.2 SOLUTION OF THE MODEL

Equations C.1–C.10 are ten relations in ten endogenous variables: Y , L , p , i , C , I , M , X , T , and S . The exogenous variables are w , M^* , G , π , δ , K , x , p^s , and p^m . Under the assumptions that $dk = d\delta = dp^M = dp^X = 0$, the total differentials of the ten equations in the model are the following:

$$dY = Y_L dL \quad (C.1')$$

$$\frac{dw}{w} - \frac{dp}{p} = \frac{Y_{LL}}{Y_L} dL \quad (C.2')$$

$$dC = C_1 \left[dY - dT - \frac{M^* + B}{p} d\pi + \pi \frac{dp(M^* + B)}{p^2} \right] + C_2(di - d\pi) \quad (C.3')$$

$$dI = I' Y_{KL} dL - I' di + I' d\pi \quad (C.4')$$

$$dM = M_Y dY + M_p dp + M_x dx + M_q dq \quad (C.5')$$

$$dX = X_x dx + X_w dw \quad (C.6')$$

$$dY = dC + dI + dG + dX - dM \quad (C.7')$$

$$\frac{dM^*}{p} - \frac{dp}{p} \frac{M^*}{p} = m_i di + m_Y dY \quad (C.8')$$

$$dT = T_Y dY + T_M dM + T_X dX + T_\pi d\pi \quad (C.9')$$

$$dS = p^x dX - p^M dM + F_x di + F_q dq \quad (C.10')$$

C.12' gives the differential of the aggregate supply schedule as derived from C.1' and C.2'. The slope in the Y - P plane is positive (Figure C.1).

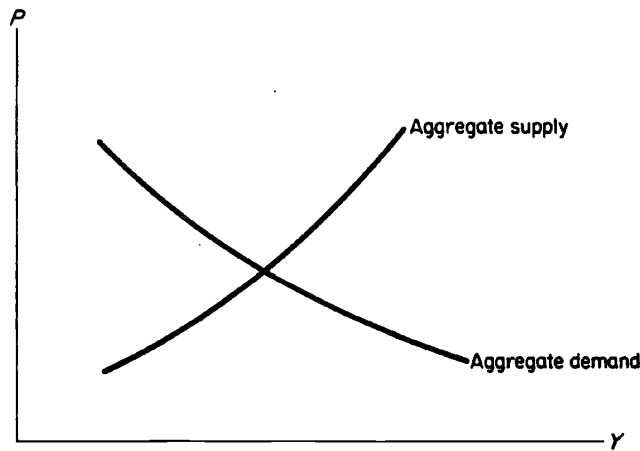
$$dY = \frac{Y_L^2}{Y_{LL}} \left(\frac{dw}{w} - \frac{dp}{p} \right) \quad (C.12')$$

An increase in w will shift this supply schedule downward.

C.13' is the total differential of the aggregate demand schedule as derived from C.1' and C.3' through C.9'. C.13'' is the same expression except that the coefficients of the differential are replaced by a s (where the a s are positive or probably positive in value):

$$\begin{aligned} & \left[1 - C_1(1 - T_Y - T_M M_Y) + \left(\frac{C_2 - I'}{m_i} \right) M_Y - I' \frac{Y_{KL}}{Y_L} + M_Y \right] dY \quad (C.13') \\ & = \left\{ -C_1 \left[M_p T_M + \frac{\pi}{p^2} (M^* + B) \right] - \frac{C_2 - I'}{m_i} \frac{M^*}{p^2} - M_p \right\} dp \\ & + \left[-C_1 (T_M M_x + T_X X_x) + X_x - M_x \right] dx + (-C_1 T_M M_q - M_q) dq \\ & + (-C_1 X_w T_X + X_w) dw + \left[-C_1 \left(T_\pi + \frac{M^* + B}{p} \right) + I' - C_2 \right] d\pi \\ & + dG + \frac{C_2 - I'}{m_i} \frac{dM^*}{p} \\ a_y dY & = -a_p dp + a_x dx + a_q dq - a_w dw + a_\pi d\pi + dG + a_{M^*} dM^* \quad (C.13'') \end{aligned}$$

FIGURE C.1



The slope in the P - Y plane is positive. This aggregate demand curve shifts upward with decreases in wages and with increases in the exchange rate,⁴ quantitative restrictions, price expectations, government expenditures, and the money supply.

In equilibrium aggregate demand must equal aggregate supply. C.12' and C.13', therefore, can be solved to find the impact of any exogenous change on real income and on the domestic price level. C.14' and C.15' give these results. Within the model,

$$dY = \frac{1}{a_Y - a_p} \frac{Y_{LL} p}{Y^2_L} \left[a_x dx + a_q dq - \left(a_w + \frac{p a_p}{w} \right) dw + a_\pi d\pi + dG + a_M^* dM^* \right] \quad (C.14')$$

$$dp = \frac{-p \frac{Y_{LL}}{Y^2_L}}{a_Y - a_p \frac{Y_{LL} p}{Y^2_L}} (a_x dx + a_q dq + a_\pi d\pi + dG + a_M^* dM^*) + \left[\frac{p \frac{Y_{LL}}{Y^2_L} (a_w + p a_p)}{a_Y - a_p \frac{Y_{LL}}{Y^2_L} p} + \frac{p}{w} \right] dw \quad (C.15')$$

Thus, the comparative static impact of devaluation or of increasing quantitative restrictions is to increase both real product and the price level.

The consequences of a devaluation for the surplus on the balance of payments is ambiguous. C.10' indicates that this surplus tends to increase because exports rise, capital inflows rise because of the higher domestic interest rate, and imports decline because of the direct exchange-rate response. On the other hand, imports tend to increase because of the higher income and higher domestic prices. If these last two responses are sufficiently strong, they can outweigh the others, causing the surplus to decline. The empirical estimates in Behrman [1974], however, suggest that such an outcome is not probable in the Chilean case.

C.3 ENDOGENIZATION OF WAGES, MONEY SUPPLY, AND PRICE EXPECTATIONS

Three of the variables considered exogenous up to this point in this appendix may well respond to devaluation in the Chilean case. The model in Chapter 2 and in Behrman [1974] provides empirical support for such responses. In this section the simple Keynesian model of sections C.1 and C.2 is not formally expanded to endogenize these variables, but the probable impact of such extensions is discussed.

The exchange rate at times has served as a source of price expectations which have affected wages. C.14 suggests that the increase in real income in response to devaluation is less if wages respond in that way to the exchange rate level than if they do not.⁵ The last term in C.15' implies that the further impact on prices is ambiguous, depending upon which of the two components dominates.

The money supply may respond to devaluations either because the magnitude of the internal financing of the government deficit changes or because foreign reserves change. For a given amount of real government expenditure, C.9' suggests that the real value of the deficit falls with devaluation unless import taxes are sufficiently responsive and the change in imports is sufficiently strong to cause a decline in tax revenue from imports large enough to offset gains from other sources. Even if the deficit in real terms declines, however, the deficit in nominal terms may increase.

As is suggested in the last paragraph of the previous section, in the Chilean case foreign reserves probably rise in response to devaluation. The impact on the money supply, moreover, apparently is quite substantial and more than offsets any dampening due to a possible reduction in the government deficit. Under such conditions the endogenization of the money supply

reinforces the consequences of devaluation on real income and on the price level that are described above in regard to C.14' and C.15'.

At times in Chile price expectations have been very responsive to exchange-rate policy—in part because some governments have used it as an explicit symbol of stability. C.14' and C.15' indicate that if inflationary expectations increase because of devaluation, both real income and the price level rise more than otherwise.

NOTES

1. This model is adopted from the work of Sargent [1972]. Empirical support for the signs of most of the derivatives can be found in Behrman [1974].
2. Empirical estimates of variants of neoclassical investment functions for Chile are in Behrman [1972b].
3. Open-market operations imply $dM^* + dB = 0$, a constraint that is used for relation C.3'.
4. If $a_2 > 0$ and $|C_1 T_x X_e| < \dot{X}_e - M_e - C_1 T_x M p_e$, then $a_3 > 0$, as seems likely.
5. If this response is sufficiently large, real income might decrease.

Definition of Concepts and Delineation of Phases

DEFINITION OF CONCEPTS USED IN THE PROJECT

Exchange Rates.¹

1. *Nominal exchange rate (NER)*: The official parity for a transaction. For countries maintaining a single exchange rate registered with the International Monetary Fund, the nominal exchange rate is the registered rate.

2. *Effective exchange rate (EER)*: The number of units of local currency actually paid or received for a one-dollar international transaction. Surcharges, tariffs, the implicit interest foregone on guarantee deposits, and any other charges against purchases of goods and services abroad are included, as are rebates, the value of import replenishment rights, and other incentives to earn foreign exchange for sales of goods and services abroad.

3. *Price-level deflated (PLD) nominal exchange rates*: The nominal exchange rate deflated in relation to some base period by the price level index of the country.

4. *Price-level-deflated EER (PLD-EER)*: The EER deflated by the price level index of the country.

5. *Purchasing-power-parity adjusted exchange rates*: The relevant (nominal or effective) exchange rate multiplied by the ratio of the foreign price level to the domestic price level.

Devaluation.

1. *Gross devaluation*: The change in the parity registered with the IMF (or, synonymously in most cases, de jure devaluation).
2. *Net devaluation*: The weighted average of changes in EERs by classes of transactions (or, synonymously in most cases, de facto devaluation).
3. *Real gross devaluation*: The gross devaluation adjusted for the increase in the domestic price level over the relevant period.
4. *Real net devaluation*: The net devaluation similarly adjusted.

Protection Concepts.

1. *Explicit tariff*: The amount of tariff charged against the import of a good as a percentage of the import price (in local currency at the nominal exchange rate) of the good.
2. *Implicit tariff* (or, synonymously, tariff equivalent): The ratio of the domestic price (net of normal distribution costs) minus the c.i.f. import price to the c.i.f. import price in local currency.
3. *Premium*: The windfall profit accruing to the recipient of an import license per dollar of imports. It is the difference between the domestic selling price (net of normal distribution costs) and the landed cost of the item (including tariffs and other charges). The premium is thus the difference between the implicit and the explicit tariff (including other charges) multiplied by the nominal exchange rate.
4. *Nominal tariff*: The tariff—either explicit or implicit as specified—on a commodity.
5. *Effective tariff*: The explicit or implicit tariff on value added as distinct from the nominal tariff on a commodity. This concept is also expressed as the effective rate of protection (ERP) or as the effective protective rate (EPR).
6. *Domestic resources costs (DRC)*: The value of domestic resources (evaluated at "shadow" or opportunity cost prices) employed in earning or saving a dollar of foreign exchange (in the value-added sense) when producing domestic goods.

DELINEATION OF PHASES USED IN TRACING THE EVOLUTION OF EXCHANGE CONTROL REGIMES

To achieve comparability of analysis among different countries, each author of a country study was asked to identify the chronological development of his

country's payments regime through the following phases. There was no presumption that a country would necessarily pass through all the phases in chronological sequence.

Phase I: During this period, quantitative restrictions on international transactions are imposed and then intensified. They generally are initiated in response to an unsustainable payments deficit and then, for a period, are intensified. During the period when reliance upon quantitative restrictions as a means of controlling the balance of payments is increasing, the country is said to be in Phase I.

Phase II: During this phase, quantitative restrictions are still intense, but various price measures are taken to offset some of the undesired results of the system. Heightened tariffs, surcharges on imports, rebates for exports, special tourist exchange rates, and other price interventions are used in this phase. However, primary reliance continues to be placed on quantitative restrictions.

Phase III: This phase is characterized by an attempt to systematize the changes which take place during Phase II. It generally starts with a formal exchange-rate change and may be accompanied by removal of some of the surcharges, etc., imposed during Phase II and by reduced reliance upon quantitative restrictions. Phase III may be little more than a tidying-up operation (in which case the likelihood is that the country will re-enter Phase II), or it may signal the beginning of withdrawal from reliance upon quantitative restrictions.

Phase IV: If the changes in Phase III result in adjustments within the country, so that liberalization can continue, the country is said to enter Phase IV. The necessary adjustments generally include increased foreign-exchange earnings and gradual relaxation of quantitative restrictions. The latter relaxation may take the form of changes in the nature of quantitative restrictions or of increased foreign-exchange allocations, and thus reduced premiums under the same administration system.

Phase V: This is a period during which an exchange regime is fully liberalized. There is full convertibility on current account, and quantitative restrictions are not employed as a means of regulating the ex ante balance of payments.

NOTE

1. The present study also includes the concept of the *premium-inclusive price-level-deflated effective exchange rate* [PLD-EER(PI)], i.e., the PLD-EER adjusted for the premium received by importers.

Appendix E

List of Abbreviations Used in the Study

- AID** Agency for International Development of the United States Department of State
- ALALC** Asociación Latinoamericana de Libre Comercio (*see* LAFTA)
- CAP** Compañía Acero de Pacífico (Pacific Steel Company)
- CIAP** Comité Interamericano de Alianza para el Progreso (Inter-American Committee of the Alliance for Progress)
- COCAIN** Comisión de Cambios Internacionales (International Exchange Commission)
- CODELCO** Corporación del Cobre (Copper Corporation)
- CONDECOR** Consejo Nacional de Comercio Exterior (National Council of Foreign Commerce)
- CONVENSA** Corporación de Venta de Salitre y Yodo (Nitrate and Iodine Marketing Corporation)
- COPEC** Compañía de Petróleo de Chile (Petroleum Company of Chile)
- CORFO** Corporación del Fomento (Development Corporation)
- DEC** Dirección de Estadística y Censos (Statistics and Census Department)
- ECLA** Economic Commission for Latin America
- ENAP** Empresa Nacional de Petróleo (National Petroleum Enterprise)
- ENDESA** Empresa Nacional de Electricidad, S.A. (National Electrical Enterprise)
- GDP** Gross domestic product
- GNP** Gross national product
- IBRD** International Bank for Reconstruction and Development

- IMF** International Monetary Fund
INE Instituto Nacional de Estadísticas (National Statistical Institute)
LAFTA Latin American Free Trade Area (*see* ALALC)
LME London Metal Exchange
NA National accounts (used in reference to national accounts exchange rate)
SOQUIM Sociedad Química y Minera de Chile, S.A. (Chemical and Mining Company of Chile)
UNCTAD United Nations Commission for Trade and Development