WORLD ECONOMIC SURVEY 1958

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FOREWORD

This report, *World Economic Survey, 1958*, is the eleventh in a series of comprehensive reviews of world economic conditions published by the United Nations. It is issued in response to General Assembly resolution 118 (II), in which the Secretary-General was requested to prepare an annual review and analysis of world economic conditions and trends. The report is intended to meet the requirements of the Economic and Social Council and other organs of the United Nations for an appraisal of world economic conditions which may serve as a basis for recommendations in the economic field; it is also designed to meet the needs of the general public.

The present report is the fourth in the series to contain a special study of an economic question of general interest. The *World Economic Survey, 1955* examined economic growth throughout the world and its problems during the first post-war decade. Drawing in part upon this study, the *World Economic Survey, 1956* contained an analysis of post-war international trade relations and the balance of payments problems of both the developed and under-developed regions of the world. The analysis of general problems was extended in the *World Economic Survey, 1957*, which examined the question of post-war inflation in the world economy. In part I of the present study, attention is focused on international commodity problems and policies. Chapter 1 reviews both the long-term trends and the short-period instability in world trade of primary commodities. The significance for the economies of under-developed countries of both these aspects of the commodity problem is discussed. Chapter 2 examines the nature of national commodity policies in both the industrially advanced private enterprise economies and the primary producing countries. In chapter 3, existing international commodity arrangements are reviewed and various schemes of a more comprehensive character, which have been proposed from time to time, are examined. Chapter 4 describes the trends in production and trade of primary commodities in the centrally planned economies. Following a discussion of the shortages experienced in supplies of primary commodities, the role of the price mechanism is analysed. The chapter concludes with a review of the foreign trade policies of these countries.

Part II of the *Survey* contains an examination of recent events in the world economy. Chapter 5 provides an analysis of the recent situation in the industrially advanced private enterprise economies, special attention being paid to the nature of the recovery from recent recessionary trends. Chapter 6 reviews recent events in the primary producing private enterprise economies in the light of the recessionary trends and the early phases of recovery in the industrially advanced economies. An assessment of the economic outlook at the beginning of 1959 is given for both these groups of countries; this is based largely on replies by Governments to a questionnaire on economic trends, problems and policies circulated by the Secretary-General in November 1958. Chapter 7 provides an account of recent changes in the centrally planned economies together with a review of recently announced long-term plans for economic development.

The Introduction to the *Survey* considers the implications of the widespread fears of inflation for the economic growth of the industrially advanced countries and examines the significance of the trends in these countries for commodity trade and international balance.

The basic data used in the *Survey* are, in general, as published in governmental or inter-governmental sources, or as officially reported to the United Nations and its specialized agencies. The significance of the figures may vary from country to country, depending on the statistical concepts and methods followed and on the structure and development of the national economy. For this reason, the compilation of international statistical tables requires that attention be given to any important elements of non-comparability or qualifications attaching to the data; these are usually shown in the tables of this report or in the publications of the United Nations and of the specialized agencies that contain the basic data from which many of the tables have been prepared. Some of the data have been specially tabulated by the Statistical Office of the United Nations.

The *World Economic Survey* is prepared in the Department of Economic and Social Affairs by the Economic Survey Branch of the Bureau of Economic Affairs.

EXPLANATORY NOTES

The following symbols have been used in the tables throughout the report:

Three dots (. . .) indicate that data are not available or are not separately reported

A dash (—) indicates that the amount is nil or negligible

A blank in a table indicates that the item is not applicable

A minus sign (−) indicates a deficit or decrease, except as indicated

A full stop (.) is used to indicate decimals

A comma (,) is used to distinguish thousands and millions

A slash (/) indicates a crop year or financial year, e.g., 1955/56

Use of a hyphen (–) between dates representing years, e.g., 1953–1955, signifies the full period involved, including the beginning and end years.

References to "tons" indicate metric tons, and to "dollars" United States dollars, unless otherwise stated.

The term "billion" signifies a thousand million.

Details and percentages in tables do not necessarily add to totals, because of rounding.

Certain abbreviations have been used: EPU for European Payments Union; FAO for Food and Agriculture Organization of the United Nations; GATT for General Agreement on Tariffs and Trade; GNP for gross national product; IAPI for Instituto Argentino de Promoción del Intercambio; IBRD for International Bank for Reconstruction and Development; IMC for International Materials Conference; IMF for International Monetary Fund; OEEC for Organisation for European Economic Co-operation; SAMB for State Agricultural Marketing Board (Burma); SITC for Standard International Trade Classification. "Malaya" stands for Federation of Malaya; "Rhodesia" stands for Federation of Rhodesia and Nyasaland; "South Africa" stands for Union of South Africa. Wherever the terms "Syria" and "Egypt" are used, reference is to the northern and southern regions of the United Arab Republic.

The designation of countries and territories and the arrangement of material in this publication should not be considered as implying any endorsement or other judgement by the Secretariat of the United Nations regarding the legal status of any country or territory, or of its authorities, or in respect of the delimitation of its boundaries.

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INTRODUCTION

Introduction

INDUSTRIAL ACTIVITY AND ITS SIGNIFICANCE FOR COMMODITY TRADE AND INTERNATIONAL BALANCE

The world economy is still in the process of recovering from its third—and, in some respects, its most disappointing—setback of the post-war period. The first shock—generated by the mild recession in the United States of 1948/49—was more violent in its international impact, precipitating the currency crisis of 1949 in the then highly vulnerable sterling area. Its significance for the longer run seemed open to question, however; had there been no other recession it might have been written off as an interlude between the end of post-war reconstruction and the beginning of more normal peace-time growth. The second slump —beginning with the slackening of expansion in western Europe in 1952 and culminating in the United States recession of 1953/54—was a relatively mild one, not only internally but also in its external repercussions. Primary product prices were moderately well maintained, and the world at large managed to sustain its rate of economic growth and even to liberalize its imports in the face of the downturn in United States economic activity. Perhaps even more than the first, the second recession could be attributed to special phenomena—a reduction in planned and actual military expenditure and in related investment and a liquidation of inventories, associated with the termination of Korean hostilities.

No such comfort may be drawn from the circumstances surrounding the latest jolt to the world economy. No special factors of major significance can help to explain the downturn in United States economic activity in 1957/58 or the virtual standstill in total western European production in the course of 1958. The preceding expansion phase had been dominated by an upsurge in normal civilian demand, and its termination can only be explained by a subsequent failure in the growth of such demand to keep pace with the mounting capacity to produce. Views may differ on the extent to which the gap between effective demand and productive capacity was fashioned by ordinary market forces or was shaped by restrictive, anti-inflationary government policy; in either case, however, the setback raises problems of major importance for long-term economic growth. Regardless of the extent to which the recession may have been inherent in the buildup of excess capacity or might have been accelerated by government restriction, it is evident that the world has not yet learned how to avoid the costs of recurrent industrial slumps.

It is naturally gratifying that all three post-war recessions have been of short duration, and that none—not even the latest and deepest—has assumed the proportions of a major pre-war depression. In the two earlier instances the downturn lasted about a year, and in the latest, output began to revive even more quickly—in the second quarter of 1958—only nine months after the initial decline. Early in 1959 industrial production in the United States regained the recession loss and indeed rose to a new all-time peak. It is necessary to observe, however, that owing to continuing increases in productivity, unemployment in April 1959 was still significantly above pre-recession levels, despite a less than normal rate of growth in the labour force.

More disturbing is the world-wide character of the latest recession. Whereas in the two earlier periods the downturn in activity was limited to the United States, with the rest of the world continuing to expand and thereby lending support to the United States recovery, in the latest phase, the economic decline in the United States was accompanied by a slackening of production in other industrial countries. Indeed, on this occasion there was even a striking improvement in western Europe's balance of trade with the United States, as western Europe's imports fell sharply, while those of the United States were maintained. But while this manifestation of the external strength of western European economies is encouraging, the weakening of their internal forces of economic growth cannot but be a matter of serious international concern. Though by early 1959 western Europe was beginning to show signs of recovery in the rate of economic activity, it was as yet uncertain whether or how soon the dynamic pace of the earlier years would be resumed.

A far more serious aspect of the industrial recession was its impact on markets for primary products, particularly in view of an associated expansion in productive capacity in many parts of the world. The consequent decline in primary product prices, together with the continued inching up of industrial prices, represents a loss of over $2 billion in both the real income and the capacity to import of primary producing countries in 1957/58. The extent of recovery in this area will be conditioned almost entirely by the strength of the upswing in economic activity of the industrial countries.

However much encouragement may be derived from

the rate of recovery so far attained, it would hardly be prudent to underestimate the cost of even such relatively mild setbacks as have already been experienced in the post-war period. While the repercussions upon the under-developed countries may be more serious and more lasting, the internal impact on the industrial countries themselves cannot be altogether dismissed. The three recessions of the United States, mild as they were, have involved an aggregate loss of $35 to $40 billion in gross national product valued at end-1958 prices, as compared with pre-recession levels, and of a considerably larger sum if allowance is made for the normal rates of increase in the labour force and in average output per man. Moreover, the reduction of investment during a recession is not only a loss of current income but, through its effect on productive capacity, also constitutes a check on potential future growth.

Nor would it be wise to assume, on the basis of the post-war experience, that in the future all recessions are bound to be short and mild. It is true that an array of automatic stabilizers, including progressive tax systems, social security, and farm support programmes, has considerably strengthened the industrial economies since the depression of the nineteen thirties. It is important to bear in mind, however, that stabilizers can only slow down a rate of decline; they cannot in themselves initiate an upturn. Unless, therefore, other forces are actively at work to reverse a downturn, economic activity could continue to decline over a relatively long period and by very sizable amounts. While depressions of the order of magnitude of the nineteen thirties have become unthinkable both on social and on political grounds, recessions of greater duration and depth than those heretofore experienced in the post-war years cannot be prevented by exclusive reliance on any automatic stabilizers. As long as the underlying market forces continue to push private investment and consumption upwards, recessions may be mild and of short duration. But in the absence of adequate effective demand making for a sustained and cumulative upturn, vigorous government intervention may be necessary, not only in the field of monetary and credit policies, but also in the fiscal area.

Recent experience suggests, however, that economists may have underestimated the difficulties that might inhibit forceful government action. These inhibitions stem largely from the fear of inflation that has become so widespread and deep-seated in industrial countries. None of the three recessions has dissipated or even significantly lessened these fears, since it has gradually become apparent that inflationary and deflationary forces are not necessarily mutually exclusive and that prices may continue to rise even during periods of unemployment and under-utilization of productive capacity. The factors making for the coexistence of inflationary and deflationary influences, together with the consequences for government policy, during the expansion phase were examined at length in the *World Economic Survey, 1957*.[1] The basic problem analysed in that report did not disappear during the recession, however; indeed, long before output had made good the recession loss, Governments became increasingly concerned with the potential inflationary dangers that might inhere in the process of recovery. Although credit restraints were eased in the course of the United States recession, the downward course of bank rates was reversed at the very early stages of the economic upturn.

In the fiscal area the inhibitions against a sustained expansionary policy have perhaps been even more powerful. Though a sizable budget deficit developed in the United States in 1958/59, most of it was due to the action of automatic stabilizers, to temporary emergency aid, or to measures described as taken without regard to the recession. And even though unemployment at the turn of the year remained at near-peak levels, the budget submitted for 1959/60 was intended to restore a full balance between government expenditure and revenue.

In part, the inhibitions against an active anti-recession fiscal policy stem from concern over possible difficulties in reversing spending and taxation measures once the recovery has been completed. In part, the built-in stabilizers, by their very effectiveness in automatically generating a substantial budget deficit during the recession, undoubtedly contribute to the reluctance of Governments to undertake additional measures which will only increase the deficit. Basically, however, the objections to budget deficits originate in widespread public concern over their role in inflation.

Fear of a long-term threat of inflation has not only influenced anti-recession policy but may also be coming to have an important bearing on long-term economic growth. An interesting contrast seems to be developing in current thinking on the relative dangers of inflation and deflation: the tendency is to fear the worst with respect to inflation but to hope for the best as regards deflation. The mounting concern over creeping inflation lest it quicken to a trot and the trot to a gallop seems to be accompanied by a growing inclination to discount an economic slowdown as a phase of rest, and a recession as a mild economic ailment for building up immunity against a major depression. The result has been a deepening bias in the targets set for economic stability; the target for price stability has increasingly come to be interpreted as allowing for no upward trend in prices of any magnitude, while the target for full employment is being gradually reinterpreted to allow not only for seasonal and frictional factors, but also to include sufficiently high or sufficiently recurrent levels of unemployment so as to ensure the absolute stability of price level.

[1] United Nations, *World Economic Survey, 1957* (sales number: 58.II.C.1).

Policies in restraint of demand for the prevention of inflation have accordingly been given greater and greater emphasis in recent years. Such policies have been justified on various grounds. Some have equated inflation with excess demand, maintaining that prices could not rise unless demand were excessive. On this reasoning it would follow that excess demand could always be eliminated and inflation always avoided without necessarily exerting any adverse effect on output and employment. This hypothesis, as was explained at length in the *World Economic Survey, 1957*, not only seems an over-simplification of economic analysis but is also inconsistent with recent events. There is now virtually unanimous agreement that a substantial building up of excess capacity throughout the economy in 1955–1957 was a major factor in bringing on the recession in 1957/58. Since 1955–1957 was a period of intense anxiety about inflation and of progressive tightening of anti-inflationary policy, this can only mean that the inflationary pressures were being generated in a context of a growing general excess of capacity rather than excess of demand. And, as is well known, prices continued to rise well on into the recession after unemployment had already reached a peak post-war level. It has been noted by some that a continuation of the rise in prices in the early phase of a recession is no new phenomenon but rather typical of past recessions. But this can only mean that price inflation in the midst of income deflation is no new phenomenon; it cannot mean that price inflation originates only in excess demand.

Most economists are now agreed that inflationary pressures may stem not only from a general excess of demand but also from bottlenecks in key sectors of the economy and from pressures on the cost side. Policies in restraint of demand are supported instead on the grounds that even when the pressures do not stem from a general excess of demand they can nevertheless be eliminated by a reduction of demand, and that even if such curbs lead to lower employment and output, the price will not be too high to pay for the prevention of inflation. This conclusion is predicated on the assumption that only a modest check to employment and output will suffice to eliminate creeping inflation and preserve long-term price stability, and that it is more important to avoid creeping inflation than to strain after a higher rate of growth.

No one will quarrel about the dangers of an inflationary trend, whatever its origin—whether it stem from the pressure of a general excess of demand or from bottlenecks in key areas of production or from cost pressures. The concern over even the creeping variety of inflation is also understandable. Apart from the ever-present threat that the pace of inflation may not remain permanently slow, it is self-evident that even a modest rate of inflation cumulated over a long period of time will involve a substantial rise in price levels; even a 2 per cent increase in prices cumulated over a lifetime of earnings and savings—say, thirty-five years—means a loss in the purchasing power of money of about one-half. Of course, the loss in the real value of savings over the lifetime of any individual will be much less than indicated by the rate of increase in prices, since money savings will themselves be enlarged as rising prices are translated into higher money earnings. Indeed, for the economy as a whole there can be a loss in the real value of saving only to the extent that rising prices should lead to a long-term decline in the proportion of real income devoted to investment; otherwise any loss in the real value of savings of one group must be offset by a corresponding gain for other groups in the economy. But though inflation—particularly if it can be kept within limits—need not necessarily involve any loss of real savings to the economy as a whole, it may, of course, seriously harm certain groups of society. Since not all types of money income can be adjusted equally readily to changes in price, it is clear that even modest rates of inflation may distort the distribution of real income, working hardships on salaried workers and on other people dependent upon incomes or assets that are relatively stable in money terms. Economic policies could undoubtedly be devised to lighten the burden of inflation on these groups by linking their money incomes and savings to an index of the cost of living, but in that case there is a greater risk that the rate of inflation might be accelerated.

Creeping inflation also has its dangers for the economy, apart from its impact on the distribution of income. Internally, if the inflation appears to be continuing indefinitely, it may affect the public's willingness to save or at least to hold cash and fixed income-bearing assets. Presumably, such a change in the public's liquidity preferences might be offset by an increase in interest rates, but this might adversely affect the rate of investment. There are many who believe that the higher interest rate would merely cancel out the stimulating effect of a rising price trend so that investment demand would be no less than under a lower interest rate with a stable price trend. To the extent to which prices are pushed upwards from the cost side, however, creeping inflation may not be accompanied by a shift in the distribution of income towards profits; and, consequently, an increase in interest rates might, on balance, be a deterrent to investment. Externally, there is perhaps an even more immediate danger that creeping inflation may render exports less competitive and imports more attractive—thereby creating or aggravating balance of payments problems unless the rest of the world is also inflating at comparable rates.

Without in any way minimizing the importance of these considerations in favour of price stability, it seems necessary to note, however, that analogous considerations also apply to the alternative of restraining

the rate of economic growth as a means for preventing inflation. Crawling deflation also has its dangers, no less than does creeping inflation. Even if it should prove easier to control unemployment than to control inflation, it needs to be borne in mind that the cumulative sum over a period of time of any item growing at a given rate is the same, whether that item is the loss of purchasing power of money or the loss of national output. If the rate of growth of production is slowed down by 2 per cent *per annum* to prevent a corresponding price rise *per annum*, the price paid by the economy for avoiding a 50 per cent loss in the purchasing power of money in thirty-five years' time is an identical percentage loss in the total volume of goods and services available for consumption and investment.

Nor is it even certain that a modest check to output and employment would, in fact, suffice to eliminate creeping inflation. While galloping inflation is clearly inconsistent with major industrial depressions, the thesis that creeping inflation can be eliminated by crawling deflation seems to be based on a static conception of economic activity. However valid such a thesis might be in an economy in which the labour force, employment, productivity and the stock of plant and equipment are all stationary over long periods of time, it appears of more doubtful validity in relation to a dynamic economy in which these phenomena are all characterized by continuous growth. It may be true that beyond a certain degree of utilization of the manpower and productive capacity available at any given time, costs will tend to rise, both because of the need to employ less efficient and therefore more costly manpower and productive capacity, and because of the strengthened bargaining power of labour and the weakened resistance of employers to higher wages. But this static point of view overlooks the powerful influence of economic growth. It focuses upon the law of diminishing returns from more intensive utilization of existing resources, overlooking the increasing returns which the industrial countries have achieved through the cumulative advances in technology and productivity historically associated with their economic development. It dwells upon the conflicting pressures for higher relative shares of the national income accompanying high levels of employment, while failing to note the resulting rise in growth trend of the total national income available for distribution. If account is taken of the impact of this trend on the stock of productive equipment, on the rate of advance in technology and in productivity and on the increase in volume of goods and services available both for consumption and for investment, it may well be that a high, rather than a low, rate of economic growth would in the long run provide for greater price stability.

It is well to bear in mind that contrary to a widespread illusion about the magnitude of the 1955-1957 boom—fed in part by the self-same fear of inflation—the true dimensions of the expansion were modest indeed. In the United States, even in the peak quarter of 1957, the volume of industrial production did not exceed the pre-recession peak level of 1953 by more than 6 per cent, and at the low point of the 1957/58 recession the volume was only 3 to 4 per cent above that of the corresponding period of 1951—fully seven years earlier. Owing to increases in productivity, the level of manufacturing employment has never been restored to that of 1953, and indeed the number of wage earners employed in manufacturing during 1958 was below that of any war or post-war year with the exception of the recession year 1949. Although the rate of growth has been higher on the average in other industrial countries, most notably in France, Italy, the Federal Republic of Germany and Japan, it has been quite modest in a number of them, especially in the United Kingdom. In the face of intense concern with the fear of inflation, industrial production in that country remained almost stationary after 1955, despite continued investment and expansion of productive capacity. Such limited rates of growth in output and income can provide little incentive for further expansion of basic industry and are of little help in relieving the constant pressures of all income-earning groups to lift their levels of living. In so far, therefore, as rising prices stem not from a global excess of demand for goods and services over total available capacity but from mutually incompatible demands of labour and business for higher earnings or from temporary bottlenecks in specific basic industries that are subject to fluctuating demand, policies which check the long-term rate of growth may tend to aggravate rather than to alleviate long-term inflationary pressures.

Impact on under-developed countries

One of the most disturbing aspects of the recent industrial downturn is that it has once again highlighted the vulnerability of under-developed countries to even moderate shifts in world economic activity. If, as has been frequently noted, the developed countries can be congratulated upon no longer catching pneumonia when the United States sneezes, the under-developed countries are still far from having acquired any natural immunity or even from having discovered an effective vaccine against the virus of industrial recessions. Though the total volume of net imports of primary commodities into the industrial areas was barely affected, the sensitivity of commodity markets to the changing economic climate in the major buying countries was sufficient to reduce prices and export earnings of the under-developed countries by 7 to 8

per cent from mid-1957 to mid-1958. This drop, reinforced by a continuing, albeit slight, rise in the import prices of manufactured goods in the face of the industrial recession, represents a loss in import capacity equivalent to about six years' lending to the under-developed countries by the International Bank for Reconstruction and Development at 1956–1957 rates.

The direct impact of the recession was perhaps more limited than might have been assumed. The decline in the total volume of commodity imports of the industrial countries was almost imperceptible, with a reduction in United States imports of industrial raw materials and semi-finished goods being largely offset by an increase in its imports of foodstuffs. In part this result stems from the fact that personal incomes and consumption were relatively well maintained during the recession. An equally important element in the stability of the volume of exports of primary producing countries was the fact that confidence in western Europe did not weaken to the point at which major inventory liquidation would have occurred. Moreover, western Europe, as already noted, sharply reduced its imports from the United States, and it succeeded in increasing rather than decreasing its gold reserves. In the absence of pressure on their balances of payments, these countries were able to maintain the volume of their imports approximately in line with the rate of their own manufacturing activity. Nevertheless the continuing growth of productive capacity—the fruit of maturing investment brought about by earlier high prices and by special government measures—combined with the weakening of industrial demand, produced widespread deterioration in commodity markets. Prices would undoubtedly have sagged even earlier under the weight of expanded capacity, had it not been for United States accumulation of large stocks in support of farm prices and for strategic purposes; but this prop, too, was greatly weakened after 1956 by a cutback in the stockpiling programme and by a vigorous drive for disposal of surplus farm stocks. Despite the recovery of economic activity in the United States and to a lesser extent in western Europe, prices of primary commodities have shown only a slight improvement since the middle of 1958. Evidently the accumulation of large stocks combined with the continuing growth of productive capacity has prevented any significant recovery in prices, despite the cessation of inventory liquidation in industry and recovery in manufacturing output.

The magnitude of the price movements bearing on individual countries was far greater than might be assumed from the drop in average prices. As always—including even periods when the averages are stable—export prices of individual countries moved over a wide range—from a rise of over 40 per cent in the cocoa-exporting group to a decline of over 20 per cent in the group exporting sugar. Since an under-developed country typically exports only a handful, rather than a large variety, of commodities, reductions in average prices obscure the degree of deterioration in export earnings of individual countries. The difficulties of a country whose export earnings have fallen by 20 per cent are not reduced by one-half because export earnings of another country have not fallen at all.

It is not alone the vulnerability of primary markets to industrial fluctuations that has been spotlighted by the recent recession. Of even greater significance are the longer-term implications. It is now clear that the expansion of world capacity has become sufficient to eliminate any shortages, and indeed to create problems of surpluses, in most major commodities entering into world trade. For the foreseeable future, export prospects of the under-developed countries have thus come to depend largely upon the long-term growth of demand in the industrial countries. It is this element which makes the long-term rate of growth of the developed countries so vital for the world economy as a whole. The capacity for growth of most under-developed countries is limited at least as much by external as by internal forces. In the absence of domestic industry, these countries must rely upon imports of capital goods for their investment; without adequate foreign demand for exports to finance essential imports, domestic saving may produce unwanted accumulation of inventories in under-developed countries or lower output, rather than capital formation and growth. Thus the major industrial countries, in shaping their own long-term rates of growth—and thereby the growth in their import demand for primary commodities—in fact determine the potential rate of expansion of the world economy as a whole.

The gravity of this problem is underlined by the lack of symmetry in the relation of import requirements to rates of growth in economic activity between developed and under-developed countries. On the one hand, in industrial countries the rate of expansion in total demand for imports of primary products has tended to lag behind the rate of general economic growth. To some extent this reflects the rise in the proportion of world industrial production accounted for by the United States, whose dependence on primary imports is relatively small; this tendency, greatly accelerated during the Second World War, has been partially reversed, however, in post-war years. A far more important element in the lag is a growing tendency for the pattern of production in developed countries to shift towards industries with low input of primary products per unit of output—evidenced by rising proportions of consumer outlays on personal services, and on durable goods requiring a greater degree of processing than the simpler non-durable goods. Of no less importance has been a constant drive towards economy in the use of raw materials. Vast and ever-increasing sums are being spent on industrial research for reducing the amount of waste, for reprocessing of scrap, for decreasing the raw materials content of the final product, and above all, for the manufacture of synthetic substitutes for pri-

mary products. Though, in principle, economies in using up natural resources must be no less beneficial to mankind than savings in manpower or capital, in practice it appears that this saving in raw materials has greatly contributed to limiting the potential rate of growth of under-developed countries in relation to industrial expansion.

Apart from the market forces making for lagging consumption, the policies of industrial countries have also contributed significantly to retard the rate of growth of import demand for primary products. In western Europe policies designed to achieve a greater measure of self-sufficiency in foodstuffs, and in the United States price support policies to protect the farmer's share in the national income have led to an increase in production of primary commodities in excess of the rise in their rates of consumption. The result has been a sharp check in the growth of import demand of primary products in western Europe and a rise in export supply in the United States, so that the net demand for imports from primary producing countries has not kept pace even with the lagging consumption. It is true that much of this additional burden has been borne by the high-income countries exporting such commodities as grain and livestock products, and that part of the increased export supply of the United States has in fact been made available to under-developed countries on favourable terms or as outright grants. Nevertheless, the cost of the increased production in some commodities, notably sugar, tobacco and oil-seeds, has been borne largely by under-developed countries in the form of reduced market exports. In addition, export earnings of many under-developed countries have been curtailed because commodities such as tobacco, coffee and tea have traditionally been singled out as suitable objects for revenue tariffs or domestic excises. Indeed, during the war and early post-war years taxation of these items was frequently stepped up in industrial countries in order to help curb inflation and protect the balance of payments.

In contrast to the lag in import demand of industrial countries, the import demand of most under-developed countries has tended to rise in excess of the growth in their domestic production. Where economic development has proceeded very slowly or where it has been possible to curtail or displace imports of consumer goods sufficiently, total imports may have been kept in line with domestic economic growth.[2] In most instances, however, economic development has necessitated so large an expansion of imports of capital goods as to raise total imports in relation to the national product. Generally the expansion of imports was too large to be financed by the increase in exports; instead the balances of payments of primary producing countries have changed from the surpluses of pre-war years to deficits. If these deficits have been kept within more or less manageable bounds to date, it needs to be borne in mind that in part this was due to non-recurrent factors such as the war-time and early post-war repatriation of foreign capital and the effect of rising export prices on the real cost of servicing the remaining foreign debt. Even so—and despite a measure of recovery in private foreign capital and significant sums of public grants and loans—it has proved necessary to run down foreign exchange reserves and to impose severe restraints on imports.

[2] *See* United Nations, *World Economic Survey, 1956* (sales number: 1957.II.C.1), chapter 3.

Significance for economic development and international balance

Were the import requirements of both the developed and the under-developed countries to rise in the same proportion as their national incomes, their trade with one another would at least provide the external resources necessary to enable the under-developed countries to keep in step with the rate of growth of the developed countries. Given, however, the disparity in relation of import requirements to national income, it is evident that international trade may not provide the under-developed countries with the external resources they require, if only to prevent a relative widening of the gap between their incomes and those of the developed countries. Instead, in order to maintain international economic balance, the relative rates of growth in the two groups of countries would have to be in inverse proportion to the relative degrees of responsiveness of the demand for imports to changes in income. Should the income elasticity of import demand—the term used to designate the responsiveness of import demand to changes in income—be twice as high in under-developed as in developed countries, then the under-developed countries would have to grow at half the rate of the developed countries in order to keep their trade in balance. Should the under-developed countries, on the other hand, seek to expand at the same rate as the developed countries, they would then be faced with a permanent and growing deficit in their balance of payments; their imports would expand faster than their exports in direct proportion to the relative import elasticities of demand of under-developed and developed countries. With an import elasticity twice as high as that of the developed countries for their exports, the under-developed countries would find their imports increasing at twice the rate of their exports. The resulting trade gap would be permanent and it would grow not only in absolute, but even in percentage terms.

The notion of a permanent and growing gap in the balance of payments is one which traditional economics

has found difficult to accept. It is commonly assumed that international disequilibrium stems from internal imbalance, namely, that a country has a balance of payments deficit either because it permits internal inflation or because the rest of the world is undergoing deflation. In the first case it is assumed that the deficit stems from inadequate savings in relation to investment in the deficit country, and in the second, that the deficit stems from inadequate investment in relation to saving in the rest of the world. While either of these conditions may certainly lead to international disequilibrium, it follows from what has been said above that inflation or deflation are not the only conditions which may produce external imbalance. Instead, a permanent and ever-growing gap may be generated in the balance of payments without any internal inflation in the deficit country or deflation in the rest of the world. Any permanent disparity in the income elasticities of import demand of trading partners may generate a permanent gap in the balance of payments, even with all countries maintaining stable prices and all expanding at the same rate.

The existence of a gap in the balance of payments does, of course, mean that investment exceeds the rate of saving in the deficit country and falls short of saving in the surplus country. But in the circumstances under consideration it is not the discrepancy between savings and investment which generates the deficit in the balance of payments. Instead it might be said, with greater accuracy, that it is the conditions which generate the deficit in the balance of payments that lead to the discrepancy between savings and investment. Given the disparity between income elasticities of import demand, uniform rates of growth are consistent only with an imbalance between exports and imports and therefore with an imbalance between saving and investment. Should the deficit country under these circumstances seek to close its trade gap by increasing the rate of saving or decreasing its investment, this could result only in a state of inadequate effective demand, leading to a reduction in its rate of growth or perhaps even in the absolute level of its economic activity. Conversely, should the surplus country seek to eliminate the trade surplus by increasing its investment or reducing its saving, this would lead only to excess effective demand and to price inflation.

But—it might be asked—if the deficit in the balance of payments reflects neither inflation at home nor deflation abroad, must it not be due to the maintenance of an improper exchange rate? Cannot such a deficit be eliminated by a change in exchange rates? The answer, unfortunately, seems to be in the negative. If the problem were a static one—if incomes remained unchanged—it would presumably be possible to find an exchange rate that would equate exports and imports and eliminate the gap in the trade balance permanently. The difficulty is that the problem under consideration is a dynamic one. Even if the exchange rate were altered to eliminate the trade deficit in any one period of time, a new deficit would re-emerge in the following period as incomes rose once again, and the country's imports again rose faster than its exports. The only possibility for achieving a lasting balance between imports and exports under uniform rates of growth in economic activity lies in permanently eliminating the disparities in income elasticities of import demand. Even though it may always prove possible to establish a rate of exchange to equate imports and exports at given levels of income, there is no reason to expect to be able to establish a rate of exchange which can equate the income elasticities of import demand and can thereby eliminate any imbalance between imports and exports over all periods and for all rates of growth of incomes. It follows that a lasting balance of payments problem may reflect neither internal imbalance nor improper exchange rates, but only a disparity between income elasticities of import demand that is inconsistent with the relative rates of growth of economic activity of the trading partners.

It has frequently been cited as one of the merits of the traditional gold standard that it required countries to keep in step with one another in their rates of economic expansion in order to preserve external balance. In making this statement, however, it is necessary to guard against the illusion that keeping in step means that all countries can expand at the same percentage rate without encountering balance of payments difficulties. This will be true only if import demand is equally responsive to percentage changes in income in all countries. Otherwise, international equilibrium requires that countries whose elasticities of import demand exceed the income elasticity of the world's demand for their exports should expand their income and production at a rate appropriately below that of the average for the world as a whole.

If the problem of lagging demand for primary products cannot be permanently solved by adjustment of exchange rates—it may be asked further—might it not be overcome by changes in the terms of trade? Much effort has gone into study of the question of past and prospective trends in the terms of trade between primary commodities and manufactured goods. Available data on exports and imports of the industrial countries suggest that up to the Second World War, at least, the long-run trend was adverse to the under-developed countries. The significance of these findings has become the subject of a highly controversial literature, however, owing to serious limitations inherent in the statistical data. Moreover, the recovery in the terms of trade of primary products during the war and early post-war years has led some observers to maintain that even if the past trends were against under-developed countries, the prospective long-term trends might nevertheless be in their favour. The data assembled in chapter 1 do show a considerable improvement in the terms of trade of primary products in relation to manu-

factures from the late nineteen twenties to post-war years. The improvement is much less for under-developed in relation to developed countries, however, than for primary products in relation to manufactures, since the under-developed countries are also importers of many primary products; indeed, according to some estimates based on export and import prices of the developed countries, the terms of trade in the late nineteen fifties appear to be about the same as in the late nineteen twenties. Moreover, all of the recovery or improvement in the aggregate terms of trade had already taken place by 1948; further gains from the depreciation of sterling and other currencies in 1949 and from the Korean raw materials boom in 1950/51 were completely dissipated by 1958 after several years of cumulative worsening of the terms of trade.

Quantitative projections of the terms of trade into the future are beyond the scope of this *Survey*, not merely because of the shakiness of the historical data on which the estimates would need to be based, but even more because to project the terms of trade is virtually to project the future of the entire world economy. Something may, however, be said of the possible contribution of the terms of trade to international economic balance, without entering into specific quantitative projections. Since exports to under-developed countries are generally small in relation to production, export prices of developed countries may be assumed to be determined by domestic forces, independently of the state of demand in the under-developed countries. On the other hand, since primary products are produced largely for export, their export prices do depend upon the rate of growth of foreign import demand in relation to domestic export supply. Under these circumstances, changes in the terms of trade will be largely determined by the relative rates of growth in export supply and import demand for primary products at constant prices. If the two rates are equal, the terms of trade will remain unchanged. If, however, export supply rises faster than import demand, the terms of trade will become adverse to primary products, and conversely, if export supply lags behind import demand at constant prices, the terms of trade will change in favour of primary products.

What happens to export earnings valued in purchasing power over imports will in turn depend upon the elasticity of the foreign demand for the primary products with respect to their prices. If the demand is elastic, export earnings from primary products will change in the same direction as the export supplies and in the opposite direction from the terms of trade. Conversely, if foreign import demand is inelastic, export earnings will move in the same direction as the terms of trade but in the opposite direction from export supplies.

As already explained, the import demand of developed countries for primary products tends to lag behind the rate of growth in their national income and product. If export supplies of under-developed countries at constant prices should match the rise in import demand, the terms of trade would remain unchanged, and export earnings from primary production would then lag behind income of developed countries as much as does the import demand. Should export supplies in under-developed countries match instead the rise in national income of the developed countries, the terms of trade would then move adversely to primary production, and export earnings of primary producers would still lag behind the rate of growth of income in the developed countries. The only possibility for export earnings from primary products to keep pace with the rate of growth in developed countries when export supply grows faster than import demand at constant prices is for the import demand to be sufficiently elastic and for export supply to be sufficiently flexible to permit trade in primary products to expand even faster than the rate of general economic growth in developed countries. Except in special cases, the prospects for such expansion do not seem promising.

The opportunities for benefiting from a lag in supply and improvement in the terms of trade could conceivably be more favourable. If export supplies lag behind import demand so that terms of trade rise, and if import demand is sufficiently inelastic, export earnings of primary producers might rise as rapidly as income and production in the developed countries. Unfortunately, commodities with a very low elasticity of demand with respect to price, such as staple foods, are also those for which import demand is likely to lag not only very considerably behind the rate of economic growth in developed countries but even behind the rate of growth of export supply in under-developed countries, so that the prospects for an improvement in their terms of trade are not very favourable.

Just how unfavourable are the prospects for export earnings from primary products to keep pace with the rate of economic growth in the developed countries—whether for commodities with inelastic or with elastic demand—emerges very clearly from chapter 1. Whether recent years are compared with the late nineteen forties or with the late nineteen twenties, it appears that relatively few commodities, among which were petroleum and some ores and non-ferrous metals, produced export earnings whose purchasing power over imports matched the rate of economic growth in the developed countries. Bearing in mind that, in contrast to the lagging import demand of developed countries for primary products, the import demand of under-developed countries for manufactures tends to outstrip the rate of economic development, there seems to be little basis for optimism that trade between developed and under-developed countries is likely in itself to provide adequate external resources to enable the under-developed countries to match the rate of growth of the developed countries.

Even these considerations understate the magnitude of the problem of international balance. For the discussion thus far has related only to absolute rates of income growth and has taken no account of striking disparities in rates of increase of population of the developed and under-developed regions of the world. Accordingly, even if external resources were, in fact, adequate to permit matching the absolute rates of income growth, there would still remain an acute problem of matching the per capita rates. Not only is population already expanding faster in under-developed than in developed countries, but, owing to the remarkable drop in infant mortality now taking place in the poorest regions of the world, the spread between rates of population growth is likely to widen significantly. This seems inevitable, at least for the near future, before birth rates can decline sufficiently to compensate for the striking decline in death rates. According to recent United Nations estimates,[3] population in North America, Europe and Oceania is likely, under the "seemingly most plausible assumptions", to increase by about one-third from 1950 to 1975, whereas population in Africa, Latin America and Asia is expected to rise by over 60 per cent, or nearly twice as fast. Thus, only to equalize per capita rates of income growth, the absolute rate would have to be about 20 per cent greater in under-developed than in developed countries.

National and international commodity policy

Commodity policy, in recent years, has increasingly come to engage the attention of Governments at both the national and the international level. There is widespread recognition of the strategic importance of economic activity in the developed countries for the growth and stability of export markets in primary products. The most important contribution the developed countries can make to the solution of the commodity problem is, without a doubt, to preserve high and stable rates of growth in their own economies. Though import demand for primary commodities has lagged behind the rate of general economic growth, it has, none the less, risen very considerably, and it has provided the bulk of the external resources on which the post-war growth of the under-developed countries has been based. Similarly, though the degree of stability achieved in commodity markets in the post-war period has by no means been commensurate with that achieved in economic activity in the industrial countries, it has nevertheless been significantly improved as compared with the depression years of the nineteen thirties. Moreover, the commodities for which the greatest improvement in stability has been achieved have generally been those for which the long-term trends have also recorded the largest increases.

But, though high and stable rates of industrial growth are necessary conditions, they are not in themselves sufficient to provide for adequate growth and stability in under-developed countries. What can be done, both nationally and internationally, to cope with the perplexing commodity problem? At the level of national policy, the developed countries could help materially if they were prepared to moderate the degree of protection they grant to domestic primary production. A reduction in the degree of protectionism might be expected to contribute not only towards long-term expansion of export markets of primary producers but also towards an increase in their stability. The volume of trade in many commodities has, in fact, exhibited a greater degree of instability in post-war years owing to a considerable narrowing of the margin between production and consumption. If this margin were widened, the impact of fluctuations in production upon variations in import demand would, of course, be lessened. In the United States, where agricultural policy has led to accumulation of large surplus stocks, moderation of protectionism or modification of its form might also make a significant long-term contribution to stability by avoiding a buildup of burdensome surpluses.

As already noted by the panel of experts who made this recommendation,[4] however—and as is further developed in chapter 2—it may be well to guard against exaggerated notions of the probable contribution of such measures. The most important commodities subject to high protectionism, it appears, are those exported primarily by the industrial countries themselves or by highly developed primary producing countries. Moreover, agricultural protectionism in the United States, while increasing competition with exports of other countries, has also served as a vehicle for aid in kind to many under-developed countries.

It nevertheless remains important to explore the possibilities for a selective moderation of protectionism, with emphasis on commodities important in the trade of under-developed countries. In addition, as the panel also noted, it would seem eminently desirable, from the standpoint of international balance, to lower the high rates of revenue tariffs and domestic excises which have been traditionally imposed in the industrial countries on a number of primary commodities such as coffee, tea and tobacco. It is necessary to bear in mind that however valid may be the national considerations governing the tariff and tax policy of the industrial countries, it still remains true that, to the extent that the burden of such measures falls on under-

[3] United Nations, *The Future Growth of World Population* (sales number: 58.XIII.2).

[4] General Agreement on Tariffs and Trade, *Trends in International Trade* (Geneva, 1958).

developed countries, they constitute a tax by high-income countries upon those with low income. The world has come to recognize not only the futility but also the international impropriety of cyclical "beggar-my-neighbour" policies. Tariff policies are of long-term rather than cyclical character, and they have behind them the weight of history and tradition. But in a world in which the responsibility of the more developed countries to assist in the economic development of the poorer countries has been recognized, it may be proper to ask whether taxes levied by industrial countries on products of the less developed countries are not, in essence, a form of long-term beggar-my-neighbour policy.

It is true, of course, that the under-developed countries also levy tariffs on the products of the industrial countries. But neither the costs nor the possible benefits of tariffs are symmetrical as between developed and under-developed countries. As regards the burden on the exporting countries, it is clear that domestic economic activity in the industrial countries is, or can be made to be, virtually independent of the rate of exports to under-developed countries, whereas, as has been previously emphasized, the rate of growth of under-developed countries is vitally dependent upon their exports to the developed countries. Similarly, as regards possible benefits of tariffs to the importing countries, it is again evident that in industrial countries, under conditions of full employment and high mobility and adaptability of resources, the net long-term national benefits from tariffs are at least doubtful, whereas in under-developed countries with low rates of utilization and inadequate mobility of resources, appropriately selected tariffs could play a significant role in development of industry.

The basic solution to the commodity problem, however, cannot be sought in national economic policy of the developed countries. In the long run a solution can only be achieved by rendering the economies of under-developed countries less dependent upon the level or fluctuations of earnings from a handful of primary products. This can be accomplished only through general economic development. This means development of domestic resources and industries to the point where export proceeds from one or two commodities cease to be the strategic limiting factor upon the rate of total economic activity—where the national income is limited by the available manpower and productive capacity rather than by the ability to finance import of raw materials; where investment is limited by the rate of savings and not by the ability to finance import of capital goods; and where consumption is limited by the national income and not by the ability to finance import of foodstuffs. Ultimately, it means not only displacing some of the imports of capital goods, raw materials and foodstuffs by domestic production, but even expanding production to the point of exporting some of the very goods now appearing only on the import list.

Of course, such a fundamental transformation of the economic landscape would greatly alter existing trading relations. And, assuredly, it would call for wisdom and flexibility in the adjustment of internal and external economic policy in all parts of the world. Given, however, a readiness to co-operate, there need be no fear that such development would reduce the volume of world trade or be detrimental to production in the developed countries. There can be no question but that the resulting gain in economic strength of the under-developed countries, enabling them to participate in world trade on the basis of steadily rising levels of income, would redound to the benefit of all mankind—economically, no less than socially and politically.

Unfortunately, economic development is a cure which in its early stages is likely to aggravate the patient's illness. For to hasten the process of economic development means to accelerate the rate of capital formation and, in the present stage of economic development, this can be done only by increasing the rate of imports of capital goods. It also means to increase the rate of utilization of energy and, in countries not adequately endowed with such resources, this may involve a substantial increase in imports of fuel. Nor is it always possible to limit development to industries requiring only domestic raw materials, so that import requirements for raw materials are also likely to rise. Rising incomes and urbanization brought about by economic development may also add significantly to requirements for food, which, if not satisfied, may inhibit further development through inflation and social unrest. The grave responsibility which this problem places on under-developed countries to utilize their resources rationally so as to achieve maximum production and income, and to employ sound fiscal and monetary policy so as to combine maximum growth with economic stability, has been examined and discussed at length in both national and international forums.

At the same time it is clear that even with the best and wisest of national policies, progress is bound to be disappointingly slow in the absence of adequate support from the entire world community. It cannot be said that the present level of international aid is a negligible contribution to the development of the poorer countries; in the aggregate it fully offsets the decline in the share of private foreign capital in relation to the exports of primary producers since the nineteen twenties. Yet it needs only to be realized that on a per capita basis the total assistance amounts to only $5 *per annum* for the contributing countries and to no more than $2 *per annum* for the receiving areas, to see how grossly inadequate is the sum to permit a significant break-through in economic development.

If an adequate degree of diversification and development of the under-developed countries could be achieved, not only would the problem of lagging demand for commodities be solved but the problem of instability would also be automatically reduced to manageable proportions. The importance of government policies in the field of taxation, social security and agriculture in helping to stabilize the economies of the industrial countries in the post-war years has been repeatedly underlined in the economic literature. Perhaps the most efficient and the most completely "built-in" automatic stabilizer of the industrial economies, however, is their thoroughgoing diversification. It is this diversification which provides so much scope for adverse changes in one sector of the economy to be offset by favourable changes in other sectors. If the extreme one-sided dependence of the under-developed countries upon one or two sectors could also be broken, the problem of instability in such individual sectors would cease to loom as large as it now does in the total economy.

Economic development cannot be achieved overnight, however, and in the meantime the problem of commodity instability continues to beset the world economy. The difficulties for policy in this area are well known. The review of national policy in chapter 2 makes it abundantly clear that there is very little Governments can do, acting independently, to stabilize export proceeds from individual commodities. A greater measure of success has been achieved by Governments —through such measures as national marketing boards or, to a lesser extent, through taxation—to insulate incomes of domestic producers against fluctuations in world market prices. But even where domestic incomes of primary producers have been largely stabilized, it has not proved possible to insulate the economy as a whole against sharp variations in foreign exchange earnings. So overriding is the need for foreign exchange generated by economic development programmes that it has not generally proved possible to set aside adequate reserves in periods of rising earnings to finance the necessary imports in periods of declining earnings. The postwar years have accordingly been marked by a high degree of correlation between fluctuations in export proceeds and those in imports and investment.

At the international level, progress has been limited by the conflicting short-term interests of producers and consumers, consumers being primarily concerned with avoiding excessive increases in prices and producers with avoiding excessive decreases. A considerable measure of success has been achieved in providing a forum for international confrontation of national policies, in establishing commodity study groups and in developing statistical information and promoting research. There has also been significant progress in formulating the basic principles that should govern international stabilization, first, in the recognition that commodity agreements must embrace consumer as well as producer interests, and second, in the growing understanding that price objectives must not be divorced from underlying market realities if they are to serve a useful purpose. On the operational level, however, progress has been painfully slow, perhaps owing in part to the corollary following from these principles that stabilization must be approached on a commodity-by-commodity basis. Bolder proposals for dealing with commodities on a more comprehensive basis—reviewed in chapter 3—have generally failed to strike a responsive chord in government thinking.

The many difficulties surrounding international commodity stabilization policy are tending to focus attention anew on proposals for strengthening the liquidity position of the under-developed countries. The International Monetary Fund has played an increasingly important role in recent years in helping Governments to cope with short-term balance of payments difficulties, and it is to be expected that, with the recent increase in the Fund's resources, this role will continue to grow. But the Fund's activities have only a marginal, rather than central, bearing on the problem of commodity instability. The time has perhaps come to consider whether measures to mitigate the impact of commodity instability *per se*—be it through suitable international arrangements to assist under-developed countries to strengthen their national liquidity reserves, or through some form of international commodity insurance to provide partial compensation for fluctuations in foreign exchange earnings—might not be deserving of consideration. If the problem of commodity instability came to be viewed not in a narrow context of price haggling between producer and consumer interests, but in the perspective of the need to place economic development on a more stable footing, there can be little question but that solutions could be found for many of today's apparent insolubles.

Part I

COMMODITY TRADE AND POLICIES IN THE POST-WAR PERIOD

Chapter 1

TRENDS AND FLUCTUATIONS IN WORLD TRADE OF PRIMARY COMMODITIES

Trends in world demand and supply

THE GROWTH OF WORLD PRODUCTION AND TRADE IN PRIMARY COMMODITIES

In the three decades since the late nineteen twenties the total output of goods from the factories, farms and mines of the world, excluding the centrally planned economies,[1] approximately doubled. While production advanced in each decade, the growth was not uninterrupted; the first half of the nineteen thirties, in particular, was a time of profound and world-wide economic malaise. Nor was the expansion at all evenly distributed among the different branches of the world economy or among the various regions. On the contrary, as emphasized in recent issues of the *World Economic Survey*, the divergences in rates of growth have been wide indeed, both as between primary and manufacturing production and as between the industrial and the less developed areas.

One of the characteristic features of the long-term growth of the world economy has been the persistent widening of the gap between the rates of expansion in the industrial and the primary producing countries. It is true that the patterns of growth as between the major sectors of the economy have been broadly the same in both regions; while output of food and raw materials showed a substantial rise between 1928 and 1955–1957, the increase was only two-fifths of that achieved in manufactures. But, since output of food and raw materials is a much higher proportion of total economic activity of the primary producing countries than of the industrial countries, there has been a continuing lag in the total output of goods in the primary producing countries. Moreover, the growth of primary production in the two regions has been dissimilar in composition. While production has expanded more rapidly in raw materials than food in both industrial and primary producing countries, the discrepancy has been much more pronounced in the latter regions owing to an extraordinary expansion in petroleum output; in the shorter post-war period, this difference in growth rates has continued in the primary producing regions, but it has virtually disappeared in the case of the industrial countries (see table 1).

[1] Unless otherwise stated, "world" in this chapter excludes the centrally planned economies of eastern Europe and mainland China. The development of primary commodity production and trade in these two areas is discussed in chapter 4.

Table 1. Indices of World[a] Production and Quantum of Exports of Primary Commodities and Manufactures, 1928 to 1955–1957

Item	World		Primary producing countries[b]		Industrial countries[c]	
	1928 = 100	1948 = 100	1928 = 100	1948 = 100	1928 = 100	1948 = 100
Production						
Total	204	144	173	138	213	146
Manufacturing	246	158	260	151	245	159
Primary	155	127	156	135	155	121
Food, oils and tobacco	149	123	146	129	153	120
Raw materials	172	136	201	168	163	121
Primary, excluding petroleum	145	124	146	132	144	119
Exports						
Total	155	176	...	...	...	...
Manufactures	203	195	...	...	...	...
Primary commodities[d]	132	144	153	139	102	155
Primary commodities excluding petroleum	114	134	123	124	101	157

Source: United Nations Bureau of Economic Affairs, based on League of Nations, *World Production and Prices* and *Review of World Trade* (Geneva), and data supplied by Statistical Office of the United Nations and Food and Agriculture Organization of the United Nations.

[a] Excluding eastern Europe, USSR and mainland China.

[b] All areas other than North America, western Europe and Japan, and those listed in footnote *a*.

[c] North America, western Europe and Japan.

[d] Based on sample of thirty-four major internationally traded primary commodities.

The changes in the structure of world production have greatly altered the structure of world trade and the trading relations between industrial and primary producing countries. While, over the past three decades as a whole, rising levels of income and output have resulted in an expansion of world trade in both primary commodities and manufactured goods, the growth of economic activity has been appreciably greater than the growth of trade.[2] Moreover, while total world trade has fallen in proportion to total output, world trade in primary commodities has also fallen in proportion to total world trade. The increase in total trade of primary commodities was less than one-third of that in manufactures between 1928 and 1955–1957; furthermore, if petroleum is excluded, the growth amounted to no more than one-seventh of that in manufactures. Consequently, trade in primary commodities has failed to keep pace with the expansion in world production of these commodities, and even less with the expansion in world manufacturing output. Such growth as has taken place in trade of primary commodities has, in fact, been confined to the post-war decade. This recent expansion has been buoyant, though in part it has reflected the recovery of production and trade from wartime disruption and devastation. Although in the post-war period world trade in primary commodities has expanded at a somewhat higher pace than primary production, its tendency to lag behind world manufacturing production has persisted.

While it is true that this lag has affected the exports of both the industrial and the primary producing countries, it has had much greater significance for the latter, for their ability to achieve higher levels of income is in large measure conditioned by the trends in their export markets. Although the exports of the less developed regions between 1928 and 1955–1957 did not lag to the same extent as world trade in primary commodities—in fact the growth in their exports was about 60 per cent greater than total world exports of primary products—they nevertheless expanded by some two-thirds less than world manufacturing production. In the post-war period, between 1948 and 1955–1957, however, exports of the primary producing countries also grew less rapidly than world exports of primary commodities.

The magnitude of the lag in total trade of primary commodities, considerable though it has been, understates the unfavourable experience of most primary producing countries. For, the rates of growth in world trade of the major groups of primary commodities traditionally exported mainly by the less developed areas have been very uneven (table 2). By far the largest increase took place in petroleum. Of the 32 per cent expansion in the volume of world trade in primary commodities over the past thirty years, the increase in petroleum exports accounted for nearly three-fifths; petroleum, in fact, was the only one of the major primary commodity groups whose growth outstripped the expansion of world manufacturing production. As a consequence, between 1928 and 1955–1957, the expansion in volume of primary commodity exports of the less developed regions, exclusive of petroleum, amounted to no more than one-sixth of the advance in world manufacturing output.

Table 2. Indices of World Trade in Primary Commodities, 1928 to 1955–1957

Item	*1928 = 100*	*1948 = 100*
Total, primary commodities		
Quantum	132	144
Unit value	127	111
Food, oils and tobacco [a]		
Quantum	107	134
Unit value	100	78
Beverage crops		
Quantum	138	114
Unit value	146	163
Agricultural raw materials		
Quantum	105	137
Unit value	120	117
Ores and non-ferrous metals		
Quantum	179	160
Unit value	125	120
Fuels		
Quantum	241	197
Unit value	157	103
Petroleum		
Quantum	777	235
Unit value	133	104
Purchasing power [b]		
Total, primary commodities	176	158
Total, excluding petroleum	151	148
Terms of trade [b]		
Total, primary commodities	133	110

Source: Statistical Office of the United Nations and Bureau of Economic Affairs.
[a] Excluding beverage crops.
[b] Based on unit values of world manufactures.

Although the growth in volume of world trade in the various commodity groups, other than petroleum, has lagged behind world manufacturing production, the expansion in some groups has been quite strong. The increase in world trade of ores and non-ferrous metals has compared not unfavourably with the growth of world manufacturing output. Trade in beverage crops has also shown a substantial increase. Indeed, it is in the basic foods and agricultural raw materials, notably textile fibres, that the lag has been most heavily concentrated. In fact, the levels of trade in these two groups were not much higher in 1955–1957 than they had been in 1928.

[2] While it is true that the difference in the rates of growth in total economic activity and total trade is in part due to the smaller share of primary commodities in total output (about 40 per cent) as against their larger share in total trade (about 70 per cent), it is clear that, even if manufactures and primary commodities had had equal shares in both total output and total trade, the lag in total trade would still have been markedly present.

Underlying the lag in trade of primary commodities has been the persistent tendency of demand for these commodities to grow less rapidly than economic activity in the industrial countries. To some extent, the gap in rates of growth between primary trade and manufacturing output reflects the rise in the share of world manufacturing production of the United States, whose requirements for imported primary commodities are small in relation to output, and the decline in the share of Europe, where the raw material import content of output is relatively high. The increased self-sufficiency of both regions in primary commodities has been another depressing factor. As will be seen below, however, powerful forces associated with industrial growth in each of the two regions have been more important in accounting for the relatively slow expansion of trade in primary commodities since 1928.

Although sluggish demand is the principal reason for the relatively slow growth of trade in primary commodities since the late nineteen twenties, it nevertheless seems that the increase in world supplies has not kept pace with demand. The comparatively low elasticity in supplies available for export has been reflected in a marked rise in prices of primary commodities relative to those of manufactures. This sluggishness in exportable supplies has been due only in part to the failure of production to grow. The slower growth of exports as compared with production has also to some extent been due to increased home consumption in the exporting countries.

The trends in the terms of trade have in large measure determined the extent to which the sluggish growth in primary commodity exports has been reflected in the ability of exporting countries to acquire imports.[3] It may be seen from chart 1 that the sharp increase in export unit values of primary commodities in relation to manufactured goods has tended to compensate in part for the lag in volume of primary commodity trade.[4]

Over the past thirty years as a whole, the combined effect of the changes in export volume and terms of trade resulted in an advance in purchasing power of primary commodities as a group of only half as much as world manufacturing production. But even this relatively small expansion was considerably augmented by the rapid growth in exports of petroleum and, if petroleum exports are excluded, the expansion in purchasing power of primary commodities amounted to no more than one-third of the increase in world manufacturing output. Over the post-war period between 1948 and 1955–1957, petroleum exports still considerably augmented the growth in total purchasing power; the lag in purchasing power of primary commodities excluding petroleum nevertheless persisted, although, largely because of special circumstances in the early post-war years, it was apparently of smaller dimension than was evident over the whole thirty-year period.[5]

While the lag in external purchasing power of the less developed countries was not as pronounced as that in world primary commodity exports as a whole, it has nevertheless been considerable. Thus, if petroleum is excluded, the increase in the external purchasing power of these countries between 1928 and 1955–1957 was only two-fifths of the advance in world manufacturing activity. In the post-war period, the contribution of petroleum to the expansion in total external purchasing power was again marked; in fact, it was sufficient to close the gap between the increases in external purchasing power and in manufacturing output. If petroleum is excluded, however, the lag in external purchasing power continued to be of significant dimensions.

TRENDS IN CONSUMPTION OF INDUSTRIAL COUNTRIES

The trends in the volume and unit values of world trade in primary commodities since 1927 have taken place against a background of profound demographic, scientific and economic change. The effects of these developments upon commodity markets and upon the countries producing primary commodities have been far-reaching.

Between 1930 and 1957 the population of the United States and western Europe, which are the largest consumers of primary commodities, increased by 39 and

[3] The estimated magnitude of the change in terms of trade varies, of course, with the choice of commodities included in the index of primary commodities. Estimates of changes between 1928 and 1955–1957 in the terms of trade between primary commodities and manufactures, expressed as the ratio of their export unit values, range from an improvement of 25 per cent to one of 33 per cent.

(1) Using average unit values for thirty-four major commodities, on which the present analysis is chiefly based, the improvement amounts to 33 per cent, between 1928 and 1955–1957.

(2) Linking primary commodity export unit values for 1928 and 1938 computed by the League of Nations with the primary commodity index recently computed by the Statistical Office of the United Nations, the improvement is somewhat smaller, namely, 27 per cent from 1928 to 1955–1957.

(3) An estimate published in the GATT report, *Trends in International Trade*, shows a smaller increase in primary commodity export unit values than those used in (1) and (2) above. The GATT series implies a correspondingly smaller improvement in terms of trade, amounting to 25 per cent between 1928 and 1955.

(4) An estimate of the Food and Agriculture Organization (published in the *State of Food and Agriculture, 1956*) shows an increase of 23 per cent in the terms of trade of agricultural products between 1927–1930 and 1954–1955.

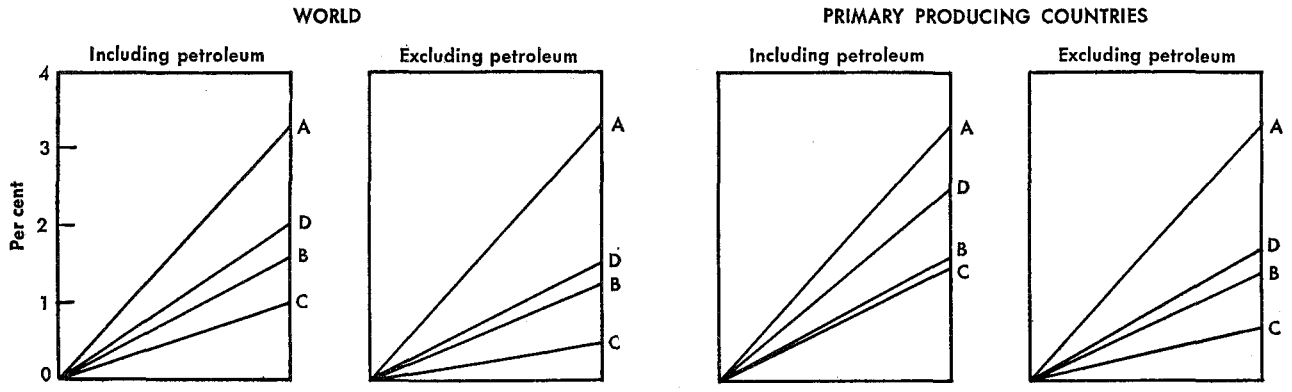
It may be noted that the estimate used in the present study gives the largest increase of all these alternative estimates. As a result, it minimizes the extent of the lag in purchasing power of primary commodities.

[4] It should not be thought, however, that the export unit values of primary producing countries have risen to the same extent in relation to unit values of the industrial countries. Inasmuch as many industrial countries export significant quantities of primary commodities, the export unit values of the less developed countries have not risen in relation to the industrial countries' export unit values to the extent that they have increased relatively to manufactured goods.

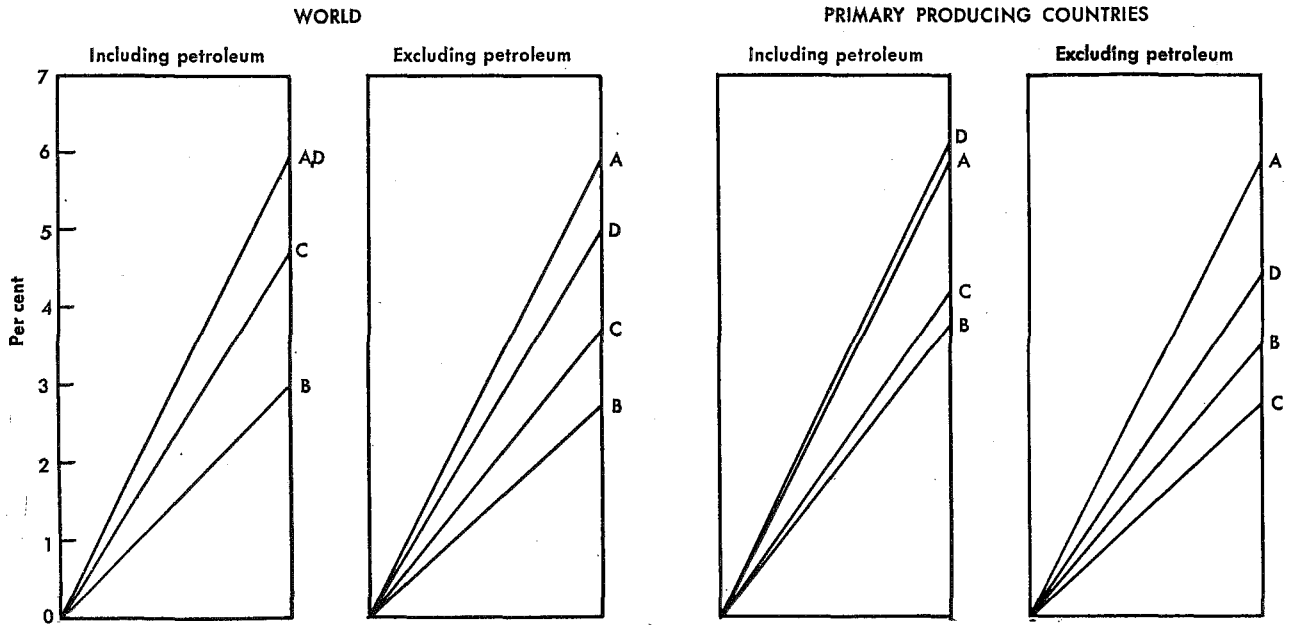
[5] Owing to the relatively slow recovery of primary production from the devastation and disruption caused by the war, trade in primary commodities was still depressed in 1948 and rose at an unusually high rate in the immediately succeeding years.

Chart 1. Selected Indicators of World Production and Trade: Average Annual Rates of Increase
(Percentage)

I. 1928 to 1955-1957



II. 1948 to 1955-1957



A = World manufacturing production
B = Primary production
C = Primary commodity trade
D = Purchasing power of primary commodities in international trade

Source: Table 1.

23 per cent respectively. At the same time, effective demand expanded at a vigorous, though uneven, rate. Output grew rapidly in western Europe between 1927–1929 and 1936–1938 though, in the United States, recovery from the depression of the early nineteen thirties was slower. In the following decade, however, manufacturing production in the United States, which was spared the physical destruction of war, rose rapidly.

In both regions, post-war growth in manufacturing production has been very substantial, though the especially rapid expansion in western Europe has, in part, reflected recovery from war-time destruction. Further, with the rapid growth in general economic activity, per capita real incomes have generally advanced strongly since 1927. In the United States, for example, the rise of per capita incomes between 1927–1929 and 1955–1957 amounted to 57 per cent. For the post-war period alone, there was an increase in per capita incomes of 14 per cent in the United States and 32 per cent in western Europe.

Expanding economies, growing populations, and higher levels of per capita income have resulted in the use of increasing amounts of industrial raw materials and foodstuffs. Thus, in the two major industrial regions, the absorption of raw materials grew considerably between 1927–1929 and the nineteen fifties. However, the advance in consumption of primary commodities has not been in proportion to the expansion in total economic activity. Between 1927 and 1952, United States consumption of raw materials as a whole rose by only half as much as manufacturing production while consumption of food lagged even more; these developments represented the continuation of trends which have been visible since the beginning of the century.[6] Although comparable data are not available for the western European countries, it may be safely assumed that, in view of their advanced stage of economic development, the same broad tendencies have also been present. Moreover, it appears that, in both the United States and western Europe, this tendency has been considerably accelerated during the post-war period. A partial indication of this phenomenon is provided by the trends of apparent consumption of the principal groups of primary commodities. Consumption in all of the major commodity groups, shown in chart 2, which comprise the major primary commodities exported by the less developed countries, lagged behind the growth of closely related manufacturing sectors. This was true even in the case of such a dynamic group as the non-ferrous metals, where the increase in use of the commodities outpaced the growth in manufacturing output of the entire economy.

A number of factors have contributed to this persistent tendency of consumption of primary commodities to grow less rapidly than economic activity in the industrial countries. It is well known that, while the quantity of food demanded grows with rising levels of real income, the increase in per capita demand tends to be less than proportionate to the advance in incomes. Indeed, at high income levels, consumption of many staple foods may stagnate or even decline.

As regards industrial raw materials, several important factors have contributed to the declining raw material content of finished output in the industrial countries. A factor which has operated with greatly increasing force in the past decade has been the growing use of synthetic raw materials. But two other developments appear to have had an appreciably greater impact upon raw material markets. One has been the change in the structure of industrial production and, in particular, the rapid growth since the war of those industries which consume fewer raw materials or fabricate them to a greater extent. The other has comprised the whole range of new industrial techniques that have emerged from the scientific advances of recent decades; considerable economies, for instance, have been achieved in the utilization of some materials through the introduction of new processes, such as electrolytic plating of tin.

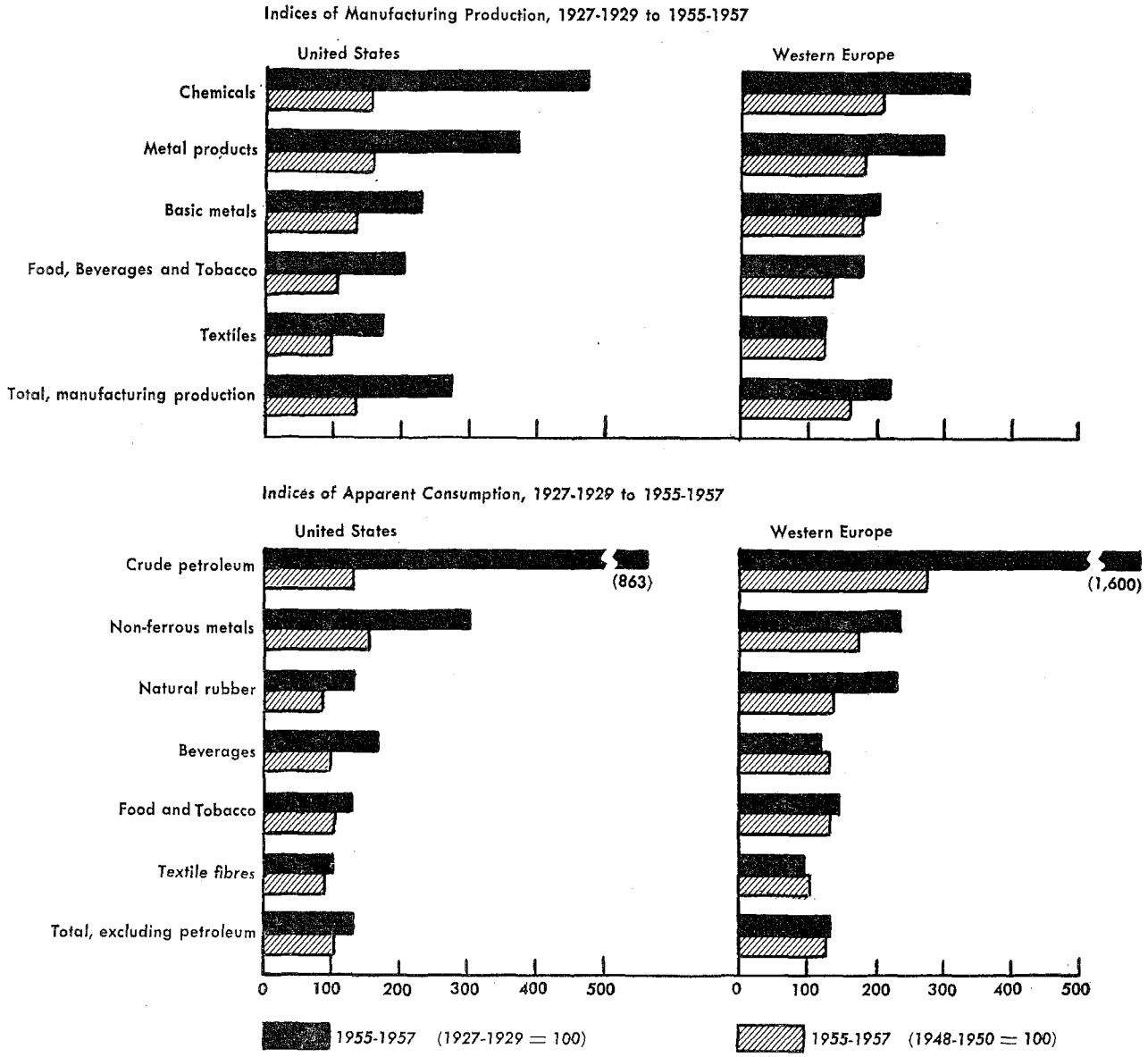
These factors, which have depressed demand for primary commodities as a whole, have caused the trends in demand for individual commodities to diverge widely from each other and from the general pattern. For one thing, the rising level of consumer incomes has wrought substantial changes in consumption habits and this has favoured some commodities, often at the expense of others; the tendency towards greater equalization of personal incomes has similarly modified the pattern of consumption. As a result, the demand for more expensive goods, such as automobiles, home appliances and other durables, has grown at a relatively fast pace, while the consumption of such non-durables as clothing and food has expanded much less rapidly. In addition, the increased role of governments, and especially the great expansion in the size of military establishments, has had a significant impact on the demand for certain raw materials. The metals in particular have benefited from the expanding production of military hardware as well as from the building up of strategic stockpiles. Further, over the past three decades, there have been innumerable scientific and engineering developments which, through transforming industrial techniques and creating a wide range of new products, have greatly altered the composition of demand for primary commodities. Examples are the advances in internal combustion engineering which have led to a widespread introduction of gasoline and diesel engines in industry and transport; the development and proliferation in the use of synthetic fibres; advances in mining and metallurgical techniques; the vast changes in food processing and storage; and the development of the synthetic rubber industry.

As a consequence of these changes in demand, the rates of growth in the various sectors of the economies of industrial countries have extended over a wide range. In the United States and western Europe, as shown in chart 2, such industries as textiles and food have grown relatively slowly since 1927, while the industries producing metal products and chemicals have advanced much more rapidly. For the post-war period, the more vigorous expansion in output of heavy goods as compared with non-durables has persisted. That this uneven

[6] See *World Economic Survey, 1955*, pages 33 and 37; also, United States Department of Commerce, *Raw Materials in the United States Economy*, Working Paper No. 1 (Washington, D. C., 1954).

pattern of industrial growth has directly influenced the rates of utilization of different primary commodity groups is evident from the changes in consumption of the several major groups of commodities. It is also reflected in the varying rates of growth of per capita consumption of individual commodities, as shown in table 3. The sharp rise in consumption of petroleum and the non-ferrous metals and, at the other extreme, the stagnation in consumption of natural fibres provide striking examples of these patterns of growth. But these disparities in the advance of consumption in individual commodities have not only reflected the different rates of

Chart 2. United States and Western Europe:[a] Indices of Manufacturing Production by Industry, and of Apparent Consumption of Selected Groups of Primary Commodities[b]



Source: United Nations, *Economic Survey of Europe, 1957* (sales number: 58.II.E.1); Food and Agriculture Organization of the United Nations, *Yearbook of Food and Agricultural Statistics;* Organisation for European Economic Co-operation, *Industrial Statistics, 1900–1957* and *Foreign Trade Statistical Bulletin*, Series IV; Commonwealth Economic Committee, *Industrial Fibres, World Consumption of Wool* and *Plantation Crops;* International Cotton Advisory Committee, *Cotton Quarterly Statistical Bulletin* and *Cotton World Statistics;* International Rubber Study Group, *Rubber Statistical Bulletin;* Metallgesellschaft Aktiengesellschaft, *Metal Statistics;* United States Department of Agriculture, *Statistics on Cotton and Related Data, Consumption of Food in the United States,* and *Consumption and Utilization of Agricultural Products;* United States Department of Commerce, *Foreign Commerce Yearbook, Survey of Current Business* and *Business Statistics.*

[a] Member countries of the Organisation for European Economic Co-operation.

[b] *Crude petroleum; non-ferrous metals:* aluminium, copper, lead, tin, zinc; *natural rubber; textile fibres:* cotton, wool, silk, jute; *beverages:* coffee, tea, cocoa; *food and tobacco:* wheat, rice, maize, barley, beef and veal, mutton and lamb, sugar, copra and coconut oil, bananas, tobacco. Group averages were computed on the basis of 1935–1938 average world import unit values. Figures for the food and tobacco groups and the total for western Europe exclude meat.

Table 3. Indices of Per Capita Consumption[a] of Selected Primary Commodities in the United States and Western Europe, 1927–1929 to 1955–1957

Commodity	United States		Western Europe	
	1927–1929=100	1948–1950=100	1927–1929=100	1948–1950=100
Crude petroleum	619	124	1,311	259
Non-ferrous metals				
Total	223	139	183	165
Aluminium	1,011	198	675	203
Lead	223	91	100	134
Zinc	131	102	107	143
Copper	102	99	150	150
Tin	50	75	70	131[b]
Natural rubber	99	80	192	132
Textile fibres				
Total	75	84	81	101
Cotton	93[c]	91[c]	81	107
Wool (clean basis)	76	53	87	91
Jute	60[d]	60[d]	76	160
Silk	14	134	17	171
Beverages				
Total	122	89	99	123
Coffee	128	87	104	153
Cocoa	117	93	120	112
Tea	89	100	90	108
Food and tobacco				
Total	97	95	121[e]	125[e]
Beef and veal	161	129	...	130
Tobacco (unmanufactured)	131	98	219[f]	115
Sugar	97[g]	101[g]	130	123
Barley	89[h]	112[h]	155	159
Maize	85[h]	90[h]	91	156
Mutton and lamb	80	100	...	98
Bananas	75	93	149	215
Copra and coconut oil[i]	65	66	100	139[b]
Wheat	64[h]	64	108	113
Rice	53[h]	91[h]	96	133

Source: Chart 2.

[a] Apparent consumption with adjustments for stock changes where possible. Estimates for commodity groups based on 1935–1938 weights, using import unit values for agricultural products, average prices in London for metals and average prices in the United States for petroleum.

[b] 1948–1949=100.

[c] 1955–1956.

[d] 1955.

[e] Excluding meat.

[f] 1925–1929=100.

[g] Refined sugar only.

[h] Including military food and non-food consumption.

[i] Net imports.

growth in the various sectors of industry, but also the varying influence of other factors, such as the substitution of synthetics, changing price relationships and technological advances.

Among the non-ferrous metals, for instance, changing price relationships have been of some importance in influencing the trends in consumption of the individual commodities. Thus, a progressive fall in the price of aluminium relative to copper and steel has favoured its increasing use as an electrical conductor and as a structural material. Partly for the same reason, aluminium has gained at the expense of timber as a structural material, of tin in the manufacture of foil, of lead in the manufacture of cables and of zinc in the casting of dies. Copper, in turn, has been increasingly substituted for lead in plumbing materials partly because of the relative rise in the price of lead. Substitution has also played some part in accelerating the growth in consumption of petroleum. Consumption of petroleum in western Europe has advanced at a relatively more rapid pace than consumption in the United States and, in part of course, this has reflected the much lower levels of European consumption in 1927–1929. But this advance has also been stimulated by the progressive exhaustion of easily accessible coal seams and by labour shortages. These have contributed to the rising price of coal relative to petroleum, encouraging the use of the heavier grades of petroleum as a source of energy. While European consumption of all petroleum products grew swiftly between 1948 and 1957, the share of fuel and diesel oils rose from 51 to 62 per cent of the

total. Thus, changing price relationships coupled with technological advances have worked in favour of some raw materials at the expense of others.

In some instances, the process of substitution favoured synthetics, rather than other natural raw materials. This, for example, has been evident in the case of natural rubber. Total consumption of rubber, like that of petroleum and non-ferrous metals, has shown considerable growth during the post-war years. Yet the trends in consumption of natural rubber in western Europe and the United States have been quite different. While the expansion in consumption has been at a high rate in western Europe, consumption has actually declined in the United States. The price of natural rubber has not only tended to rise in relation to synthetic rubber since 1950 but has been far less stable; and as a result, there has been large-scale substitution of synthetic for natural rubber. But, as the synthetic rubber industry has so far been largely concentrated in the United States, the displacement of natural by synthetic rubber has gone much further in the United States than in western Europe. This is illustrated by the following figures which express synthetic rubber consumption as a percentage of natural rubber consumption:

	1948	*1955*	*1957*
Western Europe.....	—	14	32
United States.....	71	141	172

Source: International Rubber Study Group, *Rubber Statistical Bulletin* (London).

The impact of technological progress and substitution has been of even greater significance for some major textile fibres. While world consumption of apparel fibres as a whole grew by about 50 per cent between the immediate pre-war years and the mid-nineteen fifties, and by about 30 per cent during the post-war period, the consumption of cotton, wool, jute and silk advanced much less rapidly (see table 4). In both the United States and western Europe, for example, total consumption of the natural fibres has scarcely grown at all since 1927, and, on a per capita basis, consumption has actually declined. In these countries, indeed, consumption of natural fibres has stagnated more than that of any other commodity group. The inherent properties of synthetic fibres have been important in promoting their use at the expense of cotton, wool, and silk, while the development of bulk handling and paper packaging has checked the consumption of jute. The competitive success of the synthetics has also been due in part to a considerable fall in their prices relative to natural fibres.

Table 4. Estimated World Consumption of Apparel Fibres

(Percentage distribution)

Year	*Cotton*[a]	*Wool*[b]	*Silk*	*Rayon filament yarn*[c]	*Rayon staple fibre*[c]	*Other man-made fibres*[c]	*Total, apparel fibres*
1934–1938.....	80.1	11.4	0.6[d]	5.6	2.3	...	100
1954–1956.....	68.9	10.2	0.2	8.3	10.4	2.2	100

Source: Commonwealth Economic Committee, *Industrial Fibres* (London, 1958).

[a] Consumption in seasons (1 August to 31 July) commencing in year shown.

[b] Clean basis.

[c] Production.

[d] 1938.

While technological change and competition have also shaped the growth in consumption of foods, tobacco and beverage crops, perhaps the most powerful influences operating upon these markets have been associated with the general advance in levels of living. With rising levels of real income, there is a progressive relative shift in consumer demand towards durable articles and certain services and away from foods. Within foodstuffs, moreover, the change in demand patterns tends to favour the more expensive foods such as dairy products, meat, fruit, sugar and beverages, and to affect adversely such staple foods as the cereals.

These tendencies in food consumption operated with considerable force between 1927 and 1957. While substantial increases in the quantum of consumption of some foodstuffs have taken place, this has not been true of food consumption as a whole. In western Europe, the principal world importer of many food crops, and in the United States, a major market for many tropical products, food consumption has lagged significantly behind the rise in real income and economic activity. Reinforcing the effect of these trends upon demand for foods have been the growth in use of such beverage substitutes as soft drinks and the reduction in losses made possible by advances in the handling and storage of food.

IMPACT ON IMPORTS

The sluggish growth in world demand for those primary commodities exported by the less developed countries has been clearly manifest in the declining share of such commodities in the total imports of the

major industrial areas. While the share of all primary products in the value of total imports of the United States and western Europe combined hardly changed between 1927–1929 and 1955–1957, this was in large measure due to the strong growth in petroleum imports, as well as to the increase in value of trade in forest products and solid fuels among the industrial countries. In sharp contrast to the experience of fuels and forest products, the share of twenty-three major primary commodities exported by the primary producing countries declined heavily, not only in relation to the value of total merchandise imports, but, as shown in table 5, also in relation to their total imports of primary products.

Table 5. United States and Western Europe:[a] Gross Value of Merchandise Imports

(Billions of dollars; as percentage of total imports)

Item	1927–1929			1955–1957		
	United States	Western Europe	Total	United States	Western Europe	Total
Total merchandise (billions of dollars[b])	7.1	26.1	33.2	12.4	40.3	52.8
Total merchandise (per cent)	100	100	100	100	100	100
Primary products	69	69	69	68	71	70
Twenty-three selected commodities[c]	41	34	36	32	26	27
Crude petroleum[d]	3	3	3	7	6	6
Others	25	32	30	29	39	37

Source: Statistical Office of the United Nations, *Yearbook of International Trade Statistics;* League of Nations, *Statistical Yearbook, 1930/31* (Geneva); International Monetary Fund, *International Financial Statistics* (Washington, D.C.); Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series IV (Paris); United States Department of Commerce, *Foreign Commerce Yearbook*, vols. I and II, 1930 (Washington, D.C.).

[a] Member countries of the Organisation for European Economic Co-operation, excluding Ireland, Turkey and Switzerland.

[b] 1927–1929 figures adjusted for devaluation of dollar in 1934.

[c] For list, see chart 2.

[d] For 1927–1929, crude petroleum and petroleum products.

The slow expansion in world trade of primary commodities has been occasioned only partly by the lags in consumption described above. For the impact on imports of these trends in consumption has been considerably reinforced by the movement towards increased self-sufficiency in the industrial regions as a whole. In the United States, for example, the volume of total imports of the primary commodities included in table 6, excluding petroleum, increased between 1927–1929 and 1955–1957 by 17 per cent, whereas consumption of the same commodities advanced by 35 per cent. In western Europe, consumption of these commodities similarly rose by 35 per cent, but the volume of imported supplies increased by only 9 per cent. If the imports of these commodities into both the United States and western Europe are added together, their total increase between 1927–1929 and 1955–1957 amounted to about 11 per cent. As this was approximately equal to the increase in the volume of world trade as a whole in these commodities, these data indicate the considerable influence that the trend towards greater self-sufficiency has had upon world trade in primary commodities.

The impact of the increase in self-sufficiency can also be strikingly demonstrated, in value terms, if it is supposed that domestic production had not increased relatively to consumption but had remained a constant proportion and that the trends in consumption had nonetheless been the same. In the event, if the share of net imports of the twenty-three primary commodities and petroleum into the United States and western Europe had been the same in 1955–1957 as it was in 1927–1929, their value would have been more than two billion dollars greater than it actually was, owing, for the most part, to larger imports of western Europe. These various measures amply indicate that the changes in western Europe's ability to meet its requirements of primary commodities from domestic resources have been of particular importance, for this region is the world's largest market for most of the primary commodities considered here. It is, moreover, the principal market in nearly every case where imported commodities are also domestically produced in the industrial countries. In fact, of the twenty-two primary commodities shown in chart 3, imports of western Europe in 1927–1929 occupied a predominant position in world markets in sixteen cases; United States imports were larger than those of western Europe only in petroleum, natural rubber, bananas, coffee, sugar and tin. Moreover, the relative dominance of western Europe in many world commodity markets has tended to increase during the post-war period. Thus, in

Table 6. Apparent Consumption and Imports of Selected Primary Commodities[a] into the United States and Western Europe, 1927–1929 to 1955–1957

Commodity	United States		Western Europe		Net imports (as percentage of apparent consumption)					
					United States			Western Europe		
	Total consumption	Gross imports (indices, 1927–1929 = 100)	Total consumption	Gross imports	1927–1929	1947–1948[b]	1955–1957	1927–1929	1948–1950[b]	1955–1957
Commodities, world exports of which have risen by more than 25 per cent										
Petroleum	863	526	1,600	1,500	8	6	12	95	90	91
Aluminium	1,348	776	840	1,148	...	...	...	...	...	...
Rubber[c]	325	126	356	286	100	100	100	100	100	99
Zinc[d]	181	393	159	82	[e]	24	48	70	69	63
Copper[d]	142	252	184	183	[e]	24	12	97	93	95
Barley	...	...	190	118	...	2	8	33	15	15
Copra and coconut oil	91	91	122	122	100	100	100	100	100	100
Coffee	178	187	128	123	100	100	100	100	100	100
Bananas	114	114	194	194	100	100	100	100	100	100
Cocoa	121	121	151	177	100	100	100	100	100	100
Commodities, world exports of which have risen by less than 25 per cent										
Mutton and lamb	111	70	...	123	1	—	—	...	48	44
Lead[d]	107	687	123	116	9	48	55	81	78	77
Wheat	91	54	132	75	[e]	[e]	[e]	43	28	21
Tea	115	116	112	101	100	100	100	100	100	100
Sugar	133	100	159	142	64	52	49	40	35	27
Wool (clean basis)	107	...	109	105	...	62	62	80	83	80
Commodities, world exports of which have declined										
Jute	80[f]	80	89	62	100	100	100	100	100	100
Tobacco[g]	181	166	131	99	9	7	9	55	40	36
Tin[d]	77	77	97	98	100	100	100	95	96	95
Beef and veal	222	139	...	69	3	2	2	...	13	10
Cotton	138	36[h]	99	89	6	2	2	100	92	87
Maize	87	57	118	58	[e]	[e]	[e]	71	49	37
Rice	...	—	118	53	...	[e]	[e]	44	14	14
Silk	12	12	18	17	100	100	100	...	51	32
TOTAL, EXCLUDING PETROLEUM	135[i]	117[i]	135[i]	109[i]						

Source: See chart 2.

[a] Arranged in descending order of magnitude of the change in world exports between 1927–1929 and 1955–1957.

[b] 1948–1950 is used for European countries since data for earlier post-war years are to a greater degree influenced by the effects of the war.

[c] Consumption refers to total consumption of rubber, whereas gross imports refer to natural rubber only.

[d] For metals other than aluminium, data on imports refer to net imports of metals plus ores. For aluminium, imports refer to metal imports. Consumption data refer to primary metal.

[e] Net exporter.

[f] 1955.

[g] For western Europe, consumption and imports are for 1952–1956 and 1925–1929 instead of 1955–1957 and 1927–1929. However, net imports/consumption ratio is for 1955–1957.

[h] 1954–1956.

[i] Excluding meat.

[j] Excluding mineral ores.

petroleum, natural rubber and sugar, western Europe has become the world's largest importer.

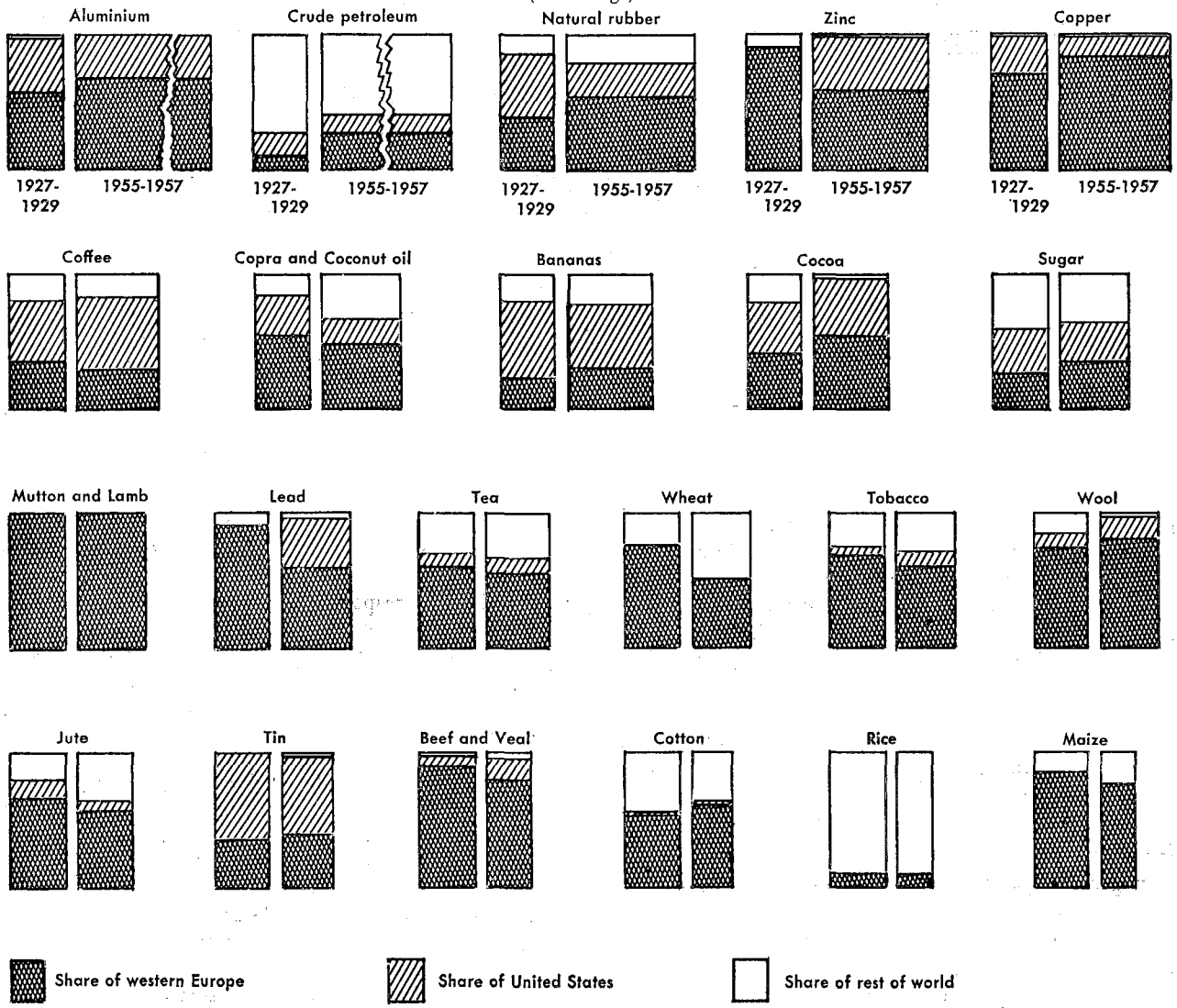
As shown in table 6, since 1927–1929 there has been a persistent tendency in western Europe as a whole towards increased self-sufficiency in many commodities.[7] While this trend is evident even among such minerals as petroleum and zinc, it has been most pronounced in the case of agricultural commodities, notably food. Increases in relative self-sufficiency of two or more times have been achieved in such cases as barley, wheat, maize and rice; smaller, though still substantial increases, have taken place in other instances, for example, in sugar, tobacco and cotton.

It can be readily seen from table 6 that the commodities experiencing no lag or the smallest lag in volume of total world trade between 1927–1929 and 1955–1957 are for the most part those for which the imports of western Europe or the United States, or both, expanded at relatively high rates. They include petroleum, a number of non-ferrous metals and rubber, whose consumption, as already seen, grew comparatively rapidly in either one or both of these industrial areas. It might

[7] In most cases, total consumption refers to apparent consumption; that is, domestic production plus imports and minus exports. The data have been adjusted for changes in stocks whenever available.

Chart 3. Shares of Imports of United States and Western Europe in World Trade of Selected Primary Products,[a] 1927–1929 and 1955–1957

(Percentage)



Source: United Nations Bureau of Economic Affairs. Width of bar for 1955–1957 in relation to bar for 1927–1929 is in proportion to change in quantum of world trade. For aluminium and petroleum (including refined products), the increases were 670 and 512 per cent respectively.

[a] Ratios for metals are based on imports of primary metal; for copper and lead, imports include refined metal.

be thought that the United States would have contributed more strongly to the trends in world trade of these commodities, since the movement towards greater self-sufficiency in these commodities has usually been stronger in western Europe than in the United States. For example, United States trade in copper and zinc metals has been strikingly transformed in the past thirty years; mainly because of the depletion of domestic ore deposits, the country changed from a net exporter of these metals in 1927–1929 to a large net importer in post-war years. But, in fact, despite the growing self-sufficiency, western Europe's consumption of these products has expanded so rapidly that its imports have also risen at relatively higher rates than those of the United States.

Similarly, the commodities whose volume of world trade has grown least over the past three decades as a whole are those agricultural commodities for which imports of the United States and western Europe have declined or advanced only slightly. The dominant importance of western Europe in determining the course of world trade is again evident in this group, as may be seen from table 6. In a number of these commodities, the United States is a minor importer and, notwithstanding a considerable degree of self-sufficiency, western Europe remains the major market. Generally, there has been but moderate growth in western European imports of these commodities; and it is clear that the tendency towards a relative decline in western European dependence on imported supplies has been a factor inhibiting the expansion of world trade.

This general pattern, which emerges from a review of the period from 1927 to 1957, has been no less evident during the post-war period. Starting from the reconstruction of war-devastated economies, western Europe has experienced a rapid expansion of manufacturing production. Increasingly, in the nineteen fifties, incomes have expanded, import capacity has risen, and restrictions on imports have been relaxed. The consequent growth of effective import demand has led to large increases in imports of primary commodities in those instances where supplies responded to growing demand; and where supply availabilities have been limited, as for example, in cocoa, buoyant European demand has contributed to inducing relatively large increases in prices.

In view of the generally greater dependence of western Europe as compared with the United States on imported supplies of primary commodities, it is natural to expect that western Europe should play an important role in the development of world trade in primary commodities. But what is so striking is the extent of its influence. Two factors which might have suggested a more prominent role for the United States in comparison to western Europe in the case of the most expansive commodities are its more rapid growth in manufacturing production between 1927 and 1957, and the increased relative self-sufficiency of western Europe in many commodities. Yet so rapidly has consumption in western Europe expanded that its imports have risen sharply. In the least expansive group of commodities on the other hand, both the less rapid growth of consumption in western Europe and its increased self-sufficiency have strengthened the tendency for world trade to stagnate.

The significant decrease in western Europe's relative dependence on imported supplies of primary products has without doubt considerably intensified the effect on primary product trade of those major developments in the demand of industrial countries for primary products which were discussed earlier. The influence of the changing pattern of industrial growth, economies in the use of raw materials and the displacement of natural raw materials by synthetics, together with the increased self-sufficiency of the industrial countries, have in large measure been responsible for the failure of primary commodity trade to keep pace with the growth of world industrial activity.

THE CHANGING PATTERN OF SUPPLY

While the volume of world trade in primary commodities has lagged behind the growth in world manufacturing production over the whole period since the late nineteen twenties, the effect of this lag upon the expansion in external purchasing power of the primary producing countries has, to some extent, been alleviated by the rise in price of primary commodities relative to the price of manufactures. This relative increase in price has been indicative of some measure of inflexibility in supply conditions in relation to the growth in demand outlined above.

Over the past thirty years, the conditions of supply surrounding numerous primary commodities have undergone changes hardly less far-reaching than those in demand. The marked expansion in the volume of trade noted in the previous section has revealed considerable flexibility in the adaptation of production and exports of most primary commodities to the changing level and pattern of demand. Nevertheless, a rise in the real prices of primary commodities has generally been necessary to induce the expansion in output.[8] While the growth in demand has stimulated substantial new investment in many branches of primary production, the conditions of supply have not been such as to permit an expansion in output or exports at unchanging real prices.

This has been broadly true of the commodity groups, such as the minerals, beverages, tobacco and certain non-staple foods, for which there has been a strong growth in world demand. For example, while world production of minerals in general has risen strongly since 1927–1929 in response to expanding world demand, this has usually been associated with an advance in real prices. Similarly, though the export supply of beverages, tobacco and such foods as bananas and sugar has increased in response to rising levels of world demand, there has been a concurrent advance in real prices.

But this has by no means been evident in all commodity markets where demand has risen strongly. In aluminium and petroleum, for example, changes in supply conditions have clearly permitted substantial increases in output or exports in response to rising demand without any appreciable advance, or even with a fall, in real price (see table 7). Further, in those markets, such as for cereals and textile fibres, which have been characterized by the comparative stagnation of demand, long-term changes in supply conditions have largely served to depress real prices. Changes in supply conditions have thus independently affected the long-term trends in price and volume of the various primary commodities. At the one extreme, there have been markets where the expansion in demand has been confronted by relatively inflexible supply conditions and real price has risen no less strongly than volume. At the other extreme, there have been markets where a relatively stagnant demand has been associated with dynamic changes in supply conditions, and real price, rather than the volume of trade, has consequently been depressed. The extent of the changes in supply conditions surrounding individual commodities has thus had considerable influence upon the trends in their export proceeds.

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[8] "Real prices", as used in this section, refers to import unit values of commodities deflated by prices of manufactures.

Table 7. Changes in World Exports, Real Unit Values and Production of Major Primary Commodities[a]

(Percentage)

Item	Exports		Real unit value		Production	
	From 1927–1929 to 1955–1957	From 1946–1948 to 1955–1957	From 1927–1929 to 1955–1957	From 1946–1948 to 1955–1957[b]	From 1927–1929 to 1955–1957	From 1946–1948 to 1955–1957
Petroleum[c]	512	145	33	−2	343	90
Non-ferrous ores and metals[d]						
Bauxite and aluminium	725	90	−26	49	850	157
Copper	82	43	62	71	68	51
Zinc	75	49	32	−3	65	60
Lead	21	24	67	−17	11	53
Tin	−11	25	34	1	−3	46
Agricultural raw materials						
Rubber	131	42	−31	47	...	57
Jute	−3	141	−7	−34	26	74
Cotton	−31	23	−6	−5	66	73
Wool[e]	4	10	24	55	40[f]	29[g]
Beverages						
Coffee	47	21	41	104	44	29
Cocoa	34	26	44	4	57	24
Tea	13	37	14	21	70	54
Food						
Cereals:						
Barley	85	187	−20	−32	135	68
Wheat	7	37	−15	−32	54	25
Rice	−38	66	29	−24	45	27
Maize	−41	18	5	−24	48	21
Meat:						
Mutton and lamb	23	−16	1	49	...	...
Beef and veal	−22	18	19	30	...	...
Others:						
Bananas	41[h]	42[h]	118	4	...	...
Butter	29	54	−34	−7	...	...
Sugar	26	65	20	−2	50	25
Tobacco	5[i]	29	31	8	124	17

Source: Statistical Office of the United Nations, *Statistical Yearbook* and *Yearbook of International Trade Statistics;* Metallgesellschaft Aktiengesellschaft, *Metal Statistics* (Frankfurt am Main); International Tin Study Group, *Statistical Bulletin* (Hague); United States Bureau of Mines, *Minerals Yearbook* (Washington, D.C.); United Kingdom Colonial Geological Surveys, *Statistical Summary of the Minerals Industry* (London); United Kingdom Imperial Institute, *Mineral Industry of the British Empire and Foreign Countries* (London); Organisation for European Economic Co-operation, *Industrial Statistics, 1900–1957* (Paris, 1958); League of Nations, *Industrialization and Foreign Trade* (Geneva, 1945).

[a] Exports refer to actual quantity. Real unit values refer, in general, to import unit values deflated by world manufacturing unit value. However, in the case of non-ferrous metals, unit value refers to export unit value.

[b] Because of lack of data, base period is generally 1947–1948.

[c] Including exports of refined products.

[d] Base periods for exports and real unit value, 1928 and 1948 respectively. Production refers to production of ores.

[e] On clean basis.

[f] Base period, 1925–1929.

[g] Base period, 1948.

[h] Referring to quantity of total world imports.

[i] Obtained by means of linking two different series; may not, therefore, be strictly comparable.

For many primary commodities, the extent to which supply conditions have been adaptable to the changing level and pattern of demand has been limited by the availability of known and accessible natural resources. In minerals, for example, the discovery or development of rich, new ore deposits has been a condition of the expansion of supplies. Similarly, in some tropical or semi-tropical agricultural crops, increased output has partly depended upon the availability of suitable soils and climatic conditions in areas to which the market economy can be extended. Wherever such natural conditions have been favourable to an expansion of output, productive capacity has generally been increased through the attraction of new investment capital. Not all primary commodities, however, are subject to such restrictive conditions. The acreage planted to the major staple grain crops or to some fibres has been readily expansible in response to favourable price movements. Further, the output of most primary commodities has, in varying degree, been increased through the utilization of more capital-intensive methods or through technical advances such as improved methods of ore extraction or processing or the development of higher yielding plants. In many commodities, governmental

policies have also played an important role in modifying supply conditions; generally, these have been designed to encourage the expansion of output but sometimes they have exerted a restrictive influence on the adaptation of supplies to demand.

These several factors have been of widely differing importance in shaping the changes in conditions of supply for the various primary commodities over the thirty years since the late nineteen twenties. In the main, the expansion in supplies of minerals and beverage crops has been achieved through the development of new sources of supply, while, in most staple foods and textile fibres, increases in acreage and productivity have been the dominant features of the changes in supply conditions. Such changes have been of great importance, not only because they have contributed to shape the trends in volume and real price in individual commodity markets, but also because they have often favoured the trends in export proceeds of new, exporting countries at the expense of the traditional suppliers. But these are broad generalizations to which, as discussed in more detail below, there have been frequent exceptions.

Among the non-ferrous metals, the most striking development, as may be seen from table 7, has been the very rapid growth which has taken place in output of aluminium concurrently with a decline in real price. Technological advances within the industry have contributed to the lowering in cost of aluminium, but, by comparison with other non-ferrous metals, the relative decline in price has also been facilitated by the abundance of new ore deposits. The mining of bauxite in the primary producing regions has, for example, been of fairly recent origin and, as may be seen from table 8,

Table 8. Production of Non-ferrous Ores by Regions[a]

(As percentage of total world production in 1927–1929)

Commodity and region	*1927–1929*	*1955–1957*	*Change from 1927–1929 to 1955–1957*
Bauxite			
World	100	950	850
Industrial countries	75	271	196
Primary producing countries	25	679	654
Latin America	24	600	576
Others	1	79	78
Copper			
World	100	168	68
Industrial countries	62	83	21
Primary producing countries	38	85	47
Latin America	25	34	11
Africa	8	42	34
Others	6	9	3
Zinc			
World	100	165	65
Industrial countries	72	95	23
Primary producing countries	28	69	41
Latin America	11	32	21
Africa	2	17	15
Others	14	20	6
Lead			
World	100	111	11
Industrial countries	61	47	−14
Primary producing countries	39	63	24
Latin America	17	25	8
Oceania	12	19	7
Others	9	19	10
Tin concentrates			
World	100	97	−3
Industrial countries	3	3	—
Primary producing countries	97	95	−2
Southern and south-eastern Asia	64	62	−2
Latin America	24	17	−7
Africa	7	15	8
Others	2	1	−1

Source: Statistical Office of the United Nations, *Statistical Yearbook;* International Tin Study Group, *Statistical Bulletin;* Metallgesellschaft Aktiengesellschaft, *Metal Statistics;* United Kingdom Colonial Geological Surveys, *Statistical Summary of the Minerals Industry;* United States Bureau of Mines, *Minerals Yearbook.*

[a] Excluding centrally planned economies. Industrial regions comprise North America, western Europe and Japan.

has recorded spectacular increases. Most impressive has been the increase in Jamaican production which was begun as recently as 1952 and which, by 1955–1957, accounted for about one-quarter of the world total. Trends in supply conditions of the older non-ferrous metals have contrasted sharply with bauxite and aluminium. The real prices of tin and lead, for example, have risen strongly, although technological advances in the more economic utilization of these metals together with competition from other materials have heavily impaired the growth in demand. The traditional major producers of tin have been centred in south-eastern Asia and Latin America, and both regions sustained some reduction of their share of world production between 1927–1929 and 1955–1957. In Asia, this partly reflected the effect of war devastation, while, in Latin America, Bolivia has suffered from a partial exhaustion of deposits. To some extent, however, the stagnation of output in these regions has been offset by the exploitation of new deposits in Africa. The expansion in output of other non-ferrous metals, such as copper and zinc, has been appreciably greater. But again, it has been facilitated by the development of new sources of supply. In particular, Africa, which is of recent origin as a major source of non-ferrous metals, has markedly increased its share of world production in copper and zinc as well as in tin. In copper, however, the increase in Africa's share of world production has not simply reflected the partial exhaustion of older mines in other areas. Chile, which is one of the largest producers of copper, is still well endowed; but heavy taxation of the copper companies in the post-war period until 1955 deterred new investment and caused output to stagnate.

The availability of suitable natural resources has similarly played a part in shaping the changes in supply conditions surrounding some beverages, particularly cocoa. But, for the beverages, particular care must be exercised in drawing any inference from a comparison of the change between the two terminal periods 1927–1929 and 1955–1957 in output and exports on the one hand and real price on the other (see table 7). For, in these commodities, the response of output to changes in price generally lags by a few years, since the augmentation of output depends upon the maturation of new trees. In the middle and later years of the nineteen twenties, for instance, coffee prices were relatively high and this stimulated an expansion in new plantings; when the new trees came to maturity in the nineteen thirties, the decline in prices occasioned by the depression was seriously aggravated by over-production. A similar pattern has been repeated in the nineteen fifties

Table 9. World Exports of Coffee, Cocoa and Bananas

(As percentage of total world exports in 1927–1929)

Commodity and country	*1927–1929*	*1955–1957*	*Change from 1927–1929 to 1955–1957*
Coffee			
World	100.0	147.1	47.1
Major traditional exporters	68.6	80.8	12.2
Brazil	57.9	59.8	1.9
Colombia	10.7	21.0	10.3
Other exporters	31.4	66.3	34.9
Kenya and Uganda	0.8	6.5	5.7
French West Africa	—	7.6	7.6
Cocoa			
World	100.0	143.6	43.6
Major traditional exporters	54.5	65.5	11.0
Ghana	41.6	43.8	2.2
Brazil	12.9	21.7	8.8
Other exporters	45.5	78.1	32.6
Nigeria and British Cameroons	8.3	21.0	12.7
French West Africa	2.5	13.5	11.0
Bananas			
World	100.0	161.9	61.9
Major traditional exporters	79.3	74.2	−5.1
Honduras	23.7	16.6	−7.1
British West Indies	21.0	10.8	−10.2
Colombia	10.7	10.6	−0.1
Costa Rica	7.4	15.2	7.8
Guatemala	7.0	6.8	−0.2
Panama	6.0	14.2	8.2
Cuba	3.5	—	−3.5
Other exporters	20.7	87.7	67.0
Ecuador	0.8	32.5	31.7

Source: League of Nations, *Statistical Yearbook;* Food and Agriculture Organization of the United Nations, *Yearbook of Food and Agricultural Statistics* (Rome); International Institute of Agriculture, *International Yearbook of Agricultural Statistics* (Rome).

Table 10. World Production and Exports of Cereals, Sugar and Cotton[a]

(As percentage of total world production in 1927–1929)

Commodity and country	Production			Exports		
	1927–1929	1955–1957	Change from 1927–1929 to 1955–1957	1927–1929	1955–1957	Change from 1927–1929 to 1955–1957
Wheat						
World	100.0	154.2	54.2	22.7	24.4	1.7
Major traditional exporters	54.7	58.6	3.9	21.4	24.9	3.5
United States	28.0	31.1	3.1	3.8	11.2	7.4
Canada	14.5	15.7	1.2	8.9	7.8	−1.1
Argentina	7.8	7.2	−0.6	6.4	3.5	−2.9
Australia	4.4	4.6	0.2	2.3	2.4	0.1
Other countries	45.3	95.6	50.3	1.3	−0.5	−1.8
Maize						
World	100.0	147.7	47.7	9.2	5.5	−3.7
Major traditional exporters	79.7	94.7	15.0	7.7	5.2	−2.5
United States	71.0	87.4	16.4	0.6	3.5	2.9
Argentina	6.8	3.9	−2.9	6.7	0.8	−5.9
Union of South Africa	1.9	3.4	1.5	0.4	0.9	0.5
Other countries	20.3	53.0	32.7	1.5	0.3	−1.2
Barley						
World	100.0	235.1	135.1	10.5	19.3	8.8
Major traditional exporters	35.4	59.0	23.6	7.6	15.0	7.4
United States	24.7	32.2	7.5	3.2	5.5	2.3
Canada	8.9	19.5	10.6	2.3	5.5	3.2
Argentina	1.3	4.0	2.7	0.9	2.0	1.1
Australia	0.5	3.3	2.8	1.2	2.0	0.8
Other countries	64.6	176.1	111.5	2.9	4.3	1.4
Rice						
World	100.0	145.0	45.0	8.7	5.4	−3.3
Major traditional exporters	...	23.8	...	...	3.6	...
Burma	...	7.0	...	...	2.0	...
Thailand	4.8	8.2	3.4	1.5	1.6	0.1
Indo-China	7.0	5.3	−1.7	1.7	—	−1.7
Korea	3.1	3.3	0.2	1.0	—	−1.0
Other countries	...	121.2	...	...	1.8	...
Sugar						
World	100.0	150.9	50.9	56.0	70.4	14.4
Major traditional exporters	27.6	33.5	5.9	24.9	31.1	6.2
Cuba	21.1	24.1	3.0	19.9	24.4	4.5
Philippines	3.5	5.2	1.7	2.6	3.8	1.2
Puerto Rico	3.0	4.2	1.2	2.4	2.9	0.5
Other countries	72.4	117.4	45.0	31.1	39.3	8.2
Indonesia	12.3	3.7	−8.6	10.4	0.7	−9.7
Cotton						
World	100.0	166.0	66.0	72.6	50.4	−22.2
Major traditional exporters	94.4	97.7	3.3	61.8	34.4	−27.4
United States	63.6	58.9	−4.7	41.2	22.0	−19.2
India and Pakistan[b]	21.4	23.0	1.6	13.1	4.3	−8.8
Egypt (UAR)	7.0	7.4	0.4	7.0[c]	5.4	−1.6
Brazil	2.4	8.4	6.0	0.5	2.7	2.2
Other countries	5.6	68.3	62.7	10.8	16.0	5.2
Mexico	1.1	9.5	8.4	—	8.7	8.7
Peru	0.8	2.3	1.5	1.1[d]	1.9	0.8

Source: Source for table 9.

[a] World totals exclude centrally planned countries. Countries are arranged under each commodity in the descending order of their share in world production of that commodity in 1927–1929.

[b] Excluding trade between India and Pakistan.

[c] Excluding trade with Anglo-Egyptian Sudan.

[d] 1927–1928 average.

when the rising prices of preceding years stimulated widespread new planting. The new trees have recently begun to bear fruit and world coffee prices once again have been tending to follow a cyclical downturn under the weight of increasing supplies. Thus, supply conditions, while delaying the response of production to prices, have not limited the growth of world output. Such conditions have, however, affected the rate of growth in individual producing countries. Brazil's share of world exports of coffee, for example, declined from 58 per cent in 1927–1929 to 41 per cent in 1955–1957, partly because of the exhaustion or full utilization of climatically best-suited areas. On the other hand, the share of other minor coffee exporters in the world market rose sharply in the post-war years. For example, new investment has resulted in a large expansion of production in Kenya and Uganda and French West Africa, and, consequently, these areas have emerged as important new suppliers (see table 9).[9]

The limiting influence of natural conditions has been more apparent in the case of cocoa. Particularly in the post-war years, production in Ghana, which is the world's largest supplier of cocoa, has been adversely affected by the extensive utilization and partial exhaustion of the best-suited areas and by various pests and diseases. This has been offset to some extent by the development of production in new areas of other countries where, incidentally, producers have the special advantage that their trees are young and therefore have not only better resistance to pests and diseases but also higher yields. Thus, the share of Nigeria and French West Africa, for example, in world cocoa exports rose from below 11 per cent in 1927–1929 to about 24 per cent in 1955–1957, while Ghana's share declined during the same period from 42 per cent to 31 per cent.

In contrast to most non-ferrous metals and tree crops, the growth in world production and exports of a number of staple foods and textile fibres since the late nineteen twenties has served to depress their real prices in international trade. In part, this has been an outcome of major changes in world import demand for these commodities. As illustrated by the growth in world production relative to world exports which is shown in table 10, there has been a marked trend towards greater self-sufficiency in many of these commodities. This has been clearly manifest in the decline since 1927–1929 in the shares of the major exporting countries in world production of cereals, sugar and cotton (see table 10). At first sight, it may seem contradictory that world production of such commodities has generally risen quite strongly although their real prices in international trade have declined. For the output of these commodities is fairly responsive in the short run to changes in price, since the acreage under crop can be readily varied. But it has to be recalled that the link between international prices and prices paid to farmers has been severed in many countries by means of subsidies, import duties and other official devices. Thus, under the stimulus of favourable domestic prices, the acreage planted to crops has increased in many countries concurrently with declines in real prices in international trade.

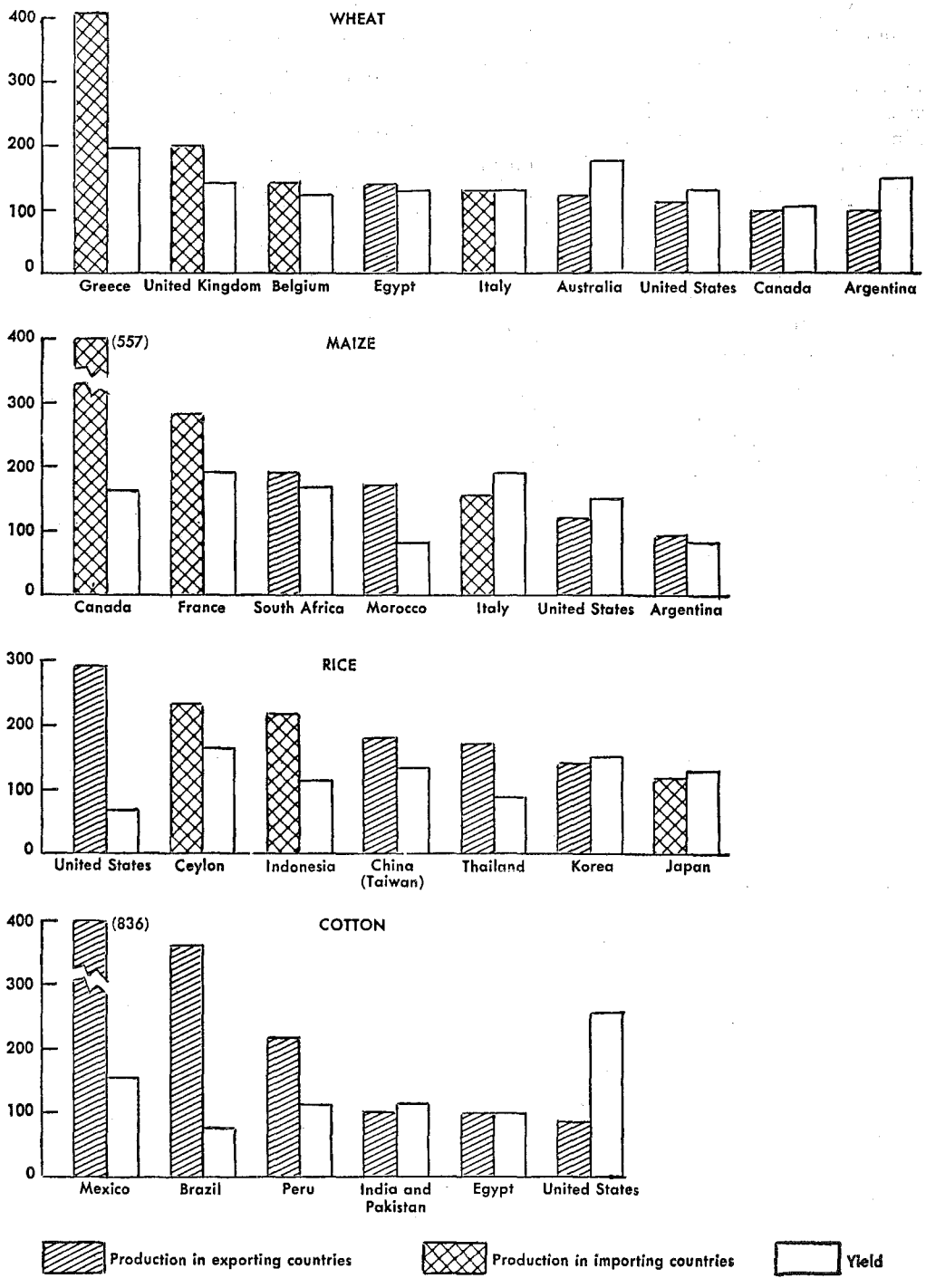
However, the comparative stagnation in world import demand, though accounting for the lack of growth in volume of trade, does not fully explain the changes in real international prices. For the conditions of supply, particularly those surrounding cereals, have also been considerably altered by increases in productivity. Long-term changes in yield have been at least as important as changes in acreage in accounting for the advances in world production. Chart 4 compares the changes in yield between 1927–1929 and 1954–1956 with the changes in output for major exporting and importing producers of wheat, maize, rice and cotton. As may be seen, the most conspicuous feature is the general increase which has taken place in the yields of all four commodities in exporting as well as importing countries. For all four commodities, yields in some countries increased by an even larger proportion than output. This was the case in all the major wheat-exporting countries where substantial increases in yield sufficed to raise output in spite of declines in acreage. In wheat-importing countries, increases in domestic production were mostly the result of a combination of increases in yield and expansion in acreage.

The fairly general long-term rise in yields of field crops in exporting as well as in importing countries, and in primary producing as well as in industrial countries, was largely the result of substantial technological improvements in agriculture associated with marked increases in investment. Of particular importance have been increased mechanization and the rapidly expanding application of fertilizers in both industrial and primary producing countries during recent years. As shown in table 11, the use of tractors and major fertilizers in the nineteen fifties frequently more than doubled in the space of five years, and even the more modest increases were in the region of at least 7 to 8 per cent *per annum*. It will be noted that the countries listed in table 11 are the same—with a few omissions owing to lack of data—as those whose yields, as shown in chart 4, had increased rather substantially.

The recent rapid advance in the use of tractors and fertilizers in many primary producing as well as industrial countries indicates that substantial new investment in field agriculture has taken place. Undoubtedly, new investment has been stimulated in many countries by the favourable prices received under governmental programmes for agriculture. Furthermore, in some instances fertilizers and farm equipment have been subsidized either directly or by means of such devices as favourable exchange rates for imports.

[9] Needless to say, these and similar shifts were not exclusively supply determined. For example, the growing demand for instant coffee has greatly benefited the African robusta-type coffee.

Chart 4. Indices of Production and Yield of Wheat, Maize, Rice and Cotton in Selected Countries, 1955–1957
(1927–1929 = 100)



Source: Food and Agriculture Organization of the United Nations, *Yearbook of Food and Agricultural Statistics.*

Table 11. Indicators of Agricultural Investment in Certain Countries between 1950 and 1956

Country	Percentage change in: Tractors 1952 to 1956	Nitrogen 1950–1952 to 1954–1956	Potash 1950–1952 to 1954–1956
Primary producing countries			
Argentina	38	−7	92
Australia	41[a]	45	121
Brazil	51[a]	74[b]	198
Burma	806	800	...
India	121[c]	101	151
Mexico	38	572	26
Pakistan	193[a]	271	...
Union of South Africa	96[d]	90[b]	180
Industrial countries			
France	139	45	41
Italy	108	52	110
United Kingdom	96[d]	35	40
United States	13	34	33[b]

Source: Food and Agriculture Organization of the United Nations, *Yearbook of Food and Agricultural Statistics: Production.*

[a] 1951–1955.

[b] 1949–1951 to 1953–1955.

[c] 1951–1956.

[d] 1950–1955.

These developments have resulted in the accumulation of agricultural commodity surpluses in several exporting countries. In the United States, of course, where strong support has been given to farm prices, the problem has been particularly serious; even substantial reductions in acreage have often failed to offset the sharp rise in yields. Thus, between 1954 and 1956, stocks of wheat held by the United States Commodity Credit Corporation were roughly equal to one year's production and to three years' exports; stocks of maize in 1956 were 20 per cent of domestic production or the equivalent of five years' exports, while stocks of cotton were about 45 per cent of production or 132 per cent of exports. In the face of such developments in supplies, real prices in international trade have inevitably tended to be weak.

This tendency towards the accumulation of excess exportable supplies of primary commodities has been particularly evident in the industrially advanced countries. In many primary producing countries, however, the expansion of exportable supplies has been limited by greater home absorption of output as population and per capita incomes have risen. This effect has been conspicuous in the case of rice exporters in the Far East; for example, recent rice production in Thailand by far exceeded pre-war levels, yet exports have remained much lower. These developments have contributed to the appreciable decline since 1927–1929 in the share of primary producing countries in world exports of some agricultural commodities such as wheat, maize and rice. Thus, exports of wheat from primary producing countries as a percentage of world exports declined from 43 per cent in 1927–1929 to 30 per cent in 1954–1956, while exports of maize fell from 91 to 50 per cent and of rice, from 91 to 78 per cent.

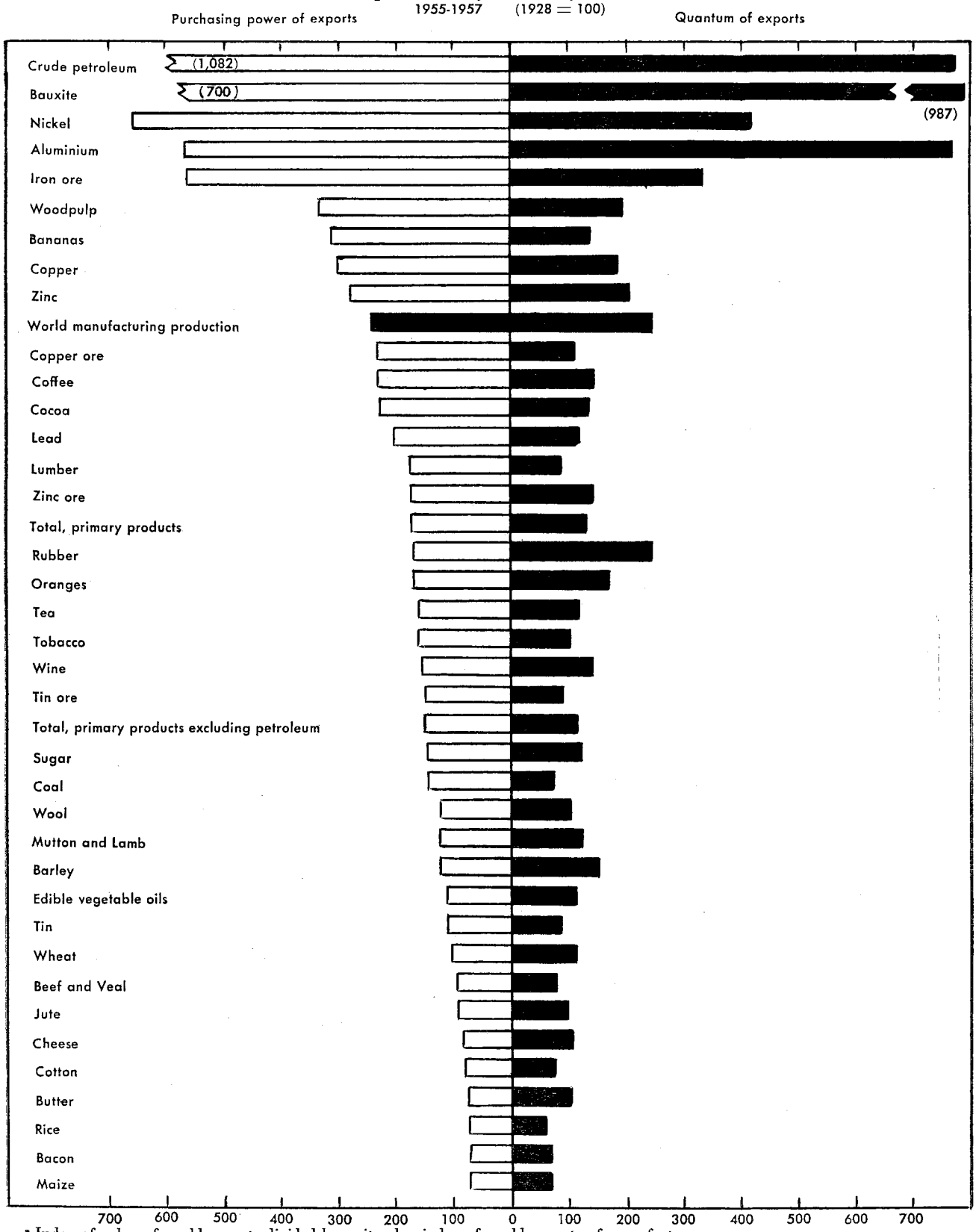
In sum, although the supply conditions underlying primary commodities have generally undergone considerable change over the past thirty years, some degree of inflexibility has been evident in the majority of markets. While the encouragement given by governmental policies to new investment in most cereals and textile fibres has depressed the real prices of these commodities in the international markets, real prices of most commodities for which demand has risen more strongly have increased. In addition, part of such flexibility in output or exports as has been present has frequently been achieved through the development of new sources of supply, so that the traditional exporters often have not shared fully in the upward trends in demand for their major exports.

CHANGES IN EXTERNAL PURCHASING POWER

At the beginning of this chapter, it was observed that the expansion of world income and output over the past thirty years since the late nineteen twenties has failed to induce a commensurate growth in the external purchasing power of primary commodities as a whole. But it has since been shown that the trends in demand and supply for the individual primary commodities have been widely different. It takes no more than a glance at chart 5 to realize that the consequent changes in the external purchasing power of the various commodities have ranged over a very wide scale. At the one extreme, the external purchasing power of petroleum increased between 1928 and 1955–1957 by no less than elevenfold, while, at the other extreme, the external purchasing power of maize declined by almost one-third.

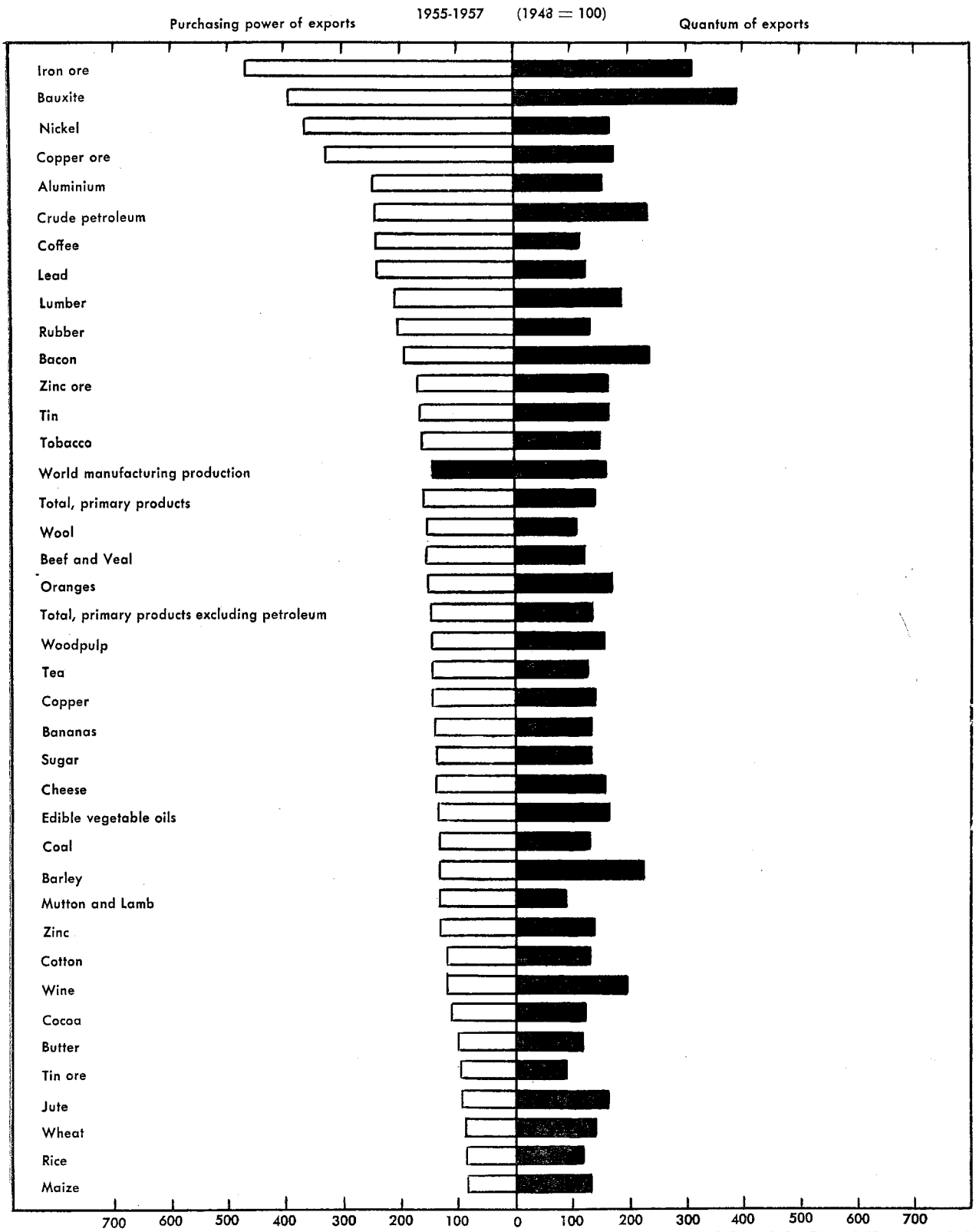
Chart 5 clearly reveals that, as described in the preceding section, the long-term growth in world demand for most primary commodities has been associated with some inflexibility in supply conditions. Thus, the commodities whose volume of trade has increased have generally experienced even greater increases in external purchasing power; advances in real prices have reinforced the effect of increases in volume upon external purchasing power. This has been true of most of the commodities in the upper three-fifths of the chart, such as the minerals, beverages and non-staple foods. On the other hand, among many of the commodities in the lower part of the chart, which include most of the staple foods and textile fibres, either the volume of trade and real prices have both fallen below the levels of 1928 or, if the volume of trade has increased, it has been associated with a decline in real price. In cotton, jute, maize and cheese, for example,

Chart 5. Indices of Purchasing Power[a] and Quantum[b] of World Exports of Major Primary Commodities



[a] Index of value of world exports divided by unit value index of world exports of manufactures.

[b] Quantum index with fixed price weights.



Source: United Nations Bureau of Economic Affairs, based on data supplied by the Statistical Office of the United Nations and the Food and Agriculture Organization of the United Nations.

Note: The solid bar for "World manufacturing production" should extend to the left slightly beyond the bar for "Total, primary products".

the effect of declines in the volume of trade between 1928 and 1955–1957 upon external purchasing power was reinforced by falls in real prices. In wheat, barley and beef, although the volume of trade was higher in 1955–1957 than in 1928, it was not matched by a corresponding change in external purchasing power since real prices had declined.

While differing supply conditions have affected the relative changes in volume and real price, the changes in external purchasing power that are shown in chart 5 have broadly reflected the trends in world consumption of individual commodities between 1928 and 1955–1957. Commodities in the upper part of the chart include most of the minerals, beverages and non-staple foods; these are the commodities for which, as indicated earlier, there has been a buoyant growth in world demand. On the other hand, the commodities in the lower part of the chart, such as the staple foods and textile fibres, which have traditionally been the most important commodities in international trade, have invariably suffered from the weakness of trends in world demand. When the changes in purchasing power of individual commodities during the post-war period are compared with those for the period since 1928, some shifts in the relative positions of the various commodities are evident. But, broadly, these have reflected the acceleration during the post-war period of the changing pattern of world demand; they have not altered the general character of the longer-run developments.

Although between 1928 and 1955–1957 only about one-fifth of the commodities actually suffered an absolute fall in external purchasing power, the number of commodities whose purchasing power rose at a higher rate than world manufacturing production was not much larger. Crude petroleum, aluminium and bauxite, copper, nickel, zinc, iron ore, bananas and wood-pulp, have composed the small group of commodities having such favourable experience. Although these commodities had accounted for only a small proportion of the value of total primary trade in 1928, the sharply rising trends in their external purchasing power combined with the relative stagnation in that of many other commodities have produced important shifts in the commodity composition of primary trade. And this has caused a marked redistribution of external purchasing power among the individual primary exporting countries. As summarized in table 12, the increase in external purchasing power of crude petroleum and othe fuels, which constituted only 9 per cent of total primary trade in 1928, accounted for about 37 per cent of the total increase in purchasing power of primary exports between 1928 and 1955–1957. Another one-fourth of the total increase went to exporters of ores and metals, the share of which in total primary trade in 1928 had been the same as fuels. Thus, these two groups of exports together accounted for about three-fifths of the total increase in purchasing power of primary exports from 1928 to 1955–1957. However, while the increase in external purchasing power of petroleum accrued almost entirely to the primary producing countries, both the primary producing and the industrial countries benefited equally from the expansion in world demand for ores and non-ferrous metals. To a much smaller extent, exports of beverage crops and fruits also gained. On the other hand, exporters of agricultural raw materials and staple foods suffered a marked deterioration in their relative position. The small increase in the external purchasing power of staple foods, moreover, accrued entirely to industrial countries.

Table 12. Composition of Primary Commodity Trade and Changes between 1928 and 1955–1957 in Terms of Purchasing Power

(Percentage of total primary trade in 1928)

Commodity	*Composition in*		*Change from 1928 to 1955–1957*		
	1928	*1955–1957*	*Total exports*	*Exports from primary producing countries*	*Exports from industrial countries*
Fuels	9	37	28	25	3
Ores and metals	9	27	18	9	9
Agricultural raw materials	36	47	11	12	−1
Beverages and fruits	12	28	16	16	—
Staple foods, oils and tobacco	34	37	3	—	3
TOTAL	100	176	76	62	14

Source: Source for chart 5.

The instability of world trade[10]

INTER-WAR AND POST-WAR EXPERIENCE

The problem of the long-term lag in world trade of primary commodities which confronts most underdeveloped countries has invariably been compounded by the problem of short-period instability. Experience throughout the post-war years has forcibly demonstrated that short-period instability in world trade of primary commodities has persisted as a major flaw in the fabric of the international economy. It has been shown in the preceding section that the long-term growth in income and output of the industrial countries has not been associated with a comparable advance in world trade of primary commodities. But it is no less true that the great improvement since inter-war years in the internal economic stability of the industrial countries has not been matched by a commensurate gain in the stability of primary commodity trade.

It is true, of course, that there has been some lessening of the short-period instability in world trade of primary commodities since the inter-war years. In the post-war years between 1948 and 1957, the value of world trade in individual primary commodities fluctuated, on the average, by 12 per cent *per annum*, while in the inter-war period, these fluctuations had amounted to 17 per cent. These figures signify that—in the post-war years, for example—the value of trade in most commodities could be expected to be some 12 per cent greater or smaller from year to year, solely because of short-run changes in the market situation and quite apart from the influence of longer-run developments in depressing or raising the trend in value over the whole period. When it is recalled that world economic activity in the post-war period has not suffered any setbacks at all comparable in magnitude to the great depression of the early nineteen thirties or even to the severe recession of 1937/38, the gain in the stability of trade in the post-war years appears small.

This moderate improvement in the stability of trade since the inter-war period has, moreover, by no means been shared equally by all commodities (see table 13). Among foodstuffs, for example, the instability in value of trade in grains as a whole has shown little change from the inter-war to the post-war period; on the other hand, trade in the beverages and non-staple foods has enjoyed a considerable gain in stability. Again, among the raw materials, the value of trade in fibres has been hardly less unstable in the post-war period than in the inter-war years; but fluctuations in trade of the non-ferrous metals or petroleum have appreciably diminished. It will be observed that the commodity groups which have experienced some improvement in the stability of trade have also been those which, as noted earlier, have been confronted with the most favourable long-term trends in external markets.

These short-period fluctuations in value have, of course, been compounded of fluctuations in both volume and price. In the post-war years, when the short-period variations in value of trade amounted, on the average, to 12 per cent, the volume of trade fluctuated in the short period by 8 per cent while price fluctuated by 11 per cent.[11] This comparison of value, volume and price indicates that the short-period fluctuations in volume and price have by no means always reinforced one another, but have frequently changed in opposite directions; and the same was true in the inter-war period.

When the post-war fluctuations in volume and price of primary commodities as a whole are compared with their fluctuations in the inter-war period, one striking similarity emerges. While the short-period instability in prices of primary commodities as a whole amounted to 16 per cent in the inter-war period, the instability in volume was again 8 per cent; in other words, although price has been less unstable in the post-war years, the instability in volume of trade in primary commodities as a whole has remained unchanged. Table 14 shows, however, that this absence of change in the average has been compounded of diverse changes in individual commodities. Quite a number of commodities, such as most non-ferrous metals, experienced a decline in instability; and in view of the greater post-war stability of manufacturing production in the industrial countries, this is hardly surprising. At the same time, however, there has been a considerable number of commodities, consisting mainly of foodstuffs and textile fibres, whose post-war fluctuations in the volume of trade have increased.

The explanation for these increases in instability lies partly in the major structural changes which have taken place in production and trade of many foodstuffs and textile fibres since the inter-war period. As has been discussed in the preceding paragraphs, there has been a considerable growth of national self-sufficiency in many of the commodities within these groups; and, among the textile fibres, this tendency has been accentuated by the development of synthetic substitutes. As a consequence, the volume of world trade in

[10] Throughout this section, all the measures of short-period instability mentioned in the text or in tables have been calculated in the way described in the source for table 13. It should be noted that the short-period fluctuations in primary commodities which are discussed in this section differ, in principle, from the fluctuations reviewed in an earlier study, United Nations, *Instability in Export Markets of Under-developed Countries* (sales number: 1952.II.A.1). In this earlier study, attention was focused upon the instability in volume, price and export proceeds of the commodities exported by individual countries. In the present section, the discussion centres upon short-period instability in the value, volume and price of world trade in individual commodities.

[11] In this section, price usually refers to world import unit values expressed in dollars, data on export unit values not being generally available.

Table 13. World Trade in Primary Commodities:[a] Short-Period Fluctuations in Value, Unit Value and Volume

(Averages, 1920–1938 and 1948–1957; percentages)

Commodity and commodity group	1920–1938			1948–1957		
	Value	Unit value	Volume	Value	Unit value	Volume
Beverages						
Cocoa	19	19	5	17	19	7
Coffee	16	15	5	9	11	7
Tea	11	10	3	12	9	11
Average	16	15	5	10	12	8
Cereals						
Barley	18	14	10	25	15	14
Maize	18	14	17	15	13	10
Wheat	16	12	8	15	8	12
Rice	13	12	6	12	11	8
Average	16	12	9	15	10	11
Non-staple foods						
Butter	15	14	4	10	7	10
Beef and veal	15	12	7	10	8	13
Sugar	13	16	9	6	6	4
Cheese	12	11	5	10	7	7
Mutton and lamb	11	9	6	14	7	10
Bananas	8	10	8	4	2	4
Average	13	14	8	7	6	6
Oils and tobacco						
Coconut oil	20	18	11	17	17	10
Copra	19	18	8	19	16	10
Tobacco	12	9	5	6	4	6
Average	14	12	6	10	8	7
Fibres						
Silk	21	18	8	18[b]	9[b]	19[b]
Wool	19	21	8	17	17	10
Jute	18	15	13	21	16	16
Cotton	15	15	5	14	13	8
Average	17	18	7	16	15	9
Metals						
Aluminium	28	6	25	12	6	9
Tin	26	16	17	14	10	15
Lead	25	20	9	16	18	14
Copper	23	16	12	15	15	6
Zinc	23	15	13	17	18	9
Average	24	15	14	16	14	9
Ores						
Bauxite	...	...	22	...	...	8
Zinc ore and concentrate	...	...	20	...	...	5
Copper ore and concentrate	...	...	20	...	...	7
Iron ore	...	...	17	...	...	11
Tin concentrate	...	...	16	...	...	3
Other materials						
Natural rubber	33	29	13	30	25	7
Crude petroleum	18	17	7	4	5	3
Average, all groups	17	16	8	12	11	8

Source: United Nations Bureau of Economic Affairs, based mainly on data supplied by the Food and Agriculture Organization of the United Nations; Statistical Office of the United Nations, *Statistical Yearbook* and *Yearbook of International Trade Statistics;* League of Nations, *International Trade Statistics* (Geneva); Organisation for European Economic Co-operation, *Industrial Statistics, 1900–1957;* Metallgesellschaft Aktiengesellschaft, *Metal Statistics;* Deutsches Institut für Wirtschaftsforschung, *Vierteljahrshefte zur Wirtschaftsforschung* (Berlin, 1952); United States Department of Commerce, *Foreign Commerce Yearbook;* Bureau of Mines, *Minerals Yearbook;* United Kingdom Imperial Institute, *Mineral Industry of the British Empire and Foreign Countries, Statistical Summary;* International Tin Study Group, *Statistical Bulletin.*

To compute the short-period fluctuations, raw data were first converted into index numbers and trend was eliminated by the least squares method; the annual percentage changes in the series—with trend eliminated—were then computed and averaged. In calculating these annual percentage changes, the higher of each pair of years was taken as the denominator in order to eliminate the bias inherent in the more conventional procedure for calculating such percentage changes; this method is the same as that employed in *Instability in Export Markets of Under-developed Countries* (op. cit.), which, in appendix B, contains a fuller discussion of this procedure.

The total and group averages were obtained by weighting the short-period fluctuations in individual commodities by their value in world trade in 1953.

[a] Excluding centrally planned economies.

[b] 1948–1956.

Table 14. World Trade in Primary Commodities: Changes in Magnitude of Average Short-period Fluctuations in Volume from Inter-war to Post-war Period

Difference in percentage fluctuations				
0 to 2	*2.1 to 4*	*4.1 to 6*	*6.1 to 8*	*Over 8.1*
		Increase in instability		
Cheese	Barley	Butter	Tea	Silk
Cocoa	Mutton and lamb	Lead		
Coffee	Wheat	Beef		
Rice	Jute			
Tobacco	Cotton			
Copra				
Wool				
		Decrease in instability		
Tin metal	Bananas	Copper metal	Maize	Aluminium
Coconut oil	Petroleum	Iron ore		Bauxite
	Zinc metal	Natural rubber		Copper ore and concentrate
		Sugar		Tin concentrate
				Zinc ore and concentrate

Source: See table 13.

many agricultural commodities has contracted in relation to world production and consumption; and the same percentage variations in output of these commodities in the major importing countries has therefore tended to induce larger percentage variations in the volume of trade.[12] This goes some way towards explaining why, as noted above, the instability in value of world trade in such commodity groups as the cereals and the fibres has not declined since the inter-war period.

It would, however, be erroneous to suppose that the growth in self-sufficiency or the development of synthetic substitutes have necessarily been the only reasons for the increases in instability in volume. Numerous other factors, whose importance could only be assessed by detailed commodity studies, may also have contributed to this result. For instance, there are doubtless some commodities for which the greater post-war instability has been an accidental consequence of abnormal events, such as exceptionally poor harvests in some years;[13] the greater instability of beef, for example, has been related mainly to the serious post-war droughts in Argentina. It is also noteworthy that, among a number of commodities, the practice of holding stocks in the exporting countries has become more widespread in the post-war years, largely because of the intervention of governments in the export trade. And, for some commodities, such as wool or rice, since the annual exportable surplus is no longer wholly exported, the supplies entering international markets may vary more widely from year to year in accordance with changes in the marketing policies of producers or governments.[14]

For these several reasons, the average short-period fluctuations in volume of trade of primary commodities as a whole have not been diminished in the post-war years. The short-period instability in price, on the other hand, has declined; and this has been true, not only of the average instability of prices of primary commodities as a whole, but also of most individual commodities (see table 15).

Though the price of primary commodities as a whole has declined in instability and volume has not, the instability of price has nevertheless continued to be greater than the instability of volume. This conforms with the general impression that demand for, and supply of, primary commodities both tend, in the short period, to be rather insensitive to changes in price; an increase or decrease in demand tends to induce a

[12] For example, if domestic output normally supplies 50 per cent of domestic requirements, then a 5 per cent decline in domestic output in any year would require a 5 per cent increase in imports. But if domestic output is expanded relatively to domestic consumption and normally supplies 75 per cent of domestic requirements, then a 5 per cent decline in domestic output would require a 15 per cent increase in imports.

[13] On the other hand, the relative absence of setbacks to production from natural events may have tended to stabilize trade. This has probably had some bearing on the greater post-war stability of trade in bananas; improved control over diseases affecting the banana plant, together with greater geographical dispersion of the industry, have tended to reduce the instability of output.

[14] Wool-growers, for example, in the major exporting countries have traditionally tended to dispose of their total annual output on the international market, withholding only negligible amounts in the form of stocks; and wool output has tended to vary less in the short period than has demand. In the post-war years, however, in Argentina and Uruguay, large supplies have been withheld from foreign markets in some years; and this has been reflected in wider post-war fluctuations in the volume of total trade. But, of course, this effect may also have worked in the opposite way. Among commodities whose annual exportable surplus is more unstable than world import demand, the willingness of exporting countries to absorb the variations in domestic output through holding stocks may have dampened the fluctuations in volume of trade. This, for example, has probably been true of bread grains.

Table 15. World Trade in Primary Commodities: Changes in Magnitude of Average Short-period Fluctuations in Unit Value from Inter-war to Post-war Period

Difference in percentage fluctuations				
0 to 2	*2.1 to 4*	*4.1 to 6*	*6.1 to 8*	*Over 8.1*
Increase in instability				
Barley	Zinc			
Jute				
Decrease in instability				
Aluminium	Beef	Tin metal	Bananas	Sugar
Cocoa	Cheese	Tobacco	Butter	Petroleum
Copper metal	Coffee			Silk
Lead metal	Natural rubber			
Maize	Wheat			
Rice	Wool			
Tea				
Mutton and lamb				
Coconut oil				
Copra				
Cotton				

Source: See table 13.

greater change in price than in the quantities supplied; and conversely, for an increase or decrease in supply. But numerous exceptions to this generalisation have emerged in the post-war years whereas, in the inter-war period, the exceptions were few. Tea, wheat, beef, mutton, butter, bananas and tobacco have all shown greater stability in price than in volume during the post-war years; and among the raw materials, the same has been notably true of aluminium and silk. This reversal of the relative instability of volume and price has ensued—in part, at least—from the operation of various special factors in each market. Beef and mutton prices, for instance, were fixed in most post-war years by the terms of bulk-purchase agreements between the United Kingdom and the exporting countries; again, wheat supplies have been rendered highly flexible by the existence of surplus stocks in exporting countries, and price fluctuations have been limited by the pricing policies of the major exporters working within the terms of the International Wheat Agreement; or again, aluminium and banana prices have been administered by a few large concerns in each industry. The effect of such circumstances upon the relative fluctuations in price and volume within each market demonstrates that the link between price and volume of primary commodities in international trade is often complex and indirect; it cannot be safely assumed that, because output of primary commodities in the short period tends to be insensitive to changes in prices, the price of commodities in international trade will therefore invariably tend to fluctuate more widely than volume.

It is clear from this review of the changes in instability of primary commodity trade between the inter-war and post-war periods that the decline in instability has been small in comparison with the great gain in the internal economic stability of industrial countries. Not all commodity groups, moreover, have shared in the lessening of instability. Although prices have generally been less unstable, the instability in the volume of trade in numerous commodities has increased. This has partly reflected the influence of structural changes in world production and trade, such as the growth of national self-sufficiency; but institutional changes in individual markets may also have played some part. Institutional changes have more clearly moderated the volatile movements in prices of some commodities.

THE MAIN SOURCES OF INSTABILITY

The preceding paragraphs have given some indication of the dimensions of the short-period instability experienced in the various international markets for primary commodities. Only a detailed study of each commodity market could reveal all the forces which have accounted for the instability of trade. But the main forces which have generated the fluctuations, and some of the subsidiary factors which have accentuated or dampened these fluctuations, may be briefly discussed.

The main sources of instability in trade of primary commodities are well known. Of great importance is the influence exerted on primary markets by the cyclical fluctuations in income and output of industrial countries. Superimposed upon these cyclical movements are the sporadic shocks to the economic system released by such political events as the outbreak of hostilities in Korea or the Suez crisis. In circumstances of this nature and in other situations, the fear of future shortages may provoke an outburst of speculative activity that impinges sharply on trade in primary commodities. Other irregular disturbances to trade

may also arise from changes in specific governmental policies, such as those relating to strategic stockpiling or surplus disposal programmes.

Supplementing, and often interrelated with, these sources of instability in demand are the disturbances emanating from changes in the supply situation. Obviously, susceptibility to climatic conditions and other natural events inject a large element of instability into output of agricultural commodities; droughts, floods, diseases and other natural calamities can play havoc with the output of a crop in one year, while favourable weather conditions can bring forth an over-abundant supply in the next. Moreover, in many primary commodities, the productive structure is composed of a multiplicity of small-scale producers or peasants whose decisions to produce—which have to be made long in advance of sales—are often based on scant knowledge about actual or prospective market conditions and tend to be guided by past, not prospective, prices. This may give rise to the familiar seesaw pattern of behaviour between production and prices—producers react to high prices in one period by over-producing in the subsequent period, whereupon prices fall and producers react by under-producing in the next period, whereupon prices rise, and so on.

While these several, principal sources of instability have all, from time to time, exerted some influence upon trade of the various commodities, it is usually supposed that the cyclical fluctuations in income and output of the industrial countries have assumed a dominant role. This impression doubtless draws much of its strength from experience in the inter-war period when the very large fluctuations in industrial activity certainly had considerable impact upon the stability of trade in almost all commodities. In the more buoyant economic conditions of the post-war years, however, when the fluctuations in industrial activity have assumed much smaller dimensions, the influence of supply conditions upon the short-period variations in price and volume of trade have become much more readily apparent. This conclusion emerges from the data illustrated in chart 6, where the short-period variations in volume and price of individual commodities have been related to the dominant factor initiating these variations; unstable supply conditions, for instance, obtrude quite clearly as the principal source of instability in trade of foodstuffs and also, to a considerable degree, in trade of textile fibres.

Among most foodstuffs, trade generally serves as a supplement to domestic production and it has therefore tended to be sensitive to variations in the level of domestic output in the importing countries. By comparison with the fluctuations in domestic output induced by the vagaries of the weather and other causes, final demand has tended to be fairly stable, at least in the post-war years. At the same time, large stocks of the principal foodstuffs, such as the cereals, have been held in the exporting countries and this has permitted some flexibility in exported supplies.[15] Thus, the volume of trade has tended to vary inversely with output in the importing countries. As regards the short-period variations in price, it might seem reasonable to suppose that the instability of output in the exporting countries could have exerted as much destabilizing influence as the instability of output in the importing countries. In practice, however, among some of the major staple foodstuffs, a lower limit to price has been set by domestic price-support schemes, or by international commodity agreements, and excess supplies have been withheld from the market.

Some foodstuffs, such as the beverages, are, of course, not produced in the importing countries, and their volume and price have therefore tended to fluctuate in response to other factors. Where large stocks are held in the exporting countries as, for example, in the case of coffee, variations in the volume of trade have tended to reflect changes in demand in the importing countries. But, again, as demand in the short period has tended to be more stable than output, the variations in price have primarily reflected the instability of output. In some other foodstuffs not produced in the importing countries, only negligible stocks are held in the exporting countries, either for institutional or physical reasons; cocoa beans, for example, deteriorate if stored in hot climates. The whole of the annual exportable supply is therefore currently shipped abroad; and, in these instances, the short-period variations in both volume and price have largely reflected the variations in output in the exporting countries.

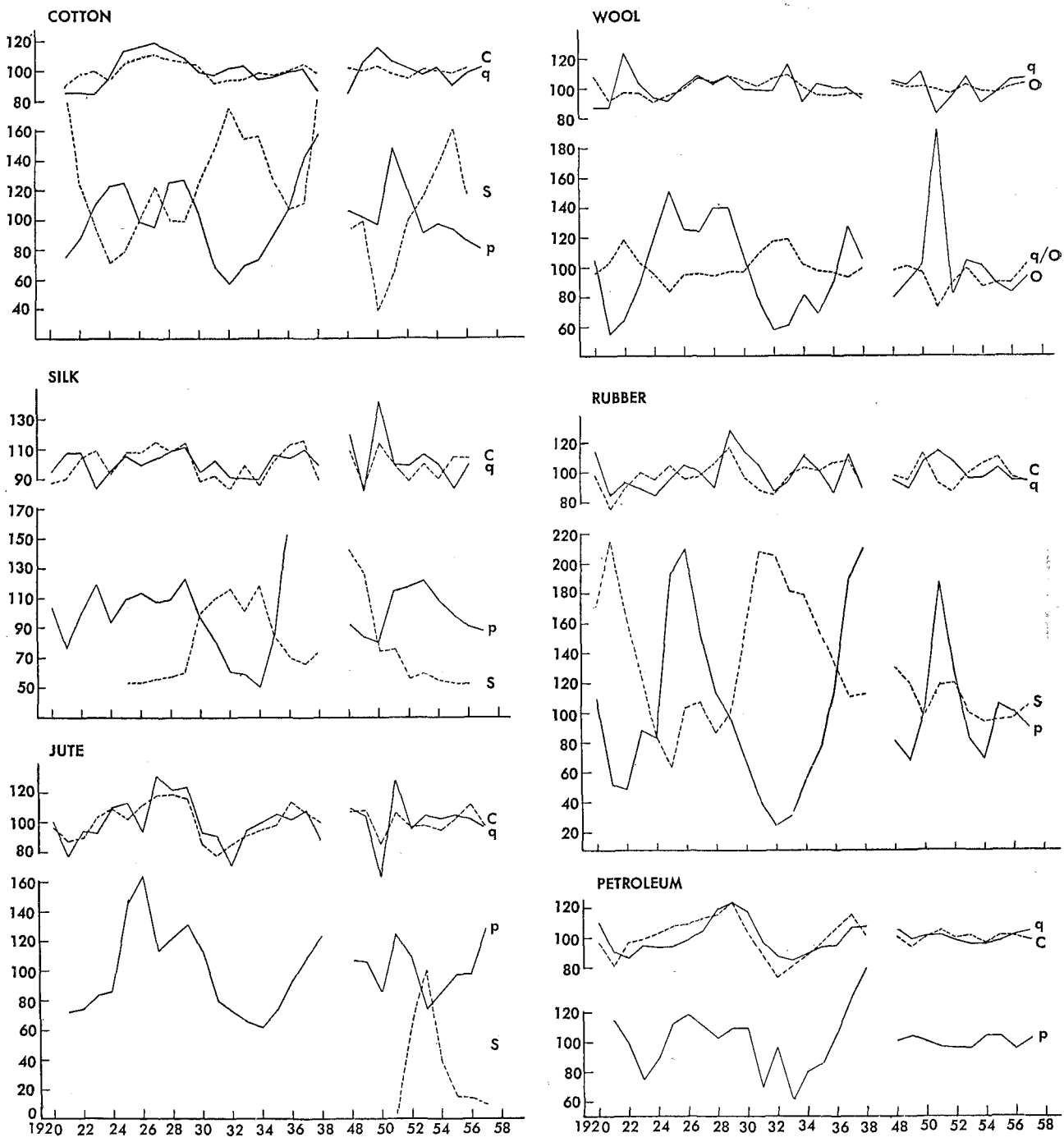
By comparison with foodstuffs, world demand for textile fibres has tended to exhibit a more pronounced and distinctive cyclical pattern, though the fluctuations in activity of the textile industries in importing countries have not always conformed closely with the cycles in general industrial activity. Large stocks of cotton have been held in the major exporting countries and the volume of trade has been adjustable to variations in the level of demand. To some extent, the same has been true of the other principal fibres, at least in the post-war years. Large stocks of wool, for instance, have been accumulated by Argentina and Uruguay in some post-war years, and, as a consequence, the volume of trade has tended to vary with demand in the importing countries.

Prices of such fibres as cotton and jute, however, have generally fluctuated no less because of the instability of output than because of the instability of demand. Cotton prices, for example—as may be seen from chart 6, have tended to rise and fall, not simply when world consumption has increased or decreased,

[15] Supplies of individual cereals have, of course, been limited in some years by low levels of output in the exporting countries but, since the individual cereals can, to a considerable extent, be substituted for one another, supplies of cereals as a whole have been more flexible than supplies of individual cereals.

Chart 6. Short-period Fluctuations in Quantum, Price and Related Variables of Major Primary Commodities

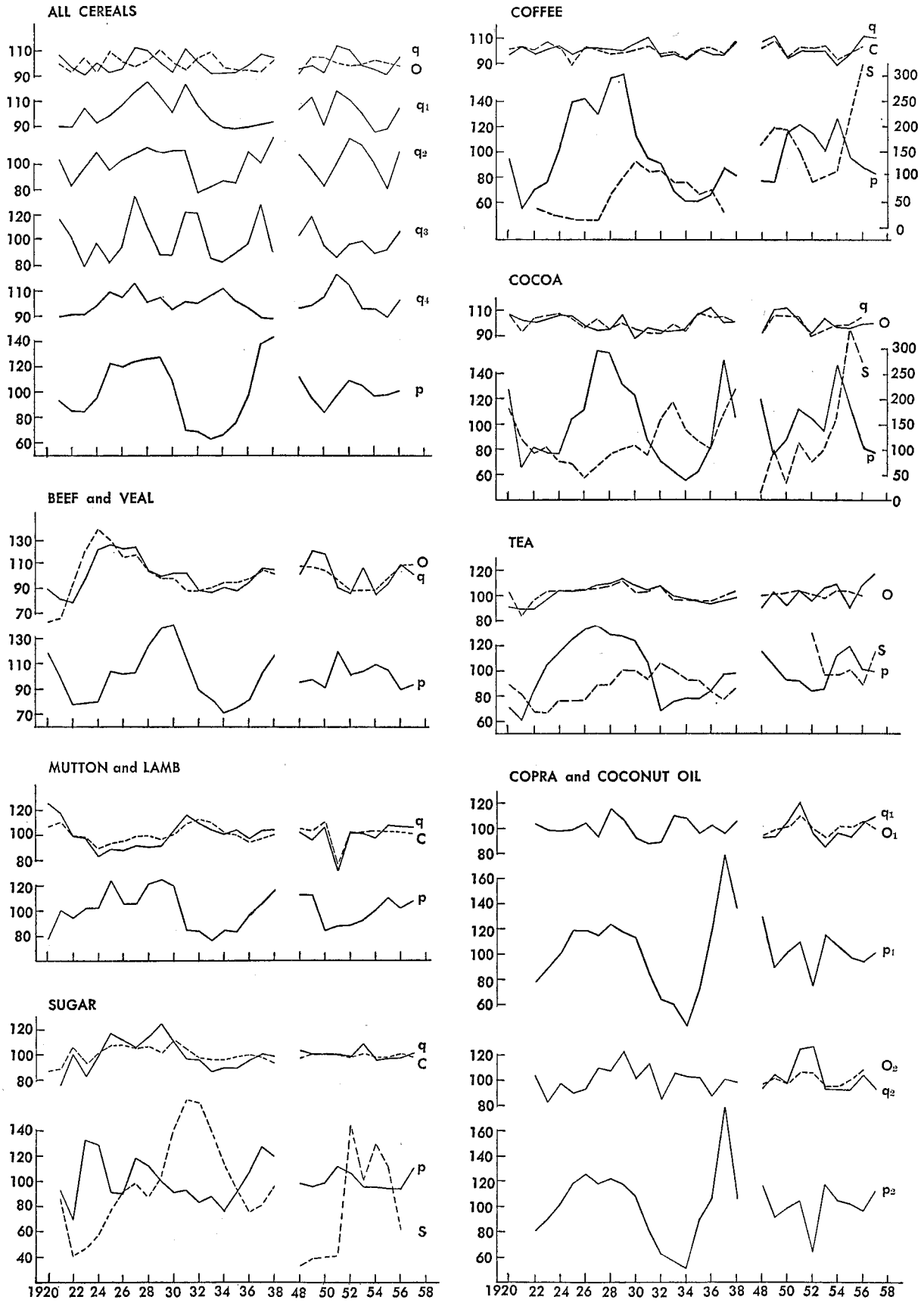
(Vertical axis: per cent of trend)

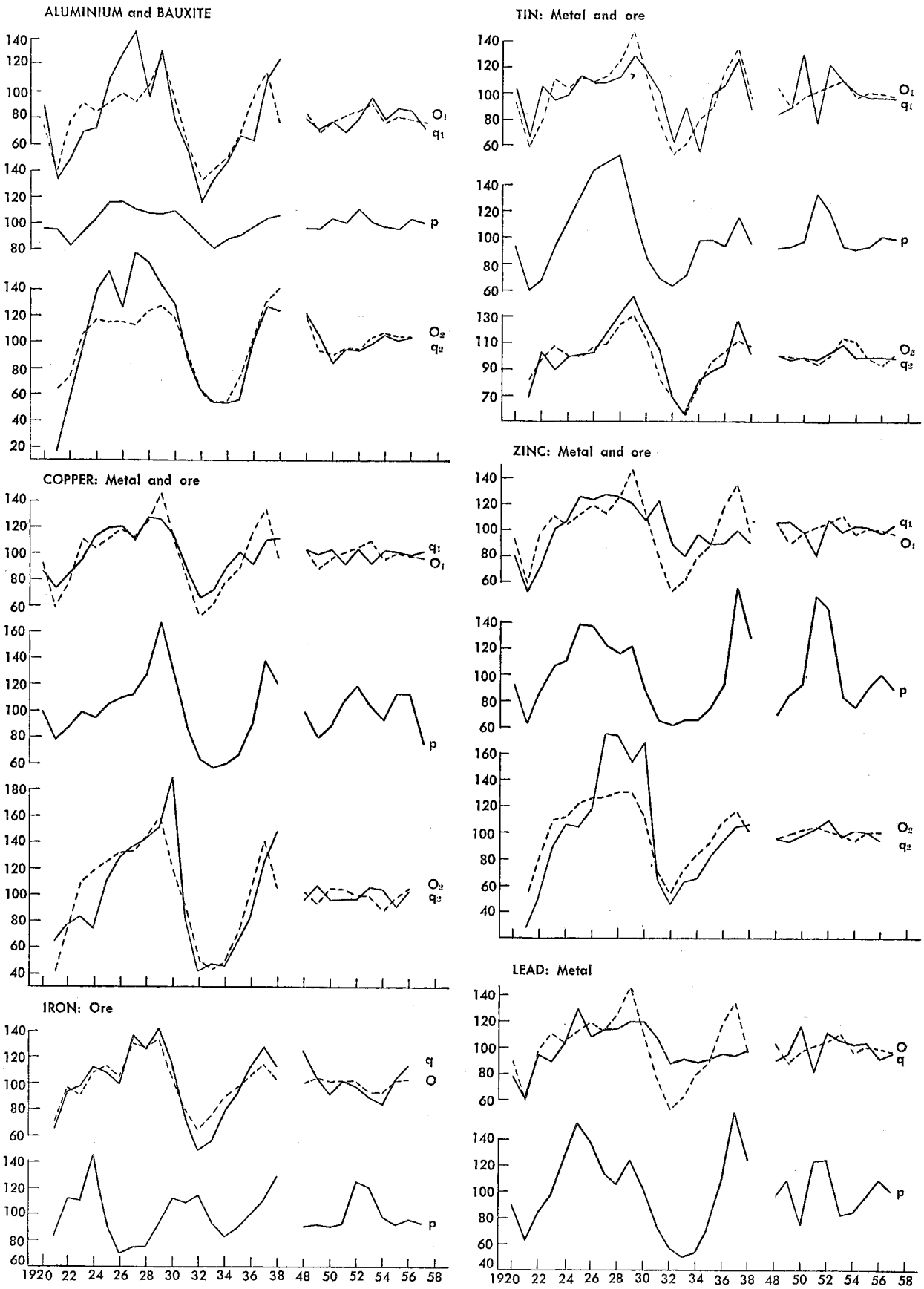


Source: United Nations Bureau of Economic Affairs and Food and Agriculture Organization of the United Nations.

Note: In the chart, "q" and "p" always refer to world trade and import unit value, respectively, in the specified commodities, while "C", "O" and "S" generally stand for consumption, production and stocks. Trends have been eliminated from all data by the least squares method. Wherever there is no right-hand scale, changes in stocks are measured by the left-hand scale.

(*Legend to chart 6 on pages 47 and 48*)


ALL CEREALS
q
O
q1
q2
q3
q4
p
COFFEE
q
C
S
p
COCOA
q
O
S
p
BEEF and VEAL
O
q
p
TEA
O
S
p
MUTTON and LAMB
q
C
p
COPRA and COCONUT OIL
q1
O1
p1
O2
q2
p2
SUGAR
q
C
p
S
1920 22 24 26 28 30 32 34 36 38 48 50 52 54 56 58


ALUMINIUM and BAUXITE
TIN: Metal and ore
COPPER: Metal and ore
ZINC: Metal and ore
IRON: Ore
LEAD: Metal
1920 22 24 26 28 30 32 34 36 38 48 50 52 54 56 58

Legend to chart 6

All cereals

O = Cereal production in major cereal importing countries: Europe (excluding Soviet Union) and Japan in the inter-war period; Europe, Japan, India and Pakistan in the post-war period
q_1 = World trade in wheat
q_2 = World trade in barley
q_3 = World trade in maize
q_4 = World trade in rice

Beef and veal

O = Production of beef and veal in Argentina

Mutton and lamb

C = Consumption of mutton and lamb in United Kingdom

Sugar

C = Pre-war: consumption in United Kingdom and United States; post-war: consumption in Denmark, France, Netherlands, United Kingdom and United States
S = Pre-war: ratio of index of Cuban stocks to consumption in United Kingdom and United States; post-war: ratio of stocks in major exporting countries (Australia, Cuba, Dominican Republic and Peru) to consumption in major cane sugar importing countries (Denmark, France, Netherlands, United Kingdom and United States)

Coffee

C = Consumption in United Kingdom and United States
S = Ratio of index of stocks in Brazil to index of consumption in United Kingdom and United States

Cocoa

O = World production
S = Ratio of index of stocks to index of consumption in United Kingdom and United States

Tea

O = World production
S = Ratio of index of stocks to index of consumption in United Kingdom

Copra and coconut oil

q_1 = World trade in copra (net)
p_1 = Pre-war: export unit value of Ceylon, Indonesia, New Guinea and Philippines; post-war: import unit value of United Kingdom and United States
O_1 = Production of copra in exporting countries (pre-war figures not available)
q_2 = World trade in coconut oil
p_2 = Import unit value of United States
O_2 = Production of coconut oil in Ceylon, Malaya and Philippines

Cotton

C = World mill consumption excluding United States
S = Ratio of index of stocks in major exporting countries to consumption in major importing countries (in the pre-war years stocks refer to total world visible stocks)

Silk

C = Pre-war: textile production in United States; post-war: consumption in major importing countries
S = Ratio of index of world stocks to consumption

Wool

O = Production in five major supplying countries
q/O = Ratio of world trade in wool to textile production in OEEC countries and United States

Jute

C = World consumption of jute
S = Ratio of stocks in Pakistan to world production of jute manufactures

Rubber

C = World absorption of natural rubber
S = Pre-war: ratio of index of stocks in Brazil, Singapore, United Kingdom, United States and afloat, to index of world absorption of natural rubber; post-war: world stocks

Crude petroleum

C = Index of world manufacturing production (excluding Soviet Union)

Aluminium

q_1 = World trade in aluminium
O_1 = Index of output of metal products in western Europe and United States
p = Import unit value of aluminium of United States and western Europe
q_2 = World trade in bauxite
O_2 = Production of aluminium in western Europe and United States

(*continued on following page*)

but when supplies in the exporting countries—as measured by the level of stocks—have fallen or risen relatively to consumption. This, at least, was largely true in the inter-war and early post-war years; but in more recent years, as will be discussed later, the influence of the instability in cotton output upon prices has been heavily modified by the role of the United States Government in the cotton market. Jute prices have similarly been greatly influenced by the extreme instability of jute production. Output of wool in the short period, on the other hand, has tended to be relatively stable, at least in the post-war years, and wool prices have accordingly been more strongly influenced by the fluctuations in demand.

It has been among the raw materials other than textile fibres, however, that the short-period fluctuations in both volume and price have been most clearly dominated by the cyclical pattern of economic activity in industrial countries. Chart 6 illustrates that variations in both volume and price of world trade in the various ores and metals have, for instance, corresponded closely to the changing level of output of the metal products industry in the United States and western Europe. This was especially evident in the inter-war period, though consumption of each metal did not, of course, always move exactly in line with output of the metal products industry as a whole. In the post-war years, the relationship has the appearance of being much looser. But this was mainly because of exceptional circumstances that arose during and after the Korean conflict. At the outbreak of hostilities, a powerful upsurge in speculative activity swept the metals markets, and this was reinforced by the acceleration of governmental purchases for strategic stockpiles. In 1951, however, various governmental measures were adopted to limit demand for the non-ferrous metals—as well as for other raw materials—in order to moderate the advance in prices and assure supplies for essential uses. At the same time, purchases for strategic stockpiles fell heavily. As a consequence, world trade in the non-ferrous metals dropped steeply. In 1952, however, when many of these controls were dismantled and purchases for strategic stockpiles reached their post-war peak, trade recovered as steeply as it had fallen. Trade again declined in 1953, partly because the rate of stockpiling had slackened. In more recent years, however, both volume and price have again tended to follow the fluctuations of activity in industrial countries.

When the principal sources of instability in trade of all classes of primary commodities are considered together, it becomes evident that the instability pervading supply conditions has generally been of greater importance than is commonly assumed. In only a minority of primary commodities, particularly the mineral raw materials, have cyclical variations in demand within the industrial countries dominated the pattern of short-period fluctuations in both volume and price. The behaviour of prices and volume of trade of most foodstuffs, and of prices—though not of volume of trade—of textile fibres, has been heavily influenced by the instability of supply conditions and has not conformed to any systematic, cyclical pattern.

THE MAGNITUDE OF INSTABILITY IN VOLUME

As suggested above, the short-period instability in the volume of trade of most primary commodities has been largely induced by either of two factors. Among most raw materials, the variations in volume have mainly responded to the cyclical variations in income and consumption, while, among many foodstuffs, they

Legend to chart 6 (continued)

Copper

q_1 = World trade in copper metal
O_1 = Index of output of metal products in western Europe and United States
p = Import unit value of copper metal of United States and western Europe
q_2 = World trade in copper ore and concentrates
O_2 = Production of copper metal (primary) in western Europe and United States

Lead

O = Index of output of metal products in western Europe and United States

Tin

q_1 = World trade in tin metal
O_1 = Index of output of metal products in western Europe and United States
p = Import unit value of tin metal of United States and western Europe
q_2 = World trade in tin ore and concentrates
O_2 = Production of tin metal (primary) in western Europe and United States

Zinc

q_1 = World trade in zinc metal
O_1 = Index of output of metal products in western Europe and United States
p = Import unit value of tin metal of United States and western Europe
q_2 = World trade in zinc metal and concentrates
O_2 = Production of zinc metal (primary) in western Europe and United States

Iron ore

O = Production of crude steel in western Europe

have primarily reflected the instability in competing domestic output of the importing countries. It might therefore be thought that the actual magnitude of the short-period variations in volume of trade would be related quite simply to the magnitude of variations in consumption of raw materials or to the magnitude of variations in competing domestic output of foodstuffs. In fact, however, the channels through which fluctuations in consumption or domestic output affect the magnitude of fluctuations in volume of trade, are less direct. For the volume of imports of both foodstuffs and raw materials is also influenced by changes in the level of stocks in the importing countries; and, moreover, many raw materials, no less than many foodstuffs, are also produced in the importing countries. The magnitude of fluctuations in the volume of trade may thus be significantly modified by the behaviour of these factors.

Some indication of the influence of domestic output on the instability of imports can be gleaned from table 16, where the short-period fluctuations in domestic production and consumption are compared with the fluctuations in supplies of certain commodities imported into the United States, the United Kingdom and western Europe.

Table 16. United States, United Kingdom and Western Europe: Short-period Fluctuations in Import Volume, Domestic Consumption and Production, 1948–1957 and Import Volume as Percentage of Domestic Consumption, 1953–1956; Selected Commodities

(Annual averages; percentages)

Area and commodity	*Import volume*	*Domestic consumption*	*Domestic production*	*Import volume as percentage of domestic consumption*
United States				
Aluminium	27	12	7	13
Lead, refined pig	26	13	5	35
Tin, refined pig	25	15	13	130
Wool	21	15	4	62
Zinc, slab	20	14	4	20
Copper, ore and concentrates	18	9[a]	8	10[b]
Copper, unrefined[c]	12			18[d]
Copper, refined	14	11	9	17
Zinc, ore and concentrates	9	4	7	45
Rubber[e]	9	9	18	36
Petroleum, crude	6	4	5	12
Tobacco	3	2	7	9
Sugar	4	3	8[f]	45
United Kingdom				
Lead, refined	22	10	13	73
Zinc, slab	19	12	6	62
Copper, refined	8	11	8	88[g]
Western Europe				
Sugar	18	4	10	27
Tobacco	12	1	7	36
Wool	12	7	2	80
Grains	7	...	4	30

Source: United States: Department of Commerce, *Business Statistics, 1957* and *Statistical Abstracts of the United States*, 1950, 1954 and 1958 (Washington, D.C.); United Kingdom: Central Statistical Office, *Annual Abstract of Statistics* (London); and other publications listed under source for table 13. For the United States and the United Kingdom, data refer to retained imports; for western Europe, imports net of exports. For description of method used to compute the short-period fluctuations, see source for table 13. For certain commodities, the percentages in the last column refer, not to 1953–1956, but to later time periods.

[a] Refinery production.
[b] As percentage of smelter production.
[c] Including ore and concentrates, regulus, blister, etc.
[d] As percentage of refinery production.
[e] Including synthetic and reclaimed rubber.
[f] Including production in offshore territories.
[g] Gross imports.

The data reveal quite clearly that domestic production of most raw materials has tended to be more stable than either domestic consumption or imports. The explanation lies partly in the supplementary role played by imports. When domestic consumption rises, it may first be met by an expansion in domestic production, but as domestic output reaches the limits set by productive capacity, imports rise sharply. Conversely, when domestic consumption declines, imported supplies, rather than domestic production, sustain the

larger reductions. In the post-war years, however, particularly among certain non-ferrous metals imported into the United States, the greater instability of imports was considerably magnified by the exceptional events associated with the Korean period. Demand appreciably exceeded normal industrial requirements in certain years because of the large stockpiling programmes; further, in 1951, controls were imposed on supplies of certain raw materials for a short period. The brunt of these exceptional variations in market conditions was borne by imported supplies, greatly magnifying their instability. In more recent years, the instability of imports of non-ferrous metals relative to domestic production or consumption has been much smaller.

It must not, however, be supposed that imported supplies of all raw materials have invariably tended to serve a supplementary role. In some instances, imports have tended to compete with domestic production rather than to supplement it.[16] In the United States, for example, the output of domestic, high-cost producers of copper and zinc ores and concentrates has tended to be sensitive to the variations in world prices; when world prices have fallen, the proportion of foreign to domestic ores and concentrates utilized in domestic smelter production has tended to rise. A more extreme instance is provided by United States imports of natural rubber, which have been considerably influenced by changes in the relative prices of imported and domestic supplies. Natural rubber prices have oscillated widely as total demand for all kinds of rubber has risen and fallen. But synthetic rubber prices have remained very stable. There has consequently been some tendency among manufacturers to substitute synthetic for natural rubber in periods of rising demand, and conversely in periods of falling demand. This has tended to stabilize consumption and imports of natural rubber by comparison with consumption and domestic output of synthetic rubber.

Among most foodstuffs, the relationship between the magnitude of fluctuations in imports and in domestic output has been simpler, having largely conformed to the mechanism described in earlier paragraphs. While domestic consumption has generally been relatively stable, domestic production, being subject to the vagaries of climate and other causes of instability in output, has tended to fluctuate quite widely. The variations in imports, however, have generally been even greater, since domestic production has accounted for the major portion of total domestic requirements. For example, while the production of grains in western Europe has undergone short-period variations of about 4 per cent *per annum* in the post-war years, the volume of imports has varied by 7 per cent; for, in recent years at least, imports have averaged only about one-third of domestic output.

In both foodstuffs and raw materials, the magnitude of the variations in volume of trade has also been affected by changes in the level of stocks in the importing countries. Passing reference has already been made to the influence of governmental strategic stockpiling upon the stability of trade,[17] but, for most primary commodities, the changes in commercial stocks have been of greater absolute importance.

Changes in the level of stocks in the importing countries have very probably played some part in accounting for the greater instability in the volume of trade as compared with consumption. The evidence here is, however, much less conclusive and it cannot simply be assumed that changes in the level of stocks in the importing countries have invariably exerted a destabilizing influence on the volume of world trade. At first sight, it might appear that changes in the level of stocks in the importing countries would normally tend to reinforce the effect of changes in consumption upon the volume of imports; as consumption declined, the level of stocks would be allowed to run down and as consumption increased, the level of stocks would be raised. The changes in stocks would thus tend to magnify the effects of changes in consumption upon manufacturers' demand for primary commodities. In fact, however, this simple mechanism cannot provide more than a partial explanation of the actual changes in stocks. Of course, data on stocks are very incomplete, but if the changes in the level of total stocks in the importing countries of the various commodities shown in table 17 are compared with the changes in consumption in these countries, it is found that stocks frequently moved in the opposite direction to consumption. Part of the explanation lies in the fact that stocks of imported commodities cannot be quickly replenished, simply because of the great distances that separate the producers and the manufacturers. When consumption of any commodity increases in any year, it is initially through the drawing down of stocks that increased supplies are obtained; if the increase in consumption is sustained, increased orders will be placed with suppliers, but some considerable time may elapse before shipments take place and stocks are finally replenished. This is particularly true of agricultural commodities whose supplies often cannot be increased until the next crop year.

But in addition to these lags in the movement of stocks in relation to consumption, stocks may also vary because of changing expectations about future prices. The prospect of excellent harvests, for instance, may induce importers to let their stocks run down in the expectation of lower prices. The decline in importing

[16] For further discussion of this point, in relation to United States imports during the recent recession, *see* chapter 5 and United Nations, *Commodity Survey, 1958* (sales number: 59.II.D.1), page 13.

[17] The effect that strategic stockpiling has had upon trade in primary commodities is discussed at some length in *Commodity Survey, 1958*, pages 26 to 32.

Table 17. Major Importing Countries: Indices of Consumption and Year-end Commercial Stocks and Ratio of Stocks to Current Consumption of Selected Commodities

(1953 = 100)

Commodity	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957
Tin metal										
Consumption in United States and United Kingdom	117	93	130	111	100	100	105	114	114	105
Stocks	136	137	143	72	81	100	67	76	72	107
Stock ratio	.61	.77	.58	.34	.43	.53	.34	.36	.33	.54
Rubber										
Consumption in major importing countries[a]	...	87	109	90	86	100	110	117	106	...
Stocks	...	88	76	86	94	100	87	90	89	93
Stock ratio	...	.19	.14	.18	.21	.19	.15	.15	.16	...
Cotton[b]										
Consumption in major importing countries[c]	76	81	92	106	99	100	113	108	107	119
Stocks	101	111	117	117	107	100	94	79	73	79
Stock ratio	.46	.47	.43	.38	.37	.34	.29	.25	.23	.23
Wool[b]										
World consumption, excluding consumption in major exporting countries[d]	102	96	107	86	89	100	92	95	105	106
Stocks	126	100	114	115	99	100	97	93	92	...
Stock ratio	.49	.44	.44	.56	.46	.42	.44	.41	.37	...
Coffee										
Consumption in United States	102	105	92	95	97	100	90	94	98	98
Stocks	110	—	92	110	102	100	99	38	78	75
Stock ratio	...	.19	.18	.21	.19	.18	.20	.07	.14	.14
Cocoa										
Consumption in United States	83	92	104	92	94	100	93	92	99	...
Stocks	60	480	108	171	71	100	157	465	444	237
Stock ratio	.01	.07	.01	.02	.01	.01	.02	.06	.06	...
Sugar										
Consumption in major importing countries[e]	83	89	90	92	94	100	99	102	108	108
Stocks	55	62	92	103	107	100	133	130	115	101
Stock ratio	.20	.21	.31	.34	.35	.30	.41	.39	.32	.29

Source: Commonwealth Economic Committee, *Plantation Crops* and *Industrial Fibres* (London); International Tin Study Group, *Statistical Bulletin.*

[a] Australia, Canada, France, Federal Republic of Germany, India, Japan, United Kingdom and United States.

[b] Crop years ending in the year stated.

[c] Belgium, Canada, France, Federal Republic of Germany, Italy, Japan, Netherlands and United Kingdom.

[d] Major exporting countries are Argentina, Australia, New Zealand, Union of South Africa and Uruguay.

[e] Canada, France, Netherlands, United Kingdom and United States.

countries' coffee and cotton stocks to lower levels in 1955 and subsequent years, for example, was probably related to the accumulation of heavy stocks of these commodities in the principal exporting countries. Because of these heavy stocks, and in view of the policy of the United States Government with respect to the pricing of cotton exports, it seems probable that importers allowed their stocks to decline in the expectation of lower international prices.

In sum, no simple conclusion can be drawn about the influence of changes in commercial stocks on the volume of trade. While the behaviour of stocks has certainly magnified the fluctuations in volume of trade in some years, in other years changes in stocks may have served to moderate the impact of changes in consumption on trade.

INSTITUTIONAL FACTORS AFFECTING FLUCTUATIONS IN PRICE

Fluctuations in prices of individual commodities have differed no less widely than those in the volume of trade. Even within similar groups of commodities, such as the fibres or the non-ferrous metals, there have been wide differences in the behaviour of prices. For actual supply conditions in some of these markets have been distinctively different from conditions in adjacent markets; and the differences have, to a large extent, been due to institutional factors. Such institutional factors as control over the output of an industry by a few concerns or governmental intervention in commodity markets, although only one element in the explanation of differential price instability among primary commodities in general, have been of major importance in accounting for the differences in instability among similar groups of commodities.

An outstanding example of the influence of institutional factors on price stability is provided by a comparison of the natural and synthetic rubber markets. Thus, among all the commodities shown in table 13, the widest oscillations in price have been experienced by natural rubber. The demand for rubber tends to be very sensitive to the cyclical variations in industrial activity; and, since the cost of crude rubber constitutes a very small proportion of the total cost of the manufactured products for which it is mainly utilized, demand tends to be highly insensitive to changes in price. At the same time, the technical conditions surrounding the supply of natural rubber militate against any substantial increase in output whenever demand is advancing strongly. But it is striking that, while, in these conditions, natural rubber prices have been extremely volatile, synthetic rubber prices have been extremely stable. It should therefore be clear that the factors just mentioned do not fully explain the instability of natural rubber prices. It is true, of course, that the technical conditions of supply in the synthetic rubber industry permit considerable short-period flexibility of output, unless—as has happened in some post-war years—capacity in the industry has already reached the point of full utilization. What appears more important, however, is the great difference in the organisation of the synthetic and natural rubber industries. The synthetic rubber industry, on the one hand, is concentrated in the hands of a relatively small group of concerns, operating mainly in the United States;[18] and the price of synthetic rubber is administratively determined. The natural rubber industry, on the other hand, consists of a multiplicity of estate and peasant producers, each of whom sells his output at whatever price it can fetch on the market. Although price may fall well below total costs of production, producers may nevertheless maintain their output; for, so long as price is above such variable costs of production as wages and the costs of transportation to the market, it will partly defray the overhead costs which have to be borne regardless of the level of current output. The highly competitive nature of the industry may thus be instrumental in inducing fluctuations in price that bear little relation to changes in average unit costs of production.

This contrast between the supply conditions surrounding natural and synthetic rubber illustrates the influence that institutional circumstances may have upon the magnitude of price fluctuations. Such circumstances have also considerably modified price fluctuations in certain other primary commodity markets. Aluminium and petroleum prices, for example, are formed in a manner similar to prices in the synthetic rubber industry.

In the markets for most agricultural commodities, however, control over output by a few large producers is virtually unknown. But, in some of these commodities, the structure of the market has been considerably modified by the intervention of governments; and this has also affected the fluctuations in prices.

The cotton market provides one of the best known instances of the effect that governmental intervention may have in modifying fluctuations in price. As a principal supplier of cotton in world markets, the United States has exerted considerable influence on world cotton prices through its price-support scheme. The minimum prices set by the United States Government for domestic cotton have provided a floor for world cotton prices. This has not, of course, prevented fluctuations in world cotton prices above the minimum levels. In the early post-war years and during the Korean period, when world demand was strong in relation to supplies, cotton prices did change appreci-

[18] The synthetic rubber industry in the United States was owned and operated by the Government, through the agency of the Reconstruction Finance Corporation, until 1954. When transfer to private hands was negotiated, twenty-seven plants were in existence; but since the transfer there have been substantial additions to capacity.

ably from year to year.[19] But since the Korean period, world cotton supplies have been continuously in excess of world demand because of the heavy stocks accumulated by the United States under its price-support scheme. World cotton prices have accordingly been predominantly determined by the policy of the United States Government with regard to the prices at which it stands prepared to buy domestic cotton or to sell its cotton stocks in export markets. Prices have, in fact, been very stable since 1953, tending to decline after 1956 when the United States Government made some downward adjustments in its export prices.

Some influence has similarly been exerted by the Japanese Government in moderating fluctuations in world silk prices. In the early nineteen fifties, the enactment of a price stabilization law permitted the establishment of maximum prices for silk. At first, however, the law was only partially successful. But it was later amended and the official agency associated with its implementation was empowered to buy and sell stocks. In recent years, the official agency has adjusted its buying and selling policy to moderate the effect of short-run changes and demand and supply upon market price, and prices have fluctuated within a range set by the official maximum and minimum prices.

The influence of such governmental policies upon prices, together with the influence of such intergovernmental arrangements as the various international commodity agreements, are discussed at some length in chapters 2 and 3. It need only be observed here that governmental actions have modified the fluctuations in international prices of only a small group of primary commodities. Prices of a few other commodities have been subject to administrative determination by the industries concerned. But, for most primary commodities, the magnitude of fluctuations in international prices has continued to be determined almost entirely by the conditions ruling in private, competitive markets. In these markets, demand has generally tended to be insensitive to changes in price. At the same time, the adaptation of current output or supplies to current levels of demand at relatively stable prices has been rendered extremely difficult by the highly competitive structure of production and, among agricultural commodities, by the dependence of output on weather conditions and other natural events. Further, prospective supplies in most commodity markets have been shrouded in uncertainty and, together with the uncertainty concerning prospective demand, this has rendered prices prone to sudden waves of speculative activity. In these circumstances, prices of most primary commodities have been subject to wide short-period fluctuations.

Significance of the commodity problem for the primary producing countries

LONG-TERM TRENDS

Export earnings of the primary producing countries have commonly assumed major importance in setting the pace of their internal economic growth. In many under-developed countries domestic income and output have hardly sufficed to sustain subsistence levels of living; low rates of saving and investment have restricted the growth of domestic demand, and the sluggish expansion in demand has offered little inducement to invest. In these circumstances, rising foreign demand for the output of the export sector has generated expansionary impulses which have stimulated growth in the domestic sectors of the economy. In the post-war years, of course, the process of cumulative growth in many primary producing countries has developed its own momentum or has been strongly impelled forward by the determined actions of governments. The foreign trade sector has nonetheless lost little of its crucial importance; for the rate of capital formation in these countries has continued to depend heavily upon their ability to import supplies of capital equipment.

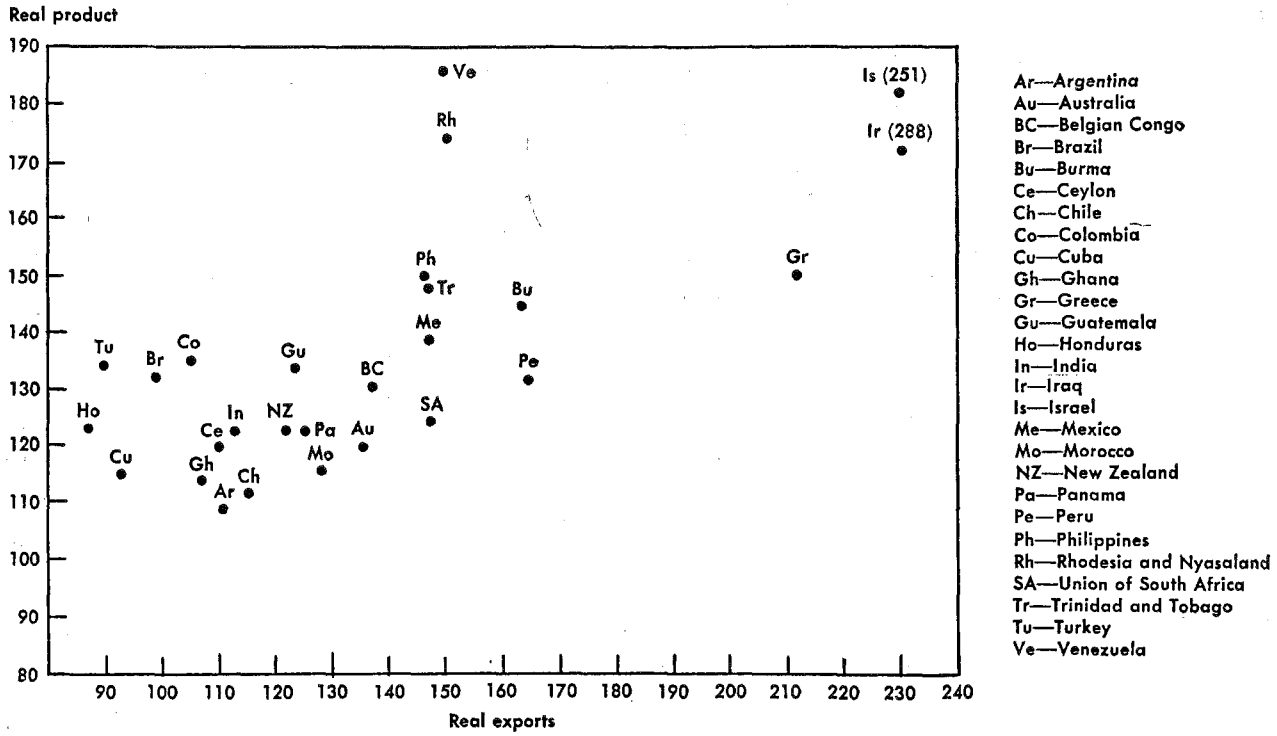
The pace of domestic growth in the economies of individual primary producing countries has thus been closely bound up with the trends in their external markets. Lack of data makes it impossible to express this relationship in quantitative terms for the whole period from the late nineteen twenties to the present. But, in chart 7, the growth in the export sectors of individual countries since 1950 is compared with the growth in their economies as a whole; and the close relationship which is apparent clearly demonstrates the dominant role that the export sector has played in determining the rate of growth in the internal economy. Countries enjoying a high rate of internal growth have generally experienced favourable trends in foreign demand for their exports, while countries which have been faced with comparative stagnation of their external markets have frequently suffered from relatively slow internal economic expansion. Undoubtedly, other factors have also shaped the pace of economic growth in the various primary producing countries, but the influence of the trends in export markets has commonly been dominant.[20] It is therefore evident that the long-term commodity problem constitutes a crucial element in the larger problem of the economic development of primary producing countries.

[19] In 1951, the United States, however, also set a maximum price for cotton, which probably limited the advance in world prices.

[20] It should be pointed out that the exceptionally high rates of growth of exports in Greece and Israel have reflected mainly the post-war recovery of production. In the case of Rhodesia and Nyasaland and Venezuela, foreign investment has been very important in accelerating their total growth in relation to exports.

Chart 7. Primary Producing Countries: Relationship between Real Exports and Real Product, 1950–1951 to 1956–1957[a]

(1950–1951 = 100)



Source: United Nations Bureau of Economic Affairs, based on national sources.

[a] For Australia and Burma the period is 1949/50–1950/51 to 1955/56–1956/57; for Honduras, Iraq, Panama, Peru and Turkey, 1950–1951 to 1955–1956; for India, 1950/51–1951/52 to 1955/56–1956/57; for Morocco, 1951–1952 to 1955–1956; for New Zealand, 1950/51–1951/52 to 1956/57–1957/58; for Trinidad and Tobago, 1951–1952 to 1956–1957; for the Union of South Africa, 1950–1951 to 1953–1954.

Real product refers to gross domestic product in Brazil, Burma, Chile, Colombia, Mexico and Peru; net national product in India; national income at factor cost in Iraq; and gross national product in all other countries. Export data for Israel include service items.

Few countries, of course, are exclusively dependent upon exports of a single commodity, and it is to be expected that the trends in their total external purchasing power would differ from the trends in their major export commodities. On the whole, as may be seen from table 18, rates of growth in purchasing power have tended to vary somewhat less among the groups of exporting countries than among the commodity groups. For example, the purchasing power of the major exporters of food and tobacco increased by about one-fifth between 1928 and the mid-nineteen fifties, although there was virtually no change in the purchasing power of food and tobacco exports. The purchasing power of rubber exporters, on the other hand, has not expanded commensurately with the purchasing power of rubber, for the slower growth in export proceeds of tin has depressed total proceeds of these countries. Such differences between the growth in major exports and in the export proceeds of major exporting countries have not, however, significantly altered the relative positions of the country and commodity groups.

Broadly, then, the experience of the major groups of countries has reflected the long-term changes in the pattern of demand in the industrial countries. Only the petroleum exporting group has been favoured with an advance in external purchasing power that has surpassed the growth of world manufacturing production. The exporters of other minerals and beverage crops have fared less well, while exporters of staple foods and textile fibres have been confronted with serious lags in their external purchasing power.

In contrast to the insensitivity of primary commodity exports to the growth of income in the industrial countries, the imports of primary producing countries have tended to be highly responsive to their domestic economic growth; and the internal growth of the primary producing countries during the past thirty years has invariably resulted in a rising trend of imports. While among the various groups of countries the trend in imports has been fundamentally determined by the advances in external purchasing power, the volume of imports, as shown in table 18, has generally

Table 18. Primary Producing Countries: Purchasing Power of Exports[a] and Import Quantum,[b] 1928 to 1955–1957

Commodity and item	1928 = 100		1950 = 100
	Major export commodity	Exporting countries[c]	Exporting countries[c]
Petroleum			
Purchasing power of exports	1,200[d]	669	128
Import quantum		613	155
Metals and ores			
Purchasing power of exports	296	217	140
Import quantum		341	155
Rubber			
Purchasing power of exports	177[e]	128	91
Import quantum		146	126
Textile fibres			
Purchasing power of exports	123	150	100
Import quantum		190	114
Beverage crops			
Purchasing power of exports	215	228	106
Import quantum		235	128
Food and tobacco			
Purchasing power of exports	102	119	99
Import quantum		162	120
Total			
Purchasing power of exports	202[f]	183	108
Import quantum		213	127
Total, excluding petroleum			
Purchasing power of exports	162	153	103
Import quantum		192	123

Source: Statistical Office of the United Nations and Bureau of Economic Affairs.

[a] Value of exports divided by index of world export unit value for manufactures.

[b] Value of imports divided by index of world export unit value for manufactures.

[c] The countries included in each group are: petroleum, Aden, Iran, Iraq, Netherlands Antilles, Saudi Arabia, Sarawak, Trinidad and Tobago and Venezuela; metals and ores, Belgian Congo, Bolivia, Chile, Mexico, Peru and Rhodesia and Nyasaland; rubber, Indonesia and Malaya and Singapore; textile fibres, Australia, Egypt, French Equatorial Africa, India, New Zealand, Nicaragua, Pakistan, Paraguay, Sudan, Union of South Africa and Uruguay; beverage crops, Brazil, Ceylon, Colombia, Costa Rica, El Salvador, Ethiopia, French West Africa, Ghana, Guatemala, Nigeria and Tanganyika; and food and tobacco, Argentina, Burma, British Guiana, Cuba, Dominican Republic, Ecuador, Greece, Israel, Jamaica, Mauritius, Morocco, Panama, Philippines, Spain, Thailand, Tunisia and Turkey. These groupings are designed to serve as a convenient basis for analysis of long-term changes; they may not therefore be identical with those employed elsewhere in this *Survey* for studying current economic developments.

[d] Crude petroleum only. Including estimates of exports from Bahrain and Kuwait; if these exports are excluded, the index of purchasing power of petroleum exports for 1955–1957 is 966.

[e] 1927–1929 = 100. The figure is 258 on the basis of 1928, when exports were abnormally low as a result of restrictions imposed by the Governments of major exporting countries.

[f] Exports of thirty-four major foods, basic materials and fuels from primary producing countries.

risen at a higher rate than external purchasing power. Only in the petroleum exporting countries has the advance in external purchasing power more than offset the very sharp rise in imports.

One important factor responsible for the intensification of import demand of the primary producing countries has been the changes in the pattern of domestic demand generally associated with economic development. Since the Second World War, the effort of many primary producing countries to hasten economic development has resulted in a substantial increase in investment not only absolutely, but also in relation to the growing total output. As a consequence, demand for imported capital equipment has risen sharply. Thus, between 1938 and 1955–1957, imports of machinery and transport equipment trebled in volume while total imports of manufactures barely doubled.

The relative expansion in imports of capital goods has been commonly associated with a relative decline in imports of manufactured consumer goods; the share of textiles, for instance, declined from 36 per cent of total imports of manufactures in 1938 to 19 per cent in the mid-nineteen fifties. This change in import composition has, of course, been facilitated by the development of manufacturing industries within the primary

producing countries; in particular, there has been considerable expansion of domestic textile industries. In many countries, however, the agricultural sector of the economy has not exhibited similar flexibility and, by comparison with the growth of population and the expansion of per capita incomes, the increase in domestic food production has been relatively slow. In some countries, the gap has been met through a reduction in the exportable surplus of foodstuffs, but in many, it has necessitated a marked expansion in imports. For example, gross imports of grains by the primary producing countries as a whole rose between 1928 and the mid-nineteen fifties by 80 per cent and gross imports of sugar increased by 130 per cent.

The more rapid increase in the volume of imports as compared with the purchasing power of exports has greatly altered the balance of trade of the primary producing countries as a whole, and has exerted increasing pressure on the balance of payments. In 1928, the primary producing countries included in the present study had an export surplus in the balance of trade amounting to 8.9 per cent of the value of commodity exports. By 1955–1957, this export surplus had been transformed into an import surplus amounting to 6.4 per cent of exports. In the post-war years between 1950 and 1955–1957, the magnitude of the deterioration was even greater (see table 19).

The experience of the petroleum exporters was distinct from that of all other groups. These countries, which had an export surplus amounting to the high proportion of 17.5 per cent of their exports in 1928,

Table 19. Primary Producing Countries: Exports, Imports and Trade Balances

(Millions of dollars)

Countries grouped by major exports[a]	*1928*[b]	*1950*	*1955–1957*
Petroleum exporters			
Exports	824	3,407	5,257
Imports	680	2,123	3,967
Balance	144	1,284	1,290
Balance as percentage of exports	17.5	37.7	24.5
Metals and ores exporters			
Exports	1,281	1,569	2,634
Imports	861	1,495	2,777
Balance	420	74	−143
Balance as percentage of exports	32.8	4.7	−5.4
Rubber exporters			
Exports	1,890	2,111	2,298
Imports	1,519	1,392	2,109
Balance	371	719	189
Balance as percentage of exports	19.6	34.1	8.2
Textile fibres exporters			
Exports	4,549	5,413	6,476
Imports	4,242	5,575	7,655
Balance	307	−162	−1,179
Balance as percentage of exports	6.7	−3.0	−18.2
Beverage crops exporters			
Exports	1,751	2,992	3,799
Imports	1,717	2,515	3,850
Balance	34	477	−51
Balance as percentage of exports	1.9	15.9	−1.3
Food and tobacco exporters			
Exports	4,223	4,038	4,776
Imports	4,200	4,520	6,501
Balance	23	−482	−1,725
Balance as percentage of exports	0.5	−11.9	−36.1
Total			
Exports	14,518	19,530	25,240
Imports	13,219	17,620	26,859
Balance	1,299	1,910	−1,619
Balance as percentage of exports	8.9	9.8	−6.4

Source: United Nations Bureau of Economic Affairs, based on League of Nations, *Network of World Trade* (Geneva, 1942) and Statistical Office of the United Nations, *Monthly Bulletin of Statistics.*

[a] For countries included in each group, see table 18, footnote *c*.

[b] Adjusted to the post-1934 dollar.

recorded still larger surpluses in the post-war years. In contrast, trade balances of all the other groups of countries between the same two periods deteriorated, sometimes very sharply. It is interesting to note, however, that, because of the divergent movements in import demand, the extent of deterioration did not always closely reflect the export experience of the various groups. In fact, the exporters of ores and metals recorded the largest deterioration in the balance of trade despite a greater increase in their external purchasing power than almost all other groups. Almost as great a deterioration developed in the group of countries exporting food and tobacco, which was the least favourably situated as regards trends in external markets. In the remaining groups, imports also increased more rapidly than exports, but the disparity was less marked than in the above-mentioned two groups and the trade balances consequently deteriorated less; the deterioration was, however, more marked for the textile exporters than for the exporters of beverage crops and rubber.

No less marked were the divergences in experience of countries within some of these groups. While the long-term improvement in the trade balance of petroleum exporters as a whole and the deterioration in the balance of food exporters as a whole were both generally shared by all the countries within these groups, the experience of countries in the ores and metals group and in the beverage crops group diverged considerably. As has been shown, exports of some countries in both these groups rose at a much higher rate than exports of the major traditional exporting countries, because of shifts in the sources of supply. It was largely this factor which accounted for the more favourable experience in the trade balances of these countries by comparison with those of the traditional exporters. Thus, between 1927–1929 and 1955–1957, the sharp deterioration in the trade balance of the ores and metals group as a whole was, to a very large extent, due to the deterioration in the larger countries, such as Chile and Mexico; the trade balances of the newer African exporters of metals improved considerably. Similarly, in the beverage crops group, while the trade balances of the major traditional exporters deteriorated substantially, the position of other exporters was more or less maintained. The actual changes in the trade balances of these countries may be summarized as follows:

	Export proceeds in 1955–1957 (1927–1929 = 100)	*Balance of trade* (as per cent of exports)	
		1927–1929	*1955–1957*
Ores and metals group			
Major traditional exporters	141	40.4	−11.6
African exporters	974	−58.6	5.3
Beverage crops group			
Major traditional exporters	186	7.5	5.1
Other exporters	284	−10.1	−10.5

Source: Statistical Office of the United Nations, *Statistical Yearbook* and *Monthly Bulletin of Statistics.*

But, for most primary producing countries, imports have far exceeded the increases in exports and, consequently, their balances of payments have been subject to continuous and mounting pressure. Under such circumstances, many primary producing countries have found it necessary during the post-war years to tighten their import controls in order to protect the flow of imported capital equipment essential for their investment programmes. However, in many cases, the pressure on the balance of payments has been, to a varying extent, alleviated by other factors which have contributed to enlarge the capacity to import.

One factor of importance during the post-war years has been the reduction in the proportion of export earnings which have had to be earmarked for payments on account of non-trade transactions, such as foreign investment income payments.[21] Before the war, primary producing countries were obliged to set aside substantial amounts out of their annual export earnings for the payment of interest and dividends earned by foreign capital. For instance, in 1928, the ratio of payments to export earnings ranged from about 10 per cent in India to over 40 per cent in Chile and Mexico. The inflation of primary commodity prices which occurred during the war and early post-war years substantially reduced this burden; and the war-time accumulation of foreign exchange reserves enabled many countries to retire their foreign debt. As a result, many primary producing countries found themselves after the war with reduced obligations in regard to earnings of foreign capital, and a much smaller proportion of export earnings has been needed to meet these obligations.

But of greater importance has been the contribution made by the inflow of long-term capital into the primary producing countries. During the post-war period, the flow of long-term private capital to the primary producing countries recovered from the slump of the nineteen thirties, when industrial countries had repatriated substantial sums invested in the primary producing countries. But, as shown in table 20, the net inflow of long-term private capital into the primary producing countries in the mid-nineteen fifties was at about the same absolute level as it had been in 1928; relatively to the enhanced level of export earnings, it had therefore

[21] Some impression of the quantitative importance of the reduction of the ratio of interest and dividend payments to export earnings may be derived from the following samples (in percentages):

	1928	*1938*	*1954–1956*
Nine countries	21.8	22.4	9.3
Fifteen countries	...	23.6	11.9
Thirty-seven countries	...	...	9.8

Source: League of Nations, *Balances of Payments* (Geneva); International Monetary Fund, *Balance of Payments Yearbook* (Washington, D.C.).

Table 20. Net Outflow (−) of Long-Term Private Capital and Official Grants and Loans from Industrial Countries

(Billions of dollars)

Item	*1928*[a]	*1937–1938*	*1955–1957*
Private capital	−1.9	1.3	−1.9
Donations and official loans	—	—	−2.3
TOTAL	−1.9	1.3	−4.2
Total capital as percentage of exports from primary producing countries	−10	15	−14

Source: United Nations, *International Capital Movements during the Inter-War Period* (Lake Success, 1949) and *The International Flow of Private Capital, 1956–1958* (sales number: 59.II.D.2); International Monetary Fund, *Balance of Payments Yearbook.*

[a] Adjusted to the post-1934 dollar.

contracted considerably. In recent years, however, the flow of official economic aid to the primary producing countries in both loans and grants has more than offset the relative shortfall in private capital. Thus, the flow of capital from both private and official sources has contributed proportionately more to the expansion of import capacity of the primary producing countries than did private capital in 1928.

Lack of data prevents an exact quantitative account of the distribution among countries of private long-term capital. But data for the United States, which is the largest single exporter of private long-term capital, provides some impression of the pattern of private foreign investment. Thus, the increases since 1929 in United States private direct investments in primary producing countries have been distributed as follows among major industrial categories (in billions of dollars):[22]

	1929	*Change*	
		1929 to 1956	*1950 to 1956*
Total	7.1	4.1	4.6
Petroleum	1.4	3.1	2.0
Mining	1.3	0.1	0.6
Manufacturing	0.6	1.4	1.1
Agriculture	1.5	−0.5	1.0
Other	2.3		

Source: United States Department of Commerce, *American Direct Investments in Foreign Countries*, 1930, 1936 and 1940, and *Foreign Investments of the United States*, 1950 and *Survey of Current Business.*

The petroleum industry in the primary producing countries has clearly been the largest recipient of private United States capital; in fact, between 1929 and 1956, over three-quarters of the total increase in United States direct investment in these countries was absorbed by the petroleum industry. This capital flow has been a major force behind the great expansion in exports of the petroleum yielding countries, and it has thus contributed to the very large growth in import capacity of these countries. The greater part of the remaining increase in the outflow of private foreign capital between 1929 and 1956 was concentrated in investment in manufacturing industry. Generally, such investment has, naturally enough, gravitated towards countries with large and expanding markets. Consequently, it has not tended to supplement the import capacity of countries whose domestic and export markets have been relatively stagnant.

In more recent years, the highly uneven distribution of private foreign investment appears, however, to have been offset to a significant extent by the pattern of distribution in official grants and long-term capital. In 1955–1957, for example, the distribution of funds from both private and official sources among different groups of countries was as follows (in percentages):

	Private long-term capital	*Official grants and long-term loans*
Petroleum exporters	28.9	8.9
Metals and ores exporters	19.9	18.9
Argentina and Brazil	22.5	−7.1
Australia, New Zealand and Union of South Africa	15.9	4.4
India and Pakistan	0.3	19.0
Other primary exporters [a]	12.4	56.0
TOTAL	100.0	100.0

Source: International Monetary Fund, *Balance of Payments Yearbook.*

[a] Consisting of twenty-four countries: Burma, Ceylon, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, Greece, Guatemala, Honduras, Indonesia, Israel, Lebanon, Nicaragua, Panama, Paraguay, Philippines, Sudan, Thailand, Turkey and Uruguay.

It can be seen that official grants and long-term loans have generally been directed to countries other than the petroleum exporting countries or the economically more advanced countries which have long been the major recipients of private long-term capital. India and Pakistan, for example, received 19 per cent of these grants and loans during 1955–1957, although the inflow of private capital into these countries was practically nil. More than half of these funds went to the remaining primary producing countries included in this table, whose relative share of private capital amounted to only about 12 per cent. But, despite such broad offsetting movements among the groups of countries, it cannot be said that the distribution of these loans and grants has been related in any systematic way to the relative trends in external purchasing power of the individual primary producing countries.

Broadly speaking, neither the magnitude nor the direction of international long-term capital movements in the post-war period has been such as to offset the gap in the balances of trade of most primary producing countries that has resulted from the changing structure of world demand. The intensified pressure on external

[22] These data refer to changes in the book value of foreign-held assets, the data for 1929 having been adjusted to post-1934 dollars. They are therefore not directly comparable with the capital outflows recorded in the balance of payments and serve only to indicate relative orders of magnitude. Investments in Japan are included in the data.

balances has been manifest in tightened import controls or in the decline of gold and foreign exchange reserves relative to imports.

SHORT-PERIOD INSTABILITY

Attention has so far been focused upon the difficulties confronting primary producing countries that have arisen from the long-term trends in world demand for primary commodities. But, superimposed upon the long-term commodity problem has been the problem of the severe, short-period instability that pervades world trade in primary commodities. This, indeed, has commonly been the most pressing form in which the commodity problem has manifested itself.

Because of their invariable dependence upon exports of two or three primary commodities at most, the export earnings of most primary producing countries have unavoidably sustained wide, short-period fluctuations. Table 21 shows the average short-period fluctuation in export earnings of individual countries during the period from 1950 to 1957. It can be seen that the pattern of fluctuations in export earnings has broadly reflected the fluctuations in value of primary commodities that were shown in table 13. Where there have been significant differences in the magnitude of fluctuations between countries in the same commodity group, these have been partly attributable either to the supply situation peculiar to individual countries or to the effect of a rapid diversification of exports; among the food exporters, for instance, the greater instability of Argentina's export proceeds has been partly occasioned by special supply factors, while, among the textile exporters, the relative stability of South Africa's export proceeds has partly resulted from the post-war diversification of its exports. But the significant fact is that a high degree of instability in export earnings was commonly experienced by most countries. And, again, the petroleum exporters constitute an important exception, for the favourable trends in export earnings have usually been associated with relatively small short-period fluctuations.[23]

Table 21. Primary Producing Countries:[a] Average Short-Period Fluctuations of Export Earnings,[b] 1950–1957

Countries grouped by major exports	*Percentage*
Petroleum exporters	
Iraq[c]	9.6
Trinidad and Tobago	4.6
Venezuela	3.8
Metal and ore exporters	
Chile	14.2
Belgian Congo	13.0
Mexico	11.2
Peru	8.8
Rhodesia and Nyasaland	8.7
Rubber exporters	
Malaya	21.0
Indonesia	16.8
Textile fibre exporters	
Australia	11.9
India	11.8
New Zealand	7.8
South Africa	5.5
Beverage crop exporters	
Ghana	12.5
Ceylon	11.5
Brazil	11.0
Colombia	10.5
Guatemala	5.4
Food and tobacco exporters	
Argentina	17.6
Honduras	17.2
Burma	12.7
Cuba	12.6
Israel	12.1
Philippines	11.8
Turkey	10.5
Panama	9.8
Morocco	7.9
Greece	3.5

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics;* International Monetary Fund, *International Financial Statistics.*

The instability in export earnings, through its effect on the capacity to import, has had serious repercussions on both the internal and the external balance of the primary producing countries. Had these countries held large reserves of foreign exchange or had they been able to borrow large sums of short-term capital abroad, the full impact of the instability might have been mitigated. In fact, however, during the period under review, the level of foreign exchange reserves held by most countries has been low in comparison with their volume of imports; in post-war years, it has generally been equivalent to only about four to six months' imports and in some cases, such as Peru and Chile, it has been even lower[24] (see table 22). Despite the low reserves, the difficulty of obtaining compensatory short-term financing has compelled most countries to withdraw from their reserves more often than to augment them. Only in the petroleum exporting group and, to a smaller extent, in some countries exporting metals and ores have short-term assets, on balance, been augmented in recent years.

[23] It may be pointed out that the very small fluctuations in Guatemala and Greece were due to exceptional circumstances. In the former case exports followed a strong upward trend without much deviation, whereas in the latter the rise in exports reflected the recovery of production from war devastation.

[24] For a fuller discussion of the level and changes in official reserves of primary producing countries during 1948–1955, see *World Economic Survey, 1956* (sales number: 1957.II.C.1), pages 97 to 99.

[a] Except in the case of rubber exporters, the countries selected in each group are those where other data, such as gross national product, which are essential for further analysis, are available.

[b] Short-period fluctuations of export proceeds measured in this table by the ratio of the mean deviation of the year-to-year changes to the mean of the link relatives.

[c] Refers to 1950–1955 only, as the changes in 1956 and 1957 were predominantly determined by the Suez crisis.

Table 22. Primary Producing Countries: Gross Official Reserves (Gold and Foreign Exchange) as Percentage of Imports, by Groups of Exporting Countries[a]

Item	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957
Primary producing countries[b]	78	60	76	51	47	59	54	49	48	40
Exporters of:										
Petroleum	68	62	75	63	65	66	61	61	80	73
Textile fibres	127	78	110	70	63	89	77	62	56	45
Beverage crops	61	59	56	32	32	42	36	38	43	36
Food and tobacco	49	49	61	46	44	54	49	44	41	33
Metals and ores	19	23	41	27	26	24	21	34	35	26
Rubber	33	31	42	32	27	26	33	33	26	25

Source: International Monetary Fund, *International Reserves and Liquidity* (Washington, D.C., 1958) and *International Financial Statistics.*

[a] Arranged in descending order of the ratio of individual groups in 1957. *Exporters of petroleum:* Iran, Iraq, Venezuela; *exporters of textile fibres:* Australia, Egypt, India, New Zealand, Nicaragua, Pakistan, Paraguay, Union of South Africa, Uruguay; *exporters of beverage crops:* Brazil, Ceylon, Colombia, Costa Rica, El Salvador, Ethiopia, Guatemala; *exporters of food and tobacco:* Argentina, Burma, Cuba, Dominican Republic, Ecuador, Greece, Honduras, Israel, Panama, Philippines, Spain, Thailand, Turkey; *exporters of metals and ores:* Bolivia, Chile, Mexico, Peru; *exporters of rubber:* Indonesia, Malaya and Singapore.

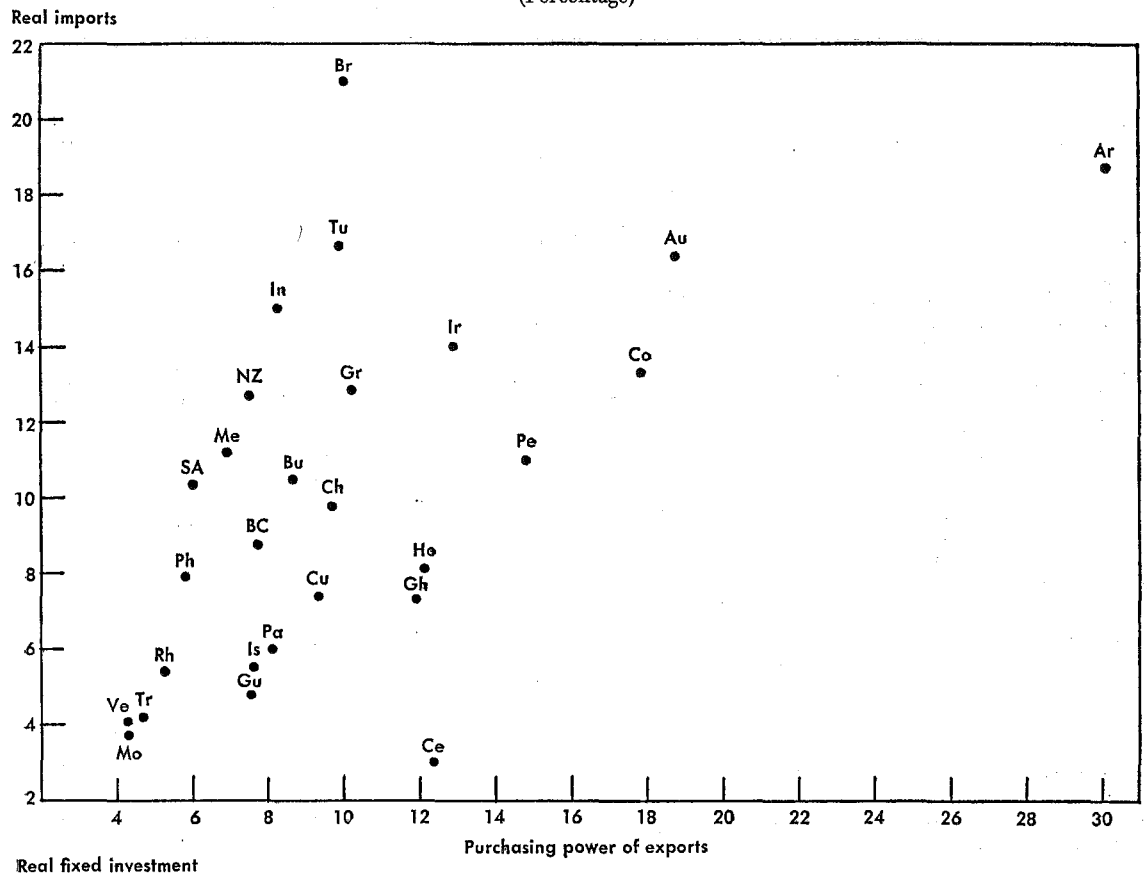
[b] Aggregate of the countries included in this table.

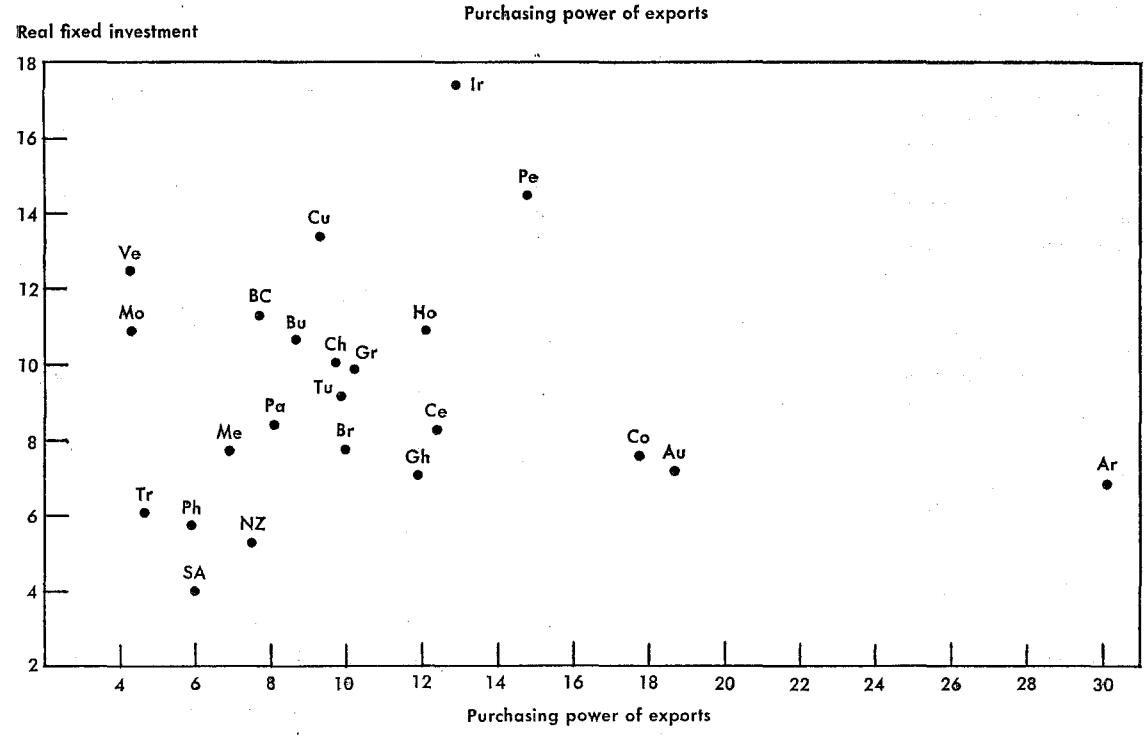
It is only natural that under these circumstances the primary producing countries should have tightened or relaxed their controls over the volume of imports more or less in line with the fluctuations in purchasing power of their exports. The close relationship between the short-period fluctuations in the purchasing power of exports and in the volume of imports which is shown in chart 8 for the period 1950–1957, is thus not surprising. For example, the petroleum exporters, which experienced relatively small fluctuations in external purchasing power, were well placed to maintain a steady flow of imports. On the other hand, in the countries sustaining wide fluctuations in export proceeds, such as Australia, the post-war period has witnessed frequent changes in the intensity of import controls. Needless to say, the adjustment of imports to changes in purchasing power of exports has not necessarily been simultaneous or complete. Consequently, many countries have been faced with recurrent short-term disequilibrium in their balances of payments; this, for example, was a common experience during the period after the collapse of the Korean boom.

Although it is true that, in the face of a decline in export earnings, a country can attempt to maintain a reasonable degree of external balance by a quick and sufficient adjustment of the volume of imports, the reduction of imports, while thus alleviating the pressure on balance of payments, tends to have far-reaching repercussions on the economy as a whole. For, in most primary producing countries, domestic investment activity is closely linked to the availability of imported capital equipment; and, when the fluctuations in purchasing power of exports have necessitated corresponding changes in imports of capital equipment, they have accordingly been transmitted directly to domestic investment activity. The data presented in chart 8 demonstrate that this mechanism has frequently operated in the primary producing countries. Not only have the countries with greater fluctuations in external purchasing power generally experienced greater fluctuations in total real imports, but they have also experienced greater instability in domestic fixed investment.

This relationship between fluctuations in external purchasing power and in domestic fixed investment, which is clearly discernible when the primary producing countries are considered as a whole, has not held with equal force among the individual countries or even for the same countries over time. For, among other things, the strength of the mechanism has often been modified by the aims and operation of government policies regarding investment and imports. The data presented in table 23 show, for instance, that during the Korean boom, when increased export earnings made possible an expansion of imports into almost all countries, a relative increase in imports of consumer goods was the common pattern. In other words, since investment or import policies had often not been clearly formulated, the boom in export incomes prompted a more than proportionate increase in imports of consumer goods. These increased imports did, however, moderate the inflationary effect of the expansion in export incomes. But this was not the experience of all countries. In Brazil, Mexico, Peru and Turkey, for instance, imports of capital goods increased appreciably during the Korean boom; and the increased imports enabled these countries to raise the level of fixed investment, not only absolutely, but also in proportion to total real product. But, while, in most countries, there was a visible tendency to increase imports of consumer goods during the peak years of the Korean boom, the converse has not necessarily occurred in years of declining export proceeds. Imports of capital equipment have often been cut back as much as, or more than, imports of consumer goods in years of a reduction in total imports. In most countries, when total imports were reduced after the Korean boom, a proportionately larger burden was, in fact, borne by capital goods. This tendency was far more manifest in

Chart 8. Primary Producing Countries: Relationship between Short-period Fluctuations in Purchasing Power of Exports, Real Imports and Real Fixed Investment, 1950–1957[a]
(Percentage)





Source: United Nations Bureau of Economic Affairs, based on national sources.

[a] The short-period fluctuations are measured by the ratio of the deviation of year-to-year changes to the mean of link relatives. Except for Argentina, Brazil and Chile, exports and imports include service items. For abbreviations and differences in time coverage, see chart 7.

Table 23. Primary Producing Countries: Year-to-Year Changes in Total Imports and Their Components[a]

(Change in volume[b] over the preceding year as percentage of total imports in 1953)

Country and item	1949	1950	1951	1952	1953	1954	1955	1956
Argentina								
Total imports	−75	−18	36	−56	−14	23	22	−11
Capital goods	−43	−7	7	−16	−8	11	10	−8
Industrial materials and fuels	−8	−4	17	−24	−3	12	8	−7
Consumer goods	−23	−7	11	−16	−3	1	4	4
Bolivia								
Total imports	6	−37	38	3	−24	−3	24	−6
Capital goods	6	−18	11	6	−17	2	10	−2
Industrial materials and fuels	−3	−15	13	—	1	−3	−3	−2
Consumer goods	3	−3	14	−3	−8	−1	16	−3
Brazil								
Total imports	−2	11	44	−5	−32	24	−20	−7
Capital goods	−1	6	21	3	−25	10	−15	−7
Industrial materials and fuels	2	7	11	−3	2	10	−1	—
Consumer goods	−3	−1	12	−4	−9	4	−4	—
Chile								
Total imports	15	−20	14	3	−4	2	14	−13
Capital goods	16	−16	4	1	4	−13	9	6
Industrial materials and fuels	−2	—	5	2	−2	16	−2	−16
Consumer goods	1	−4	6	—	−6	−1	7	−2
Colombia								
Total imports	−11	19	−1	3	25	13	16	−20
Capital goods	−6	6	—	4	19	5	11	−13
Industrial materials and fuels	—	7	1	−1	4	6	3	1
Consumer goods	−5	6	−2	−1	2	2	2	−8
Cuba								
Total imports	−5	28	12	−2	−22	5	9	21
Capital goods	−2	2	7	−1	−7	2	2	4
Industrial materials and fuels	−4	11	1	2	−7	1	3	6
Consumer goods	1	15	4	−3	−8	2	5	11
Guatemala								
Total imports	6	7	4	−9	7	9	29	35
Capital goods	2	−3	4	−8	2	1	16	21
Industrial materials and fuels	−2	3	1	−1	1	5	5	2
Consumer goods	6	7	−1	—	4	4	8	12
Honduras								
Total imports	−2	2	7	22	7	−17	16	−10
Capital goods	−4	−3	4	22	−5	−13	1	6
Industrial materials and fuels	1	1	1	5	—	1	4	−7
Consumer goods	—	3	2	−5	12	−6	11	−9
Mexico								
Total imports	−9	9	26	3	−3	−3	9	19
Capital goods	−7	3	18	—	−7	−4	6	15
Industrial materials and fuels	1	4	4	1	3	2	2	3
Consumer goods	−2	2	4	1	1	−2	1	2
Peru								
Total imports	9	2	29	1	7	−6	11	19
Capital goods	4	−1	17	−1	7	−6	1	13
Industrial materials and fuels	3	—	3	2	3	1	4	2
Consumer goods	2	3	9	—	−3	−1	6	4
Uruguay								
Total imports	−5	23	25	−22	3	40	−32	−20
Capital goods	−6	16	8	−10	3	16	−14	−12
Industrial materials and fuels	−1	17	14	−8	−1	19	−14	−4
Consumer goods	2	−11	3	−3	1	5	−4	−4
Venezuela								
Total imports	−5	−13	4	7	9	10	9	9
Capital goods	−4	−17	5	7	3	7	6	11
Industrial materials and fuels	—	4	1	—	4	1	1	—
Consumer goods	−2	1	−2	—	2	2	2	−3

Table 23. Primary Producing Countries: Year-to-Year Changes in Total Imports and Their Components[a] (*continued*)

(Change in volume[b] over the preceding year as percentage of total imports in 1953)

Country and item	*1949*	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*
Burma[c]								
Total imports	−33	6	13	8	18	17	−15	7
Capital goods	−10	1	−3	4	3	10	−1	1
Industrial materials and fuels	−3	3	−2	5	−2	5	—	5
Consumer goods	−20	2	17	—	18	2	−14	1
Ceylon								
Total imports	6	8	10	2	2	−5	7	10
Capital goods	1	1	2	1	1	−3	3	1
Industrial materials and fuels	1	1	3	1	—	—	3	−1
Consumer goods	4	6	5	1	1	−2	1	10
Egypt								
Total imports	6	10	32	−46	−23	−6	12	−1
Capital goods	3	2	−4	−1	−4	3	10	−1
Industrial materials and fuels	4	−3	3	−3	−3	4	−1	−2
Consumer goods	−1	10	33	−42	−16	−13	3	1
India[d]								
Total imports	16	−15	27	−40	−8	20	6	14
Capital goods	10	−7	1	−5	1	6	17	18
Industrial materials and fuels	—	7	4	−12	1	4	−3	4
Consumer goods	6	−15	23	−24	−10	10	−9	−6
Indonesia								
Total imports	20	−4	41	20	−30	−21	−2	32
Capital goods	7	−6	4	9	−3	−5	−1	6
Industrial materials and fuels	3	1	5	2	−2	−6	4	5
Consumer goods	10	2	32	8	−25	−10	−5	21
Philippines								
Total imports	11	−49	13	−11	9	8	14	−12
Capital goods	4	−10	1	3	5	3	5	3
Industrial materials and fuels	1	−2	1	1	3	2	3	−2
Consumer goods	5	−37	11	−16	1	3	7	−14
Turkey								
Total imports	9	1	11	30	—	−10	3	−19
Capital goods	3	5	3	18	1	−9	4	−5
Industrial materials and fuels	5	−5	5	11	1	−1	−4	−5
Consumer goods	1	1	3	1	−3	−1	3	−10
Australia[e]								
Total imports	16	23	20	38	−89	31	17	−21
Capital goods	14	17	8	9	−31	8	9	−7
Industrial materials and fuels	2	−1	5	10	−13	8	4	−3
Consumer goods	—	7	7	19	−45	15	4	−11
New Zealand								
Total imports	10	11	10	22	−33	32	22	−14
Capital goods	8	3	—	12	−12	10	13	−9
Industrial materials and fuels	1	1	—	5	−5	6	3	−1
Consumer goods	—	7	9	5	−16	16	6	−4

Source: United Nations Bureau of Economic Affairs, based on United Nations, *Economic Bulletin for Latin America*, vol. III, No. 2, 1958 (Santiago) and national sources.

[a] These tentative estimates should be considered as indicative of broad orders of change only. To the extent that national trade statistics have permitted, the component groups have been defined in terms of the Standard International Trade Classification as follows: "capital goods", divisions 68, 71, 72 and 73; "industrial materials and fuels", sections 2, 3, 4 and 5; "consumer goods", all remaining sections and divisions. However, the estimates for Latin American countries, which have been adapted from a recent publication of the Economic Commission for Latin America, although following the same broad principle, are based on a more detailed break-down. Their most noteworthy difference is that they include certain food items—wheat and wheat flour, raw sugar, raw coffee, cocoa beans—in the group "industrial materials and fuels", and some items of the fats and oils family in the group "consumer goods". Components do not always add to totals because of rounding.

[b] Import values deflated by national price indices or by estimated indices derived from export price indices of major partner trading countries.

[c] Prior to 1954, fiscal year ending 30 September.

[d] Prior to 1956, fiscal year beginning 1 April; 1956, April to December at annual rate.

[e] Prior to 1954, fiscal year ending 30 June.

Latin American countries than in Asian or African countries. For example, in Brazil the reduction in imports of capital goods in 1953 and 1955 accounted for three-fourths of the decline in total imports, while the decline in total imports during 1956 came entirely from capital goods. Similarly, in Peru, in 1952 and 1954, the declines in total imports were matched by equal declines in imports of capital goods, and in Mexico, during 1953 and 1954, imports of capital goods suffered far more than total imports. Consequently, in all three countries, the absolute level of fixed investment as well as the rate of capital formation was adversely affected in these years. While part of the reason for the greater impact on imports of capital goods may be ascribable either to the lack of rigorous import policy or to the effect of a decline in export earnings on the inducement to invest, these countries have also been hampered by their dependence on imports of food grains. But also in some other Latin American countries whose dependence on imported food grains is small—as, for example, Uruguay—imports of capital goods have been subject to larger cuts than have other categories of imports.

By comparison, in Asian countries, there has been some tendency in recent years to readjust import policy towards the attainment of greater stability in imports of capital goods. This has been facilitated by the expansion of domestic production of essential consumer goods, particularly food, which has reduced dependence on imported supplies; but it has also reflected an intensification of governmental efforts to accelerate the process of industrial development. Burma, Ceylon and the Philippines, for instance, have tightened their controls over luxury imports. The most stringent regulations of this kind have, however, been enforced in India where, despite an unfavourable export experience in recent years, imports of capital equipment have risen substantially and imports of consumer goods have declined.

It is characteristic of most primary producing countries that the margin of export earnings over imports of essential consumer goods is small while the need for imported capital goods is great. Thus the violent short-term fluctuations in export earnings have inevitably accentuated the difficulties emerging from the long-term trends in world demand for primary products. In periods of falling export earnings, when inadequate foreign exchange reserves have necessitated cuts in imports of capital goods as well as consumer goods, domestic investment activity has been reduced and the pace of economic growth has been retarded.

Conclusion

From a global viewpoint, the chief significance of the commodity problem is its central position in the larger problem of the economic development of under-developed countries. In both its long-term and short-term aspects, the commodity problem has profoundly affected the growth and stability of economic activity in these countries.

As has been seen, the long-term lag in the volume of world trade in primary commodities has been rooted in major changes in the structure of demand in industrial countries and there is strong reason to suppose that this lag is a persistent tendency that will continue into the future. It is true that, over the whole period from the late nineteen twenties to the present, the impact of this lag on the import capacity of under-developed countries has, to some extent, been alleviated by the higher prices of primary commodities relative to prices of manufactures. But, in contrast to the trend in volume of trade, there are no compelling reasons for supposing that this relative improvement must persist. Indeed, in many primary commodities, prices have suffered a relative deterioration even within the buoyant post-war years.

The logic of the long-term trends in world markets for most primary commodities has, almost inevitably, conflicted sharply with the deep-rooted aspirations of the under-developed countries to achieve, or sustain, an accelerated pace of economic growth. It is symptomatic of this conflict that the imports of under-developed countries have not only risen strongly but have generally outreached the expansion in their external purchasing power. While numerous countries have achieved relatively high rates of growth, the changes in the level and composition of demand associated with internal growth have commonly exerted increasing pressure on their external balances.

Through restricting the ability of under-developed countries to import capital equipment, the trends in external markets have set limits to the pace of internal economic growth. And it is clear that these trends are beyond the control of the exporting countries. On the other hand, it seems probable that, in many countries, the margin of foreign exchange presently available for imports of capital equipment could be appreciably widened. Imports of many other classes of commodities besides capital equipment have risen strongly. In part, this has reflected the growing diversity of domestic production which has enlarged requirements of imported raw materials. But, in many instances, it has also been due to insufficient adaptation of the domestic structure of production to the changing level and composition of domestic demand. Thus, in food production,

although output in many food importing countries has expanded, imported supplies of foods have nevertheless had to be increased.

It must, however, be recognized that the inflexibility of resources is a characteristic feature of the economies of under-developed countries, and this severely circumscribes the pace at which the domestic structure of production can be adapted to conserve foreign exchange receipts. In many countries, major cuts in imported supplies of commodities other than capital equipment could be quickly achieved only at very heavy social cost.

This conflict between the characteristic inflexibility in the productive structure of under-developed countries and their need to expand supplies of imported capital equipment is brought into sharp focus in the short period. For, in view of the necessity of maintaining minimum supplies of imported foodstuffs or raw materials, the severe short-period instability in export proceeds frequently compels under-developed countries to cut their imports of capital equipment. Thus, the instability of export proceeds not only has direct effects upon incomes in the export sectors of the under-developed countries, causing recurrent hardship for those members of the community who gain their livelihood from production for export; but, even where incomes in the export sector have been effectively insulated from external fluctuations, the instability of export proceeds may continue to have a strong destabilizing influence on domestic economic activity through its impact on the level of domestic investment.

Viewed in either a long-term or a short-term perspective, the commodity problem constitutes a major element in the larger problem of economic development, and, in this broader context, it is clear that some mitigation of the problem could certainly be achieved through an expanded flow of foreign capital. A larger supply of foreign long-term and short-term capital could obviously do much to extend the boundaries set to current rates of economic growth by the inability to finance greater supplies of imported capital equipment.

Chapter 2

NATIONAL COMMODITY POLICIES

In chapter 1 an analysis was made of the objective conditions prevailing in the world's commodity markets, particularly in so far as they affect the economic development of under-developed countries. It was shown there that the fundamental commodity problem has two main aspects, which may be referred to for convenience as the long-term and short-term aspects. The long-term problem derives from the fact that there has been a persistent tendency for the demand of industrial countries for imports of primary products to grow more slowly than the total output or income of these countries. If, therefore, the total rate of growth of primary producing countries were no greater than that of their export sectors, they would be compelled to accept a constantly widening gap between their income levels and those of the industrial countries. Any effort by the primary producing countries to shift the structure of production away from the export sector, however, rapidly encounters the obstacle imposed by inadequate foreign exchange resources. Since these countries depend upon imports for most of the capital equipment which they require for economic expansion, the rate of growth even of those sectors of the economy producing for home consumption tends to be limited by the rate of increase of export receipts.

In the industrial countries the rate of growth is largely dependent upon the production of industrial goods. Thus the long-term commodity problem impinges upon their economies only marginally—only in so far as the exports of industrial goods are a function of the level and rate of growth of income in the under-developed countries. At the same time, however, the industrial countries provide the great bulk of the market for internationally traded primary products. Consequently the nature of the commodity problem is subject to the influence of these countries in their capacity as importers of primary products and, particularly in the case of the United States, as exporters also.

Fundamental differences in the position of the commodity producing sector in the two groups of countries evoke a divergent attitude towards the long-term commodity problem. In the industrial countries the primary producing sector is, in general, not one of the most efficient sectors in the economy and the inclination is to protect incomes in relation to the rest of the economy. Given the high levels of income and efficient policy instruments, it is relatively easy to effect a transfer of income in favour of the primary sector without imposing a serious burden on the rest of the economy. In the primary producing countries the situation is quite the reverse; the export sector is generally the most advanced. It is almost always this sector which was the first to develop a high degree of market orientation, and which has the best record of self-generated growth; and it is only exceptionally in these countries that elements of the sector have deteriorated and are no longer able to compete. The view that the export sector is advanced and well-to-do has prompted Governments to make it the central source of public revenue as well as a source of aid to the development of the economy as a whole. From another standpoint, however, the primary export sector is generally thought to be at the mercy of external market forces and consequently it has frequently received governmental assistance. Such assistance is not in terms of the maintenance of income equity *vis-à-vis* other sectors—as is the case in industrial countries—but rather in terms of enabling the sector to compete on world markets, or of maintaining prices at profitable levels. These two divergent evaluations of the export sector—that it is weak with respect to world market forces but strong with respect to the rest of the domestic economy—have resulted in an ambivalent attitude on the part of under-developed primary producing countries towards the long-term commodity problem, which will be explored below.

The differences in the role of the primary production sector in the economies of developed and under-developed countries, discussed above, also have important consequences for their respective attitudes to the problem of commodity price instability. For the industrial countries, fluctuations in the prices of foodstuffs and raw materials do not in general present problems of the same degree of importance as they do for under-developed countries. The concern of the industrial countries in this area derives mainly from their preoccupation with the problem of general price stability, though in western Europe it has also been necessary at certain periods to take into account the impact of commodity price increases on the balance of payments.

It is not unnatural to find a certain asymmetry in the attitudes of both industrial and under-developed countries towards commodity price fluctuations. Rising commodity prices prompt greatest concern in the industrial countries, declining prices in the under-developed countries, and this conflict of interest is reflected in the policies which they pursue. As far as the industrial countries are concerned, the difficulty is that declines in commodity prices are much less likely

to bring the general price level down than increases are to push it up. Any decline in commodity prices, under modern conditions, simply tends to offset increases in other costs resulting from the tendency of factor incomes to rise faster than productivity; whereas increases in commodity prices are added to other sources of cost inflation in imparting an upward bias to the general level of prices.

Thus the industrial countries are more concerned with commodity price increases than with decreases not simply because of the effect on their terms of trade but because while rising commodity prices do tend to upset the general stability of prices, declining commodity prices do not. It is for this reason that, as shown below, the most important post-war examples of active intervention in the world market by the industrial countries in the interests of stability have been those in which there was a danger of what were regarded as excessive commodity price increases. No comparable action has been taken by the industrial countries to arrest price declines.

These interventions—notably during the Korean and, to a lesser extent, the Suez crisis—were, however, exceptional. In general the activity—or lack of activity—of industrial countries in this sphere reflects the lesser importance of commodity price stability to their economies. Here the contrast with under-developed countries is obvious, since in the latter countries the stability or instability of commodity prices exerts a major influence not merely upon export earnings—and hence upon the capacity to import—but also upon the over-all level of economic activity. It is scarcely conceivable, in present circumstances, that a decline in commodity prices could set off a downward spiral of demand in the industrial countries, whereas in under-developed countries this danger is a real one. The disruptive effects which declines in total demand and output are bound to have on the development programmes of under-developed countries are too evident to require emphasis here.

This is not to say that under-developed countries place the achievement of price stability above or even on a par with other objectives. So numerous are the claims for priority in an economy in which there is scope for advancement in virtually every phase of economic life, and so importunate are the pressures, that it is not surprising to find, as will be shown below, that stability *per se* has not always been among the primary targets of government policy. However desirable an even tempo of advance might be in itself if all other conditions were favourable, the intrusion of other obstacles to economic development throws up even more urgent and weighty problems for the attention of governments, and tends to force the problem of stability into the background.

It will be the task of the present chapter to consider the manner in which the attitudes of industrial and under-developed countries are expressed in the policies which they have devised to deal with the commodity problem. In so doing, it is natural to examine first the policies of industrial countries. The conditions under which these countries trade, and the various restrictions on trade which they impose, are just as much part of the economic environment within which the primary producing countries have to operate as are the market characteristics of the commodities which the latter countries export. Once the external market and policy conditions confronting the primary producing countries have been characterized, it will be possible, in the latter part of the chapter, to review their own policy responses and attempt to evaluate them, within the limits of such freedom as they have in this area.

Agricultural policies

WESTERN EUROPE

Production and price policies

It is beyond the scope of this survey to enter into a detailed account of the varied and complex commodity policies followed in all the countries of western Europe.[1] In the context of the main problem posed here, namely, the impact of policies on the exports of primary producing areas, it is the policies followed in a few western European countries which account for the bulk of European imports of primary products that are of chief interest.[2] In addition, most western European countries have been faced with certain common problems so that, in spite of national variations, the direction of policy in most countries has been very similar, namely the deliberate and rapid expansion of domestic agricultural output.

Nearly all the western European countries have been affected at one time or another since the war by balance of payments difficulties, while foreign exchange reserves have in many cases been constantly inadequate to meet any sharp or prolonged strain. The end of the war left western Europe with agricultural production about 20 per cent below the pre-war level, while population was greater than before the war. Furthermore, the transformed balance of payments situation made it

[1] Detailed country surveys of agricultural policies in Europe and North America are contained in three reports of the Organisation for European Economic Co-operation Ministerial Committee for Agriculture and Food, *Agricultural Policies in Europe and North America* (Paris, 1956, 1957 and 1958).

[2] In 1957, of about $20 billion of imports from the rest of the world by OEEC countries, 80 per cent ($16 billion) was imported by four countries: France, the Federal Republic of Germany, Italy and the United Kingdom, the United Kingdom alone accounting for about $7 billion.

impossible for western Europe to meet the vastly increased gap between food output and requirements by means of imports except in so far as such imports were financed by massive overseas aid. An additional impetus to the expansion of domestic primary production in Europe was, of course, the experience of the war itself. During the war, every effort had to be made to expand the output of domestic foodstuffs so that, even apart from the powerful influence of strategic considerations, it would have been socially impossible in later years to allow farming to revert to its pre-war status of a relatively neglected sector.

One of the main elements in the European Recovery Programme drawn up in 1948 by the member countries of the Organisation for European Economic Co-operation (OEEC) was the rapid expansion of agricultural output. The combined target which the OEEC countries set themselves was an increase in total agricultural production by 1952/53 of about 40 per cent over the 1947 level, which represented an increase of about 15 per cent over pre-war output.[3]

Within the over-all objective of expansion to a level of agricultural output greater than before the war emphasis was placed on the cultivation of crops which give the highest yields per acre (sugar-beets and potatoes), or which would directly reduce import requirements (particularly of feeding stuffs), or which were in particularly short supply in the world as a whole (such as vegetable oils); and as a result of the exceptionally low level of meat production an effort was also to be made to increase livestock output, though there were limits to the speed with which the necessary stock buildup could be achieved. To reach the targets, reliance was placed chiefly on increases in productivity aided by much more extensive use of fertilizers and very rapid mechanization. At that time the prices of agricultural products were, on the whole, high enough to obviate the need for any increase in price as an incentive to expanded output, and the chief requirement in this connexion was to ensure adequate export markets in other OEEC countries and to maintain farmers' confidence in the longer-run prospects. These objectives were pursued by the conclusion of numerous bilateral agreements among the countries, and by various legislative commitments to domestic farmers in most countries.

The 1952/53 target for agriculture in western Europe was exceeded slightly, but new economic problems, chiefly associated with the Korean outbreak and the expanded defence programmes, had emerged before the earlier problems had been completely solved. In 1951, partly in response to the changed situation, new production targets for 1956 were set in western Europe for key sectors of the economy, including a further increase in agricultural production to 14 per cent above the 1951 level. This target, in turn, was slightly exceeded by 1956. Thus all countries have considerably surpassed pre-war levels of agricultural output and by 1957/58 agricultural output in the OEEC member countries combined was about 35 per cent above pre-war.[4]

Once the acute need for western Europe to expand agricultural output and reduce agricultural imports had passed, differences in national problems and situations grew in importance and corresponding differences in national policies and techniques became of greater significance. At the same time, more flexibility and variety were introduced into national programmes. In some countries this took the form of allowing greater play of market forces or of deliberately attempting to guide production and prices into channels corresponding more closely to market trends.

In the United Kingdom, the pattern of guaranteed prices has been adjusted in order to discourage further expansion of output of milk, pigs and eggs—products which are either in surplus or which compete with cheaper imported supplies—and to encourage a greater output of beef and mutton, as well as home-produced animal feedstuffs.[5] In France, while further expansion of agricultural production is a declared objective of the Third Modernization and Equipment Plan (1957–1961), much more emphasis than hitherto has been placed on the need to adjust the pattern of production to meet trends in consumption. In particular, this has taken the form of encouraging further increases in output of meat, poultry and dairy products, as well as fresh fruit, vegetables and coarse grains for feed, and of stabilizing, or even reducing, output of sugar-beets, wheat and potatoes.

However, the experience of the last few years in western Europe (as in the United States) suggests that attempts to reduce or stabilize output of certain products have been less successful than measures aimed at increasing the output of others. Furthermore, the change in emphasis in agricultural policies characteristic of certain European countries in recent years has not applied universally. In some major importing countries there has been no perceptible change

[3] Organisation for European Economic Co-operation, *Interim Report on the European Recovery Programme* (Paris, 1948), vol. I, page 32 ff., and vol. II, page 905.

[4] Organisation for European Economic Co-operation, *General Statistical Bulletin*, No. 1, 1959 (Paris), page 47. The figure quoted above relates to the index of total agricultural output net of imported feeding stuffs and store cattle.

[5] The shift of emphasis in the United Kingdom's policy was summarized as follows: "During the first phase of long-term agricultural development the primary aim has been the physical expansion of output. But under free market conditions the appropriate pattern and scope of home production . . . must be related, not only to considerations of production, but also to market prospects . . . Expansion of net output to 60 per cent above pre-war is still a major objective. But with the removal of controls and revival of consumer choice it has now become necessary for agricultural produce to be sold more competitively . . . in future, home agriculture cannot be asked to produce a given amount of a particular commodity irrespective of cost." United Kingdom, *Annual Review and Determination of Guarantees*, 1954, Cmd 9104 (London), paragraphs 10 and 11.

in policies. In the Federal Republic of Germany, for example, the 1955 Agricultural Act largely confirmed the policy pursued up to that time. In Italy, while there is now greater emphasis on the expansion of livestock output, the over-all long-term aims of agricultural policy are closely bound up with the problems of regional disparities in income and of land reform, and there has been no radical development in this situation of a kind likely to induce any basic change in agricultural policy. And while in some countries the achievement of targets and the restoration of productive capacity have led to greater selectivity and flexibility in agricultural policies, there has been no tendency to retreat from previous policies, especially as regards their basically protective character; in certain countries where there is a long history of protective policies or where agriculture is linked to other structural problems, there has been no pressure for any change at all.

In fact, the emergence of world-wide surpluses of many agricultural products, including some surpluses inside western Europe, has been accompanied, as the OEEC Ministerial Committee for Agriculture and Food pointed out, by ". . . a growing tendency among many Governments to give more and more importance to long-term assurances to agriculture". The Committee goes on to state that "More and more frequently Governments undertake to apply some measure of price fixing or income stabilization for a specific period."[6] Thus while it is true that, with a few exceptions, there is no longer any attempt to bring about a further *over-all* expansion of agricultural output, and policies have become more selective in character, the existing assurances to farmers are such that the basically protective nature of European agricultural policies does not show signs of any effective relaxation.

As indicated above, the previous policies of over-all agricultural expansion in Europe have led to a reduced dependence on imports for most food products. The means by which this has been brought about have been varied and have included intensive efforts in many countries to raise agricultural productivity. Nevertheless, the achievement of the desired reduction in the share of imports in total supplies has not been due solely, if at all, to a change in the comparative cost position of European supplies, and has depended on various protective devices, usually associated with domestic price or income supports.

The nature and extent of the price and income support programmes and the associated measures usually required to shield these programmes against disruption from imports vary from country to country. Countries which have a large stake in agricultural exports or exports of particular agricultural products are naturally unable to maintain the prices of these products to the same extent as other countries, though this would not necessarily preclude the deficiency payment method of support. Denmark, for example, has very little price support even though a high proportion (about 20 per cent) of national income originates in agriculture. Price fixing in Denmark is limited to sugar-beets, where the objective is to displace imported sugar, and potatoes, where the aim is to raise income levels in the poorer areas. Similarly, in the Netherlands, while price support is fairly widespread for products of which the Netherlands is a net importer, for products which are mainly or largely exported, such as eggs, dairy products, and pig meat, price formation is free or special aids are given to exporters to maintain competitiveness. In Italy no special arrangements are made for the main exported products (fruit and vegetables) apart from minor measures such as reduced freight rates to the border.

For other products in these countries, and for agriculture in general in the other countries, extensive price programmes are usually in force. In the United Kingdom a system of deficiency payments is applied, except for a few products.[7] This system requires the government to make up the difference between the average price received by farmers and the guaranteed price, the latter being adjusted each year in the light of various considerations relating to costs of production and trends in output and prices. The deficiency payment method of support tends to increase domestic supply, and therefore reduce imports; so far, however, from raising domestic prices above world levels it may actually tend to lower them, and thereby increase rather than diminish total domestic consumption as well.

In other major importing countries, agricultural products are subject either to direct price support by periodically revised fixed prices, as in France, or to indirect price regulation by means of state monopolies for marketing or trade—the predominant system in the Federal Republic of Germany and Italy. In these and certain other countries, considerable regulation of imports is necessary to maintain prices at the prevailing levels. In fact in several countries it is the control over imports which provides the sole mechanism for regulating and supporting the domestic markets in certain products; that is to say, imports are increased or decreased according to the estimated gap between domestic production and consumption at the supported prices, or are varied as a means of stabilizing prices. The regulation of imports is also sometimes used to prevent undesirable price increases, as in France and the Federal Republic of Germany, for example, where certain types of imports virtually excluded from the market under normal conditions are occasionally

[6] Organisation for European Economic Co-operation, Ministerial Committee for Agriculture and Food, *Second Report* (Paris, 1957), page 406.

[7] Prices are fixed for wool and sugar-beets, and are supported for eggs and potatoes.

allowed to enter in substantial quantities so as to hold down the cost of living.

In general, the degree of insulation of domestic agriculture in the major importing countries of western Europe is extensive. The main exception is the United Kingdom, where the system of deficiency payments discourages imports, chiefly through its tendency to keep agricultural production higher, and artificially more competitive, than it would otherwise be; although this effect is by no means negligible, as is illustrated by the fact that the share of domestic production in total United Kingdom food requirements has risen from about one-third pre-war to about one-half in recent years. In the other countries, while one of the main objects of the import restrictions is the stabilization of domestic prices, the level at which prices are stabilized is, on the whole, well above the world price level, so that the measures are of a distinctly protective, as well as stabilizing character. The fact that at exceptionally high support levels western Europe does not experience the massive accumulation of surplus stocks that has been observed in the United States, or that has occurred in Canada with much less price support, is evidence of the relatively high costs of much European agriculture.

This also provides an indication of the extent to which European output requires protection in order to avoid a substantial displacement by imports. It is significant that the proportion of agricultural output which is sold without any intervention either directly by governments or by any marketing boards or similar agencies is much smaller in most western European countries than in the United States.[8] All OEEC countries except Belgium, Iceland and Denmark have fixed prices, or support prices of one kind or another, for cereals other than rice; most countries have fixed prices for sugar-beets, and apart from the Mediterranean countries practically all have support prices or special market intervention for all animal products except wool. The only important agricultural products not generally subject to this type of direct support in the economically developed countries of western Europe are fruits and vegetables, though in most countries trade in these products is subject to various quotas and licensing arrangements which often have a protective character.

It is true that government expenditure on agriculture, as a proportion of gross agricultural output[9] is lower in several European countries than in the United States,[10] but this ratio depends very much on the degree of trade restriction. For example, in the United Kingdom, where restriction of agricultural imports plays very little part in the measures adopted to maintain agricultural incomes, about one-third of the gross product of agriculture is covered by government expenditures of one kind or another, whereas in countries such as France and the Federal Republic of Germany, where close control of agricultural imports exists, the ratio is about 7 per cent. In other words, the cost of agricultural support in countries which make extensive use of import restrictions is particularly difficult to evaluate since it manifests itself not in identifiable items of government expenditure but in higher prices to domestic consumers as well as in the maldistribution of domestic resources, and losses of export markets by overseas primary producers.

As agricultural policies in western Europe have consciously aimed at greater self-sufficiency until fairly recently, they have had a more direct impact on imports than in North America, where the main impact has probably been on exports. As can be seen in the following table, domestic production is a higher proportion of total supplies than before the war for all the main agricultural products.

Production as percentage of total supplies of major categories of agricultural output in OEEC member countries combined

	Pre-war	*1953/54 to 1955/56*
Bread grains	74	83
Coarse grains	73	80
Sugar (refined)	54	73
Meat	88	94
Total, oils and fats	52	55

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin*, No. 6, 1957, pages 56 to 61.

Impact on trade in food products

These changes in western Europe's dependence on imports of foodstuffs can be translated into a rough indication of the impact on imports of increased European self-sufficiency—assuming that total consumption would remain unchanged even if domestic agriculture were less important in the economy. For example, if the share of imports in total European food supplies were the same now as before the war, there would be an increase in such imports from the rest of the world of about $2 billion, including about $600 million for cereals, $200 million for sugar, $400 million for meat and $100 million for butter. While there can obviously be no question in the foreseeable future of reverting entirely to the pre-war situation, these estimates give some indication of the impact that the European move towards self-sufficiency has had on imports.

Even under less drastic assumptions, the increase in imports resulting from a reduction in European protection would be considerable, in view of the relatively high costs of much agricultural production in Europe.

[8] Organisation for European Economic Co-operation, Ministerial Committee for Agriculture and Food, *Second Report* (Paris, 1957), annex table I, page 441.

[9] Defined here as "value added" (or net output) in agriculture plus depreciation.

[10] *Op. cit.*, table III, page 445.

As a recent report has emphasized, the marginal nature of most food imports into western Europe means that a relatively small decline in agricultural output would cause a much larger proportionate increase in imports. This report pointed out, however, that "Agricultural production, at any rate in the short run, is probably not very sensitive to price changes and to restrain production by one per cent may well require a substantially greater percentage reduction in the degree of protection."[11]

In the longer run, of course, the low productivity of much of western Europe's agriculture—as evidenced by the importance of aid to marginal farming in most European agricultural assistance programmes—the high rate at which the agricultural population has been declining in recent years, and the fact that industrial unemployment in most of the developed European countries has been relatively low, all suggest that the supply curves of agriculture as a whole might be sufficiently elastic for output to be significantly affected by reductions in prices. It is true, of course, that many individual farmers would maintain or even try to increase output as prices fall, but if this were true of farmers as a whole there would be little point in high support prices as a means of saving on imports, and in any case there are limits to the extent to which farmers could expand output without increasing their expenditure on machinery, fertilizers and so forth. It is also true that the absorption of the agricultural labour force in alternative occupations depends partly on the geographical proximity of such occupations. But on balance it would appear that the longer-run impact on agricultural output in Europe of a reduction in prices cannot be assumed to be negligible and might reasonably be assumed to be significant.

How much reduction in agricultural protection would be required to achieve any given reduction in prices or agricultural incomes depends, of course, on the importance of protection in maintaining prices and incomes. In general it appears that the incidence of agricultural protection in Europe is considerable. In the United Kingdom, for example, although producers' prices do not exceed world trade prices by margins as great as are commonly found on the continent—partly because of the different support systems employed—total government agricultural support expenditures in 1957/58 amounted to about one-third of the gross product of agriculture (including forestry and fishing). They also represented about 80 per cent of farm net income, after deducting wages as well as other farm expenses.[12]

In other western European countries, as has been pointed out above, the protection lies more in the maintenance of higher domestic producers' prices by restriction of imports. For example, in Belgium, France, the Federal Republic of Germany and Switzerland, domestic prices for wheat are 40 to 80 per cent above import prices, and similar disparities exist for other cereals. Prices of beef cattle and various other products are also well above those in overseas producing countries such as Australia. Thus, while such comparisons have to be treated with caution, the extent of the disparities suggests that protection would remain substantial even if reduced significantly from present levels.[13]

It therefore appears that owing to the considerable incidence of agricultural protection in western Europe, such protection could be reduced sufficiently to have a significant impact on prices and incomes while still remaining substantial. In so far as agricultural output is not completely inelastic in the longer run, this would tend to reduce European output, and in so far as the reduction in prices stimulated consumption somewhat, the rise in imports would be even greater.

However, it must be noted that any over-all reductions in western Europe's output would provide a stimulus chiefly to exports of competing temperate zone products from the wealthier countries, such as those in North America and Australasia. The implication of this is not, however, that reductions in the level of European protection are of little value for the underdeveloped countries but that these countries could benefit if European output were reduced, relative to consumption, on a selective basis, without any large-scale fall in agricultural output or incomes. For example, moderate reductions in European output of sugar and oil-seeds would entail a very small decline in total agricultural output relative to the consequential increase in imports of these products from the underdeveloped areas, provided they could supply the extra requirements.

Such an adjustment in European policies would also combine the maximum benefit to the under-developed areas with the minimum impact on western Europe's balance of payments as well as on its agricultural sector. Selectivity of this nature would also be more justifiable from an international welfare point of view than indiscriminate changes in output/consumption relationships, since in many cases protected European

[11] General Agreement on Tariffs and Trade, *Trends in International Trade*, A Report by a Panel of Experts (Geneva, 1958), page 89.

[12] For details of estimate of farm "net income", see United Kingdom, *Annual Review and Determination of Guarantees*, 1958, Cmnd 390, table C, page 12.

[13] There are numerous limitations on such price comparisons, including important differences in the qualities of some of the products concerned. The import prices referred to above are on a c.i.f. basis and hence reflect freight rates as well as differences in local prices. The other comparisons do not allow for freight rates but the magnitudes of the disparities are greater than could be accounted for by freight charges (for instance, the average producers' prices of beef cattle in Europe are over twice those in Australia). *See* United Nations, "Prices of Agricultural Products and Fertilizers, 1957/58" (sales number: 58.II.E/Mim.22), tables 4 and 7 and annex table 1A, and Food and Agriculture Organization of the United Nations, *The State of Food and Agriculture* (Rome, 1958), annex table 13, pages 218 to 220.

producers of, say, grains or dairy products may have much lower levels of living than the overseas producers who might displace them. The same cannot be said of European protection of products such as sugar and oil-seeds.

It is therefore unfortunate that the pattern of selectivity emerging in western Europe in the last few years is of a rather different kind, since the concentration is on less cereal output while support prices for sugar-beets have been raised in practically every European country.

Of course, the tendency in western Europe to discourage further output of bread grains is partly the effect of the policies followed in other countries, particularly the United States. As discussed in more detail below, the United States support policies have led to massive surpluses of grains and other supported products. Hence, in so far as European countries try to change the pattern of their agricultural production without reducing the over-all output, they prefer to import more grains and less of the products where the pressure on prices is upwards.

So far the discussion has been confined to the impact on imports of western European policies for food products, of which Europe is also an important producer. For other primary commodities, of which Europe is not a significant producer, protective policies are naturally less widespread. This does not mean, however, that the policies adopted by western Europe have no impact on world trade in these products. In many major consuming countries in Europe, tropical products are subject to duties or internal excise taxes that serve primarily a revenue raising purpose. Tobacco, for example, is subject to very high indirect taxes in the United Kingdom, and to tariffs of about 8 per cent and 30 per cent respectively in the Benelux countries and the Federal Republic of Germany, while trade in tobacco in France and Italy is conducted by State monopolies. For non-alcoholic beverages, the United Kingdom tariff is relatively low but the duties in the major continental countries are, in most cases, very high and consequently the domestic prices are also high.[14] The equivalent *ad valorem* rates of duty in 1956 for coffee were about 20 per cent and 30 per cent respectively in France and the Federal Republic of Germany, and other fiscal charges were about 40 to 50 per cent respectively. For tea, tariffs ranged from 15 per cent in Benelux to 52 per cent in the Federal Republic of Germany. High tariffs are also applied in the major importing countries of continental Europe on other tropical products, such as bananas (ranging from 5 per cent in the Federal Republic of Germany to 40 per cent in Italy) and cane sugar, for which tariff rates are exceptionally high in Benelux, France and Italy.[15]

It has been pointed out that a reduction in the incidence of these revenue duties would provide a direct contribution to the export prospects of under-developed areas.[16] Imports of cocoa, coffee, and tea into OEEC countries from the outside world amount to about $1.5 billion, of which the United Kingdom alone accounts for about $0.5 billion. As the revenue duties on these products are of significance chiefly in the continental countries of western Europe, the effect of a reduction in these duties should be considered only in relation to imports into these countries. Of the $1 billion of imports of non-alcoholic beverages into these countries, however, a large proportion—about $300 million—comes from dependent territories, supplies from which are generally exempt from import duties. The remaining imports of non-alcoholic beverages into continental western Europe thus amount to about $700 million. As domestic production of these commodities is negligible, a given increase in consumption will give rise to a nearly equivalent increase in imports. In view of the incidence of duties and internal excise taxes on non-alcoholic beverages in the continental countries of western Europe, the scope for price reductions without even completely eliminating these duties would appear to be considerable; and while the price elasticity of demand for non-alcoholic beverages taken together is, no doubt, much lower than for individual beverages, an increase in imports of an order of magnitude of about $100 million would appear to be possible.[17]

Apart from the effect of duties of one kind or another on total consumption of tropical products, the pattern of trade in these products is also influenced by the preferential arrangements which several European countries have for imports from their dependent territories. These take the form either of tariff exemptions or, as in the case of France, quota restrictions on imports from other areas. Furthermore, the Common Market arrangements may involve an extension of this form of discrimination in so far as the tariff preferences enjoyed by the dependent territories of some Common

[14] It has been estimated that the weighted average consumers' price of coffee in France, the Federal Republic of Germany and Italy is about $1.65 per pound as compared with $0.90 per pound for corresponding coffee in the United States.

[15] The duties quoted are in all cases specific duties expressed as *ad valorem* equivalents of the 1956 import prices of the products concerned. In some countries the legal rates of duty are above the range indicated here but only the rates actually applied are given here.

[16] General Agreement on Tariffs and Trade, *Trends in International Trade*, A Report by a Panel of Experts.

[17] The report cited above estimates an increase in imports of green coffee alone of $56 million resulting from the total abolition of all import duties and other fiscal charges in eight European countries.

Market countries will be extended to other participating countries.[18]

UNITED STATES

Production and price policies

There has been no pressure in the United States, as there has been in western Europe, to reduce imports for balance of payments reasons. United States agricultural policy has instead been concerned almost exclusively with the protection of farmers' living standards. The techniques adopted in furtherance of this policy appear, however, to have brought about a situation in which United States policies may have had as much impact on trade as have agricultural policies in Europe. It is first necessary, therefore, to discuss the way in which this situation has developed in the United States.

To explain the present situation of United States agriculture—a situation which is characterized by import restrictions on certain products, by large government-held surplus stocks and by special export disposal programmes—it is important to appreciate that present United States agricultural policies, and the particular techniques employed, are by no means a recent development. Though they have been subject to various amendments and changes of emphasis, they date directly back to the late nineteen twenties and the early nineteen thirties.

The Agricultural Adjustment Act of 1933, which was followed in the same year by the establishment of the Commodity Credit Corporation, has in fact provided the standard framework for assistance to United States agriculture ever since.[19] The declared objective of the 1933 Act, which has dominated the operating techniques employed up to the present, was to "re-establish prices to farmers at a level that will give agricultural commodities a purchasing power with respect to articles that farmers buy, equivalent to the purchasing power of agricultural commodities in the base period". The techniques of support adopted are still based on the concept of "parity", that is, the relationship between farm prices and other prices, even though, in a free market, there would have been a considerable change in the relationship. Furthermore, whereas pre-war price support was limited to one or two products, the scope of price support is now very extensive. While only about twenty, out of more than two hundred, domestically produced farm products are subject to price support or protection of one kind or another, these include the major crops, such as wheat, corn and tobacco.[20] As can be seen in table 24, out of a total value of cash farm receipts in 1956 of about $31 billion, the value of receipts from products subject to price support of one kind or another was about $14 billion.

The actual process of supporting commodity prices at the stipulated parity levels is the function of the Commodity Credit Corporation (CCC). The CCC supports prices in four different ways—loans, purchase agreements, purchases and payments. Non-recourse loans account for by far the bulk of the operations conducted by the CCC.[21] Whichever particular technique is adopted, the economic effects of this support method are that consumption is reduced by virtue of the higher prices and that farmers can sell most of their output at the support price. If the support level is high enough to avoid hardship to marginal producers, it will be such that more efficient producers will also gain substantially from the support programme and hence will also have more incentive to maintain or expand output. Only for wool and sugar is price support based on an "incentive" payment mechanism which resembles the deficiency payments method used in the United Kingdom and which, by itself, does not tend to raise prices to consumers. The United States has, of course, the same interest as any country in changing the distribution of national income in a manner aimed at improving the lot of the poorest sectors of the community, particularly the poorer farmers. But it employs a technique which transfers income to all farmers, and which, by maintaining prices above market prices and thereby reducing consumption as well as stimulating production, tends to prevent the long-run adjustment of supply and demand to equilibrium levels.

It is true that other measures designed to reduce the disequilibrium between output and demand at prevailing prices were introduced before the war. The most important pre-war measures of this kind were the

[18] A net increase in discrimination will occur in so far as, for certain products, the increase in discrimination in some countries (those which at present do not discriminate in favour of Associated Overseas Territories or which will discriminate more by raising their tariffs to the level of the common external tariff) is greater than any reduction in discrimination that might conceivably follow in those countries which, by lowering their tariffs to the common external tariff, will be discriminating less than at present. It seems likely that the net effect of the various changes in tariff rates proposed will involve a net increase in discrimination for various products such as aluminium, bananas, coffee and tobacco.

[19] The basic legislation for present price support operations is the Agricultural Adjustment Act of 1938, though there have been subsequent amendments and complementary legislation.

[20] In 1957 support was mandatory for twelve products, namely (*a*) the basic products, maize, wheat, tobacco, rice, cotton and peanuts, as well as for (*b*) tung-nuts, honey, milk and butterfat, and (*c*) under the National Wool Act, for wool and mohair. Support was permissive in 1957 for nine other products—barley, sorghum grain, oats, rye, cotton-seed, flax-seed, soya beans, dry edible beans and gum naval stores. For survey of legislation, *see* United States Department of Agriculture, *Agriculture Information Bulletin*, No. 135, "Price Programmes" (Washington, D. C.), 1957.

[21] The mechanism of non-recourse loans is that the farmer is able to borrow money from the CCC to an amount equivalent to the value, at the support price, of the quantity of the product which he deposits as collateral for the loan. If the market price rises above the support price he can sell at the market price and redeem the loan. If the market price fails to rise above the support level, however, he can simply deliver the quantity of the product concerned as repayment for the loan.

Table 24. United States: Cash Farm Receipts in 1956 from Products Subject to Price Support and Import Controls in 1957[a]

(Millions of dollars)

Product	Cash farm receipts	Product	Cash farm receipts
A. *Products subject to price support without import regulations or restrictions*		B. *Products subject to import regulations or restrictions*[d]	
Corn	1,636	Cotton (lint and seed)	2,515
Rice	238	Wheat	1,897
Tobacco	1,162	Dairy products[e]	2,391
Honey	41[b]	Sugar	214
Milk	1,801[c]	Peanuts	165
Butterfat	296	Flax-seed	125
Mohair	15	Wool	102
Barley	245	Rye	19
Sorghum grain	189	Tung-oil	4
Oats	230	Edible tree nuts	111
Soya beans	868	TOTAL B	7,543
Dry edible beans	105	Total, other products	16,719
Gum naval stores	...	TOTAL CASH FARM RECEIPTS	31,092
TOTAL A	6,830		

Source: United States Department of Agriculture, *Agricultural Statistics, 1957* (Washington, D.C.), table 684.

[a] Including government payments.
[b] Estimated farm production times price of honey received by beekeepers.
[c] Represents approximate value of milk finally utilized as fluid milk (see *Agricultural Statistics, 1957*, page 581) for which no import controls exist.
[d] Included here are products subject to controls under Section 22, under the Sugar Act, and wool (the tariff on which is used to finance the "incentive" payments to wool producers).
[e] After deducting the estimate for milk and the figure for butterfat shown in the first column.

Section 32 programmes, which date back to 1935.[22] Legislation providing for acreage allotments and marketing quotas was also passed in 1933. But such attempts to curtail output have not been applied continuously in any form until recently.

A strong, and much needed, stimulus to production came from the high prices of agricultural products during the war and immediate post-war period. But after this, the policy of supporting agricultural prices on a national scale and at levels related to the general price level, rather than to trends in the agricultural supply/demand situation, has provided ample scope for the rapid increase in agricultural productivity in the United States to be translated into a further expansion of output. The final outcome has been that, compared with pre-war, net agricultural production has risen about 50 per cent, and this has resulted in a much greater United States share in world production of many important products, particularly grains.[23] At the same time as food output has increased, the high level of United States per capita real incomes has meant that a corresponding quantitative increase in domestic consumption could not be expected, especially of bread grains where per capita consumption in the United States has long been following a declining trend and where output is about 50 per cent higher than pre-war.

As a consequence of the heavy accumulation of agricultural surpluses in the United States, there has been a more intensive effort since 1954 to reduce the incentive to output provided by the price support mechanism. For most of the supported products, the absolute level of support prices has been reduced, since 1954, by between 10 and 20 per cent, which represents a somewhat greater decline in the parity level of support, on account of the rise in prices paid by farmers. The only two products the support prices of which have risen in absolute terms are wool and tobacco.[24] In addition, acreage allotments were reintroduced in 1954 and in the following two years the size of the national acreage allotments was cut by about 15 per cent. More recently (1956/57) considerable expenditures have also been authorized under the Soil Bank programme, which is a supplementary means of

[22] Over the whole period 1936 to 1956, Section 32 programme expenditures amounted to less than $2 billion, which is a very small amount compared to the value of accumulated surpluses or to government export programmes.

[23] Despite the rise in agricultural production, the share of agriculture in gross national product has fallen from about 10 per cent in the early nineteen thirties to about 5 per cent in the last few years. During the same period, agricultural population has declined from 25 per cent of total population to about 12 per cent, productivity per man-hour in agriculture being estimated to have more than doubled since pre-war years. *See* United States Department of Agriculture, *Agricultural Statistics, 1957*, tables 643, 664 and 692, and *Statistical Abstract of the United States, 1958* (Washington, D.C.), tables 270 and 834; also, United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), July 1958, table 6.

[24] Wool and tobacco have been subject to support at the constant level of 90 per cent of parity in this period, so that the rise in prices paid by farmers has automatically led to a rise in the absolute support level for these products.

reducing output, but these expenditures are still small compared with the value of existing surplus production.

While it is true that the shift in the emphasis of policy since about 1954 has been accompanied by a reduction in output of cotton and tobacco, output of other crops, especially the grains, has continued to expand rapidly under the influence of rapidly rising yields. This is partly a normal secular development but it is also probable that the very process of acreage restrictions tends to defeat itself for some crops in so far as it merely concentrates output on the higher-yielding acreages. Furthermore, as yields rise, the disincentive effect of lower gross support prices is weakened.[25] Whatever the precise causes, the fact remains that in spite of the acreage restrictions and reductions in support prices over the past few years, surplus output of some products is now as great as ever and government stocks of these surpluses are larger than ever. It is expected that the value (cost) of CCC stocks will have risen to about $9 billion by mid-1959 as compared with less than $1 billion in 1952, in spite of a revival during the last few years of government export disposals, which are discussed further below. In the last few years, wheat stocks, for example, have been about equal to total United States annual output.[26] The failure of recent attempts to overcome the disequilibrium between demand and supply has been explicitly recognized in the President's declaration that "The price support and production control programme has not worked . . . The control programme doesn't control".[27]

The price support programme has thus led to developments of two kinds in United States trade policies. First, the particular price support technique adopted necessitates import restrictions on the products concerned, as long as the world price of these products is below the United States support price, in order to prevent an abnormal inflow of imports. Secondly, the increased excess of output over domestic demand at prevailing prices has led to a change in the role of the United States in world exports of agricultural products.

Import policy

As regards imports, it must be recognized that some of the import restrictions have been imposed on products which the United States would not normally import anyway unless the prices of imports were drastically reduced. These are the restrictions under Section 22 of the Agricultural Adjustment Act of 1933, on cotton, wheat and wheat products, and rye. This particular piece of legislation was, in fact, explicitly designed to supplement the price support mechanism. But Section 22 restrictions are also applied to dairy products, peanuts and peanut oil, flax-seed and linseed oil, products where there is more likelihood that United States imports would increase if the restrictions were relaxed even if this were accompanied by a lower United States support price.[28]

Furthermore, import restrictions of a different nature are imposed on sugar and wool, both of which are subject to price support; and there are extremely strict sanitary regulations which hinder imports of meat. Under the Sugar Act of 1948, the United States sugar market is basically allocated each year by quota among various domestic and foreign producers.

The effect of these quotas is such that of the two predominant foreign suppliers, Philippines and Cuba, it is Cuba which furnishes residual supplies and which therefore bears the burden of fluctuations in United States requirements. There are also limitations on the proportion of imported sugar which may be in refined form.

As regards wool, the United States is one of the few industrialized countries in the world having a tariff on raw wool (excluding carpet wool, which is duty free), and the level of this tariff is also exceptionally high. In spite of the tariff and price support, wool output has been declining steadily for some years. The chief effects of these measures, therefore, have been simply to slow down the rate of decline of output, to keep wool prices high to consumers, and to encourage the use of substitute fibres.

The sum total of these various impediments to imports is that the commodity coverage of United States import restrictions is substantial in terms of the share of these commodities in farmers' cash receipts from the products concerned. While only about ten agricultural products are affected by import restrictions or significant tariffs, the cash receipts from these products amounted to about $7.5 billion in 1956, which was about one-quarter of the total cash receipts from United States agricultural production in that year.

The extent to which imports from the underdeveloped areas of the world would increase in the absence of United States price support or import restrictions should not be exaggerated. The most im-

[25] Also, acreage allotments for wheat are now at the minimum permitted under existing legislation so that any further upward trend in yields can be expected to produce an upward trend in output.

[26] The average ratio of carry-over stocks to annual production was 24 per cent in the nineteen thirties and 22 per cent over the period 1945 to 1952.

[27] Farm Message to Congress, 29 January 1959.

[28] Section 22 legislation specifically links the imposition of import quotas or tariffs to the operation of the price support legislation. Apart from the cotton quotas imposed in 1939, peace-time application of Section 22 restrictions began in 1953, and by 1958 were applied to all the products enumerated above. During the period from 1950 to mid-1953 various restrictions were also imposed under Section 104 of the Defense Production Act. For details of Section 22 controls since the inception of the Act, *see* United States Tariff Commission, *Investigations under Section 22 of the Agricultural Adjustment Act*, fourth edition (Washington, D.C., May 1958).

portant items from this point of view are probably sugar, wool, meat and dairy products. Total consumption of sugar continues to rise somewhat and imports come from under-developed countries such as Cuba, Mexico, Peru and the Philippines. The long-run demand prospects for wool would presumably be more favourable if tariffs were reduced and wool sold at more competitive prices. However, not all the benefit from a liberalization of United States wool imports would accrue to low-income suppliers (such as Argentina and Uruguay) as the bulk of United States imports of apparel wool continues to come from relatively high-income Commonwealth countries (Australia, New Zealand and the Union of South Africa). Meat imports might also increase under less stringent sanitary regulations. There probably is also scope for an increase in imports of dairy products, for although the import quotas fixed are higher than were imports of these products in the "representative period" selected as a basis for fixing the quotas (1948 to 1950 for cheese), the average imports of the products concerned (with the exception of "Italian-type" cheese and dried skim milk in some years) since the quotas were set have been more or less at the limit permitted.

It must be recognized, however, that United States demand for food products in general is not markedly rising. For example, imports of the tropical foodstuffs and beverages, which are subject to hardly any restrictions or tariffs, have not been increasing rapidly. For these products, it is the slow rate of growth of demand which is mainly responsible for the relative stagnation of imports. Thus, for agricultural products, while lower tariffs or more freedom for imports would give a valuable stimulus to export proceeds of some countries, after the initial effect there is no reason to believe that the long-run trend would be significantly affected.

Export policy

A major consequence of the developments in agricultural output and domestic United States demand has been the greatly increased role of the United States in world trade in agricultural products. In grains, for example, the only item exported on a significant scale relative to United States output during the period 1934 to 1938 was rice (about 15 per cent of output) and for no other grain product was the exported proportion greater than 6 per cent.[29] In the post-war years, however, the export percentages have been around 30 per cent or more for wheat, between 10 and 20 per cent for other grains, and between 20 and 40 per cent for rice. While there have been some declines in the exported proportions of cotton and tobacco, these are two products of which United States exports have traditionally been important in world markets and which have remained so. Hence the final outcome, as seen in table 25, is that the United States is now an important exporter and competitor in world trade in a number of the major non-tropical agricultural products.

Table 25. United States Share in World Exports and Production of Selected Agricultural Products[a]

(Annual averages 1934–1938 and 1955–1957)

Product	Percentage share in world exports		Percentage share in world production	
	Average 1934–1938	Average 1955–1957	Average 1934–1938	Average 1955–1957
Wheat[b]	6.4	46.1	21.0	20.2
Barley	12.0	28.7	12.5	13.7
Oats	5.9	29.3	31.0	37.1
Maize	9.0	63.9	59.3	59.2
Rice	0.8	14.8	1.0	1.8
Cotton	43.0	43.6	51.9	35.5
Tobacco	41.0	37.6	30.2	32.3
Soya beans	2.3	82.0	9.5	51.3

Source: Food and Agriculture Organization of the United Nations, *Yearbook of Food and Agricultural Statistics*, Series Trade and Series Production, and *Monthly Bulletin of Agricultural Economics and Statistics*.

[a] Excluding the exports and production of the centrally planned economies.

[b] Production data relate to wheat only (whereas trade data include wheat flour).

In the earlier post-war years, this expansion of United States exportable supplies was a boon to the rest of the world, where food production levels had been reduced by the war. And given the magnitude of the increase in the United States share in world output and exports of certain crops and the growth of United States surplus stocks, it is doubtful whether a moderate reduction in United States agricultural assistance would bring the United States share in world exports back to anything like its pre-war share. Nevertheless, since world trade prices of most of the products concerned have fallen below the United States support prices, United States agricultural exports have become increasingly dependent on government export programmes.

The most important government programme during the last few years has been the Public Law 480 disposals, particularly the sales for foreign currency under Title I of this law. Over the whole period from mid-1954 to the end of 1958, total Public Law 480 disposals amounted to about $8 billion (at cost value) and accounted for about one-quarter of total United States agricultural exports. All the major United States export commodities have been substantially affected by these disposals, namely, wheat, corn, rice, cotton, certain fats and oils, tobacco and certain dairy products.[30] An

[29] The exported percentages of production were, however, higher in preceding years, being about 16 per cent for wheat and barley over the period 1924 to 1933.

[30] In the fiscal year 1958, for example, Public Law 480 disposals, in quantitative terms, accounted for 59 per cent of total wheat exports, 27 per cent of corn exports, 51 per cent of rice exports, 23 per cent of cotton exports and 53 per cent of exports of cotton-seed and soya bean oil. Cf. *Message from the President of the United States Transmitting the Eighth Semi-annual Report on Activities Carried on under Public Law 480*, tables III and IV.

indication of the degree of subsidy involved, quite apart from the fact that sales for foreign currency may represent very little real cost to the recipient country, is the difference between the export value of the sales and the cost to the CCC. For example, over the four-year period from mid-1954 to mid-1958, Title I sales under Public Law 480 were valued at $4 billion in terms of the cost to the CCC but at only $2.8 billion at export market value.[31] Total government export programmes for agricultural products have varied between $1.2 and $1.9 billion per annum over the last three years (1956 to 1958) and have constituted, on the average, about 37 per cent by value of total United States agricultural exports (as compared with about 20 per cent in the preceding three years).[32]

Exactly how far United States farm exports under government programmes have displaced exports from competing countries is, of course, impossible to assess. The legislation authorizing the relevant export programmes invariably stipulates that such exports are to be made on normal commercial terms and should constitute a net addition to the normal imports of the receiving country. But these concepts are difficult to evaluate precisely, so that it may well have been impossible, in many cases, to ensure that United States Government exports were not displacing some exports from competing suppliers.

The extent to which United States Government programmes to promote exports are "harmful" in any sense to the world economy depends on various factors. The chief of these is which countries are competing exporters and how far any loss of markets they might suffer is offset by any gain to the receiving countries from the special imports they obtain. The first point to notice in this connexion is that the competing exporters concerned are largely other relatively high-income countries such as Australia, Canada, Denmark and New Zealand, though grain producers in Latin America and rice producers in Asia may also be affected by United States wheat exports. On the other hand, while it is mainly other high-income countries that compete with the United States special exports of grains, they are countries which are much more economically dependent than the United States on such exports, and their own import capacity is therefore very sensitive to the prosperity of their primary product exporting industries.

The products in which competition is likely to be felt chiefly by lower-income countries are cotton, certain oil-seeds, rice and tobacco. But the trends in trade over the last few years do not suggest that the lower-income countries have, on the whole, been adversely affected by United States Government exports of these products, though there are one or two exceptional cases. Rice stocks, for example, have been virtually liquidated during the past two years in countries such as Burma, Italy and Thailand (as well as in the United States) as a result of improved economic conditions and rising population in the important rice deficit countries; and a similar absorption of surplus cotton stocks began to take place early in 1957, though in the past few months an increase in United States cotton exports might have had a greater effect either on cotton stocks overseas or on the prices that overseas producers will be obliged to accept in order to liquidate their stocks. Tobacco sales by countries other than the United States rose fairly steadily up to 1957 while United States tobacco exports were falling. The position as regards fats, oils and oil-seeds is particularly complicated, partly on account of the diversity of products in this group and the degree of government intervention in trade in these products. Nevertheless, it seems that the rapid expansion in United States exports of these products has been largely filling the gap that would have emerged because of rapidly increasing demand in some countries (particularly western Europe and Japan) and low exportable surpluses in other countries.[33]

Owing to these trends, there is, on the whole, less concern felt by the lower-income countries over the impact of United States Government exports than by the higher-income countries mentioned above which compete with United States exports of grains and dairy products. For these products there has not been an expansion of domestic demand in the producing countries sufficient to reduce exportable surpluses, as there has in the countries producing rice and fats and oils.

As regards the benefit obtained by the recipients of United States special exports, these countries have, in general, been low-income countries and the shipments have usually been a form of economic aid or special relief. This does not mean that all Public Law 480 disposals constitute unqualified net improvements in the economic situation of the recipient countries. They have no doubt provided an effective device in most cases for supplying surplus foods to countries experiencing shortages. But the United States administration has been aware of certain theoretical dangers such as the possibility that the abrupt ending of the supplies, if not anticipated, may provoke more dislocation than would otherwise have been the case; or that receipt of Public Law 480 supplies may tend to reduce other

[31] *Op. cit.*, page 2. Export proceeds from other CCC disposals are also generally well below cost, particularly exports under the International Wheat Agreement.

[32] In this context exports under "government" programmes exclude various exports of a quasi-commercial nature such as CCC credit sales, Export-Import Bank Loan sales and CCC sales at and below the domestic market price but outside specified government programmes. Such quasi-commercial sales are not, however, substantial relative to total exports.

[33] This applies particularly to China and India, the two leading pre-war exporters. In fact, the Indian Government has felt obliged to impose export quotas or embargoes on oil-seeds according to the extent to which the domestic market can be satisfied at low prices.

foreign aid, or that the local currency proceeds may be used by the United States Government in part for expenditures that would otherwise be paid in dollars.[34] However, there does not seem to be a widespread impression in the receiving countries that such dangers have been of major significance in practice.

Thus, as far as United States exports are concerned, the net impact of United States agricultural policies on other countries seems to bear much more heavily on the higher-income countries, with certain possible exceptions such as wheat and cotton exports from some of the lower-income countries. Against this must be set the benefit accruing to many lower-income countries from special receipts of surplus United States products.

COMBINED IMPACT ON TRADE OF UNDER-DEVELOPED COUNTRIES

As has been pointed out above, an over-all reduction in agricultural support in western Europe or the United States would have a proportionately small impact on the trade of under-developed countries, though for individual under-developed countries the benefits might be very important. A large part of any increase in western Europe's imports of cereals, for example, would probably be met by exports from the United States. It is necessary, therefore, in examining the impact of agricultural support in the main industrialized countries, to treat western Europe and the United States as a single unit by aggregating their production and net imports.

A recent report has estimated that, taking the aggregate of a wide range of agricultural products, the combined net imports of the United States and western Europe amount to about 9.6 per cent of total domestic supplies.[35] This means that a one per cent reduction in production relative to consumption would cause net imports to increase by over 9 per cent. For individual product groups the proportionate effects of changes in production on the combined net imports or exports of the United States and western Europe vary greatly. As can be seen in table 26, the greatest proportionate impact would be on cheese and bread grains, followed by comparable effects on coarse grains, meat, butter and tobacco. In terms of the dollar values in international trade, however, some of these items, such as cheese and butter, would be of relatively small importance. And with the exception of tobacco they are all products mainly of the temperate zones, so that it is likely that an increase in net imports of these products would be partly met by greater exports from the higher-income primary producers in Canada or Australasia.[36]

Table 26. Estimated Effect of One Per Cent Change in Production in Industrial Countries on Combined Net Imports[a]

Product[b]	*Net imports or net exports (−) as percentage of total supplies*	*Percentage increase in net imports or reduction in net exports (−) following one per cent decrease in production*	*Absolute increase in net imports or reduction in net exports (−) (millions of dollars)*
Meat	3.7	25.8	119
Coarse grains	3.1	31.2	107
Bread grains	1.4	71.0	52
Cotton	12.3	7.0	25
Butter	3.8	24.7	18
Tobacco	3.5	28.3	18
Cheese	1.1	90.0	12
Sugar (raw value, centrifugal)	39.9	1.5	11
Wool	77.1	0.3	5
Rice	−15.2	−7.5	−5
TOTAL, ABOVE PRODUCTS	9.6	9.4	372

Source: United Nations Bureau of Economic Affairs.

[a] Estimates relate to the average aggregate output and net imports of OEEC member countries and the United States during the period 1955 to 1957. The valuations in the last column are at average 1954–1956 prices.

[b] In descending order of the absolute increase in net imports or reduction in net exports.

This serves to strengthen the finding already reached above concerning western Europe alone to the effect that in order to improve the export prospects of under-developed countries any reduction in agricultural support in the main industrialized countries would need to be on a very selective basis. For the industrialized countries taken together, it would have to be concentrated on such products as sugar, rice, cotton and tobacco. It is true that, as can be seen from table 26, these are not the products net imports of which are particularly sensitive to small changes in production in the industrialized countries. On the other hand they do not, in aggregate, account for a substantial part of the value of total agricultural output. For example, a 5 per cent reduction in aggregate output (or rise in consumption) of these four products in the industrialized countries would increase net imports by about $300 million, while the value of total agricultural output in these countries would decline by less than one per cent. When tropical products, such as non-alcoholic beverages, are also taken into account, the scope for increasing imports without significantly affecting domestic agricultural incomes is, of course, increased.

[34] *See* report by John H. Davis on a survey made by a working party, comprising himself and two members of the United States Department of Agriculture Foreign Agricultural Service, on PL 480 operations (Washington, D.C., 5 August 1958), *passim.*

[35] General Agreement on Tariffs and Trade, *Trends in International Trade*, A Report by a Panel of Experts, page 88.

[36] It should be noted that for statistical reasons it has not been possible to include the various vegetable oils and seeds in this commodity breakdown, and it is likely that the relative benefit obtained by less developed countries from reduced protection of these products in the industrialized countries would be substantial.

Minerals policies

SUPPLY POLICY

In the context of the present chapter, the most important policies affecting mineral production are those pursued in the United States. Western Europe's output of minerals is significant for only a few products, so that the incentive to protection for minerals has been much less than in the case of agriculture. Even those few industrial raw materials which are produced in significant quantities in some countries, such as coal, iron ore, lead, zinc, timber and wool, receive much less protection, on the whole, than food production. For example, in the United Kingdom, which has the largest coal industry in Europe, duties are levied on gasoline but not on fuel oil which is competitive with coal.

In general, therefore, industrial raw materials are subject to very little in the way of tariff or quantitative restrictions in western Europe, though there are various exceptions such as French restrictions on certain imports from outside the franc area. Trade patterns are not greatly affected by preference systems since, while such preferences may cover a large area, as is the case with United Kingdom preferences to Commonwealth suppliers, the tariff rates for other suppliers are generally very low.

In the United States, on the other hand, minerals policies have had a much greater impact on world trade in these products. The situation of mineral production in the United States is very different from that of most agricultural products. Before the war, the United States was a net exporter of minerals and it has now become a large net importer. Mineral requirements as a whole have been rising much more rapidly than food requirements, and are likely to continue to do so. At the same time there are much greater limitations on the economic expansion of United States mineral production than of agricultural production. This appears to have given rise to some concern in the United States over the availability and location of supplies for future growth and for emergency use in the event of hostilities. A further factor in the mineral situation is the large stake in overseas sources of production owned by United States enterprises. Finally, in terms of its contribution to national income or employment, the mineral industry is much less important than agriculture.[37]

Before the war United States dependence on imported minerals was limited to tin, nickel, and the platinum group of metals, but imports now provide about half of United States total supplies of lead and zinc and about a quarter of United States supplies of copper, as well as substantial proportions of United States supplies of other products, including even petroleum (about 15 per cent of total supplies). The United States is now one of the world's largest single importers of industrial raw materials, imports of which, in 1956, amounted to over $5 billion.[38]

Measures to expand supplies for the purposes of meeting long-term requirements or sudden emergencies have been a central United States policy since the war. This policy has included encouragement to the expansion of the mineral export potential of overseas supplying countries; and not until recent years did the emergence of depressed conditions in certain sectors of the United States mineral and fuel industries lead to some move towards protection.

The measures taken to ensure the adequacy of United States supplies of minerals have taken two main forms. First there have been measures designed to raise the profitability of mineral production without directly acting on prices. The most important of these are the taxation concessions to mineral producers, as a result of which effective tax rates are about half or less of what they are in other enterprises.[39] The second main instrument of United States minerals policy has been the stockpile programme. This consists of accumulating stocks of selected materials considered to be of strategic value and the supplies of which from overseas might be endangered in war-time.[40] A notable feature of the programme is that the strategic interest has been interpreted as including a concern for the prosperity of the domestic United States minerals industry. Thus, while the enabling legislation was ostensibly concerned only with providing an adequate stockpile, it included the requirement that stockpile purchases should be made in accordance with the provisions of the Buy American

[37] The share of all mineral production (including fuels) in the United States national income is about 1.7 per cent, as against about 4.5 per cent for agriculture; and employment in the mineral industries is about 800,000 as compared with over 6 million in agriculture (including family employment). For metal mining alone, the share in national income is only about 0.2 per cent, and employment is about 100,000. Employment in two of the most controversial mineral sectors, lead and zinc mining, is only about 17,000.

[38] Standard International Trade Classification, sections 2, 3, and 682 to 689.

[39] Taxation concessions for some mineral producers date back to 1926, but it was at the time of the Korean hostilities that taxation privileges were extended to the production of all metals and numerous non-metallic minerals (in the 1951 Revenue Act). The privileges given consist principally of permission to charge as current costs various expenses of exploration and development, and "percentage depletion", which allows specified percentages of gross income (with a limit of 50 per cent of net income) from mineral production to be deducted from taxable income.

[40] The stockpile programme actually originated in June 1939, when Congress appropriated $100 million for the stockpiling of certain critical and strategic commodities, chiefly rubber, iron ore, copper, nickel, lead and zinc. During the war other products were added to the stockpile list, and by the end of the war the United States stockpile was worth about $500 million. The main authority for post-war stockpile activities has been the 1946 Strategic and Critical Materials Stockpiling Act, though there has been supplementary legislation in later years.

Act.[41] Moreover, until 1949 government purchases of foreign materials for the stockpile were not exempted from import duties.

The Korean outbreak gave a big stimulus to the stockpile programme. Rapidly expanded stockpile purchases were authorized and new long-term contracts were given to domestic producers in order to promote expansion of output. But even during this period the interests of industrial consumers had to be considered and there was some diversion of stockpile supplies to industry.

However, following the post-Korean collapse in primary product prices, certain United States mineral industries have been experiencing depressed conditions, accentuated by their relatively high costs of production and, for certain non-ferrous metals, a slow growth of demand. This has led to a much greater emphasis in policy on providing relief to these sectors. The main remedy adopted at first, in spite of the Tariff Commission's proposal, in 1954, to reduce imports of lead and zinc, was to allow the stockpile programme to be used as a means of maintaining demand for the products concerned. In 1954, in announcing a new programme of "long-term" mineral stockpile objectives, the President stated that "Acquisition of metals and minerals . . . will take place ordinarily at such times as the Government decides that purchases will help to reactivate production capacity and in other ways to alleviate distressed conditions in connexion with domestic mineral industries that are an important element of the nation's mobilization base."[42]

This programme was particularly important for the lead and zinc industry, where capacity had been expanded following the Government's long-term contracts made in 1951 at the high prevailing prices, and where civilian consumption failed to expand adequately. In August 1954, the President proposed the purchase, for the stockpile, of 200,000 tons of domestic lead and 300,000 tons of zinc, as a means of aiding the industry. This had the desired effect, and for about another two years world prices of these products and United States production were largely dependent on the stockpiling programme.

Thus, in 1954 an important shift in emphasis was given to the stockpile programme. Not only was it to be accelerated but purchases were to be explicitly linked to the alleviation of depressed conditions in some sectors. The linking of stockpile acquisitions to the disposal of agricultural surpluses was another development in 1954, under Public Law 480, which amongst other things authorized the CCC to barter surplus agricultural products for foreign strategic materials[43] to be placed in a supplemental stockpile. For about two years such barter transactions were of considerable importance, but the programme was curtailed in 1957 when it became apparent that barter transactions might simply be replacing cash sales of farm surpluses at better prices.[44] However, the barter authority was retained in 1957 when the 1954 Act was extended, a further $1.3 billion was authorized in connexion with surplus disposals, and the definition of "friendly" nations eligible for participation in such disposals was broadened to include Poland and other eastern European countries.

IMPORT POLICY

The limitation on stockpile purchases as a means of indefinitely alleviating depressed conditions in certain sectors was apparent to United States producers at an early stage and their misgivings were soon to be justified at the end of 1956, when the United Kingdom, followed by the United States early in 1957, ceased purchases of lead and zinc for stockpiling. Relatively depressed conditions have also appeared in the last two or three years in United States copper mining, and excess capacity has long been a problem in the petroleum industry on account of the availability of cheaper oil supplies overseas. Consequently there has been pressure to aid these sectors by means of import restrictions.

For lead and zinc, the President preferred, in 1954, to employ extra stockpile purchases rather than to impose higher tariffs.[45] But since by 1958 the stock-

[41] This Act, which dates back to March 1933, requires that in general goods purchased for public use should be of American origin, unless such goods cannot be supplied from United States sources at "reasonable" cost.

[42] This statement, contained in a White House press release, 26 March 1954, is quoted in the Report of Senate Committee on Interior and Insular Affairs, *Accessibility of Strategic and Critical Materials to the United States in Time of War and For Our Expanding Economy*, 83rd Congress, Second Session (Washington, D.C., 1954), pages 27 to 28.

[43] Such authorization had already been contained in Public Law 85 of the 81st Congress (June 1949), but the Public Law 480 of 1954 enlarged the original authorization, especially by enabling foreign currencies obtained from sales of agricultural surpluses to be used to purchase strategic materials. For lead and zinc the quantities acquired by barter were substantial. In the two years 1956 and 1957, the CCC contracted for acquisition of 131,000 tons of lead and 257,000 tons of zinc. *Cf.* United States Tariff Commission, *Lead and Zinc*, April 1958, table 9.

[44] At the end of April 1957, the barter programme was suspended to permit the United States Department of Agriculture to study safeguards against the substitution of barter transactions for dollar sales without a net gain in total exports of agricultural surpluses. In the following month, barter was once again authorized as long as the transaction would mean a net increase in United States exports of the agricultural commodity involved. This condition required the importers to provide "certificates of additionality". In November 1958 this requirement was dropped and the burden of responsibility was placed on the United States Secretary of Agriculture. *See* also, United Nations, *Commodity Survey, 1958* (sales number: 59.II.D.1), page 28.

[45] In rejecting the Tariff Commission proposals in 1954, the President stated that the difficulties of the lead and zinc industry were not due to imports but to "war-stimulated levels of prices and production" and that "since the benefits to be derived from the increase of the tariff on lead and zinc are so uncertain, I am not prepared to seek them at the expense of the serious adverse consequences that would follow for our international relations". (Letter to Chairman of Senate Finance Committee, White House Press Release, 20 August 1954.) It should be noted, however, that in 1957 the Administration proposed a sliding-scale "import-excise tax" on lead and zinc. The proposal was not accepted by Congress.

piling programme was no longer maintaining employment in these industries, the President acted by establishing import quotas on these two metals, restricting imports to 80 per cent of average imports in the period 1953 to 1957.[46]

For copper, the emergence of quasi-depressed conditions came later than for lead and zinc. However, the only additional protection obtained was that, on 30 June 1958, the earlier suspension of the import tax on copper (1.7 cents per pound) was allowed to expire automatically.

The relative difficulty experienced by the lead, zinc and copper industries in attempting to obtain protection by means of import restrictions of one kind or another, as also the experience of the petroleum industry, is probably due in part to the important United States interests in overseas production or in the domestic processing of imported ores and crude petroleum. This is reflected in greater reluctance to restrict imports or to keep up prices than is the case for agricultural products. For example, in the 1954 Tariff Commission report on the lead and zinc industries, one of the dissenting Commissioners opposed the increase in duties on the grounds that they would harm domestic smelting and refining industries as well as United States investors in overseas mining.

As regards oil, the "Big Five" United States petroleum producers have a very large stake in overseas output, and the bulk of United States oil imports are obtained from these overseas holdings of United States companies. Apart from these and other very large integrated oil companies in the United States, the oil industry includes many small independent producers who together supply about 40 per cent of total United States output, but who, as a rule, have no overseas holdings. Thus United States oil policy has been subject to conflicting pressures, partly reflecting the conflict of interests faced by the larger companies themselves. During the post-war years, as the major companies have permitted imports to rise to significant proportions, increasing attention has been paid to the question of their limitation, in view of the competitive strength of cheaper foreign supplies (in spite of the fact that United States oil production, like other mineral industries, benefits from various tax concessions). The pressure for import restrictions led to the attempt in 1955 to amend the Trade Agreements Extension Act in such a manner as to limit imports to 10 per cent of domestic consumption (as compared with the then prevailing ratio of about 15 per cent). The Administration succeeded in obtaining instead an amendment giving the President discretionary authority to adjust imports when they "impair the national security".[47] In the same year (1955), the President's Advisory Committee on Energy Supplies and Resources Policy recommended that imports should, as a rule, not exceed 10 per cent of requirements, but the Committee preferred voluntary restrictions to any government intervention.[48] The debate over voluntary versus compulsory restrictions has continued in the last few years and on 10 March 1959, a statement by the President announced that compulsory quotas would be introduced on the grounds of national security. This justification for the restriction has been strongly questioned, particularly by Canada, where it is maintained that "there can be no justification on security . . . grounds for the application of such controls to Canadian oil".[49] The move towards restriction on oil imports is especially significant when it is borne in mind that the Government has for some time pursued a policy designed to aid United States companies to extend their overseas production, as has been the case for other minerals.

In general, therefore, it appears that so far as the longer-run aspects of mineral policies in industrialized countries are concerned, the most important policies are those prevailing in the United States where production in certain domestic mineral sectors has appeared to be threatened by imports. This has given rise to some import restrictions. No inconsistency is seen between these restrictions and the stated concern over long-run supply prospects since it is contended that the maintenance of domestic output must be given priority. However, conflicting interests in the matter of mineral imports and prices in the United States and the relatively small domestic mineral production in western Europe have resulted in less protectionism in minerals than is the case for agricultural products. A major problem for minerals, however, is the greater instability of demand. Hence the attitude of industrialized countries to short-term price stability is also of importance, and the following section comprises a brief review of this aspect of their policies.

Short-term stability

As noted previously, instability of world prices of primary products does not present problems for industrial countries of the same order of magnitude as for under-developed countries. Such concern as there has

[46] White House Press Release, 22 September 1958. The quotas were to become effective as from 1 October. In April 1958, the Tariff Commission had repeated its findings that the domestic lead and zinc industry was being damaged by imports, and although all members of the Commission agreed that duties should be raised, they disagreed on the amount of duty and on whether import quotas should also be imposed. *See* United States Tariff Commission, *Lead and Zinc*, April 1958, pages 2 to 3.

[47] Section 7 of the 1955 Trade Agreements Extension Act.

[48] *Report on Energy Supplies and Resources Policy*, 1955.

[49] Speech by Mr. Sidney Smith, late Canadian Secretary of State for External Affairs, on 16 March 1959. *Cf.* Department of External Affairs, Information Division, *Canadian Weekly Bulletin* (Ottawa), 25 March 1959, page 4.

been with this problem has focused principally on the adverse effects of commodity price increases on general price stability and, in western Europe, on the balance of payments. At the same time a few European countries, and above all the United Kingdom, have close ties with overseas producers of primary products and are therefore aware of the impact on such countries of drastic declines in the prices of the products they sell.

During the earlier post-war years a considerable volume of trade was covered by bilateral agreements, often of a fairly long-term nature. Particularly important were those concluded by the United Kingdom with many overseas suppliers, both Commonwealth and other, for a wide range of food products. These agreements provided the United Kingdom with guaranteed supplies and insurance against market price increases, and also constituted a long-term guarantee for the overseas producers. From about 1952, however, most of these contracts were allowed to lapse (see chapter 3 below).

No such preoccupation with the stability of commodity prices emerged in the United States until the Korean outbreak in 1950. As a reaction to the general materials shortage in 1951–1953, the United States co-operated with other major consuming countries in the International Materials Conference, the chief function of which was to organize a voluntary allocation of supplies to minimize shortages in any one country and to restrain the upward pressure on prices. Intervention of this type has, however, been limited to the prevention of sharp upward fluctuations, when it has been beneficial to consumers in the United States and western Europe. The same applies to more specific interventions, such as the western European long-term contracts mentioned above, and the various price controls and stockpile releases by the United States Government in 1951–1953 and 1954–1955, or the rapidly organized co-operative measures adopted in western Europe at the time of the Suez crisis to prevent a threatened supply shortage in various countries.

Some commodity policies in the industrialized countries, while not specifically related to price stabilization, may, however, have had an effect on the stability of prices of certain products in world trade. This applies chiefly to policies in the United States, where domestic primary production is more important than in western Europe. In some cases, the manner in which United States surpluses have been handled has perhaps been a stabilizing influence, particularly for cotton in recent years, where fluctuations in the world supply/demand balance have sometimes tended to result partly in corresponding fluctuations in United States cotton stocks rather than being entirely reflected in price fluctuations. From the short-term point of view, the same applies to wheat where, like Canada, the United States has preferred to hold vast stocks rather than allow prices to fall to the minimum specified under the International Wheat Agreement, of which the United States is a member.

In other cases, policies may have had an indirect destabilizing effect. For example the maintenance of artificially high levels of domestic production of many products in the United States and western Europe, by reducing the share of imports in total supplies, tends to increase the degree of fluctuation in imports corresponding to any given change in domestic requirements. A more specific impact on stability has been that of the stockpile programme. While in some cases stockpiling activities have prevented price increases, as noted above, at other times they have accentuated them, as occurred particularly in 1950–1951. Moreover the increase in mining capacity in the United States and overseas which accompanied the stockpile programme has probably intensified the danger of sharp price declines following the gradual termination of stockpile purchases.[50]

But while their own policies appear, in some instances, to have had an effect on price stability, an equally important feature of the role of the industrialized countries in this sphere has probably been what they have refrained from doing rather than what they have done. Since the period of rising commodity prices has come to an end, the industrialized countries have been reluctant, on the whole, to enter into formal stabilization schemes. This is no doubt due basically to the fact that, being net importers of primary products, the industrialized countries are reluctant to enter into arrangements which might lead to a higher average price level over a period of years than might otherwise be the case. It is also said that international commodity agreements are disliked by the industrial countries because they may involve considerable government intervention in trade; but there is already extensive government intervention in agricultural production and trade both in western Europe and in the United States. Whatever the precise causes, the general tendency in industrialized countries is to express a preference for other remedies to the problem of price stability, such as stabilization of the economies of the industrialized countries themselves, and aid in the diversification of the economies of the primary producing countries.[51]

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[50] *See* United Nations, *Commodity Survey, 1958*, pages 26 to 31. It should be noted that by mid-1958 the strategic stockpile was more than 80 per cent complete. Of the seventy-five materials stockpiled, basic objectives had been achieved or exceeded for sixty-three, including copper, lead and zinc (*see* Office of Civil and Defense Mobilization, *Stockpile Report to the Congress*, January–June 1958, page 5).

[51] *See*, for example, Commission on Foreign Economic Policy, *Report to the President* (Washington, 1954), pages 35 and 36.

Policies of primary producing countries

Thus far the nature of policies pursued in the industrial countries has been examined and an attempt has been made to indicate the extent to which a lessening of protection in these countries might be expected to yield direct benefits to the primary producing countries. Even on the most favourable assumptions, however, it cannot be expected that changes in the commodity policies pursued by the industrial countries could basically affect the fundamental commodity problem facing the primary producing countries, as set forth in chapter 1 and recapitulated at the beginning of the present chapter. The first task of the following discussion will be to examine the policy responses of governments in primary producing countries to the long-term aspect of the commodity problem; and an attempt will then be made to ascertain how far governments have been able, or have attempted, to devise policy measures to deal with the problem of short-term instability in primary commodity markets.

POLICIES TO DEAL WITH THE LONG-TERM COMMODITY PROBLEM

Although the problems confronting governments in primary producing countries as a result of the low rate of growth of world demand for primary products are, with few exceptions, essentially similar everywhere, the context in which these problems arise and the policy measures which they therefore evoke differ widely. In particular, crucial differences in the historical background of countries in Africa, Asia and Latin America have largely conditioned the pattern of their responses to long-term trends in world commodity markets.

Latin America has a longer and more widespread experience of independence than the other two continents, and its industrial development has, on the whole, reached a somewhat higher stage. From the close of the nineteenth century up to the nineteen twenties there was a rapid development in Latin America of primary commodity production designed to meet the needs of the industrialized countries of Europe and North America.

The depression of the nineteen thirties brought this period of rapid development of Latin American primary resources to an end. The impact on the Latin American export economies of the decline in the volume of international trade and the sharp fall in the prices of primary commodities was very severe. The fact that the per capita value of exports from Latin American countries had, by the end of the nineteen twenties, reached a level at least three times as high as for the major Asian countries, rendered the former region more acutely conscious than the latter of the decline which followed. The attention of governments was inevitably directed to the disadvantages of unbalanced specialization in primary products; and efforts were made not only to alleviate existing conditions by such means as the restriction of export supplies or the introduction of multiple exchange rate systems, but also to transform the whole economic structure by encouraging the growth of manufacturing industry. After the depressed decade of the nineteen thirties there followed the years of war when customary supplies of manufactures from the industrial countries were seriously curtailed. This had its advantages for Latin America, however, inasmuch as the infant industries which had sprung up during the nineteen twenties, and especially the nineteen thirties, received an immense stimulus to further expansion.

Latin America thus entered the post-war period with a substantial industrial base already in being. Moreover the view prevailed widely that Latin American countries "no longer have an alternative between vigorous growth along those lines [increasing exports] and internal expansion through industrialization. Industrialization has become the most important means of expansion."[52] Under these conditions it was clear that many Latin American Governments would be likely to shape their policies in the economic field, including policies affecting the export sector, in accordance with the apparent requirements of a programme of rapid industrialization.

Quite different was the background of policy in Asia. On the whole, the experience of many of the Asian countries as independent States has been too brief, and special factors have been too intrusive, to make it possible for coherent policies in the commodity field to be clearly articulated thus far. The depression of the nineteen thirties, which played so important a role in the development of policy in Latin America, had much less influence on subsequent events in Asia. This was partly because of the smaller magnitude of international trade in the Asian economies—reflected, as mentioned previously, in a relatively low per capita value of exports. But there was also the simple fact that many of the post-war Governments in Asia did not themselves have to grapple with the economic problems of the nineteen thirties, when the determination of over-all economic policies was within the province of the metropolitan powers. Of more immediate relevance for post-war Asian Governments was the destruction of productive capacity during the war and the conflicts which in certain instances accompanied the transition to independence after the war. Under these conditions, much of the post-war period was occupied with efforts to overcome supply difficulties in the face of a buoyant international demand for primary products. Added to this was the pressure of population upon

[52] United Nations, *The Economic Development of Latin America and its Principal Problems* (sales number: 1950.II.G.2), page 6.

food supplies which appeared in much more acute form in Asia than in Latin America. Consequently it was not until 1952 or 1953, when export markets of Asian primary producers underwent a sharp deterioration, and a number of countries embarked upon an expansion of investment expenditures, calling for relatively high imports, that Asian countries really began to encounter what has been defined above as "the commodity problem". In view of the relatively brief period which has elapsed since that time, it is difficult to discern what the main trends in the commodity policies of Asian countries have been, or are likely to be, at any rate as far as the export sector is concerned.

Most of Africa is best regarded as belonging to yet a third group of countries from the point of view of experience of and attitudes towards the commodity problem. Apart from the fact that the stage of economic development thus far reached in the greater part of Africa is appreciably lower than in Asia, and still lower than in Latin America, relatively few of the countries acquired the responsibility for formulating an economic policy of their own on a national scale until very recently. Moreover, the very fact that levels of economic development are so low means that the policy choices open to African Governments are often much more restricted in scope than they are in some of the countries in Latin America, or even Asia, where significant industrial capacity already exists and the foundations for further industrial expansion can be more readily laid down.

Export policy

The differences in circumstances affecting the various primary producing countries, indicated above, find their main expression in the evolution of policies towards the export sector. Broadly speaking, it may be said that while African and, to a considerable extent, Asian Governments have attached relatively high priority to the expansion of exports, policy in this field has been rather less active in Latin America. It will, however, be important to bear in mind in the course of the following discussion that there were many influences other than government policy affecting the course taken by the exports of primary producing countries since the war. Of particular significance in the expansion of primary production and exports above the pre-war volume was the recovery of prices from the low levels to which they had sunk during the nineteen thirties, especially in the case of commodities which, at least during the early part of the post-war period, were in short supply—such as jute, rice, and fats and oils.

Latin America

As noted above, the key to post-war governmental economic policy in Latin America was the desire for industrialization. It is true that not all countries adopted a vigorous industrialization policy. The Central American countries, for example, were too small and insufficiently advanced economically to make such a programme feasible. Cuba, with a relatively high income level and with an export sector as highly developed as perhaps any in Latin America, was also an exception. However, nearly all of the major countries in the area followed a policy line in which industrialization held the prime, or at least a very important, position.

It was not generally intended that industry should displace activity in the agricultural or mining sectors but simply that it should grow at a faster rate. Nevertheless the experience of the nineteen thirties encouraged a widespread belief that the scope for expansion of exports was generally limited; and since the export sector was in any case the most highly developed part of the economy, it was felt that it could be left to look after itself, or even supply resources, through special taxation, for use in other sectors.

Instances in which an active policy of promoting expansion of the established export sector was consistently followed are the exception in Latin America. This helps to explain the fact that while, as shown in table 27 the total volume of exports from the primary producing countries rose by 37 per cent from 1948 to 1955 (29 per cent excluding petroleum), exports from Latin America increased less than 15 per cent, and show an almost complete stagnation if petroleum is excluded from the total; during the same period industrial production in the area expanded by one-third. It should not be assumed that this contrast was due entirely to policies pursued in Latin America. In the first place the natural Latin American market in the United States grew much more slowly than the markets of Asian and African countries in Europe during this period. It is noteworthy, for example, that the volume of agricultural imports by the United States was actually lower in 1955 than in 1948; and while imports of minerals did increase, the chief expansion was in petroleum—the volume of imports of copper rose only modestly and of tin ore declined sharply.[53] At the same time, part of the increase in exports from other primary producing areas between these years was no more than a reflection of continued recovery from war devastation.

It is true that Latin American countries might have sought a larger share of the European market than they in fact obtained. This, however, involved the displacement of traditional European sources of supply, which presented great difficulties especially where supplies were obtained from dependent territories or under preferential agreements. In any case, many countries were precluded from expanding their trade with Europe unless they were prepared to accept the currency

[53] The rise in imports of tin metal could not benefit Bolivia, whose exports consist almost entirely of the ore.

Table 27. World Exports
(Quantum indices, 1953 = 100)

Item	1937	1948	1950	1951	1952	1954	1955	1956	1957
World[a]	74	70	85	95	94	105	114	124	131
Industrial countries	66	65	81	95	94	106	115	128	135
Primary producing countries									
Total	90	81	93	95	93	102	111	118	122
Excluding petroleum	101	84	94	95	93	101	108	115	119
Latin America									
Total	100	94	95	96	90	98	107	116	118
Excluding petroleum	116	98	97	95	88	95	102	111	110
Other primary producing countries									
Total	85	75	92	95	94	104	113	118	123
Excluding petroleum	96	78	93	95	95	103	110	116	122

Source: Statistical Office of the United Nations.
[a] Excluding trade of Albania, Bulgaria, China (mainland), Czechoslovakia, Eastern Germany, Hungary, North Korea (beginning 1947), Poland, Romania, and the Soviet Union.

restrictions thereby involved—which for some of them would have meant the abandonment of convertibility.

Up to 1951 Latin America did not have to rely on a growth in export volume, since higher foreign exchange earnings were insured by increases in export prices. But thereafter it was no longer possible to rely on improving terms of trade; and many countries had long since dissipated the large foreign exchange reserves they had held at the end of the war. In these circumstances Governments began to reconsider their policies towards the export sector and one by one took steps to provide greater export incentives.

Naturally there are exceptions to the general picture thus indicated. A substantial growth of the export sector occurred in Peru and Venezuela, though in neither case did the Government take specific measures to promote exports; main reliance was upon liberal trade and exchange policies. In some of the smaller countries, however, Governments did contribute to the expansion of exports by providing various facilities or incentives; and in the case of Mexico government policy was of primary importance in the doubling of agricultural production since the war and in the great advances secured in exports of coffee and cotton—chiefly through land reform, the promotion of public and private investment in agriculture, and the maintenance of favourable prices in the export sector by means of successive devaluations.

Nevertheless, the impression made on Latin America by the limitation of export markets is strikingly reflected in the fact that, with the single exception of Venezuela, there is no instance during the post-war period in which a Latin American country's policy was aimed at achieving a substantial increase in the export of a commodity if a large part of the total trade in that commodity already originated in that country. Mexico is one of the leading suppliers of minerals, and official policy, at least until the last two or three years, appears to have discouraged new investment in this field, and to have been an important factor in the stagnation of mining production. It was primarily cotton which was promoted, and this was an almost entirely new export. Peru was only a marginal supplier of all its main export products when the policy to promote exports was undertaken; the substantial growth of banana exports in Ecuador began from a very small base, and the Central American countries remain marginal suppliers of most of the leading commodities which they export. In the latter group of countries there has been some shift in the export sector, with cotton having grown substantially in relative importance; the one crop in which the region formerly held dominance, bananas, has declined in most countries, only Panama having achieved a substantial increase.

The principal exports of Latin America a decade ago—coffee from Brazil and Colombia, sugar from Cuba, grains and meat from Argentina, copper from Chile, tin from Bolivia, metals from Mexico—were in no case the object of an active policy designed to stimulate a rapid growth in production. While the lack of expansion in the principal market for Latin American exports was undoubtedly an important factor in this connexion, this cannot fully explain instances in which Governments appear to have actually hindered the growth of exports. During much of the post-war period, the prices paid to producers for their crops by the Government purchasing agency in Argentina were held down to a level at which production declined; while at the same time exportable supplies of meat were being reduced as a result of subsidies to domestic consumption. Tax policy in Chile, as well as restrictions on the operations of the major copper producers, seem to have contributed to the decline in the volume of copper output and exports up to 1955.

On the whole, post-war governmental promotion of exports in Latin America has occurred mainly during

the early stage of development of an export product, before its position has been firmly established, and again where particular exports have stagnated or declined, so that the country's exchange position has been threatened. For example, when agricultural production declined in Argentina and the balance of payments position became critical at the end of the nineteen forties, official concern became evident and several price concessions were granted to producers during the early nineteen fifties in an unsuccessful effort to remedy the situation. Again, in Chile, considerable attention was given to keeping the nitrate industry alive and the industry was granted numerous concessions; and after Chile's share of the world copper market had steadily declined for a number of years, a complete revision of the system of taxation was introduced in an effort to encourage an expansion of production in the industry. Where, however, the export sector was robust, there was generally little effort to achieve further advances, and much more attention was given to measures of control or taxation.

It should be observed that in so far as countries encourage the output and exports of primary products in which their share of the world market is small, instead of promoting traditional exports, the extent of any ultimate gain is subject to some doubt. Such a policy would, of course, imply some diversification of exports and—to this extent—a reduction in the vulnerability of countries to declines in particular commodity prices. It is also possible for individual countries to achieve a larger share of the total world market for primary products by this means. It will, however, be obvious that the primary producing countries as a whole cannot escape the consequences of the slow growth in aggregate demand for their exports by promoting the marginal exports of each and every country. A stage is inevitably reached at which such efforts can only be mutually frustrating—either because increases in marginal exports are offset by declines in traditional exports, or because the consequential rise in the total volume of world exports of each primary product, by depressing prices, fails to yield any gain in export proceeds.

Asia

Asian countries did not generally come up against the problem of limitations on the size of their export markets as early as did the Latin American countries because their agriculture had been very badly hit by the war, and the more important problem was therefore the restoration of productive capacity. Additional difficulties on the supply side were caused by protracted civil strife or unrest. In such countries as Burma, Indonesia and the Philippines the task of rehabilitating agricultural land and reconstructing processing plants continued well into the early nineteen fifties; even so, production has not yet recovered fully to the pre-war level in the first of these countries. Moreover, most of the major trading countries in the region had achieved political independence by 1950, and the new régimes took their stand on broadly based economic welfare objectives, which again implied strong support for the agricultural sector. The measures introduced by Governments to this end involved the channeling of substantial public funds to rebuild and expand primary productive capacity both for domestic use and for export.

At the same time, in petroleum, rice and rubber, Asia has three commodities in which the prospects for expansion remain relatively good. This is either because industrial demand continues to grow fairly rapidly, as in the case of petroleum and rubber, or because of the possibility of replacing other food staples in Asian consumption, as in the case of rice. Consequently the feeling that under-developed countries have come to the end of the road as far as any future development based on primary production is concerned has been a little less characteristic of Asia than of Latin America.

As far as petroleum is concerned, however, the Governments of most of the producing countries in the Middle East and Indonesia have, as in Venezuela, been relatively passive, beyond guaranteeing the conditions under which the foreign oil companies were prepared to operate. The differences between Iran and other countries resulting from the Iranian nationalization of petroleum resources, while important from some points of view, are not significant as regards control over the level of output or over the volume and prices of exports.

The two major rice exporting countries, Burma and Thailand, have almost consistently encouraged the production and export of this staple throughout the post-war period. Likewise the rubber replanting scheme in Malaya represents a policy designed to gain for that country an increasing share of world demand for natural rubber and at the same time provide a margin of advantage over the synthetic product in that part of the market where natural and synthetic rubber compete solely on the basis of price. Indonesia, now the major exporter of natural rubber, as well as the smaller producers, Ceylon and Thailand, have also expressed concern about the need to replant.

As far as other commodities are concerned, policies in Asia have been much closer to those pursued in Latin America, at any rate since the collapse of the Korean commodity boom. The same problems of market inflexibility and excess capacity have affected both areas alike. It is consequently not surprising that a country like India should have promoted its exports of finished textiles rather than of primary commodities. The export volume of traditional products such as hides and skins, ground-nuts and ground-nut oil, and raw cotton have declined since 1948 because of higher domestic consumption, or because the materials are further transformed before shipment; tea exports have

risen, but slowly, as was to be expected. Similarly Pakistan has diverted raw cotton to domestic manufacturing and consumption—thereby saving on imports rather than expanding exports—and has sought to export jute bagging and cloth instead of the raw product. While the increased degree of jute processing has provided additional employment opportunities, it is not clear whether the manufacture has any greater growth potential—or even suffers from less instability—than the primary commodity. Although due allowance must be made for the difficulties which occurred during the transition to independence in Indonesia, as well as for the internal disturbances since that time, government policy there too has clearly not been one of vigorous expansion in the export sector; and the extensive prewar range of primary exports has been narrowed to the point at which petroleum, rubber and tin accounted for 75 per cent of total exports in 1957, compared with 51 per cent in 1938.

Even where Governments did take steps to increase exportable supplies, they would frequently appear to offset these measures by raising export taxes or increasing the degree of discrimination against certain exported products through multiple exchange rates.[54] In some cases this reflected, as in Latin America, the idea that the export sector, as the richest and most highly developed segment of the economy, should supply resources for use in broader programmes of development. In other instances, however, Governments used the proceeds from export duties primarily in order to promote investment in the export sector; this, in effect, amounted to an attempt to shift resources in the export sector from consumption to investment.[55]

There are several cases in which Governments have attempted to stimulate the export of primary commodities other than traditional major exports. Among these may be mentioned the production and export of Virginia leaf tobacco in the Philippines, which developed under government protection; exports of such minerals as chromite, copper and iron ore have also received governmental encouragement. Thailand stimulated exports of rubber, tin and teak by providing favourable exchange rates and directly encouraging production. The natural rubber market attracted many new suppliers, among them Burma, British Borneo and Viet-Nam. However, Asian countries, like those in Latin America, do not seem to have promoted marginal commodity exports of the point at which the export structure would have become more highly diversified. This is reflected in the fact that the exports of Asian countries are now, if anything, even more highly specialized on traditional products than in the past. Export diversification has not been pursued to the same extent as has the diversification of agricultural output for domestic consumption.

[54] In Indonesia, a system of export inducement certificates was introduced. But while this policy appears to run counter to the general trend, the certificates were made necessary by a seriously overvalued official exchange rate.

[55] It is, of course, possible that the investment in the export sector sponsored by the Government may have been offset, at least in part, by lower levels of investment undertaken by the exporters themselves. In the conditions prevailing in Asia, however, it seems likely that policies of the type under discussion would have led to a substantial net expansion of investment in the export sector.

Africa

African experience of the commodity problem has been conditioned by the dependent status of much of the area as well as by its relatively low level of economic development. Throughout most of the continent official policy was not concerned with the encouragement of manufacturing industry until after the Second World War; and while many Governments in the area now regard industrial development as one of their chief economic targets, it is almost inevitable that government policy should still be mainly concerned with the area of primary production. It is not simply that agriculture, together with mining in some cases, provides by far the major part of total output in most countries; in many areas even the beginnings of an "infrastructure" for industry are lacking, and no alternative is seen for some time to come to further expansion of primary production for exports as a means of raising living levels.

It is for these reasons that the administrations of many of the African countries have concentrated their efforts on measures to strengthen the export sector. Policies pursued have included the diversification of exports in the traditionally one-crop economies. Both in these countries, and in those where primary production is already fairly well diversified, as in the Belgian Congo, the Federation of Rhodesia and Nyasaland and Nigeria, much attention has been devoted to quality improvement and the expansion of output. Substantial public funds have been expended on opening up transport facilities, which are an indispensable part of any attempt to increase exportable supplies of primary products as well as to provide the foundations for programmes of industrial development.

In a number of countries, such as the Belgian Congo, Liberia, Northern Rhodesia and Sierra Leone, there has been a substantial development of mineral resources, usually with the aid of foreign capital. Special attention was paid to mineral development by the metropolitan powers as a means of finding alternative sources of supply to the western hemisphere countries which required dollars in payment for their shipments of minerals.

Despite the generally more expansionist character of policy in Africa, one or two African countries which already have a relatively large share in the world market for particular products have not attempted to undertake a major expansion of their exports of these products—no doubt for reasons similar to those which have influenced their counterparts in Latin America,

as well as in Asia. This applies particularly to Egypt in relation to cotton and to the Union of South Africa in relation to wool; these countries appear rather to have expanded their marginal exports—with implications which have been stressed above in considering comparable policies in Latin America. South Africa, and to a lesser extent Egypt, have also developed exports of finished manufactures.

Efforts to reduce dependence on exports of primary products are reflected, as in other areas, in the encouragement given to the shipment of primary products in as highly processed a form as possible. Thus Nigeria, in common with other West African countries, has been actively promoting the expression of palm oil on the spot. Encouragement to the processing of copper in the Federation of Rhodesia and Nyasaland resulted in 58 per cent of total copper exports being shipped in the form of electrolytic copper in 1957 as against 30 per cent some ten years earlier. Similar developments have occurred in relation to cobalt which is increasingly exported in metal form instead of as an alloy.

Campaigns for higher production and exports have not always met with the success that had been hoped for. In agriculture, plant diseases and pests have frequently impeded progress, particularly in the case of cocoa bean production in West Africa. The destruction wrought by diseases and pests is one of the factors that makes it very difficult to settle the question whether the marketing boards in British or formerly British administered areas had a restrictive effect on production, through their policy of paying prices to the producers which were much lower than world market prices. However, even though producers did not receive the full world market price for their product, the cultivation of cocoa remained far more profitable than any available alternative; and it therefore seems doubtful whether output was in fact held back. But for disease, West Africa might well have been confronted with the same sort of situation as developed in Brazil, where, as noted elsewhere, even heavy taxation of exports through the exchange rate could not prevent the emergence of one of the most serious coffee gluts of the century, so favourable was the course of world prices up to 1954.

The improvement of the quality of export products has been a major objective throughout Africa. One device commonly employed was the fixing of differential prices for the better grades of product. Thus in Nigeria differential pricing by the cocoa marketing board increased the proportion of first-grade cocoa bought by the board from 47 per cent in the 1947/48 season to 98 per cent in 1953/54; while a similar policy by the palm oil board raised the percentage share of the highest grade of palm oil from 0.2 in 1950 to 61 in 1954.

It would be impossible to say how much farther Africa will be able to proceed along the road of rapid expansion of primary production and exports, although current plans are clearly geared to the expectation of such expansion for many years to come. Much must evidently depend upon the rate of growth of the world market as a whole. It will obviously be much easier to accommodate rapidly growing African supplies if total world demand expands at a reasonable pace than if it stagnates or declines. It cannot be doubted, however, that sooner or later Africa will reach, over a much broader range of products, the situation it has long had in cocoa, cotton, wool and copper and which it has recently reached in coffee—namely that continued rapid expansion would mean either serious encroachment upon the markets of other countries or significant deterioration in the terms of trade or both.

Import policy

It has been seen that the export policies of a growing number of primary producing countries have been based on the presumption that the scope for expansion of export markets is limited. While some countries which contribute only a small proportion of the total world supplies of particular products have acted on the belief that they could continue to expand production for export relatively rapidly, without dislocating the world market as a whole, this is not true of the major exporters. At the same time the demand for imports has risen rather quickly, especially where development programmes have called for large-scale imports of fuel, raw materials and capital equipment. In these circumstances it is inevitable that the primary producing countries should have sought a solution to the growing disparity between foreign exchange resources and import requirements by shifting the structure of production in the direction of import-saving. Moreover since balance of payments difficulties were just as prevalent in Asia as in Latin America, there was considerably more uniformity in the evolution of import policies than of export policies. And although the African dependencies have not in general been subject to the same pressures on their balances of payments as have the independent countries in Asia and Latin America, as well as in Africa itself, their import policies have followed a course similar to the rest because of the efforts nevertheless made to economize on imports.

Food

Greater self-sufficiency in food is an almost universal goal among the primary producing countries—where they are not self-sufficient already. In Asia this has been a primary target of official policy throughout the post-war period. The adequacy of food intake was a major issue confronting the newly independent Governments from the beginning, and since per capita exports were in general relatively low, there could be no question of stepping up food imports except within the framework of relief or other aid programmes financed abroad, or to meet temporary emergencies due

to crop failure. High priority has also been attached to self-sufficiency in food in Africa.

In Latin America, however, this policy was not generally adopted until the early nineteen fifties. So long as exports were booming and foreign exchange reserves were high, heavy expenditure on imported food was permitted. It was not until severe pressures on the balance of payments of net importing countries developed that these policies were changed; but since that time almost every country in the region has attempted to stimulate in some measure the production of those items which are important components of the national diet, and for which domestic output has been insufficient.

The policies most commonly employed have been the restriction of imports by imposing customs duties, or, even more frequently, quotas, and the establishment of some form of guaranteed price for the domestic producer. To a lesser degree credit facilities have been made available, and in some cases governmental investment has been important. The most comprehensive example in Latin America is that of Venezuela, where the rice and sugar programmes undertaken at the beginning of the nineteen fifties involved an almost complete Government financing and direction of efforts to achieve self-sufficiency in these products. Other important programmes include the Mexican promotion of wheat production (in which direct government investment in irrigation facilities played a substantial role), the Brazilian wheat programme, and the Cuban promotion of rice production, but there are many others of smaller magnitude.

Within the Asian region the balance of food supplies is so precarious that domestic food production has been encouraged everywhere along a broad front. Even Thailand, a major rice surplus country, has had to restrict exports after poor harvests; while Burma's production is still not sufficient to supply much more than half of the pre-war volume of exports, partly because domestic consumption has increased substantially. As in Latin America, the methods employed have included irrigation schemes, various types of subsidy and technical assistance, the introduction of some form of guaranteed price programme and the restriction of food imports by one means or another. Government measures are directed particularly towards higher production of staple food grains, as might be expected. Large resources were devoted by the Government to the self-sufficiency objective for food grains in India, and a considerable measure of success was achieved, though not until much later than the original target date of 1952. In the Philippines the area of irrigated land under rice and maize almost doubled from the end of the war to 1956. Important programmes to stimulate grain production are also in force in Indonesia, Malaya and Pakistan. Ceylon has the most comprehensive price support scheme for paddy and other foodstuffs. A number of countries have been encouraging the expansion of sugar production under relatively high tariff protection, including Burma, India and Thailand; production in India grew to the point at which an exportable surplus became available in 1957 for the first time.

In Africa, likewise, programmes of strong support for food production are widespread. Production councils or boards have been established to promote self-sufficiency and various incentives have been introduced. In a few cases the policy has been so successful as to generate exportable surpluses—as in the case of rice in Egypt, and maize in the Central African Federation and the Union of South Africa.

Naturally, the larger the proportion of food consumption provided from domestic high-cost output, the greater will be the cost to the economy unless it proves possible to increase productivity as time goes on. There may, however, be no real social cost involved even in "uneconomic"—in the sense of high cost—domestic food production, depending upon what the available alternatives are. If, for example, a reduction in the "uneconomic" output of food would not, in itself, lead to an increase in other forms of productive activity, there is evidently nothing to gain and a good deal to lose by enforcing such a reduction; and this is probably the situation most characteristic of underdeveloped countries, where labour on the land has inadequate alternative employment opportunities. Only if it can be demonstrated that scarce land and capital could be used more efficiently in alternative ways which would add to exports or save imports would there be a case for seeking to import food rather than producing it locally. And even if it could be shown that a different allocation of resources would permit more efficient production for export, given the existing price relationships, it has to be borne in mind that where changes in a particular country's exports are large enough to affect the prices of the commodities exported, or where several countries are simultaneously seeking to expand exports of the same product, such a diversion of resources from domestic production will not necessarily lead to a greater command over imports but may simply be dissipated through a deterioration in terms of trade.

While self-sufficiency in food has been a firm objective of Government policy in most primary producing countries, many Governments have experienced a conflict between this objective and the desire to keep retail food prices down. Thus the control of imports has not always led to a decline in their value and in many instances consumption has increased more rapidly than domestic production in spite of official encouragement of the latter, owing to rising incomes, especially in the cities. Moreover, there has commonly been a shift in demand, as incomes have risen, towards higher quality food products which are more likely to

be imported—including, for example, shifts from maize or other subsistence cereals to wheat, or from locally produced crude sugar to the refined product.

On the whole, post-war food production and import policies in the primary producing countries seem to have been generally successful in the sense that imports of basic foodstuffs, after increasing rapidly up to about 1950, appear to have declined since that date, as a proportion both of total imports and of total domestic food consumption. This means that relatively greater foreign exchange resources have become available for the purchase of imported raw materials or capital equipment.

However, the success of individual countries in this respect has to be qualified in the sense that in so far as the imports displaced would otherwise have been purchased from other primary producing countries, the gain of one country is offset by the loss of another. The type of international inconsistency among national policies which may arise in this way is well illustrated by the fact that in the latter part of 1956 six Asian rice surplus countries hoped to export between 5.8 and 6.4 million tons of rice in 1960, while nine major importing countries set target imports totalling between 2.6 and 3.5 million tons for the same year. Similar inconsistencies may well hold true of other foodstuffs and raw materials, though they are likely to be much less important than in the special case of rice, where the trade is concentrated principally among the under-developed countries themselves. In other instances the main markets are the industrial countries, and policies of self-sufficiency by primary producing countries would therefore have much less effect on total world import demand. Moreover, in the important cases in which domestic production of food grains replaces imported wheat, the exporting countries principally affected are nearly all highly developed.

No doubt there are instances in which greater international collaboration could have avoided some shifts in the use of resources among primary producing countries which have turned out in the event to be mutually frustrating, and which have simply had the effect of reducing both imports and exports all round rather than of setting free foreign exchange for other purposes. Available evidence suggests, however, that any losses on this score have probably not been very great.

Industrial products

Developments in import policies affecting industrial products have depended largely upon the pace of industrial development. Under the best conditions industrial development increases the degree of utilization of domestically available resources by providing an increased and diversified range of employment opportunities; and it thereby reduces the degree of dependence upon primary production. To this extent the "commodity problem" in its simplest form is resolved. The growth of the economy is not directly limited by the rate of growth of commodity trade; it continues through the expansion of other sectors of the economy. However, industrialization may well reintroduce the "commodity problem" in a less direct form by linking the rate of growth very closely to the level of import capacity.

Industrialization offers opportunities for replacing imports and ultimately for broadening the market for exports, but there is frequently a considerable discrepancy between developments in the short run and in the long run. There is no reason to doubt that ultimately many or even most of the primary producing countries will be able to satisfy a high proportion of their own requirements for industrial goods, and to exchange manufactures as well as primary products with one another and with the rest of the world. The possibilities in this respect are already evident in the foreign trade of a country like India. But the short-range effect of an accelerated pace of industrial development is frequently the opposite of this. In other words the savings made in imports of manufactures by the growth of domestic substitutes may be greatly outweighed for quite a long time by the higher imports of fuel, raw materials, intermediate goods and capital equipment which become necessary. Thus the initial effect of a shift in the structure of production towards industry is frequently to raise the import content of output rather than to lower it, even if the pattern of growth is ultimately oriented towards import-saving output. The extent to which this takes place will depend *inter alia* on the degree of balance achieved in the developing industrial sector, and particularly on whether excessive emphasis is placed on the manufacture of finished goods; although even a well-balanced programme of industrialization can hardly avoid some pressure on foreign exchange resources, at least in the first instance, as will be shown below.

Data which illustrate the impact of industrial development upon the import structure are available for the Latin American countries, and representative figures are shown in table 28. The contrast between the major industrial countries of the area and the least industrialized group is striking. In the latter countries, the import composition has remained nearly steady during the period with consumer goods accounting for over 40 per cent of the total and materials and fuels about 30 per cent.[56] In the more advanced countries shown, on the other hand, there has been a shift away from consumer goods, which now account for less than 15 per cent of imports, towards fuels and materials, which account for 60 per cent of the total in Argentina and Brazil, and nearly half in Mexico.

[56] Although comparable figures are not available, it would appear that in many of the Asian and African countries, consumer goods continue to account for half or more of total imports.

Table 28. Imports into Selected Latin American Countries

(Percentage; index, 1948 = 100)

Country and item	1948	1949	1950	1951	1952	1953	1954	1955	1956
MAJOR INDUSTRIALIZING COUNTRIES									
Argentina:									
Index of total imports	100.0	67.1	59.2	75.2	50.4	44.1	54.4	64.1	59.4
Percentage composition:									
Consumer goods	20.9	16.0	13.2	17.0	11.5	10.4	9.1	10.3	14.4
Fuels	7.2	8.7	12.3	10.8	16.6	18.2	15.1	13.9	18.3
Raw materials and intermediate industrial goods	34.6	45.1	45.9	49.7	42.1	40.0	52.1	53.7	44.7
Capital goods	37.2	30.2	28.6	22.5	29.8	31.3	23.7	22.2	22.7
Brazil:									
Index of total imports	100.0	98.2	107.8	165.3	159.5	120.6	149.8	125.2	116.8
Percentage composition:									
Consumer goods	22.2	19.3	16.0	19.3	16.8	12.8	13.4	12.1	13.2
Fuels	11.5	12.5	13.5	11.3	13.1	18.1	17.2	22.0	24.7
Raw materials and intermediate industrial goods	26.9	29.6	32.8	28.8	25.2	33.6	35.8	35.5	37.2
Capital goods	39.3	38.5	37.6	40.5	44.8	35.4	33.5	30.4	24.8
Mexico:									
Index of total imports	100.0	88.3	100.9	135.8	139.5	135.9	131.2	142.9	168.9
Percentage composition:									
Consumer goods	17.4	15.9	16.2	15.9	16.8	18.0	16.7	16.0	14.8
Fuels	3.4	4.7	4.4	3.1	4.0	5.1	7.5	8.0	7.0
Raw materials and intermediate industrial goods	35.2	39.7	40.2	39.9	40.5	40.0	37.0	35.1	39.3
Capital goods	43.9	39.5	39.1	41.0	38.5	36.7	38.7	40.7	38.8
OTHER COUNTRIES[a]									
Index of total imports	100.0	98.8	98.4	112.8	131.9	130.0	136.0	151.7	158.1
Percentage composition:									
Consumer goods	41.2	42.4	48.4	45.5	43.0	43.6	43.6	42.3	41.0
Fuels	7.7	7.4	6.9	7.0	7.1	7.9	7.5	7.3	7.6
Raw materials and intermediate industrial goods	25.8	24.3	23.6	25.7	23.3	22.6	23.6	23.3	22.5
Capital goods	25.4	25.9	21.0	21.9	26.6	25.9	25.2	27.0	28.9

Source: United Nations, *Economic Bulletin for Latin America*, vol. III, No. 2, 1958 (Santiago). Calculations are on the basis of United States dollars at 1950 prices.

[a] Including Bolivia, Costa Rica, Dominican Republic, Guatemala, Haiti, Honduras, Nicaragua, Panama and Paraguay.

Fuel imports, especially petroleum and petroleum products, display the steadiest and most rapid increase. Industrialization in Latin America has been accompanied by a growth in the consumption of petroleum of as much as 10 per cent per year. Policy considerations have been an important factor in this rise, and in the extent to which it has been met by increasing imports. As a result of their desire to foster industrialization, a number of countries followed policies which made petroleum available at very low prices, since it was regarded as a key commodity in the industrialization process. Favourable exchange rates were applied to imports, and prices of domestic output were held at a low level. Moreover, in several important countries the policies followed with respect to domestic production were important in determining the volume and composition of imports required to satisfy internal demand.

These trends have been particularly evident in Argentina and Brazil, which, between them, account for nearly two-thirds of Latin America's petroleum imports. While there has been little economic growth in Argentina during the past decade, the shift towards

petroleum has continued and its consumption has increased by some 70 per cent; in Brazil, where industrial growth has been rapid, petroleum consumption has tripled. Both countries are believed to have large petroleum deposits, and both have reserved exploitation of those deposits to government agencies.[57] However, these agencies were not able to expand output on the scale required to satisfy domestic requirements and imports have therefore grown rapidly to the point at which they now constitute a heavy burden on foreign exchange resources. Somewhat greater success has been achieved in expanding refining facilities, each country now refining about two-thirds of its total consumption, thus shifting the composition of imports from refined products to crude petroleum.

The growth in the import requirements for raw materials and intermediate products by the most highly industrialized countries of Latin America has also been very substantial. One reason for this is the fact that these countries are much less specialized in the range of industry which they have set up than in the primary products which they produce; any such expansion of industry on a broad front is therefore bound to lead to rising raw material import requirements. Moreover, intermediate industrial products are often not used in sufficient quantity in the early stages of the industrialization process to permit domestic production on an efficient scale. Thus the industrial sector must acquire a substantial size—and imports of industrial materials must increase accordingly—before substitution of domestic output for imports can be expected to develop on a major scale. Nevertheless, the stage at which such substitution has in fact begun has shown considerable variation, and there have been increasing efforts in the larger Latin American countries to achieve a speeding up of the process.

These rising fuel and materials import requirements render the growth of the economy increasingly vulnerable to the commodity problem. In the absence of other sources of foreign exchange, earnings from commodity exports must expand at a sufficiently rapid rate to finance the growing imports not only of these goods but of the capital equipment needed for the industrialization programme as well; alternatively the growth of industry must be structured in such a way as to reduce these requirements. Given the severe limitations already imposed on imports of consumer goods, any decline in import capacity must more and more be met by cutting the import of capital goods, and hence the investment programme, or by lowering the import of fuels and materials, thereby forcing a reduction in industrial output. The three most highly industrialized countries of Latin America shown separately in table 28 offer instructive examples of differences in the manner in which these problems have been met, and the extent to which they have been overcome during the past decade.

An extreme case of the sort of difficulties that can occur in a primary producing country which has reached the intermediate stage of industrialization is provided by Argentina. The investment boom of the immediate post-war years was cut short by the collapse of export earnings late in 1948. Although consumer goods imports were halved, this was far from sufficient, and capital goods imports had to be cut in nearly equal proportion. Since the post-war boom was a very brief one, there was almost no time for the industrialization process to move backward towards the primary and intermediate goods industries, and the stringent balance of payments situation which has prevailed since 1948 has made it very difficult to finance the investment required to undertake that process in later years. The Argentine economy has, consequently, remained in a state of extreme vulnerability, with an import structure in which fuels and raw materials comprise over 60 per cent of the total. Even the current level of activity has thus become dependent upon export earnings, and when these declined substantially in 1952, imports of materials had to be cut, leading to a decline in industrial production.

Brazil was much more fortunate because of consistently favourable movements in the terms of trade until 1954, at which date they were more than twice as favourable as in 1948–1949; even in 1957 they had declined only about 20 per cent from the peak. There has also been a substantial inflow of capital in recent years. Import volumes as a consequence have on the whole been maintained at a high level throughout the post-war period, the process of diversification of industry has had an opportunity to proceed, and the country has now reached a position where the vulnerability of its level of activity and rate of growth appears to have been lessened. Even here, however, it should be noted that rising fuel and materials requirements have reduced the relative share of capital goods in the import structure, and with declining exchange earnings since 1954 there has been a rather sharp decline in imports of such goods.

The Latin American country which has gone furthest in reducing its vulnerability in this sense, however, is Mexico. Exports have increased very markedly, and have become more diversified, so that the capacity to import is less at the mercy of changes in the demand for particular products. Although materials imports increased, it may be seen from table 28 that Mexico is the only one of the three relatively industrialized countries where they did not account for a rising proportion of the total; the margin provided by foreign exchange resources was sufficient for other categories to rise at an equal rate. As noted previously, the development of agriculture has kept pace with that of in-

[57] In Argentina there is some production by foreign companies which have been permitted to retain concessions they have held for many years. Recent agreements provide for an expansion of activities by the foreign companies.

dustry; the country is self-sufficient in fuel (the imports shown are nearly balanced by equivalent exports); the iron and steel industry has reached a substantial size; a chemical industry has been established; and over-all the rate of increase of output of industrial materials and intermediate products has been greatly above that of consumer goods during the past decade.

In Africa and Asia, as in Latin America, there has been a growing tendency in certain countries to promote the development of industry both as a means of raising the level of development in general, and so as to save scarce foreign exchange resources for use in the purchase of high priority items. If this process has thus far created fewer problems of the type encountered in Latin America, it is largely because the stage of development reached is generally less advanced and the range of industry introduced less comprehensive, than because of any basic difference in principle. It would appear that such industries as have developed thus far in Africa and Asia are for the most part still based mainly on the manufacture of domestic raw materials, so that the problem of financing heavy imports of raw materials has not arisen to the same extent as in Latin America. And the very fact that imported fuel has not become an important charge on foreign exchange in most countries, despite the relatively meagre development of domestic resources, except in Indonesia and the Middle East, is indicative of the earlier stage of industrial development in Africa and Asia than in Latin America.

Of all the under-developed countries in Asia, only India seems to have reached the stage at which the growth of industry is beginning to depend significantly on imported fuel, raw materials and intermediate products. It is for this reason that such high priority has been attached in India to the development of steel-making capacity. On any reasonable assumptions regarding the future growth of the Indian economy, the demand for steel is likely to increase so rapidly as to make it virtually out of the question to rely solely on imports for supplies—if only because of the difficulty of raising exports sufficiently to pay for them.

Among the African countries, the Union of South Africa's economy has developed on broadly based lines —more akin to Australia or Canada than to the under-developed countries of Africa. It has therefore not encountered the consequences of unbalanced expansion to the same degree as other primary producing countries. While there were periods during the earlier post-war years when pressures arising from domestic economic expansion imposed strains upon foreign exchange resources, they did not disrupt the process of economic growth. In recent years it has become possible to relax import controls extensively, but this has been due in large measure to extremely favourable export experience. Egypt has felt the effects of the encouragement given to industry since 1952 in the form of a rise in imports of such products as petroleum, steel mill products and machinery; at the same time, however, a small beginning has been made with exports of textiles. As in some of the other industrializing countries imports of "non-essentials" have been reduced to such low levels that any fall in export receipts involves extremely difficult problems of adjustment.

SHORT-TERM POLICIES FOR INFLUENCING FOREIGN EXCHANGE EARNINGS

However slow economic development since the war may have been in most of the primary producing countries, it clearly lies within the power of any country in the long run to diversify its economy and reduce its dependence upon the export of primary commodities, though the strains imposed are heavy. The same cannot, however, be said about the ability of primary producing countries, acting individually, to take short-term measures which could offset or even mitigate the impact of fluctuations in demand for their exports. On the whole, there is little that is encouraging to report from post-war experience in this field. Not that this outcome is unexpected—the conditions under which a single country can successfully influence market conditions in its own favour are so restricted that they cannot, in the nature of the case, be fulfilled very often. In the first place it is necessary that a country export a sufficiently large proportion of the total world supply of a commodity so that on the one hand a change in the quantity which it supplies will affect the world price significantly, and on the other hand that no other country or group of countries is in a position to take counter-action, at any rate in the short run, by compensatory changes in their own deliveries to the market. It is true that there have been occasions when individual countries not controlling major proportions of world supplies have managed to make better bargains for themselves than other countries in similar positions seemed able to do; but the situations were sufficiently out of the ordinary, in one respect or another, to make it clear that no general conclusions could be built upon them.

The ability of a supplying country to influence the world market in a particular commodity depends not only upon its share of total world supplies, but also upon the ability of the government to exercise effective control over the export trade or over production itself. The commodity must be capable of being stored without significant deterioration and there must be adequate storage capacity accessible to the government or its agents. Assuming that all these conditions are satisfied, a successful government intervention in a commodity market still implies sufficient enterprise, skill and sophistication on the part of the responsible government officials to enable them to reach sound judgements on the nature and trend of the market confronting them. And even where sound judgements of this kind are achieved in particular countries, their

continued effectiveness depends on whether or not new competitors spring up and grow rapidly under the protection afforded by restrictive policies—a process that is generally irreversible even if the restrictive policies are dropped.

Nor is it clear that where exporting countries have deliberately sought to influence the market—whether successfully or not—they have consciously aimed at stabilization, either of prices or earnings, as a primary target. Most of the primary producing countries would like to see a greater measure of stabilization achieved by international action. But thrown back upon their own individual resources, they are much more likely to seek the maximum short-term gains that may be possible in each and every situation than to aim at stabilization of exchange earnings. This is because of the chronic shortage of foreign exchange in many of these countries and the exceptionally painful adjustments which any shortfall in earnings necessitates in the large majority of cases. So continuously pressing is the need for foreign exchange that mere stabilization becomes a luxury that cannot be readily afforded.

National efforts to obtain favourable terms

Brazil and Pakistan are the principal post-war examples of primary producing countries which have both been in a position individually to influence the market for their principal export commodities and have in fact sought to exercise that influence for substantial periods of time.

At first glance, it is Pakistan that seems to have been best placed for exploiting its market situation, since it had a virtual monopoly over the supply of raw jute during the early post-war years. This strength was more apparent than real, however, because by the end of the war jute had already been displaced by paper in a broad range of packaging requirements and by improved bulk-handling techniques, and there was no reason why the process should not go still further. Moreover the economic conflict between Pakistan and India—reflected in Pakistan's decision not to follow all the other sterling countries into devaluation in September 1949—resulted in the establishment of jute-growing areas in India so that supplies for India's jute mills could be assured. Since 1952 Pakistan's primary objective for jute has, through sheer force of necessity, been to prevent the expansion of supply from exerting an unduly depressing influence on the market.

The methods used in Pakistan and Brazil offer some contrasts. After the Jute Board had accumulated, by June 1953, stocks equivalent to one-half of the peak annual volume of exports of jute recorded by Pakistan, the Government shifted the emphasis of its policy to restrictions on acreage planted—including the destruction of plantings on unlicensed areas. The Brazilian Government, on the other hand, operated on the output of coffee only through the imposition of special exchange rates for coffee exports which, while unfavourable in relation to other export rates, still offered sufficient incentive until 1958 for a steady expansion of output. Since 1954, the Government has accumulated huge stocks of coffee representing roughly the equivalent of the normal export volume for a year.

The direct costs of these operations to the countries concerned are obvious enough; they frequently provide a powerful stimulus to inflation. In Brazil, for example, the Government stands ready to buy all coffee which cannot be exported at the minimum support price, so that farm income varies with the quantity of coffee produced rather than with the amount exported, and the Government finances the difference—requiring a sum equal to 14 per cent of the normal budget in 1958. Less obvious are the indirect costs, particularly any tendency for marginal producing countries to expand their exports more rapidly under the protective umbrella held over them by the policies of the major producers. It is, however, virtually impossible to determine how far the rise of, say, Central American or African production of coffee or of Indian production of jute was inevitable in the nature of the case and how far the additional stimulus provided by the policies of the principal producers really made any difference.

A recent development in efforts to control the coffee market has been the conclusion of agreements among the Latin American countries to co-operate in withholding supplies from the market. These agreements did not, for some time, succeed in halting the price declines. This was due partly to the failure to come to agreement with African producers on the limitation of their exports. An additional possibility is that export restrictions and new stockpiling may become less effective as a means of maintaining prices once substantial surplus stocks have been built up. For expectations that such stocks will be thrown upon the market sooner or later tends to force prices down or hold them at a low level even though current supplies are cut: thus Brazilian coffee prices declined both in 1957 and 1958 despite reductions in the volume of shipments in both years. The stockpiling policy and the coffee agreements have, however, been successful in preventing a collapse of the coffee market.

There are a number of other instances in which countries have attempted to exert an influence over world prices by controlling the amount which has been placed on the export market, even though they do not control as large a share of the total production of the commodities concerned as is the case with Brazilian coffee or jute in Pakistan. Colombia withheld coffee from the export market and built up stocks in 1952 in the course of a price supporting operation, and then liquidated these stocks under more favourable conditions during 1953. A similar buildup followed by liquidation occurred in 1954–1955, and since 1957

considerable stocks of coffee have been accumulated, partially under the terms of the Latin American Coffee Agreement. These operations have been feasible, since Colombia, although it does not dominate the market for coffee in the same sense that Brazil does, is the largest producer of mild coffees. These are not freely interchangeable with other varieties, and Colombia has therefore been able to exercise some influence over the world price.

Burma and Thailand control a relatively small share of world rice output, since most of the world's rice is consumed by the same countries that produce it. They do, nevertheless, account for somewhat more than half the volume of world trade—and a still higher proportion of Asian trade—and in this position have sought to exercise some influence over external prices throughout most of the post-war period. Both countries substantially controlled their rice export trade[58] and, largely through the medium of inter-governmental contracts, secured steadily rising prices through 1953. After 1951, these prices were obtained at the cost of some accumulation of stocks, which, at their peak in 1954, were equivalent to about six months' exports. However, in contrast to the present world coffee situation, there was no fundamental over-production of rice, and stocks were successfully disposed of in subsequent years. This was achieved, however, only by substantially reducing prices.

Cuba, with respect to sugar, is in much the same position as the major rice exporters, controlling only a small part of total world production but about one-third of world export volume. Although the country has a long experience of national measures taken to influence the world sugar market, such measures during the post-war period have been very limited. Favourable conditions prevailed through 1951, but when the 1951/52 crop proved to be very large and the world market weakened, Cuba withdrew about one-third of the crop from the market, and introduced production controls and quotas thereafter. Beginning in 1953, however, these measures have been undertaken in co-operation with other countries through the medium of the International Sugar Agreement.

Brazil has, during the past two years, sought to improve upon the returns from its cocoa crop by setting minimum export prices, and as a consequence has accumulated some stocks. Brazil does not dominate cocoa as it does coffee, but it is the only major supplier during the middle months of the year, since the African crop is not marketed until the end of the year. Withholding of supplies under minimum export price provisions in 1957 proved profitable when the African crop turned out to be smaller than had been expected; prices rose and the Brazilian stocks were disposed of during the final months of 1957 and early 1958 at a substantial gain. When, however, the same procedure was followed in 1958 it was unsuccessful; the following African crop was a large one, prices declined, and Brazil was left with unsold stocks.

Though a major exporter of wheat and meat, Argentina cannot dominate the world market for these commodities. Nevertheless, the country has been in a position to take advantage of market shortages to obtain better terms for itself. Argentina declined to enter the International Wheat Agreement, and operating through its export monopoly, the Instituto Argentino de Promoción del Intercambio (IAPI), was able to secure prices consistently above agreement prices up to mid-1953. In the case of meat, the volume and prices of sales were the outcome of arduous bargaining between the Argentine and British trading monopolies —the United Kingdom being virtually the only market; and although the greater bargaining strength probably lay with the British, Argentina appears to have secured better terms up to 1953–1954 than Commonwealth suppliers—which, however, enjoyed longer-term contracts. One condition of the more favourable terms secured for wheat and meat was payment in soft currencies, while Argentina was running a heavy deficit with the dollar area; it does not follow that Argentina would have done better to sell only for dollars at world market prices since neither its wheat nor its meat had any ready markets in the dollar area, while European countries were reluctant to use dollars for purchases outside the dollar area during this period.

The situation in copper differs from that in the other commodities considered in that copper production is largely in the hands of a few large United States and European producers, with conventional channels playing an important role in the marketing process. At various times in recent years the Chilean Government, dissatisfied with the current prices being received for copper, has taken direct measures, including, for a period from 1952 to 1955, direct control of sales and pricing. Special agreements were concluded with the United States for deliveries on favourable terms, and beginning in 1954, sales were shifted to the higher-priced European market.

One method used from time to time by a number of countries to achieve a measure of stability in their export markets is the conclusion of long-term contracts, often within the framework of bilateral trade agreements. Such contracts have been employed both during periods of heavy pressure of demand for primary products and during periods of easy demand. A leading example of the former is to be found in the United Kingdom long-term contracts for the purchase of foodstuffs from Commonwealth countries, which were discussed above in the course of the review of policies of the industrial countries. Examples under conditions of slackening demand include the long-term contracts for the supply of rice arranged in recent years with Burma by India, Romania, Sweden, the Soviet Union

[58] Thailand turned over the rice trade to private hands in 1955.

and Yugoslavia; and the agreements for the export of rubber by Ceylon to mainland China and of cotton by Egypt to various countries in eastern Europe.

The rice agreements in which Burma participated followed the return of more normal trading conditions in the rice market in 1953–1954, and covered periods of three to five years. Some of the agreements were on a basis of barter, and by 1956, 16 per cent of Burma's rice exports went to barter countries alone. The agreement between Ceylon and mainland China was originally negotiated in 1952 when the world market for natural rubber was in a state of sharp decline, and provided for the exchange of rubber from Ceylon against rice from mainland China. Rubber prices were fixed at a premium over Singapore prices and were made subject to periodic revision in the light of the changing world market. Prices for rice were also favourable to Ceylon. The agreement appears to have operated effectively up to 1957 as regards both the level and stability of Ceylon's export earnings. It was renewed in that year, but for reduced quantities; and prices were to be those ruling in the international market, so that the element of stabilization is now confined to the volume sold. The new provisions reflected, in part, the fact that mainland China had by now acquired access to other suppliers of rubber.

Since early in 1954, Egypt has contracted to supply substantial quantities of raw cotton through bilateral trading arrangements with a number of eastern European countries. In consequence an increasing share of Egypt's cotton exports—amounting to over 50 per cent in 1956/57—has been shipped to eastern European countries. At the same time, the trading arrangements have enabled Egypt to maintain its volume of output and exports in the face of a declining demand from its traditional customers.

There remains for discussion the special case of countries whose exchange earnings do not embrace the total proceeds of exports but only a part of them. This situation is characteristic of mineral and petroleum producing countries in many parts of the world where export production is primarily carried on by large corporations which are subsidiaries of United States or western European firms. Foreign exchange accrues to the exporting country in such cases only in so far as these companies spend exchange in meeting domestic production costs or in making tax payments. For illustrative purposes, the extent of these expenditures in two Latin American countries is shown in table 29.

Domestic production costs tend to be relatively low in the large-scale mining and petroleum operations, so that exchange receipts depend largely on tax payments; in the two examples shown in table 29, tax payments are twice or more as large as current production costs. There has been a rather general tendency to apply special regulations to export activities of this sort and to adjust tax rates upward in an effort to increase exchange earnings of the countries concerned. The trend has been towards increasing reliance on what are essentially profits taxes of one sort or another; and since profits are more volatile than sales, this policy has probably increased the degree of fluctuation in the exchange earnings of these countries. An extreme example is that of Chilean copper: from 1951 through 1954 the copper companies received a fixed 24.5 cents per pound for copper, and any excess over that price was retained by the Chilean Government. The result was that the whole of any price fluctuation was reflected in Chilean exchange receipts from copper, and the fluctuations of these receipts were proportionally much sharper than were those of export values during the period.

Table 29. Chile and Venezuela: Value of Exports and Exchange Earnings[a]

(Millions of dollars)

Country and item	*1948*	*1949*	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*
Chile									
Value of copper production	196	137	152	175	250	192	185	310	328
Exchange earnings from copper	118	90	93	104	188	148	136	211	208
Percentage ratio	60.4	65.9	61.3	59.6	75.0	77.1	73.4	68.0	63.5
Venezuela									
Value of oil exports	997	973	1,122	1,305	1,378	1,359	1,593	1,800	1,984
Exchange earnings from oil	675	665	522	609	707	751	762	853	1,307
Percentage ratio	67.7	68.3	46.5	46.7	51.3	55.3	47.8	47.4	65.9

Source: Banco Central de Chile, *Balanza de pagos de Chile*; Banco Central de Venezuela, *Memoria*.

[a] Chilean figures relate to the large copper companies; exchange earnings do not include investment expenditures. Venezuelan figures of exchange earnings include investment expenditures, since they are simply the figures for sales of dollars by the oil companies to the Central Bank.

Reasons were given above for not expecting too much of individual government efforts to influence the world market for particular primary products. The experience examined has shown that there have, in fact, been relatively few instances of such government efforts, and that such instances as have occurred have generally involved special situations of one kind or another. For brief periods, when international demand was high, Burma, Pakistan and Thailand all appear to have succeeded in securing premium prices for their commodity exports. Colombia was successful in disposing of its coffee stocks under favourable market conditions, until the period of cyclical over-supply began in 1956/57. Brazil's success with cocoa depended greatly upon the size of the following African crop, over which it had no control. Brazil's experience with coffee, however, was much less favourable than that of Colombia, the trend in consumption patterns having been against Brazil.[59]

In all these cases, moreover, the benefits must be weighed against the costs. It may have been partly in response to Pakistan's policies that India doubled its efforts to develop domestic jute production to the point of self-sufficiency, while substitutes made further inroads on the market for jute products in the industrial countries. Production of rice was stimulated in rice importing and marginal rice exporting countries, while the relatively favourable wheat price ratio led in some countries to higher consumption of wheat in relation to rice. Similarly coffee production grew rapidly in Africa and Central America.

Moreover the costs of financing the withholding of supplies proved to be extremely heavy. Pakistan was ultimately compelled to abandon its domestic price support programmes, while Burma and Thailand, after sustaining substantial financial costs, reduced their government contract prices in order to halt the rate of accumulation of rice stocks. There can be no doubt of the strain on the economy of Brazil imposed by coffee stockpiling.

Efforts by a country to achieve a special price (and hence possible stability) for its own exports without attempting to control the world price structure encounter perhaps even greater difficulties. Trading arrangements are required whereby sales are made through conventionalized channels, with the possibility of different prices prevailing in the different markets. Although a number of commodities are traded in this manner, the possibilities of achieving significantly differential prices are sharply limited. During periods of adequate supplies there is apt to be sufficient competitiveness among the different markets to eliminate such differentials for nearly all commodities. Only in unusual situations is a policy aimed at this objective likely to be at all effective: Argentine foodstuffs during the post-war period of extreme shortage, Chilean copper during the Korean conflict and the subsequent shortage extending through 1955, Ceylonese rubber when sales to mainland China by other exporters were restricted. Situations of this sort have generally occurred when prices were high, and policies adopted to obtain better prices have consequently added to the fluctuations rather than contributing to stability.

The general absence of national policies which might be expected to contribute to short-term stability is due not only to the difficulties of following such a policy, but also, and perhaps to an even greater degree, to the conflict of this objective with the current needs and desires of most of the commodity producing countries. These countries are generally in great need of additional foreign exchange availabilities and are thus reluctant to forgo any immediate gain in the interests of achieving stability. Argentina, for example, might have hoped to achieve greater stability by entering into the International Wheat Agreement during the immediate post-war period; but the possibility of achieving immediate gains by remaining outside the agreement presented itself, and this course was chosen. Or again, in those countries where exchange receipts depend on the sales of exchange by foreign-owned companies rather than on the value of exports, greater stability could be obtained by adopting tax policies yielding relatively steady returns. But the desire to participate in any immediate gains has led to an increasing dependence on profits taxes, and resultant instability; in Chile the extreme was reached in which the Government took over in its entirety the gains and fluctuations resulting from price changes. Especially in view of the costs and uncertainties involved, it is not likely that many of these countries can be expected to undertake, on their own, policies designed to achieve stability of their earnings from commodity exports at the cost of forgoing possible short-term gains.

POLICIES DEALING WITH THE DOMESTIC IMPACT OF INSTABILITY

It has been seen that the scope for primary producing countries to influence the external price of their exports unilaterally is severely limited. Comparatively few countries have adopted measures seeking to interfere with international market forces; and while government policies of this type have been rather more prevalent among Latin American countries than among those in Asia or Africa, the attempts have everywhere met with at best qualified success. On the other hand, the possibilities of limiting the impact on the domestic economy of excessive fluctuations in export proceeds are much more extensive, and policies aimed at achieving this end have been widely adopted.

At the extreme, it is conceptually quite possible for a country to aim at the complete insulation of the

[59] Recently the shift in the pattern of consumption towards instant coffee has had an unfavourable effect upon the demand for Colombian coffee as well as for Brazilian coffee.

domestic economy from such external fluctuations. An attempt could be made to estimate the trend of exchange earnings, and through the use of policies of the sort discussed below, domestic incomes in the export sector could be kept at the level consistent with such a trend. Similarly, foreign exchange expenditures could be held at the same level, through measures controlling general income levels, or through direct control of the foreign exchange made available. In practice, however, such a complete insulation is likely not only to prove difficult to approximate, but also to conflict with other objectives. The difficulties of estimating a trend are patent, and a bad guess could prove very costly. Probably of more importance, since any effort in the direction of greater stability must face this difficulty, is the fact that current needs are so pressing in most of the primary producing countries that it is extremely difficult to resist these needs and to set aside the substantial sums required during periods of favourable earnings to allow for the periods of reduced earnings which may occur in the future. Thus, there has been no general effort to control import totals in this way. Available data suggest that import volumes during the post-war period have followed fluctuations in export earnings relatively closely, with only a rather brief time lag.

Although imports have been extensively controlled in the primary producing countries, these efforts have largely been aimed at keeping the total within the limits consistent with the maintenance of at least a minimum level of reserves, and at influencing the composition of that total. In general, there has been a desire to protect the level of capital goods and materials imports required for a continuing process of economic growth; but conflicting needs have frequently rendered this impossible within the limitations of existing exchange availabilities. Severe shortages of consumption goods, especially in those countries which find themselves on the border line of self-sufficiency in foodstuffs, combined with desires to make available basic necessities at low prices, have often dictated other policies.

In addition to measures aimed at controlling the disposal of foreign exchange, there has been a very widespread use of measures affecting the impact of fluctuations in export prices upon incomes received by the primary producing and exporting sector of the economy. The motives which have led governments to adopt these measures are complex and not readily disentangled; they include such goals as the stabilization of producer prices; the protection of consumers from sharp changes in the cost of living; the maximization of government revenue; and the containment of inflationary forces.

As previously noted, the position of the commodity export sector[60] in the under-developed countries has been a significant factor influencing the nature and objectives of government commodity policy in the domestic sphere. It has inspired two divergent attitudes. From the viewpoint of the domestic economy, the relatively advanced economic position of the export sector has led to the belief that it can contribute a substantial share of public revenue needs. On the other hand, when viewed in relation to the world market, the sector has seemed weak, and has received aid on the premise that this was necessary to retain or improve its competitive position. Depending on the varying state of the international market during the post-war period, therefore, one or the other of these attitudes conditioning government policies has come into play. When world market conditions were favourable, as they were almost without exception during the Korean conflict, for example, governments were rather exclusively aware of the strong position of the export sector and the general policy was one of levying varying degrees of taxation, often specially designed to affect only that sector of the economy. When, on the other hand, world market conditions deteriorated, as has been the case with respect to many commodities in recent years, official attention was increasingly concerned with the weakness of the export sector *vis-à-vis* world market forces. Taxation was reduced, measures were taken to improve competitive positions, and in some cases subsidies were even granted. The composite result of these policies has in many instances been at least some reduction in the instability of domestic export prices, even though this may not have been a major policy objective. However, in some countries the reduction of instability was a direct aim of commodity policy.

Another consideration that has been a continuing influence on the commodity policies of some governments is the fact that the export products in their particular countries are also important items in the domestic consumption pattern; the chief examples are rice, wheat and meat. In such cases governmental concern with the domestic retail price as a component of the cost of living is apt to become an important factor in the determination of policies affecting domestic producer prices.

In pursuing the objectives described above, the Governments of primary producing countries have employed a variety of techniques either singly or in combination. And over the post-war period the operational

[60] There is an important distinction to be made in many cases between producers and exporters. Where production is carried on by large-scale units, as is the case with minerals and petroleum production, and with estate agriculture, the distinction tends to be blurred or of little import. Where, however, production is largely on a small scale there are often differences between developments among producers on the one hand and exporters on the other. In some instances government policy has been framed largely with this in mind. In practice, however, it is not always possible to trace the impact of government measures on the appropriate sub-sector, so that it becomes necessary to consider the two in combination as the export sector. The existence of a marketing board can normally be assumed to supplant the private exporter.

details of the measures have undergone frequent changes in accordance with developments in the state of the external market or domestic economy. In many respects the ultimate impact of the different measures upon producers' prices, changes in supply and government revenue are markedly similar. It is useful, nevertheless, to distinguish two broad types of policy techniques—marketing boards and similar trading agencies, on the one hand, and export taxation and exchange rate policy on the other. The distinction between the two types of policy is based, roughly, upon the degree and the manner in which they modify the pricing and income distribution process of the economy.

Marketing boards and similar trading agencies

Of the various instruments employed by primary producing countries to influence the domestic distribution of receipts from commodity exports, the government trading agency or marketing board has been the most far-reaching. The use of this type of marketing institution permits the prices received by commodity producers or exporters to be more or less severed from those ruling in the international market. Both the domestic commodity price level and its variation over time can be transformed from unknown variables to known constants, since prices are fixed in terms of local currency by administrative decision. The severance of the link between domestic and external prices is achieved by requiring all producer sales to be made to an official agency which in turn becomes the single source of supply to all markets. Alternatively, a monopoly over the export trade may be conferred upon the official agency which then purchases those supplies not absorbed by the internal market at the established price. In practice, domestic trade has usually been left in private hands, but the government agencies have set fairly narrow boundaries within which private traders could operate and have themselves performed most of the basic marketing tasks connected with the export trade.

Thus the marketing board type of policy instrument, more than any other, lends itself to a complete stabilization of producers' prices, where this is the desired objective. At the same time, it effectively determines the distribution of income from commodity exports as between the export sector and the government, and, within limits, fixes the price paid by domestic consumers of the product.

Marketing boards or similar official trading agencies have been established in many primary producing countries throughout the world, including high per capita income countries such as Australia and New Zealand. The circumstances which have induced government intervention in the marketing of export commodities, and, therefore, the policy objectives pursued, have varied widely. At the same time, the impact of the operations of marketing boards upon the domestic economy has been a direct function of developments in the international commodity market.

Among the primary producing countries, particularly in Asia and Africa, the conditions under which commodities are produced and marketed have generally been such as to place the small-scale producer in a distinctly disadvantageous position *vis-à-vis* the exporter, the middleman trader and the money lender. The desire to protect primary producers has contributed to government intervention in the marketing of primary export commodities in the independent countries of Burma, Egypt, Ghana, Indonesia, Pakistan and Thailand, as well as Nigeria and other African territories. The marketing boards provide the producer with an opportunity to sell all his produce at a fixed price or guaranteed minimum price throughout the year or harvesting season. And in order to make official prices effective, the government trading agencies have established their own buying stations, as in Burma, Ghana and Nigeria; elsewhere—Ceylon, Indonesia and Pakistan—government agents, frequently co-operative societies, have been appointed to administer government price policies. In a number of countries, the expectation that producers' interests would be better served by nationalizing the export trade has been a related consideration in the establishment of a government export monopoly or at least a system of effective government control over the export trade (Burma, Ceylon, Indonesia, Pakistan, Thailand). In taking steps to protect the small-scale producer, marketing boards have adopted measures which at the same time have contributed to producer price stabilization.

Wherever the export commodity has also been consumed domestically on a significant scale, the operations of the marketing board have suggested a concern for the prices paid by consumers. For most of the postwar period, Argentina's government trading agency—Instituto Argentino de Promoción del Intercambio (IAPI)—adopted measures in respect of wheat, fats and oils and meat, which were clearly designed to insulate domestic retail prices from those obtaining in the international market, particularly during the periods when the latter were relatively high. Retail prices were controlled, frequently at levels below the cost of production, and subsidy payments from IAPI were made to cover deficits where they were incurred. In the major rice exporting countries, the State Agricultural Marketing Board of Burma and the Rice Office in Thailand exercised monopoly control over a volume of exports determined only after domestic rice needs were provided for. The object was to insure a level of domestic availability consistent with the maintenance of low rice prices. In Burma, the Board also undertook retail sales at low fixed prices whenever it was felt necessary to counter upward pressures owing to local shortages. In Thailand, the operations of the Rice

Office—in 1951, for example—enabled it to maintain a differential of almost 100 per cent between the domestic and the external price of rice. The Indonesian Copra Fund, by monopolizing the buying and selling of copra in the eastern provinces, was able to pursue a stabilization price policy for such important consumer products as coconut oil, soap and other copra preparations. In adopting measures to protect domestic consumers, the marketing boards have frequently been in conflict with other objectives; yet consumer interests appear to have been assigned a high priority in government policy objectives, and the marketing board type of policy, more than others, seems to have been suited to the achievement of this goal.

A most important function among those assigned to marketing boards by the primary producing countries has been that of serving as an instrument for taxing—and on rare occasions, subsidizing—the export sector. The export sector is implicitly taxed to the extent that internal prices are fixed below those ruling in the international market; the level of taxation then varies automatically with variations in world price. So long as the world price remains high and in excess of the domestic cost structure, the board can pursue a domestic price policy which would simultaneously satisfy a number of its objectives. Where, however, world market prices decline substantially, or domestic production costs increase materially, difficulties are apt to arise; certain objectives are found to conflict with one another or with essential requirements of the economy. The diverse experience of marketing boards in Argentina, Ghana and Burma will serve to illustrate the role of government trading agencies in implementing official policy.

Until recently, most of Argentina's export commodities have been marketed through the government trading agency. The agency's control was largely concerned with the export trade, and internal marketing, with a few exceptions, was left to private channels. IAPI policy, upon its establishment in 1946, was clearly designed to take full advantage of the favourable world market for the country's major exports; at the same time it sought to hold domestic producer prices at a "reasonable" level related to official computations of costs of production, but one which did not reflect external market developments. The first few years of the board's operations produced rather spectacular results. In 1947 and 1948 the IAPI export price was nearly three times the domestic procurement price for wheat, and two and one-half times that for maize. The enormous profits that resulted from this policy were used to finance a major share of the Government's five-year plan. In addition to the operating profits, the foreign exchange received by IAPI was sold to the Central Bank at the low official rate, which in turn provided exchange for low-cost imports, or, alternatively, was resold at higher rates to yield further profits.

As early as 1949, however, adverse trends began to develop. The greatly enhanced inflationary pressure, which over the period from 1948 to 1951 saw prices rise by between 30 and 40 per cent *per annum*, also meant a rapid rise in agricultural production costs. The subsequent upward adjustment of IAPI purchase prices conflicted with the official policy of holding down the cost of living, and in the event, the marketing agency was called upon to subsidize the key consumer items. At the same time, export receipts began to experience heavy weather. Prices received for the major agricultural exports declined substantially in 1949 and again in 1950, and although they remained above IAPI procurement prices, government revenue expectations virtually collapsed. By 1954, after a further decline in world prices, IAPI was incurring substantial trading losses. In addition, the inability to reconcile conflicting policy objectives contributed to the decline in exports and in export production as well. Encouraged by subsidized prices, domestic meat consumption rose rapidly, and export availabilities were reduced during years when additional supplies could readily have been disposed of at advantageous prices. Anxiety over production levels led to regular upward adjustments in the fixed crop prices paid to producers, but these failed to keep pace with the rate of advance of domestic inflation so that real producer prices in general declined or remained at low levels. It seems probable that the low level of producer prices was an important factor contributing to the stagnation and decline of Argentina's agricultural production for export.

With the advent of a new Government at the end of 1955, efforts have been made to reduce the real burden imposed upon the agricultural sector, and the attempt to sever export incomes from world prices with a view to transferring incomes out of the export sector has been gradually abandoned.

A rather different picture of the functioning of a marketing board emerges from the experience of the Cocoa Board in Ghana. From pre-war years to 1953, the world price of cocoa increased some 600 per cent and in real terms it was two and a half times the pre-war level. In 1954, there was a further increase of approximately 60 per cent in prices, and while that peak was not maintained, the average price in the following years was equal to the 1953 level. At the same time, the costs of production have increased relatively little over the post-war period, and the Board has not been directly confronted with the internal costs of consumer protection. Under these circumstances, it is not surprising to find that the operations of the Cocoa Board have been successful in achieving many of the objectives of government policy. Beginning with the 1944/45 season, producer prices were increased steadily until 1948/49. Thereafter, procurement prices have been varied annually within a narrow range and around a slowly rising trend. The

Board's external price policy has been relatively passive, since it has not intervened to fix terms of sale or withhold stocks for any length of time. Nevertheless, in nearly all years the cost of cocoa to the Board has been substantially below its sales price, and large operating profits have resulted.

One of the important considerations underlying the policies of the Cocoa Board has been the fear of inflation, in view of the sensitivity of domestic food prices and the cost of living to fluctuations in income in the cocoa producing sector. During the early post-war years this consideration was particularly important since consumer goods were in short supply; it was reinforced by the belief that the prevailing high world cocoa price was only a temporary phenomenon and that it was desirable to build up reserves in anticipation of future lean years. For some years, therefore, the Cocoa Board in Ghana operated essentially as a stabilization or buffer fund, and represents, along with the Copra Fund in Indonesia and the Gezira Board in the Sudan, one of the few instances of this type of stabilization scheme among the under-developed primary producing countries. Increasing concern with the need for vigorous development policies, however, caused the importance of the stabilization fund principle to wane. As it became increasingly clear that the reserve funds were more than adequate for maintaining farm prices, and as government revenue needs expanded, more and more of the funds were diverted to finance the Government's development programme and even current expenditures. In 1957, the Government officially made the funds of the Cocoa Board available for purposes of economic development.

Given the favourable market environment in which the Cocoa Board in Ghana operated, the objectives of stabilizing producers' prices at a rather low level and of providing a ready source of government revenue have been achieved relatively easily. In evaluating these achievements, however, it should be noted that the operations of the Board cannot be regarded as having stabilized producers' incomes to the same degree as prices, since no effort was made to offset the effect of continuing fluctuation in the volume of production.

The experience of the government trading agency in Burma falls somewhere between that of IAPI in Argentina, on the one hand, and the Cocoa Board in Ghana, on the other. Burma, one of the major rice exporting countries, has comprehensively controlled the marketing of rice throughout the post-war years. Its trading agency operated in a world market environment which for the first half of the post-war period was characterized by a fundamental rice shortage; since the early nineteen fifties, however, supply has been brought into better balance with demand, and international prices have been adjusted downwards. While the fluctuations in the rice market have affected the profitability of the operations of the State Agricultural Marketing Board (SAMB), it has nevertheless continued to pursue the original objectives assigned to it.

The objectives of the State Agricultural Marketing Board have more or less explicitly been set out. They include: to guarantee minimum prices to rice cultivators to protect them from the operations of middlemen traders, millers and creditors as well as from any violent fall in prices; to serve as an instrument of taxation, particularly to collect land taxes which had become difficult to assess directly, and thereby to transfer to the State profits which would otherwise accrue to private individuals; and finally, by controlling trade in the dominant sector of the economy, to stabilize the cost of living and to remove inflationary demand pressures where they arise.

To achieve these objectives, the SAMB pursued a vigorous policy in the export market. As pointed out earlier, it sought to influence the terms of rice export contracts to Burma's advantage. Domestically, the Board fixed two key prices for rice destined for export —that paid by the miller or the Board to the cultivator, and that paid by the Board to the miller. These prices have been held constant since 1947. By virtue of the fact that rice export volumes are determined only after a sufficient supply for domestic requirements is ensured, the Board is able to exert a powerful indirect influence towards maintaining low domestic prices. The Board also undertakes direct sales to consumers in the event of local harvest failures or late-season shortages.

The Marketing Board's pricing policies led to an annual accumulation of trading profits, which in some years were substantial. Profits moved directly in line with the index of export unit values and, while the latter declined following the peak reached in mid-1953, at no time did they fall as low as the estimated level of the Board's unit cost. From these profits the Board has provided, on the average, somewhat more than 30 per cent of government revenues during the post-war period. The policies pursued by the SAMB also appear to have contributed to the relative stability in the cost of living in Burma.

While internal stability and buoyant government revenues have been secured largely at the expense of the rice cultivator, this has been accompanied by reductions in rents; at the same time the Government's investment programme has brought about important increases in agricultural productivity. However, the influence of low fixed producers' prices on supply is apparent, since rice production in 1956/57 had not yet recovered the pre-war level of output, though the effect of continued civil unrest represents an important additional influence depressing rice production. Moreover, the relatively low domestic rice prices led to an increase in per capita domestic consumption and thus reduced the rice supplies available for export.

Burma's experience was similar to Argentina's in that the Marketing Board was ultimately confronted by a sharp decline in export receipts. But in Burma there was no accompanying squeeze from increasing domestic production costs; also absent was the financial burden arising from the need to subsidize domestic consumption. The divergent experience of the two countries is also to be attributed in large part to the nature of production and marketing of rice compared with Argentina's major exports. Rice cultivation is in the hands of small-scale farmers, comprising the major part of the population, who consume a high proportion of their own output. Thus, some substantial part of any increase in rice production represents an increase in the supply of the basic food staple and the achievement of a rise in the standard of living. This is reflected in the fact that in 1956–1957 per capita rice consumption in Burma was one and a half times greater than the pre-war level. The relevance, therefore, of price-cost relationships or commercial considerations to the Burmese rice cultivator is restricted to a small part of his total output, and low fixed producer prices do not evoke the response that might be expected in a more highly market-oriented agricultural sector, as is found in Argentina.

Export taxes and exchange rate policy

In comparison with marketing boards, other policy instruments do not possess the same ability to exercise comprehensive control over the production and marketing of primary products. In certain circumstances, it would be possible to design a system whereby target domestic market prices could be sealed off from movements in international market prices, the differences being taken up by export tax or exchange rate variations. Apart from the legislative and administrative complexities involved, however, the inherent limitations of these measures, particularly the uncertainty of incidence and, therefore, of the degree of penetration to the various stages of production and marketing of a commodity, reduce their comprehensiveness compared with that of a marketing board.

Furthermore, while the operations of marketing boards have included both taxing and subsidizing functions, export subsidies, while not unknown among primary producing countries, are relatively rare phenomena. The rather general reluctance, in practice, to vary exchange rates, places still greater restrictions on the flexibility of this policy instrument. In particular, there are almost no instances in which the export rate has been appreciated, so that when world prices move up exchange rate policy does not prevent the domestic price from rising proportionately. Partly because of these limitations, exchange rate and export tax policies are frequently used in conjunction or are even combined with a policy of the marketing board type.

Export taxation has prevailed more widely in Asia and Africa than in Latin America. Where export taxes were introduced early in the post-war period, they generally took the form of specific taxes—a levy per unit of quantity exported. With the sharp rise in world commodity prices that attended the outbreak of hostilities in Korea, it became apparent that specific or even *ad valorem* duties were limited in the extent to which they could keep pace with the advance in external prices and many countries—motivated in addition by the search for increased sources of revenue—took steps to increase the progressivity of export duties. For example, in Ceylon, Ghana, Mexico, Nigeria, Pakistan and Thailand, specific duties were subjected to frequent administrative changes in an attempt to transfer at least a proportionate share of the rising export proceeds to the Government. In Indonesia, *ad valorem* export duties were also varied by administrative decision. However, it proved to be administratively difficult to make rapid adjustments to the changes in the external market circumstances and export duty rates tended to lag behind the movement of world prices.

In an attempt to circumvent this difficulty, such countries as El Salvador, the Federation of Malaya, North Borneo, Sarawak and Thailand introduced a system of sliding-scale or "slab" export duties. For example, the Malayan export duty structure for rubber currently consists of four schedules, of which the first two are on a sliding-scale basis and are tied to movements in the price of rubber. The first schedule produces the bulk of government revenue from export levies on rubber, while the second schedule, intended as an anti-inflationary device, comes into effect only when the market price of rubber exceeds a certain limit. The remaining two schedules are specific duties earmarked for research and replanting respectively.

Export duties have been used essentially as an instrument of taxation with the object of transferring income, especially windfall profits, from the export sector to the Government. Their role as an effective fiscal weapon is clearly apparent in Malaya where revenues from the anti-inflationary second schedule were held in the form of a reserve fund to be disbursed when external prices declined. Elsewhere the deflationary effect of export taxes imposed during periods of rising export earnings has depended upon the level and composition of government expenditure, and the extent to which the export tax has diverted to domestic consumption supplies that would otherwise have been exported abroad. Within the export sector, the impact of the duties on external trade is a function of the incidence of the tax, that is, of the extent to which the exporter can pass the burden of the tax to others participating in the consumption, production and marketing of the commodity. The special circumstances surrounding the markets of some of the primary commodities in the post-war period no doubt permitted some part of the tax burden to be shifted

onto foreign consumers, if only for a short period. In general, however, as is pointed out by the Taxation Commission of Ceylon, it is the primary producer of agricultural products who bears the major part of the export tax burden.

The use of exchange rates to influence domestic incomes in the export sector has been much more widespread among the Latin American countries than in other areas. This is due, in large degree, to the limitations inherent in the use of such a policy. Given the reluctance in practice to appreciate the exchange rate, the use of this instrument has a wide range of effectiveness only in those countries where there has been a substantial degree of inflation, since only under such conditions is the Government in a position to increase the implied tax on exports as well as to reduce it. Among the primary producing countries, inflation has been most rapid in the post-war period in South America, and every country in that continent has used a multiple exchange rate system at one time or another during these years. Elsewhere, Indonesia, Thailand, and Turkey are the principal examples of countries which have used multiple exchange systems for this purpose, and substantial domestic inflation has been present in each case.

Rather serious difficulties have been encountered in the use of the export exchange rate as a policy device for influencing the domestic price. In view of the reluctance to make frequent changes, the results obtained depend to an important degree on two relatively independent factors—movements of the world price, and the rate of internal inflation. Depending on the constellation of these factors in any particular case, producers in different countries or even producers of different commodities within a single country could be affected in divergent ways even though the basic objectives may have been the same in all cases.

This can be illustrated by contrasting developments in Brazil and Colombia. Both countries held their export rate virtually stable from pre-war to 1951. In Brazil, however, the cost of living rose fourfold from pre-war to 1948, while in Colombia the increase was about two and a half times. Since the rise in the world price for their coffees was roughly the same—about threefold—the same exchange rate policy produced quite different results: some decline in the real value of the domestic currency proceeds of coffee exports in Brazil, but an increase in Colombia. In Brazil the cost of living was stable from 1948 to 1950, while the world price for its coffee more than doubled, with a consequently similar increase in the real domestic price. In Colombia, on the other hand, the cost of living rose 30 per cent, and there was a lesser increase in the world price of Colombian coffee so that the increase in the real domestic price in Colombia was less than half of that which occurred in Brazil.

A further difficulty is that the export rate is a part of the entire exchange rate structure, and this structure is determined by a number of factors other than policy regarding domestic producer prices. These other factors will generally predominate, and on occasion it may not be feasible to separate the export rate completely from the general structure. For example, the Brazilian exchange rate was devalued in October 1953, and although the coffee rate was devalued less than other rates in the system, it was still felt necessary to grant a devaluation of over 25 per cent at a time when world coffee prices were rising rapidly. Similarly, when Colombia devalued early in 1951, while the coffee export rate was the lowest in the new structure, it was depreciated by over 10 per cent and provision was made for continuing monthly depreciation until it was again on a par with other rates.

At the other extreme, an export rate too far out of line with the general structure may also cause serious problems. A large difference in rates encourages exporters to understate exchange earnings or engage in contraband trade in order to avoid turning the exchange in at the low official rate. Difficulties of this sort have been encountered, for example, in Brazil and Colombia during recent years, and in Indonesia during much of the post-war period; but this is a difficulty present in all forms of high taxation.

An exchange rate that is too far out of line is also in danger of obscuring the realities of a situation. For example, prior to the 1956 reform, the export rate applied to the nationalized mining operations in Bolivia was only a fraction of that which would have prevailed under any realistic valuation. Since dollar earnings were converted at this rate, the result was that very large losses were regularly incurred, and these were financed by loans from the Central Bank. The exchange, which was sold to the Central Bank at the low rate, was then available for very cheap imports, or resold at a large profit which went to finance the government budget. As a result the entire fiscal picture was needlessly obscured, statements regarding the profitability of the mining operations were rendered largely meaningless, and it became at best difficult to make rational choices in the expenditure of foreign exchange and domestic currency. In Chile the rate at which the large copper companies were required to sell dollars to the Central Bank to obtain the domestic currency needed to meet local production costs was held far below the rest of the exchange structure until the 1955 reform. The result was that purchases within Chile were made to appear artificially expensive to the copper companies, and they were discouraged from making such expenditures during years when Chile was very short of available exchange.

Taken together, these difficulties have rendered the export rate relatively ineffective as a policy instrument for stabilizing domestic incomes in the export sector. It should be stressed, however, that this was seldom

the basic motivation for the introduction of multiple exchange rate systems, and that the above evaluation of such systems is therefore in terms of an objective for which they were not primarily intended. More important aims of these systems were to discriminate among different types of imports, or, in the case of some of the mineral and petroleum producing countries, to levy a form of tax against the corporations which produced and exported these items.

Stabilization and government policy

The foregoing discussion of policy measures shows that there has been a wide diversity of experience among the primary producing countries in the extent to which they have succeeded in reducing the impact of instability on the export sectors of their economies. The degree of success has varied roughly in accordance with the kinds of policy technique employed, the vigour with which the objective was pursued and the particular market environment within which policies were required to operate—at times facilitating and at other times frustrating the achievement of policy aims. In general, where the goal of domestic price stabilization was clearly placed in the forefront of government policy, instruments were at hand to implement such a policy. Many primary producing countries, however, appear to have regarded the costs of a vigorously pursued price stabilization programme as excessively high, particularly where it may have come into conflict with other policy objectives.

A limited, but nevertheless important, kind of stability was achieved in those countries which established and effectively supported a fixed or minimum price over the crop season. The significance of this policy is particularly great where a large part of the export crop is produced by small-scale enterprises and where the marketing volume tends to be concentrated within a relatively brief period of time during the season. The resulting seasonal fluctuations in prices often operate to the detriment of the small producers. As previously noted, the desire to eliminate extreme seasonal fluctuations in price was an important motivation in the establishment of marketing boards in several countries. Stability of this kind has been achieved, in large measure, in such countries as Argentina, Brazil, Burma, China (Taiwan), Colombia, Egypt, Ghana, Indonesia and Nigeria.

Apart from seasonal fluctuations, instances where export commodity price movements have been stabilized in an absolute sense are very rare. Burma's experience is exceptional in that money prices paid to rice producers by the SAMB were held constant throughout the post-war period. In real terms, of course, prices received by the rice farmer moved inversely with changes in the cost of living, but these were, on the whole, relatively moderate.

While absolute stability was rarely approximated, there were many instances where a measure of price stability was achieved in the sense that domestic price fluctuations were smaller in magnitude than those recorded in the world price for the export commodity. Where this was secured through the employment of a State trading agency, it reflected directly one of the essential aims of this type of policy instrument. Movements in domestic prices were virtually divorced from those occurring in the international market, and fluctuations in the former tended to be confined within narrower limits.

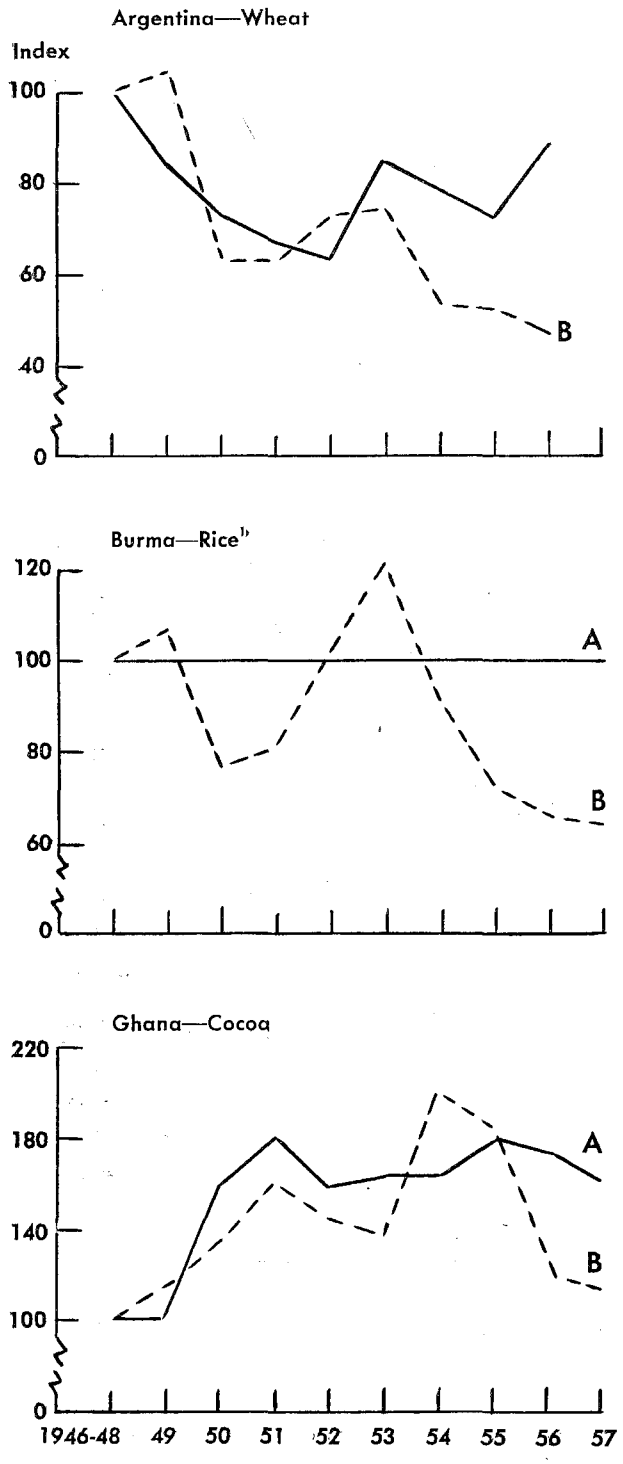
The stabilizing role of marketing boards is illustrated in chart 9, where, for three different commodities, the movements in domestic or local currency prices received by the export sector are compared with the United States dollar prices ruling in the international market.[61] The price stabilization effect achieved in Burma is strikingly obvious; in contrast to the fixed official procurement price set by the Board the world price for Burmese rice has fluctuated markedly. While not as readily apparent, the movements in domestic prices for wheat in Argentina and cocoa in Ghana have also been constrained relative to their respective world prices, particularly in the latter part of the period. In both countries domestic prices in the early post-war years moved approximately in line with world prices in terms of direction and relative magnitude of change. The apparent association between the two price series in Argentina and Ghana during these years is attributable to special circumstances rather than to the existence of a causal connexion between the domestic and world price. In Argentina, it reflects the failure or inability of IAPI to adjust producer prices sufficiently rapidly to offset soaring costs of production, with the result that real prices received by the wheat exporting sector declined sharply until 1950, and remained relatively stable thereafter. In Ghana, the almost continuous rise in prices paid by the Board to cocoa producers between the end of the Second World War and 1951 represents a process of upward adjustment following the long period of price restraint imposed during war time. Since the early nineteen fifties, however, a significant degree of price stabilization has been achieved.

In general, it may be inferred that among the primary producing countries which have employed either export taxation or exchange rate adjustment as major policy instruments, the objective of domestic price stabilization was not foremost among the Government's policy goals. In relying on these types of policy instrument, Governments implicitly chose to exercise only

[61] Given the continuous and substantial rise in domestic prices in Argentina over this period, it was necessary to deflate the domestic wheat price by a general price index in order to provide a meaningful series for comparative purposes. While official procurement prices were used for both Burma and Ghana, the wholesale price in Argentina was taken as the best available indication of the effective price received by the export sector in that country.

Chart 9. Relationship between Marketing Board and International Commodity Prices[a]

(Indices, 1946–1948 = 100)



A = Marketing Board price
B = International price

Source: United Nations, "Food and Agricultural Price Policies in Asia and the Far East" (document number: E/CN.11/AGRI/APIS/L.1); United Nations Economic Commission for Latin America; International Monetary Fund, *International Financial Statistics* (Washington, D. C.); Commonwealth Economic Committee, *Plantation Crops* (London).

indirect control over the export trading sector, and compared with the role of marketing boards, this meant a less certain impact upon domestic price stabilization. The wide range of experience in reducing the influence of external price instability on the export sector in a number of primary producing countries is illustrated in charts 10 and 11.

In chart 10, the relative movement in export tax rates and world prices is shown for six different instances. The effective export tax rates represent the ratio of export tax revenue from a particular commodity to its total export value, while world prices for the same commodity are expressed in terms of United States dollars as in chart 9. To the extent that the export tax ratio varies in the same direction as changes in world prices over the post-war period, it may be inferred that prices received in the export sector were stabilized in some degree. The close correspondence in direction of movement in the two series is readily apparent for cotton in Pakistan and Peru and for rubber in Malaya. The design of the export tax system in these countries—whether the sliding-scale type as in Malaya or the administered changes in specific duty rates as in Pakistan—has apparently permitted the tax burden to move closely in line with changes in world prices and thereby to cushion the impact of external price movements on domestic prices received by the export sector. The degree of stabilization achieved was in fact greater in Pakistan and Peru than in Malaya because the magnitude of the tax changes was greater, relative to the changes in export earnings, in the former two countries.

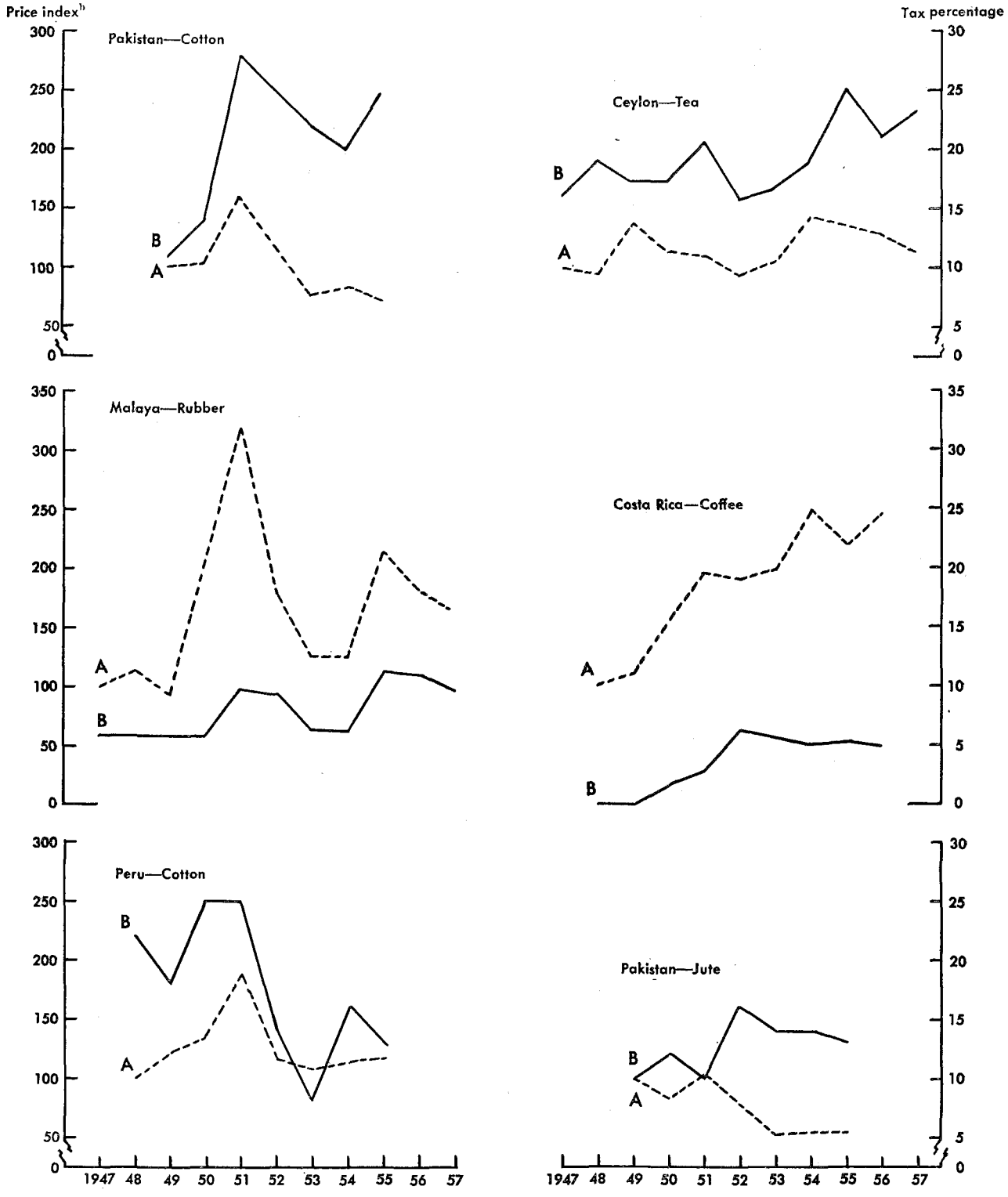
The positive association between changes in export tax rates and world prices is less obvious in respect of tea in Ceylon and coffee in Costa Rica, while the tax rate on jute in Pakistan appears to have moved inversely with world jute prices, exerting thereby a destabilizing influence on domestic prices.

While domestic commodity policies based on export taxation have, in some countries, contributed significantly to domestic price stabilization, the extent of stabilization has been less than that achieved where marketing boards have been used. For example, among the specific instances presented above, the highest tax rate recorded was 26 per cent, imposed by Pakistan on cotton exports in 1951. For a comparable period, the implicit tax rate was of the order of 50 per cent in Argentina, Burma and Ghana. While there is no reason in theory why export taxes should not obtain the same results, if required, the fact is that in practice the operations of the marketing boards made it possible to

[a] Marketing Board prices are local currency prices paid by the Board to producers in Burma and Ghana; the series for Argentina has been computed by the Economic Commission for Latin America and represents the domestic wholesale price for wheat deflated by a general price index. International prices are in United States dollars.

[b] 1947–1948 = 100.

Chart 10. Relationship Between Effective Export Tax Rates and International Commodity Prices[a]



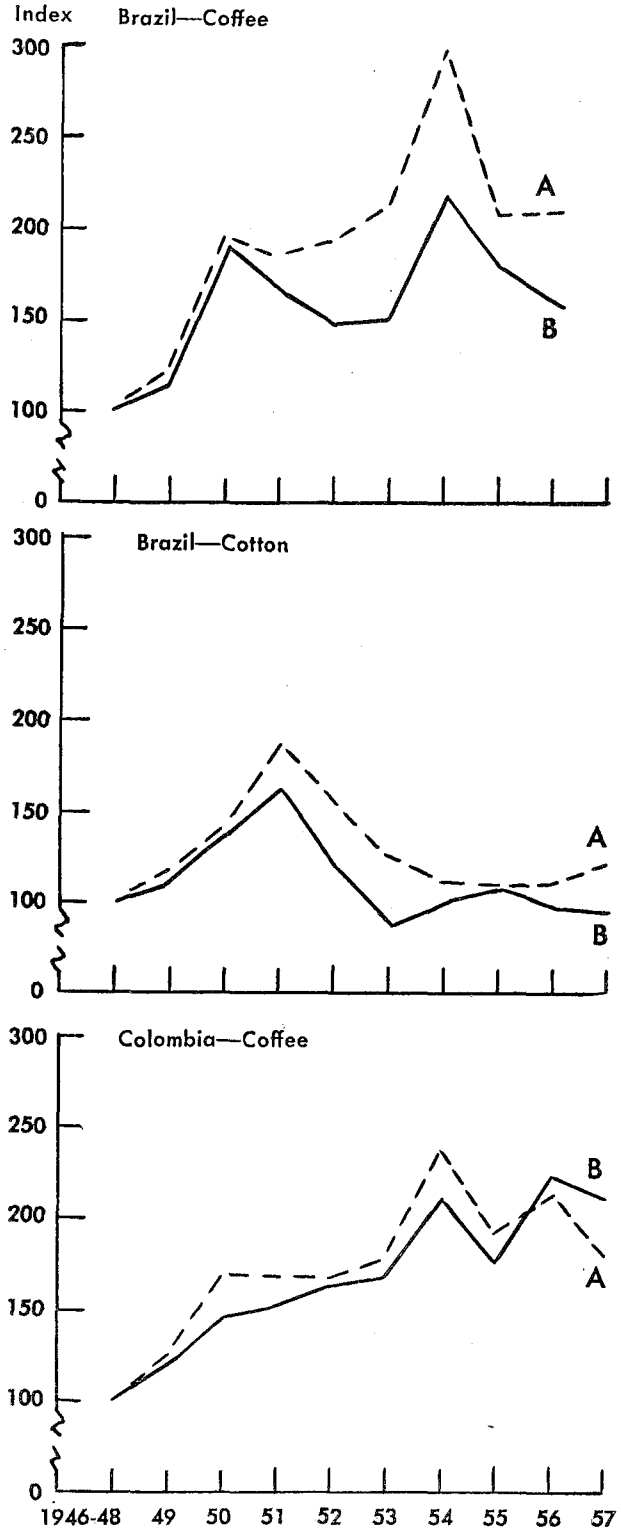
A = International price (left-hand scale)
B = Effective export tax rate (right-hand scale)
Source: United Nations, *Economic Bulletin for Asia and the Far East*, vol. IX, No. 1, 1958 (Bangkok); International Monetary Fund, *International Financial Statistics*; and official national statistics.

[a] The effective export tax rate is the ratio of export tax revenue derived from the commodity to its total export value. International prices are in United States dollars.

[b] For Pakistan, 1949 = 100; for Costa Rica and Peru, 1948 = 100; for Ceylon and Malaya, 1947 = 100.

Chart 11. Relationship Between Domestic and International Commodity Prices[a]

(Indices, 1946–1948 = 100)



A = International price
B = Domestic price
Source: International Monetary Fund, *International Financial Statistics*.

maintain a substantially greater price differential between domestic and international prices than was achieved with the aid of export taxes.

Examples of the effects on price stabilization of exchange rate variation are shown in chart 11, where domestic wholesale prices of particular commodities[62] are compared with variations in their international prices expressed in United States dollars. Here, exchange rate variation may be taken to have contributed to domestic price stabilization to the extent that movements in domestic prices are found to be more moderate than fluctuations in world prices. It is apparent that in all three commodity markets domestic and world prices exhibit a high degree of association in terms of direction and magnitude of change. In these instances, therefore, exchange rate policy has apparently failed to sever the link between movements of domestic and world commodity prices, and in consequence little domestic price stabilization has been achieved. As in the case of export taxes, it will be clear that this is due not so much to any theoretical shortcoming of exchange rate policy as such, as to the practical inhibitions on its use which were reviewed above.

The varied experience of primary producing countries in attempting to stabilize domestic prices may be ascribed to a number of factors which are at least partly interdependent. Apart from variations in the degree of fluctuation in the various commodity markets, the inherent differences among the alternative types of policy instrument, as employed in practice, have had a direct bearing on the stabilization effect. Furthermore, the choice of instrument and the degree of perseverance in its application reflect, perhaps, the relative priority assigned by Governments to the objective of reducing the impact of instability in the export sector. It is almost inevitable that amid the multiplicity of possible goals which any under-developed country might seek to pursue, the priorities assigned in practice should reflect a wide variety of factors in each country, ranging from the character of political traditions and evolution to the extent of dislocation experienced in the past through price instability. The fact that countries appear to have set very different values upon domestic price stability should therefore not occasion undue surprise.

[62] Deflated domestic wholesale prices were used in these instances for the same reasons that were adduced in the case of Argentina and indicated in footnote *61*.

[a] Domestic prices in local currency are wholesale prices deflated by the cost of living index in Colombia and by a wholesale price index (excluding coffee) in Brazil. International prices are in United States dollars.

Conclusion

The impact of primary product policies in industrial countries has been of two main kinds. First, protective policies or price support policies, especially in western Europe but also in the United States, have reduced imports of a number of primary products. Secondly, the effect of United States support policies has been to increase export availabilities of certain agricultural products.

In western Europe, the protective policies apply chiefly to agricultural products, output of most minerals being small or non-existent. European agricultural protection has been inspired not only by the desire to raise agricultural incomes but also by the food shortage of the war and immediate post-war period as well as by the post-war European balance of payments situation. Post-war policy has been consciously directed at raising self-sufficiency in agriculture and, on the whole, this objective has been attained. Only recently has emphasis been shifted from further over-all expansion of agriculture to a more selective expansion.

The technique of agricultural support used in western European countries has been such that producer prices are maintained well above world trade prices, thereby discouraging consumption as well as encouraging output. The chief exception to this is the deficiency payments system in the United Kingdom, although the payments have constituted a sufficiently large proportion of agricultural incomes to encourage a considerable expansion of output.

Much of the trade restriction on western European agricultural imports affects intra-European trade; and as regards imports from outside Europe, the restrictions mainly affect products exported chiefly by other high-income countries. Among the products exported mainly by under-developed countries, western European protection applies chiefly to sugar, though high revenue duties also inhibit imports of tropical products such as non-alcoholic beverages. European policies also tend to discriminate in favour of the dependent territories of certain countries.

United States agricultural policies are of a very different nature, even though the ultimate effects may be very similar to those in western Europe. The United States has been concerned almost exclusively with the protection of farmers' incomes for its own sake and present policies date back to the measures introduced to this end in the nineteen thirties.

However, the mechanism of agricultural price support adopted by the United States is such that there has been little check to the rapid expansion of output which has occurred in consequence of the rise in productivity. As United States consumption of most food products has risen relatively slowly, this has led to the emergence of massive exportable supplies which do not seem to have been diminished appreciably by recent attempts to reduce output.

At the producer prices prevailing in the United States, these supplies are exported only with difficulty, so that in addition to large stock accumulation, increasing use has been made of special government export programmes. The effect of United States policies has therefore been to raise the share of the United States in world exports of a number of agricultural products. In addition, import restrictions or tariffs are applied to certain products, such as sugar, wool and meat, of which United States imports would otherwise be greater.

As with the European policies, however, the impact on the trade of primary producing countries is probably less than on that of other high-income countries, for it is the latter which are the main competitors in the market for cereals. However, the economies of many of these countries, and hence their own import capacities, are very dependent on primary product exports. The increase in United States exports of other products, such as cotton, tobacco and oil-seeds, seems to have been partly matched, at least until recently, by growing world demand or by smaller exportable supplies in certain other producing areas.

United States mineral policies, like western European agricultural policies, have been more explicitly directed at expanding supplies. The objectives have included the need to meet the requirements of long-term growth and of possible sudden emergencies. More recently, however, there has been increasing protection for producers in those mineral sectors which, given their high cost relative to foreign suppliers, suffer from excess capacity. The important United States interest in overseas production of the products concerned seems only to have delayed or mitigated the final imposition of protective devices.

As regards the over-all impact on under-developed countries, the effect of United States policies is less certain than of Europe's policies. For the export disposals of the United States have in many cases been of significant benefit to the recipient countries which are invariably low-income countries. Moreover, the elimination of the present disequilibrium between United States production and demand at prevailing prices is, of necessity, a long-run problem—and the possibility cannot be excluded that in the long run the overseas needs for United States food supplies will increase. From this point of view the problem of United States agricultural surplus may be more a problem for the United States itself than for the rest of the world.

While the impact of primary product policies in western Europe and the United States appears to bear

chiefly on other high-income countries, the benefits that could be obtained from a greater liberalization of these policies are substantial for certain under-developed countries. The marginal nature of imports of many agricultural products in western Europe and the United States is such that a modest reduction in over-all output in these countries, relative to consumption, would cause a proportionately very large rise in imports. And if the industrial countries were to concentrate any reduction in protection on products such as sugar and cotton, among agricultural products, as well as on the protected minerals, a considerable gain to the lower-income countries could be achieved with the minimum loss of aggregate producers' incomes in the industrial countries as a whole and a minimum deterioration in western Europe's balance of payments.

Such measures would by no means, however, transform the severity of the commodity problems experienced by most under-developed countries. Demand for most foodstuffs in the higher-income countries will continue to rise very slowly relatively to the growth of their incomes, and the changing structure of their economies may well reduce the relative rate of increase in their demand for several raw materials. The problem of the instability of primary product prices is also one which has not been alleviated to any significant extent, and in some ways it has been aggravated, by the policies of the industrial countries.

The failure of policies in the industrial countries to contribute towards a reduction in the severity of the commodity problem has served to impose a greater burden upon national commodity policies of the primary producing countries. The latter policies have essentially sought to overcome the impediments to a higher rate of economic growth that are imposed on economies with a high degree of specialization in primary commodity exports.

The nature of the commodity policies pursued has varied widely among primary producing countries, if only because of the great differences in their historical experience of the commodity problem and in the attitude of Governments. National policies have also been related to such considerations as the particular market circumstances surrounding the major export commodities and more generally the stage of economic development thus far attained. The influence of these factors has been such as to permit broad groupings of countries with similar policy attitudes towards the export sector, and which coincide roughly with the geographic areas of Africa, Asia and Latin America.

In most of the African countries economic organization on a monetary basis is in the earliest stages of development and economic growth is almost exclusively centred in the export sector. Given the limited alternatives, commodity policy in these countries has been directed towards strengthening the export sector and at the same time has sought to diversify traditionally one-crop economies for both export and domestic consumption. To the extent that many of these countries have developed alternative exports, or succeeded in increasing their share of the world market for particular commodities, they have achieved a rate of growth beyond the limits imposed by the commodity problem. But the logic of this development requires a continuously rising share of the world market if present rates of growth are to be maintained. Furthermore, it implies that commodity exports of other countries must increase even more slowly than the total.

In Latin America, particularly among the major trading countries of that region, the drive to industrialize has been the prime concern of government policy since before the war. This desire was encouraged by the belief that the scope for continued expansion of primary exports was severely limited, and policies towards the export sector, rather than seeking to promote the expansion of primary production for export, have emphasized measures of control and taxation. This attitude was particularly evident in respect of traditional export commodities. Instances of export promotion were mainly confined to primary products in the initial stage of development or where particular exports were losing their position in world markets. In recent years, however, severe balance of payments difficulties have led some countries to reconsider their policies towards the primary export sector.

In the process of shifting the source of economic growth from the primary export sector to the industrial sector, the nature of the commodity problem confronting the industrializing countries of the region has altered. It has presented itself in no less severe a form, however, since rising domestic output has called forth a more than proportional increase in the demand for imports; and the availability of imports must still depend on exchange earnings from commodity exports. Thus countries at the stage of development in which many of those in Latin America now find themselves may not be able to escape the consequences of the commodity problem until such time as their export structure has been diversified to include manufactures, or their domestic industry has grown to the point at which it is less dependent on imports for further expansion.

Among the Asian countries, a number of special factors have influenced the attitude of Governments towards the primary export sector. Efforts to restore, in certain commodities, the productive capacity destroyed during the war, combined with favourable international markets for a number of traditional exports, were reflected in many countries by government measures designed to secure an expansion in output. At the same time, many of the newly independent countries of Asia looked to the export sector as the most highly developed economic area within the

country to provide the means for achieving broad economic and social welfare goals. Policies of export promotion were therefore often undertaken alongside those of taxation; although these policies were in apparent contradiction, the general effect was to shift resources in the export sector from consumption to investment. There are instances where Governments encouraged the production of marginal commodity exports, but as in Latin America, export diversification was not achieved. Since 1952 or 1953, as a result of the deterioration in some of the Asian countries' export markets and the increased demand for imports associated with more intensive capital development programmes, many of the Asian countries have become increasingly aware of the limitations on economic growth imposed by specialization in primary commodity exports.

There has been much greater uniformity among the primary producing countries in their attitudes towards the domestic production of imported goods. Almost without exception, policies have been designed to encourage the increased output of goods which replace imports, and thereby to ease somewhat the difficult balance of payments positions prevailing in most countries. A contributing factor, given the frequent desire to diversify the economy, was the relative ease with which a protected market could be offered to import-displacing production. The uniformity is especially notable in the widespread efforts to achieve greater self-sufficiency in food production. In Asia the adequacy of food intake was a major issue confronting the newly independent Governments from the beginning, and this has been a primary target of official policy throughout the post-war period. In Africa, to the extent that policy turns away from the export sector and seeks to encourage production for the domestic market, it is the output of food which receives immediate attention. Even in Latin America, where in the immediate post-war years there was some tendency to neglect the agricultural sector in the drive for industrialization, balance of payments pressures led to an increasing policy concern with the displacement of food imports after 1950. Such policies have not always succeeded in reducing food imports, for requirements in a number of countries have increased more rapidly than domestic supplies.

The displacement of manufactured imports has been much less general. While many primary producing countries look towards industrialization as a long-term goal, relatively few have reached the stage where the industrial sector is a major factor in the economy. Further, the experience of the relatively industrialized countries indicates that a net displacement of imports through the growth of domestic industry is extremely difficult to achieve. When it begins, the import requirements of capital equipment are relatively heavy, and as the industrial sector grows, its imports of fuels, materials and intermediate products tend to be large. These additional demands on foreign exchange resources are likely to exceed substantially the import savings in the form of finished manufactures which can now be produced domestically—unless the developing industrial structure is of a balanced sort which minimizes these new import requirements. And such a balance has proved to be very difficult to achieve.

While the long-term aspect of the commodity problem has presented itself to the primary producing countries in a number of different ways, the impact of short-term fluctuations in international commodity markets upon these countries has been more uniform and more universal. Almost everywhere, volatile movements in foreign exchange receipts have imposed a serious burden of adjustment upon countries least in a position to bear it. Primary producing countries have therefore widely adopted policies seeking to remove or at least alleviate the harmful consequences for their economies of excessive short-term commodity fluctuations.

There were relatively few instances during the post-war period where Governments pursued policies seeking to influence the world market for a particular commodity. In each case it was made possible only because of the presence of special circumstances of some kind. A number of countries succeeded in obtaining premium prices for their exports, particularly when international demand was high; and by withholding supplies from the market during periods when demand was falling it was possible to restrain the rate of decline in export prices. The difficulties attending these efforts, however, are reflected in the fact that where favourable terms were achieved, it was usually for relatively brief periods and at substantial cost.

The extent to which the stabilization of export proceeds was the dominant motive in government policies is not clear. In view of the pressing need of primary producing countries for foreign exchange, it is understandable that government efforts either to influence world prices for their export commodities, or to achieve preferential terms for themselves, appeared to be inspired more by the possibility of reaping windfall gains. A number of the long-term bilateral trade agreements, however, achieved a measure of stability for commodity exports, particularly under conditions of declining international demand.

Given the limited scope for successful intervention in the world market for their commodities, many primary producing countries have fallen back on various policies seeking to insulate the export sector and thus the domestic economy from the impact of fluctuations in world commodity prices. In terms of actual policies, insulation has meant an increasing burden of taxation on the export sector during periods of rising world prices, and a reduction of taxes or a minimum price support programme when world prices have fallen. Depending on the efficiency of the policy

technique employed, it has been possible to achieve some measure of domestic price stabilization in the export sector, and frequently in the cost of living as well. As between the two broad types of policy instruments—the marketing board or State trading agency on the one hand and export taxation or exchange rate variation on the other—the former has permitted a comprehensive degree of control over trade in primary commodities; it has also resulted in a relatively high degree of domestic price stabilization in the export sector, when compared with movements in the world price. Both export taxation and exchange rate variation have interfered less directly with market functions, but at the same time their effect on the export sector has been much less profound. Although these two policy techniques are in many respects equivalent, such evidence as has been examined suggests that export taxation may have been a somewhat more flexible instrument than exchange rate variation.

Thus the extent to which domestic commodity policies have successfully attained their objectives has depended in part upon the kind of policy technique that Governments have selected. The very choice of policy instrument itself, however, reveals the varying degree of urgency and the different priority rankings that Governments have assigned to the objective of domestic price stabilization.

Whatever the degree of success achieved by these domestic policies, they have served only as a buffer between the external market and, in the first instance, the export sector of the domestic economy; in no way was the basic solution of the commodity problem advanced. More generally it may be concluded that while there is clearly much scope for industrial countries to adopt less restrictive commodity import policies, and for under-developed countries, by their own efforts, to reduce their vulnerability to the commodity problem, there are serious limitations even under the best conditions on what any one country can accomplish for itself, acting alone. These considerations lend emphasis to the need for more active international co-operation in this field. Some of the possibilities for such co-operation will be considered below in chapter 3.

Chapter 3

INTERNATIONAL COMMODITY POLICIES

Two major conclusions of international significance emerge from the foregoing survey. First, the commodity problem, as examined in chapter 1, imposes on a large number of under-developed countries severe limitations on economic growth which is an accepted international objective. Secondly, national measures, as studied in chapter 2, are entirely inadequate in dealing with the problem, which is by nature international in scope.

Economic growth of primary producing countries is circumscribed both by the lag in growth of demand for primary products and by the high degree of uncertainty associated with market instability. While some individual countries may achieve satisfactory rates of growth by concentrating on the few primary products the demand for which has been expanding rapidly, or by displacing the products of competitors, the growth rate of primary producing countries as a whole is bound to lag behind that of the industrial countries if major reliance is placed on the export of primary products. Yet attempts to shift away from exports of primary products have also been faced with great difficulties. Where attention has been directed towards the development of the domestic market, the need for imports of capital goods and raw materials has often increased to such an extent that the availability of foreign exchange resources has become a limiting factor on economic growth. Moreover, where attempts have been made to shift exports to semi-finished or finished manufactures, obstacles to trade imposed by the importing countries have tended to mount, especially since such exports are frequently in competition with the weaker and less dynamic sectors of the industrial countries. These considerations constitute a dilemma for many primary producing countries in planning developmental policies.

Instability of commodity markets adds greatly to the difficulties confronting these countries. It is true that in certain circumstances violent fluctuations may incidentally produce a shock effect and thereby help to bring about significant changes from a state of stagnant equilibrium. Some of the industrialization of under-developed countries in the nineteen thirties was almost a direct consequence of disastrous drops in the commodity markets. Yet any stimulus given by the feast-and-famine method should be capable of being achieved at lower cost—and with less distress and social dislocation—under conditions of greater stability. In any case, few if any countries would welcome drastic periodic adjustments in the economy according to the dictates of severe fluctuations in the external market.

The survey of national policies in chapter 2 has made it clear that there are serious limitations on what can be accomplished in this field by any one country acting alone. Few countries can be said to dominate the markets for the goods they export. Thus most countries do not attempt to obtain better terms of trade nor to prevent or counteract fluctuations in the world market, but merely aim at mitigating the effects of such fluctuations on the domestic economy. But even though each country, acting individually, may not view its own actions as having any international impact, the sum total of such national measures, taken together, is not without influence at the international level. Some measures tend to coincide with international requirements to a greater or lesser extent, while others tend to offset each other or to aggravate the difficulties from an international standpoint.

Even where a country is actually a major producer or consumer, there is still a limit to what it can achieve acting alone. Unilateral efforts to determine the course of world market prices or of the quantities traded are frequently frustrated by the smaller producers. The experience of such countries as Brazil with coffee, Pakistan with jute and the United States with cotton illustrates the various ways in which unilateral action even by a dominant exporter may stimulate, and actually provide strong protection for, the growth of vigorous competition. Restrictive schemes by importers may appear to be more successful in passing the burden of adjustment to others but here too there may be the possibility of retaliation. The international community obviously cannot be satisfied with a situation in which any disequilibrium merely calls forth mutually frustrating efforts on all sides to escape the consequences—or, worse still, in which the weaker countries succumb to the self-protective measures taken by the strong.

It is generally recognized therefore that there is a valid case for international commodity policy. Yet the diversity of interest and the jealous guarding of national sovereignty render any agreement on an international scale difficult. When some agreement is reached, it is frequently of limited scope. Perhaps the strongest incentive to agreement arises in time of glut, when producers may be drawn into a common front. Such was indeed the chief driving force behind the restrictive exporters' schemes during the pre-war

period. The disadvantages of such schemes are not difficult to see. In the first place, they usually have a persistent restrictionist bias; quotas on production and export imposed during market weakness tend to linger on long after recovery has set in. Moreover, such schemes tend to freeze the existing pattern of allocation of resources without adequate provision for the changing structure of the economy. One result is a general rise in costs as expansion is denied to the low-cost producers while the withdrawal of high-cost producers is obstructed.

Another result of exporters' agreements is that the interests of the consumers are often neglected. To the extent that exporters are able to wield a monopolistic power over the market, consumers may be exploited. Generally, however, restrictive schemes tend to be unstable, since low-cost dynamic producers constantly seek to increase their share of the market and may even find it to their advantage to stay out of the schemes. Furthermore, exploitation of the market may stimulate technological developments which, once introduced, are usually irreversible and cause a permanent downward shift in the demand for the primary commodities in question.

Not all the disadvantages of the exporters' schemes mentioned above are inherent in such schemes. When sufficient care and foresight are exercised many of the disadvantages can be eliminated or reduced. It is also possible to exaggerate the divergence of interest between producers and consumers. It is, after all, not in the consumers' interest that market prices should be allowed to destroy productive capacity in a period of temporarily slack demand, thereby creating a shortage of supply when demand recovers. Temporary restriction may therefore be a perfectly sound and equitable method of meeting a temporary decline in the demand for a particular primary product. A far-sighted policy on the part of producers will also take into account the fact that artificially high prices may, in the long run, be just as injurious to them as uneconomically low prices.

The need for fundamental safeguards against the defects of restrictionist schemes was already emphasized in pre-war international discussions. It was not, however, until the post-war years that such safeguards were developed. One of the more important principles which have come to be accepted in the establishment of commodity agreements is that requiring equal representation of producers and consumers. It is also widely agreed that international agreements should, as far as possible, be consistent with a rational allocation of resources and the bringing about of orderly adjustments with the aid of the market mechanism. The shift from pre-war restrictionist philosophy to a set of new principles along these lines has been made possible by —and is, in fact, conditional upon—the post-war climate of economic growth and the absence of depressions of the magnitude common before the war.

On the other hand, the number of commodities for which formal international agreements have been reached is smaller than in the pre-war period. To some extent this reflects the general climate of economic growth and the improvement in terms of trade of primary producers; it also reflects the greater difficulty of securing agreement when consumers as well as producers have to be represented. When supplies are abundant and prices low, any concern of the producers is usually not shared by the consumers, and conversely, when supplies are short and prices high, any dissatisfaction among consumers is not likely to affect the producers. Negotiations tend to be protracted and tedious; the time that elapses between the commencement of negotiations and the final ratification of agreements must frequently be reckoned not in weeks or even months, but in years. However, few countries have wished to take a completely uncooperative position; consequently the post-war scene has been dominated by less formal and more modest approaches in the form of exchanges of views, the collection of statistics, the conduct of research and the assessment of the international commodity situation, while study groups and conferences have rarely resulted in formal international agreements. This generally cautious attitude also helps in part to explain why proposals reaching beyond the commodity-by-commodity approach have not caught the imagination of a sufficient number of policy-makers to be translated into action.

In taking stock of post-war experience, the following discussion will first examine the international commodity arrangements actually in force and will then go on to consider proposals for action which go beyond the present arrangements. This analysis will provide the basis for an indication of the choices now open to Governments in the field of international commodity policy.

The mechanism of international commodity arrangements

AN INTERNATIONAL FORUM

In the course of the post-war period, there has been a considerable expansion of the facilities for bringing about international commodity arrangements. The broadest international co-operation on commodity problems is to be found in various organs of the United Nations, such as the Commission on International Commodity Trade, the Interim Co-ordinating Committee for International Commodity Arrangements, the Committee on Commodity Problems of the Food and

Agriculture Organization of the United Nations, and a number of commodity committees of the regional economic commissions. These organs provide a ready forum in which interested parties may air their views. National policies which may be open to objection from an international point of view are scrutinized by international public opinion. General guidance in the commodity field is provided and a code of international economic conduct is gradually emerging.

STUDY GROUPS AND CONFERENCES

A more specialized mechanism for dealing with a particular commodity or group of commodities is to be found in the study group or similar bodies. The study group is especially suited to deal with long-range problems but may also contribute to the solution of short-term problems. Groups of this type are used widely for agricultural commodities, largely under the guidance of the Food and Agriculture Organization (FAO). Nearly all the study groups undertake statistical compilation and research, as well as the appraisal of current conditions. Such activities may in themselves be quite important in promoting stability. Improvement of factual information tends to reduce exaggerated speculation and to moderate fluctuations of the "cobweb" type.[1]

Some study groups also promote technological research to improve production and expand the range of uses of the commodities with which they are concerned. The importance of such research is readily understood when it is remembered that markets for primary commodities often suffer from the generally low level of technological development in primary producing countries, not only in the sphere of production but also in grading and standardization. The study groups also explore possibilities of more formal international arrangements, extensive and careful preparation being a universal prerequisite for any workable solution.

While almost all study groups adhere to the commodity-by-commodity approach, the FAO Group on Grains is unique in covering a number of commodities, including a commodity for which there is already an international agreement. In setting up this group, it was recognized that the various grains might most appropriately be handled together because of their interrelationships. For example, food grains are in competition with feed grains when the price of the former is relatively low or when acreage is controlled for one of them. The experience of this group would be valuable if an attempt were to be made to introduce a multi-commodity approach on a broader basis. Experience of a multi-commodity approach is also to be found in the FAO Consultative Sub-Committee on Surplus Disposal, which deals with a number of commodities having a problem in common rather than with a group of similar commodities.

Even where a study group is not in existence, international conferences and meetings may be convened under the auspices of the United Nations to discuss any problems arising in relation to particular commodities as well as any proposals for solving them. Cases in point are the United Nations exploratory meeting on copper in 1958 and the United Nations conferences on lead and zinc in 1958 and 1959; in both instances, the problem was precipitated by a decline in demand coupled with a maturing of capacities under the stimulus of high prices a few years earlier.

The post-war period includes one example of international action in the field of primary commodities of a rather different sort from those common in peace time. The International Materials Conference (IMC) was sponsored during the Korean conflict by France, the United Kingdom and the United States and joined by twenty-five other nations representing a variety of consumer and producer interests. The main objectives were to limit competition by government agencies and private business for commodities in short supply, to increase production, and to assure equitable distribution. The IMC was reminiscent of various arrangements for co-operation among the Allied Powers in the supply and allocation of materials during the Second World War, especially between the United Kingdom and the United States in the Combined Raw Materials Board and related institutions such as the Combined Food Board and the Combined Production and Resources Board. However, since the Korean conflict did not develop into global warfare, the scope of the IMC was more limited and the objective more modest as compared with the war-time institutions. The IMC had an important measure of success in stabilizing the market for certain commodities—not through control of prices but by voluntary restraints on competitive purchases by government agencies, by sharing scarce supplies and by changing business expectations as to the degree of shortage to be expected. The IMC was brought to an end after two and a half years when problems of scarcity had disappeared, and raw material allocation became less acceptable once military activities ceased. The essential policy conclusion to be drawn from the IMC experience is that international co-ordination is superior to independent national action. Moreover, the technical difficulties standing in the way of international commodity stabilization are of a second order of importance, and can be overcome provided that there is sufficient incentive to place the stabilization objective high on the scale of priorities for government action.

[1] "Cobweb" fluctuations arise from the lagged response of production to price. Thus, for example, a given year's crop may be stimulated by high prices prevailing at the time of planting; but when a bumper crop is harvested prices may fall. Better and more widespread information on the pattern of production and prices would make it possible to adjust production more closely in line with the market situation to be expected after the harvest.

INTERNATIONAL COMMODITY AGREEMENTS

The rather informal approaches to international commodity arrangements provided in study groups, working parties or conferences are in contrast with the more formal character of international commodity agreements. These agreements usually stipulate a set of definite terms that the participants are pledged to observe and implement. The operating principles of these agreements fall into three main types—the export quota, the buffer stock and the multilateral contract for purchase and sale. As will be shown later, these types may be varied, extended or combined. Four commodities have been made the subject of such agreements, on a broad multilateral basis comprising both exporters and importers. Before these agreements are discussed, however, a brief examination will first be made of agreements which are primarily on a bilateral basis, or which are limited to exporters.

The post-war period has seen the conclusion of a number of long-term agreements which either were bilateral or were limited to specific groups of countries, such as the Commonwealth countries. These agreements are frequently based on barter, as in trade with the centrally planned economies or with countries whose currencies are not readily convertible. They were entered into extensively by the United Kingdom in developing trade with the Commonwealth during the war and immediate post-war years. Commonwealth producers accepted prices usually below the world market level in exchange for guarantees of a stable market for their products. The stability of the market also gave a stimulus to investment, especially where new products were introduced, having a long period of maturation. In some cases, bilateral contracts are the only practical means of opening up a potential market and tend, therefore, to create demand. The difficulty with long-term contracts is that the longer the period covered, the greater is the danger that contract prices will diverge from world market prices to an extent causing one party or the other to view the cost of stabilization as too high. On the other hand, the shorter the period covered, the smaller the advantages to be gained as compared with more normal forms of marketing.[2]

A more familiar type of international commodity agreement is the exporters' scheme typical of pre-war years which is based largely on the quota principle. Allusion has already been made to the comparative disfavour into which this type of agreement has fallen since the war and to the factors responsible for this. It is also possible that there is now greater difficulty in achieving an effective exporters' scheme than there was before the war. The domination of old established producers has declined, partly because new producers have emerged, especially in Africa, and partly because synthetic substitutes have gained in importance. Nevertheless several cases of concerted action by private exporters have occurred, albeit on a less formal basis than was customary before the war. The production and price policies of the major petroleum producers have often been co-ordinated without reliance on an actual agreement. The decisions of a number of principal copper producers to cut production by approximately 10 per cent in 1958 were synchronized. In the case of tea, the ability of major producers to control production may actually have been unimpaired despite the discontinuation in 1955 of the International Tea Agreement.

The most important post-war example of an exporters' agreement is the Latin American Coffee Agreement of 1958. There is no question that the situation which this Agreement was designed to meet is an extremely serious one, and affects a relatively large number of under-developed countries. In response to very favourable prices up till 1954 the output of coffee has risen—despite heavy taxation on exports—to the point at which burdensome surpluses have already accumulated and threaten to grow. Thus far action to deal with the situation is confined to the Latin American countries—the smaller producers of Latin America having reversed their traditional position of not joining restrictive schemes, apparently in an effort to avoid a price war and in the realization that the relative advantage of their product has declined with the changing pattern of demand.[3] A major weakness of the Agreement is the conspicuous absence of consuming countries and, more seriously, of the African producers. Here the difficulty of achieving a common course of action with diverse interests is patently illustrated. Yet, the coffee situation is in delicate balance, especially in view of the huge stocks overhanging the market.

In contrast with the agreements discussed thus far, four international commodity agreements are based much more closely on the multilateral principles formulated under the auspices of the United Nations at the Havana Conference. These agreements deal with wheat, sugar, tin and olive oil. The functions of the olive oil agreement are rather limited, resembling those of a study group, and it has, in any case, not yet come into force. The other three are of particular interest because their operations illustrate the workings of broad principles, especially the export quota principle in the case of sugar, the buffer stock principle in tin, and the multilateral contract principle in wheat.[4]

[2] For a case of a long-term contract in which the price is negotiated annually, *see* the discussion of the Commonwealth Sugar Agreement below.

[3] The shift in the pattern of consumption towards instant coffee resulted in a shift in demand in favour of cheaper African coffee at the expense of Latin American coffee, including the mild coffees produced in Colombia and Central America, which had previously benefited from a secular upward trend.

[4] In the following discussion, statements about Agreements for the three commodities refer, unless otherwise specified, to the first three International Wheat Agreements of 1949, 1953 and 1956, effective 1 August 1949 through 31 July 1959, to the International Sugar Agreement of 1953, effective 1 January 1954 through 31 December 1958, and to the International Tin Agreement of 1953, effective 1 July 1956 through 30 June 1961.

The fact that post-war international agreements have been limited to only a few commodities suggests that there may be important differences between them and other commodities for which agreements may be less practicable. One such difference no doubt arises from the fact that the physical properties of wheat, sugar and tin are suitable for the establishment of international schemes. All three commodities are fairly homogeneous; though quality variations are important in wheat, standard grading is possible. The commodities are also comparatively non-perishable and storable, so that provision for stocks may be made.

The economic characteristics of these commodities also fit them for international agreements. None of them has enjoyed a rapid secular growth of demand. Problems of excess capacity or of burdensome surpluses have arisen in wheat and sugar. There is therefore a strong incentive to exporters to maintain some measure of control, even though the magnitude of short-term fluctuations in these commodities during periods when they were not covered by international agreements was not particularly large in relation to other primary commodities. Moreover, the number of countries either accounting for the bulk of total exports of these commodities or heavily dependent on them is relatively small, so that they are sufficiently interested in taking joint action and not so numerous as to make negotiations difficult. Indeed, exporters' schemes in these commodities existed long before the war.

On the other hand, although the importers also have an interest in stabilization, their interest is necessarily less pressing and the number of countries involved is relatively large. Something more is needed to induce the importers to participate over and above the incentive to guard against a restrictionist type of scheme. One such inducement for some of the major importers, especially of sugar, is their simultaneous interest as producers. Further inducements for importers may include assurance of price advantages. Under the International Wheat Agreement of 1949, importers were able to obtain wheat more cheaply than in the open market; and conversely, one of the reasons why a major importer did not join the subsequent Agreements was the absence of this initial advantage when world prices of wheat declined. In the International Sugar Agreement, a special provision enjoins the exporting countries to give priority to the requirements of the participating importers.[5]

A common feature of all three Agreements is their reliance on the price mechanism as the critical indicator for action. A high price signals a strong market and a low price gives warning of a glut. In the Sugar Agreement, revisions of export quotas become mandatory when the market price reaches certain critical levels. In the existing Wheat Agreement, importers are committed to take delivery of an agreed quantity of wheat when prices reach a floor, while exporters are obliged to supply an agreed amount when prices reach a ceiling. In the Tin Agreement, the buying and selling operations of the buffer stock manager are also guided by minimum and maximum prices, although there is some freedom of action when prices lie within certain ranges (see chart 14). A related feature is that provision is made to allow the price mechanism to register the operation of market forces at least within limits. Thus the free market price of wheat may exist side by side with the guaranteed prices of the Agreement; the zone of prices within which the tin buffer stock manager is not allowed to buy or sell is initially established to permit testing of the market forces; even in sugar it should be noted that the Agreement does not provide for the enforcement of absolute ceiling or floor prices.

Although the commodity agreements illustrate different principles, as mentioned earlier, they also show that the distinguishing principles are not used exclusively and are indeed much more closely interrelated than appears at first sight. While the implications of these schemes will be considered more fully below, it should be observed here that the International Tin Agreement makes provision for export quotas once the buffer stock reaches a certain size. In the Sugar Agreements, the exporters are obliged to keep minimum stocks so as to be able to meet contingent increases in demand when they are called upon to do so, and at the same time they are required not to keep stocks in excess of a certain level. These provisions may be viewed as fulfilling some of the functions of a buffer stock. The export quota and buffer stock schemes may therefore be combined under suitable conditions. In fact, when the funds in the hands of the tin buffer stock manager were exhausted in September 1958, it became necessary to rely to a greater extent than before upon export quotas; and the Sugar Agreement of 1958 has strengthened stock requirements so as to make better provision against the possibility of an increase in demand, which export quotas alone cannot deal with adequately.

Under the Wheat Agreements, a significant feature is that no restriction on exports is imposed. This form of the multilateral contract thus represents the clearest break with the pre-war restrictive agreements. However, there is no intrinsic reason why a multilateral contract cannot be combined with export quotas. The provision in the Sugar Agreement of 1958 for multilateral options[6] indicates the feasibility of combining this feature with the export quota feature. On the other hand, a multilateral contract may be regarded as

[5] In the case of olive oil, the limited scope of the Agreement partly reflects the lack of enthusiasm for an international agreement among the importers, whose interest in the commodity is mostly minor.

[6] Under such contractual arrangements, interested importers have the right to purchase at the maximum price and exporters the right to sell at the minimum price certain quantities within a given time limit. The principle involved is therefore essentially that of the multilateral contract under the Wheat Agreement.

an alternative to a buffer stock in the sense that importers may have to accumulate stock if called upon to fulfil their purchase obligations and exporters may have to draw on their stocks when required to implement their sales guarantees. No explicit provision for stocks has, however, been made under the Wheat Agreements, except for a provision in the 1948 Agreement which did not go into effect.

The impact of international commodity agreements

In an interrelated economy it is usually difficult to trace the exact impact of a given measure. It is, however, possible to delineate some of the significant forces at work in connexion with international commodity agreements. It will be convenient to discuss first the implications of the agreements for national policies and second the effect on price or income stability; thereafter the question whether the agreements have dealt successfully with structural problems will be considered.

IMPLICATIONS FOR NATIONAL POLICIES

The intimate relationship between international agreements and national policies is self-evident; no international agreement is possible if it conflicts seriously with established national policies. The mechanism of informal commodity arrangements, such as study groups and conferences, has the advantage of avoiding any serious test of compatibility with national policies, partly because the programme for action is largely noncontroversial and partly because definite obligations are very limited. In the case of international commodity agreements the possibility of divergence from national policies is somewhat greater, although the fact that nations with very different policy orientations, including private enterprise and centrally planned economies, have been able to participate in such agreements points to the vast scope for variation. Even reliance on the price mechanism as a signal for action, which, as noted above, is a feature of the existing agreements, does not imply that all countries have to maintain a free market in the commodities in question, but only that some of them are expected to do so.

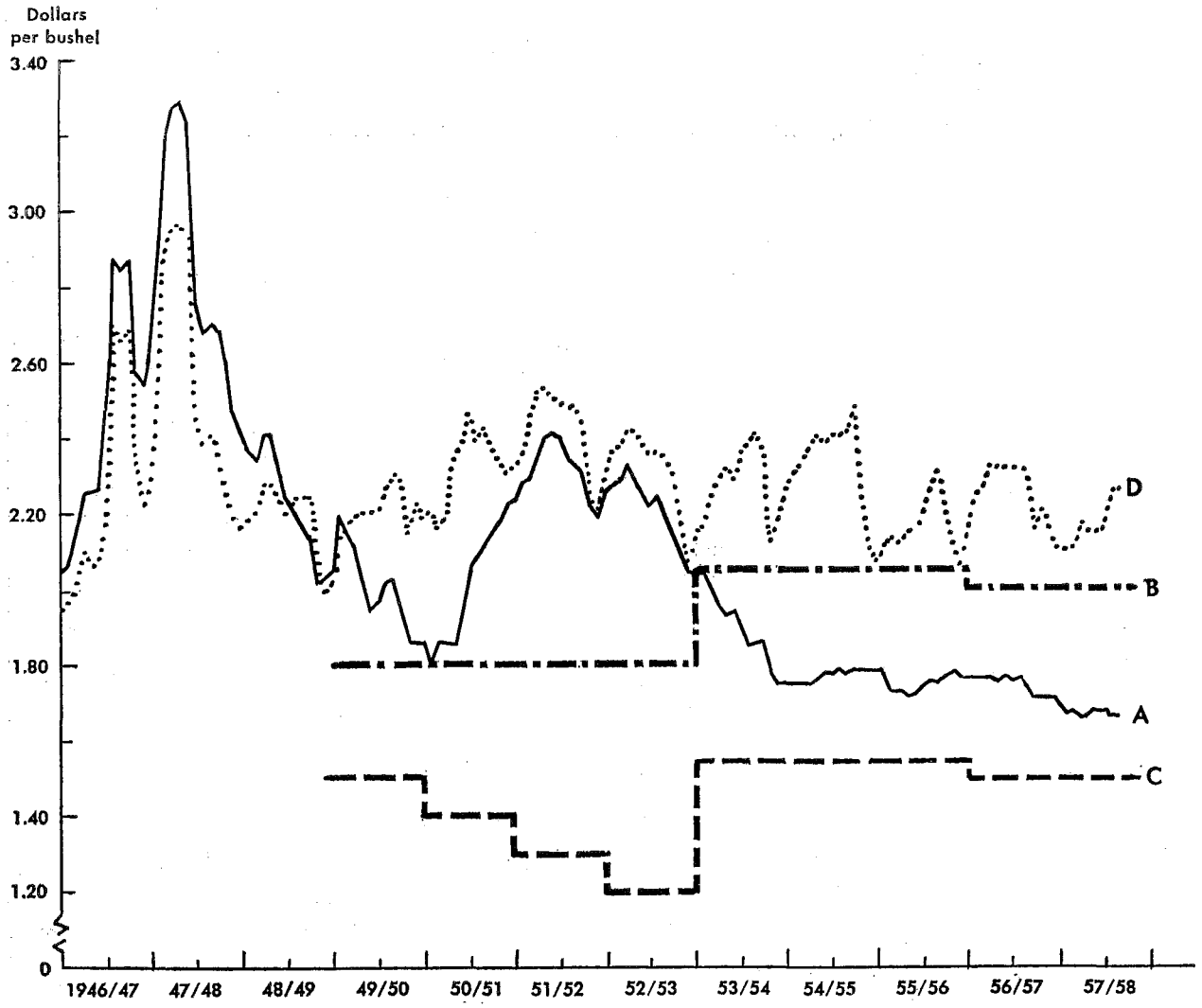
Apart from the obvious obligations which constitute the essence of the commodity agreements, there are implications for national policy in them which are not made explicit in their provisions. In the Wheat Agreements, national policies are in fact explicitly left to the countries concerned. This does not mean, however, that the agreements are without bearing on national policies. When the Wheat Agreement price range is below the market price, as was the case from 1949 to 1953, a dual price system appears, as shown in chart 12, and some national equalization scheme for exporters is implied. A subsidy may be given in respect of exports under the Agreement, as was done in the United States; or a pooling arrangement may be made as in Canada and Australia. Some equalization scheme is also necessary in the importing countries. Where wheat imports are the monopoly of government agencies, the process of equalizing the different costs of imported wheat may be only a matter of book-keeping. Where wheat is privately traded, it becomes necessary either to license the distribution of agreement and non-agreement wheat or to equalize prices by means of a tax or subsidy.

The open market price of wheat during the second and third Wheat Agreements has, however, remained within the ranges specified by the Agreements, and there has therefore been no necessity for special national measures to equalize prices. The national policies adopted have thus been based almost exclusively upon domestic considerations. As will be shown later, it is the lack of definite provision in the International Wheat Agreements for consistent national policies that permits the growing disparity between production and requirements. The domestic support price policies of exporting countries and the protectionist policies of the importing countries combine to aggravate the surplus problem.

The Sugar and Tin Agreements explicitly or implicitly require certain adjustments in exports, stocks and production to be made; and national policies must, therefore, in the first instance be addressed to securing direct compliance with the quantitative goals laid down. On the other hand, a given quantitative target, if it is to be maintained over a period of time in a private enterprise economy, ultimately implies in addition some adjustment of the absolute and relative prices received by the producers.

While an export quota scheme does not in itself necessarily give rise to a dual price system, such a system is formally recognized by the Sugar Agreement. Where dual prices apply, equalization schemes similar to those already discussed in connexion with wheat are also relevant. Dual price systems exist largely on account of United States import quota arrangements and the United Kingdom Commonwealth Sugar Agreement (both of which are outside the free market for the purposes of the Sugar Agreement). Under the United States quota arrangement with Cuba a sizable share of Cuban production is absorbed by the United States market at a price usually—though not always—substantially higher than Cuba is able to obtain in the free market, as shown in chart 13. It is thus possible for Cuba to dispose of the remainder of her supply in the free market at prices, if need be, below average cost.

Chart 12. Movement of Wheat Prices



A=Free market price, No. 1 Manitoba Northern (class II) in bulk, in store Fort William/Port Arthur, Canada
B=IWA maximum price, No. 1 Manitoba Northern (class II) in bulk, in store Fort William/Port Arthur, Canada
C=IWA minimum price, No. 1 Manitoba Northern (class II) in bulk, in store Fort William/Port Arthur, Canada
D=US domestic price, No. 2 hard winter, Kansas City
Source: United Nations Bureau of Economic Affairs.

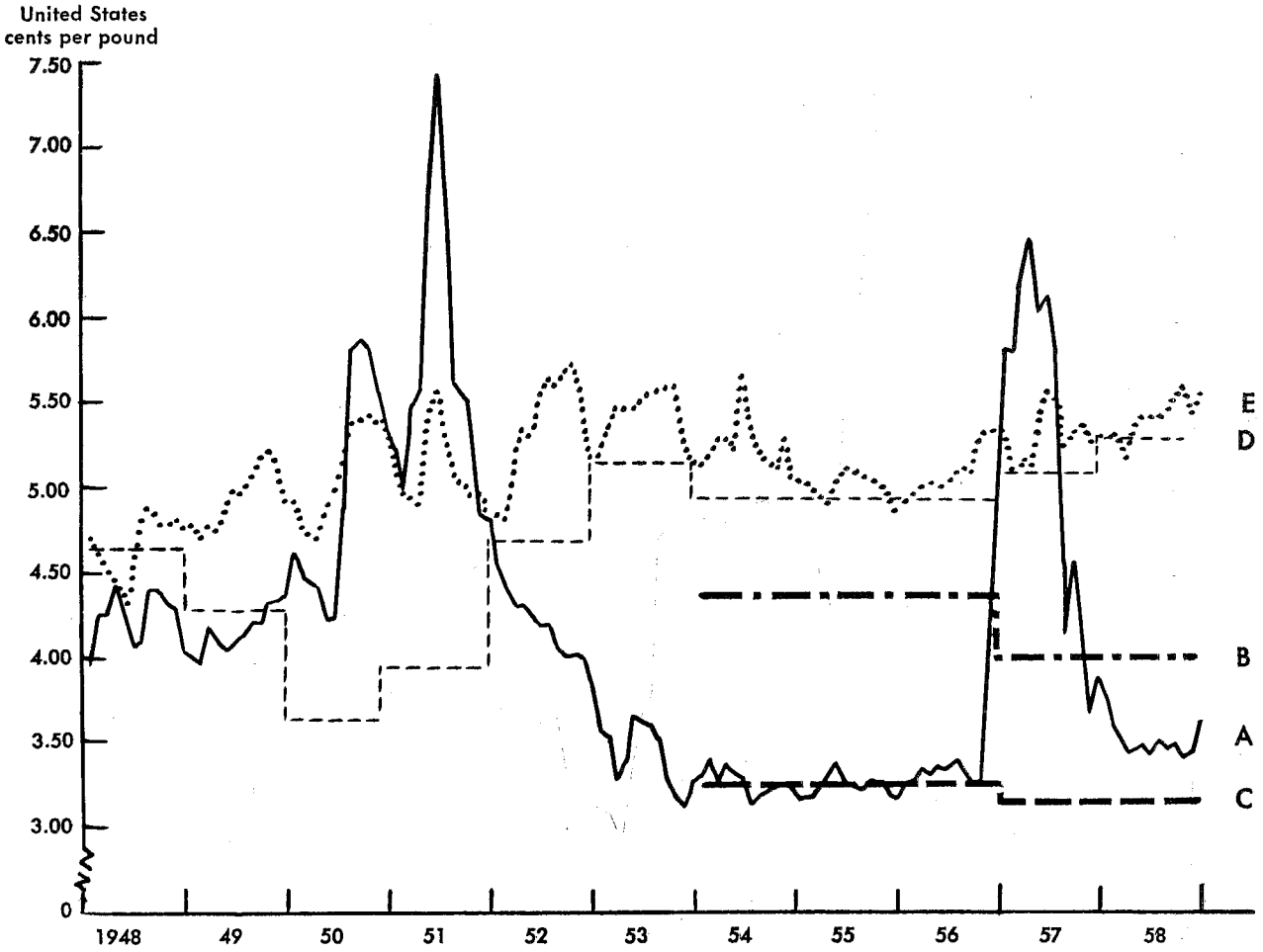
The Philippines enjoys a similarly sheltered market in the United States, but has not exerted a significant influence on the free market since its output has been absorbed almost exclusively by the United States. The negotiated prices under the Commonwealth Sugar Agreement also deviate from the free market price (see chart 13). These prices are negotiated annually and are therefore not subject to seasonal fluctuations. While the free market price may influence the negotiated price, its role is limited by a price formula which is largely based on average costs of production.[7]

A special provision in the International Sugar Agreement discourages subsidies, but it does not appear that this provision has actually been enforced.

In the case of the Tin Agreement, it is necessary to ensure that there is a relatively free market in which the buffer stock manager may buy and sell (see chart 14). The establishment of maximum and minimum prices in the Agreement has important implications for the operation of any domestic price policy. For instance, if the domestic tin support price of an exporting

[7] There are, however, two safeguards against high costs of production. In the first place, there is only one price for all Commonwealth suppliers, so that a rise in the costs of production of a particular supplier would not necessarily be reflected in a higher negotiated price. In the second place, since the 1951 Commonwealth Sugar Agreement, the United Kingdom has declined to buy the entire exportable supply available from the Commonwealth. Roughly a third of the supply has to find its way into the free market. At the same time, about two-fifths of United Kingdom sugar imports are purchased from non-Commonwealth countries. The free market under the International Sugar Agreement is thus of special interest to the United Kingdom, not only because it is an important source of supply to that country, but also because it provides an indirect check on the negotiated price and on the costs of production of Commonwealth sugar.

Chart 13. Movement of Sugar Prices



A = Free market price, New York Coffee and Sugar Exchange, spot price, No. 4 Contract, f.o.b. Cuba
B = ISA maximum price, New York Coffee and Sugar Exchange, spot price, No. 4 Contract, f.o.b. Cuba
C = ISA minimum price, New York Coffee and Sugar Exchange, spot price, No. 4 Contract, f.o.b. Cuba
D = Commonwealth Sugar Agreement price, estimated f.o.b.
E = Cuban export price to USA, f.o.b. Cuba, raw, centrifugal, 96°

Source: United Nations Bureau of Economic Affairs.

country is set below the minimum price at which the buffer stock manager is obliged to purchase, domestic support operations become redundant. On the other hand, if the domestic floor price is set above the minimum Agreement price, the international buffer stock will not be required to purchase supplies from the country unless the difference in price levels is equalized by a subsidy.

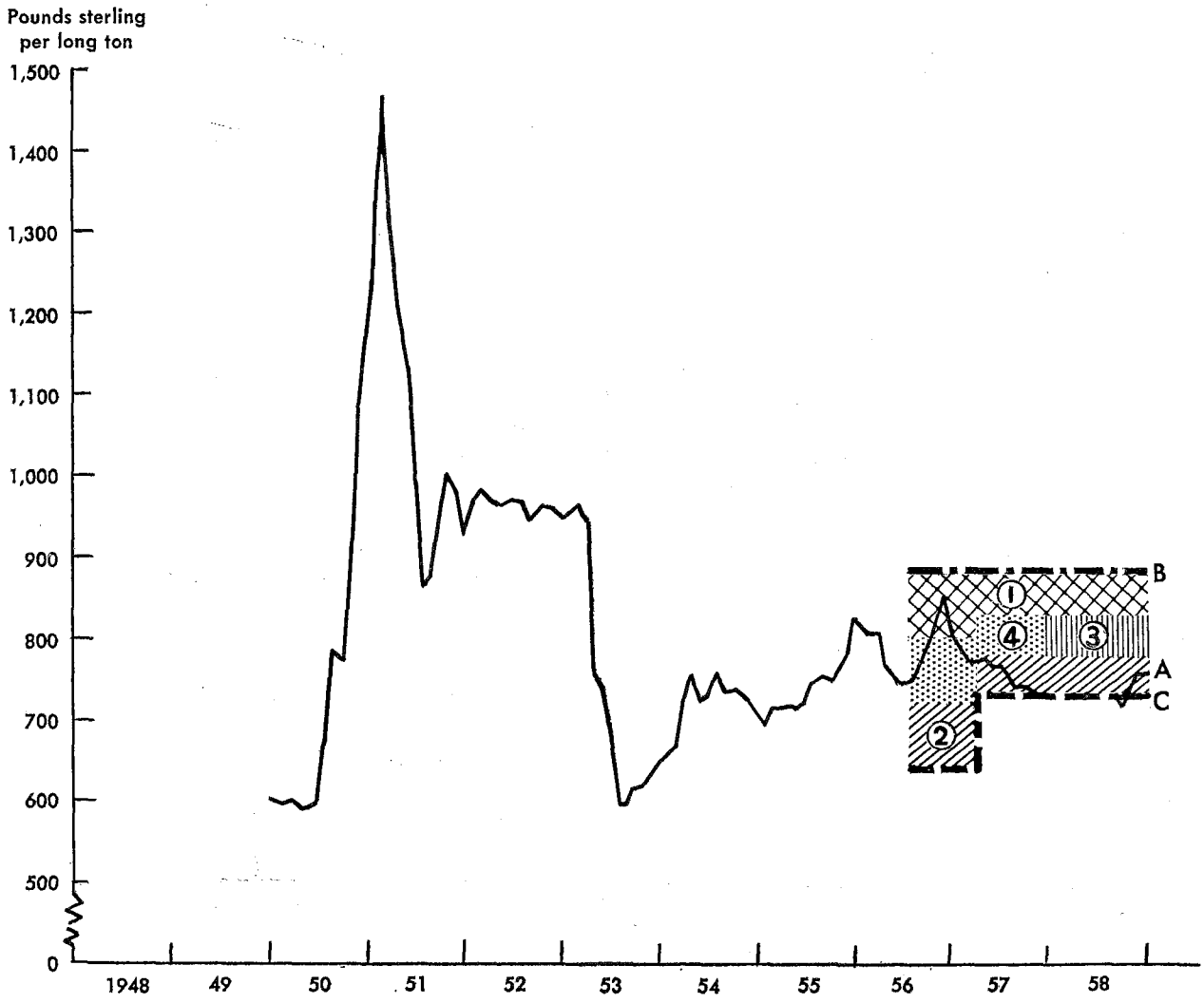
It would not be possible within the scope of this chapter to examine all possible sources of conflict between international commodity agreements and national policies. However, there is a general presumption that if international agreements are to be effective, Governments must be prepared to adjust their national policies accordingly. The fact that progress along these lines has been rather limited constitutes a major weakness of existing international arrangements.

IMPACT ON PRICE OR INCOME STABILITY

In tracing the impact of international agreements on prices, a distinction should be drawn between at least three kinds of prices, namely producers' prices, consumers' prices, and prices in international trade.[8] The main concern of the present discussion is with prices in international trade; to the extent that producers' and consumers' prices diverge from prices in international trade, their implications are discussed in chapter 2. It may be remembered that in both wheat and sugar the prices of transactions within the agreements are not necessarily the same as those outside the agreements. This multiplicity of prices does not hold in the case of tin, with minor exceptions such as barter

[8] A fourth price obtains in the organized commodity markets; the distinction between this price and the price of transactions in international trade will be made in the following discussion only where it affects the argument.

Chart 14. Movement of Tin Prices



A=London price, cash
B=ITA maximum price
C=ITA minimum price
Price zone within which buffer stock manager may sell 1
may buy 2
may buy or sell 3
may not buy or sell 4
Source: United Nations Bureau of Economic Affairs.

deals. The extent to which prices are actually stabilized by virtue of commodity agreements depends on the direct stabilizing effect on agreement transactions, the indirect effect on transactions outside the agreement, and on the relative importance of these transactions.

With regard to the direct stabilizing effect on agreement transactions, experience has indicated an important asymmetry between upward and downward movements of prices. At first sight, such asymmetry hardly seems possible in the Wheat Agreements since definite guarantees are made at the upper and lower limits of the Agreement price range. Nevertheless, there appear to be practical difficulties in enforcing guaranteed purchases and sales. During the period when free market prices were above the Agreement maximum, some of the importers claimed that they had been unable to obtain the qualities they wanted at the customary ports of shipment, while exporters tried to push sales of flour rather than of wheat. Experience of this type does not, however, seem to have been widespread, owing perhaps to the recognition that the shortage of wheat would not last indefinitely. Of much more consequence, in the present context, is the difficulty that would almost certainly be faced by the exporting countries in enforcing sales at the lower end of the Agreement price range. This is because most of the principal wheat exporters are relatively rich countries which might have inhibitions about enforcing the obligation of relatively poorer importers to take delivery of wheat at a price higher than that obtaining in the free market. Such enforcement might be regarded as running counter to policies of economic aid to less

developed areas. Moreover, many nations would probably invoke escape clauses such as those dealing with balance of payments difficulties. The testing of the Agreement floor price has thus far been avoided, since Canada and the United States have preferred to accumulate large stocks rather than unload them in the free market. The surplus wheat disposals of the United States, and to a lesser extent of Canada, have nevertheless been made at effective prices below the floor prices of the Agreements and discounts on certain grades of wheat have sometimes been unusually large. The introduction of certain asymmetrical features in the obligations of importers and exporters in the 1959 Wheat Agreement appears to stem from partial recognition of the asymmetry considered above.

In contrast with wheat, asymmetry between the effectiveness in dealing with rising and falling prices is more evident in the Sugar and Tin Agreements; for, in an export quota arrangement, it is at least theoretically possible to cut exports drastically enough to support a given price level; but it may be much more difficult to assure a level of exports adequate to prevent a rise in prices.

The underlying bias may be offset or more than offset by such provisions as a limitation of the freedom to cut export quotas. The severe restrictions on the range within which export quotas may be cut in the Sugar Agreement imply the possibility that the Agreement may not be entirely effective in arresting a fall in prices; such a situation, however, has so far not arisen. The inability of the Sugar Agreement to arrest promptly the upsurge in the free market price of sugar in 1956/57, when all export quotas were removed, illustrates the difficulty of preventing a rise in price. It was in the light of this experience that the stock provisions of the Agreement were subsequently strengthened to provide a reserve which can be drawn down in periods of rising prices.

While the Tin Agreement provides for both buffer stock operations and export quota variations, only the latter were left in operation when the buffer stock manager ceased tin purchases in September 1958. The subsequent sharp decline in tin prices further illustrates the possibility—already mentioned in connexion with sugar—that moderate reductions in export quotas alone may not always be effective in maintaining a floor price. Later, however, tin prices recovered rapidly when export quotas were drastically tightened and special restrictions were imposed by major European importing countries on purchases from the Soviet Union.

One form of asymmetry in buffer stock operations proper lies in the fact that no stabilizing release of stocks is possible when a buffer stock is first established during a period of rising prices, since the buffer stock manager has no stocks to operate with. Moreover the suspension of buffer stock operations in tin in September 1958 points to the difficulty of arresting a downward movement of prices if financial resources are limited. Difficulties of this sort are likely to be important if the price objective of the buffer stock manager is relatively high.

The effect of the Agreements on non-agreement transactions is more difficult to ascertain. It depends on such factors as the extent to which the Agreement narrows the market for non-agreement transactions, and whether it stimulates consumption or supply in a stabilizing or destabilizing manner. Even if it is granted, however, that the effect of the Agreements on non-agreement prices may, in certain circumstances, tend to be destabilizing, the weighted average effect on the price stability of transactions in the aggregate is likely to be dominated by the stabilizing influence of agreement prices, at any rate in cases where the area of the non-agreement market is small in relation to that of the market governed by agreement. Although the share of world trade in wheat covered by agreement transactions, as shown in table 30, has been far from uniformly comprehensive, it should be noted that the share is likely to be high when guaranteed purchases or sales under the Wheat Agreement are in effect.[9] Furthermore, an overwhelming proportion of the trade in sugar not covered by the International Agreement is in turn governed by special prices under United States import quota arrangements and the Commonwealth Sugar Agreement. The Agreements do seem, therefore, to have exerted a stabilizing influence on prices. The case for this view is strengthened if account is taken of the stabilizing effect exerted through the influence of the Agreements on market expectations.

The stabilization of prices does not, of course, necessarily mean the stabilization of income or export proceeds since these depend on export volume as well as price. If all transactions were covered by the Agreements, the effect of price stabilization upon export proceeds would depend upon the elasticity of demand with respect to price, proceeds moving in the same direction as prices when demand is inelastic and in the opposite direction when it is elastic. Thus price stability is consistent with income stability when demand is inelastic and conflicts with income stability when demand is elastic. In fact, however, not all exporting countries are covered by agreements and the volume of exports of participating countries is regulated in varying degrees in different types of agreement. In the buffer stock type of agreement operations are concentrated in the general market. Buffer stock purchases (or sales) are therefore not restricted to a particular

[9] In interpreting the share of recorded transactions under the Wheat Agreement, it may be noted that there is no incentive to report actual transactions for recording so long as it is not expected that the maximum or minimum price will be reached. The rather small share of recorded transactions does not, therefore, necessarily imply that the Agreement is ineffective.

Table 30. Share in World Trade of Countries Participating in Commodity Agreements

(Percentage)

Agreement and item	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*
International Wheat Agreement								
Share of participating exporters in world exports	84.6	83.6	93.9	89.7	75.3	76.9	81.7	93.8
Share of trade among participating countries in world exports	...	...	...	...	47.9	45.8	46.7	57.5
Share of recorded transactions under International Wheat Agreement in world exports	54.1	58.1	57.1	61.4	27.4	31.5	25.1	18.6
International Sugar Agreement								
Share of participating exporters in world exports	(58.4)	(64.6)	(62.4)	(61.3)	60.8	59.2	61.8	59.6
Share of world free market in world net exports	...	...	...	...	41.5	43.5	43.3	47.4
Share of participating countries in world net exports, free market only	...	...	...	...	76.0	70.8	83.9	70.6
International Tin Agreement								
Share of participating countries in world exports								
Tin concentrates	(96.7)	(97.7)	(96.6)	(97.0)	(96.7)	(96.9)	96.3	95.9
Tin metal	(65.6)	(66.9)	(57.5)	(54.9)	(60.0)	(61.7)	63.5	60.4

Source: International Wheat Council, *World Wheat Statistics* (London); Food and Agriculture Organization of the United Nations, *World Grain Trade Statistics* (Rome); International Sugar Council, *Statistical Bulletin* (London), *Sugar Year Book* (London), and F. O. Licht, *International Sugar Statistical Year and Address Book* (Ratzeburg); International Tin Study Group, *Statistical Bulletin* (Hague).

Note: Participating countries refer to those countries adhering to the relevant international agreement in the year stated. The years are: for wheat, twelve months ending 30 June of the year stated, except for recorded transactions, where the figures are for the twelve months ending 31 July of the year stated; for sugar, calendar years, except for share of participating exporters in world exports, where the figures are for twelve months ending 31 August of year stated; for tin, calendar years. World exports of wheat and tin exclude those of the Soviet Union, eastern Europe and China (mainland). Figures in parentheses are hypothetical calculations of the shares of participating countries before the Agreement went into effect.

producer (or consumer) or even to the participating countries as a whole. There is therefore no guarantee of the stability of the volume of exports of a particular country or of the participating countries as a whole.

The export quota provisions for sugar and, when applicable, for tin, specify not only the export tonnage of the participating countries as a group but also the shares of individual countries. When the quotas are in effect, there is usually a situation of surplus supply, and the incentive to push actual exports to the limit of the quota is therefore not hindered by shortages. The relatively moderate variations of the sugar quotas thus ensure correspondingly stable export volumes, except when the quota is entirely removed in a period of high prices. At the same time, price variations have also been moderate during most of the term of the Sugar Agreement; and the production policies of the exporting countries seem to be geared, by and large, to the export quotas, despite the fact that stock provisions may not always be enforced. The International Agreement, together with the United States quotas and the Commonwealth Agreement, seem on the whole to have contributed to the stability of export income.

In the case of tin, in actual practice the relative stability of prices has been achieved at the cost of drastic reductions of the export quotas and output of the participating countries. A series of reductions has cut national export quotas below one-half of the standard tonnage provided in the Agreement.

The range within which export volume may fluctuate is not rigidly determined by the International Wheat Agreement. Although guaranteed purchases under the Agreements are supposed to ensure a certain minimum of export proceeds, this minimum has not been put to a test in practice. In any case, in contrast with most other primary products, the proceeds of wheat exports rarely represent a preponderant part of the foreign exchange receipts of the exporting countries so that fluctuations in such proceeds are of relatively small importance to them. In fact, since the exporters have large stocks on hand, sizable year-to-year variations in export proceeds have been brought about simply by changes in national inventory policies.

THE PROBLEM OF STRUCTURAL ADJUSTMENT

More fundamental than the problem of consistency between price stability and income stability is the question as to how far the attempt to achieve stability may be at the expense of other desirable ends. In the worst case, price or income stability may be secured at the cost of structural maladjustment.

It is true that similar difficulties were raised in the past concerning programmes to ensure high and stable levels of employment in the economy as a whole, whereas post-war experience suggests that there is adequate scope for structural change within a generally stable environment—even more scope than under conditions of excessive instability. But there is a crucial

difference between stabilization programmes for the economy as a whole and programmes for stabilizing the markets for particular commodities. High employment levels may be secured through global fiscal and monetary policies which do not involve the stabilization of any single branch of economic activity taken by itself; whereas the stabilization of a particular commodity market means taking a view of prospects in that market, both short-term and long-term.

The problem of the relationship between commodity stabilization and structural adjustment comes clearly to the fore where commodities are in actual or potential surplus. This is a problem common to both wheat and sugar, and to a lesser extent, tin, and the question arises as to whether the international agreements tend to promote or hinder its solution. In the case of sugar, export quotas and, indirectly, production are tailored to market requirements. The surplus problem tends therefore to be under control, although under-utilization of productive capacity may continue if resources are not readily transferable to alternative uses. In the case of tin, the absorption of surpluses by buffer stock operations permits stocks and production to be maintained at a high level until export controls are instituted and production is adjusted to sales. Only under the Wheat Agreements has the surplus situation actually grown more serious; stocks in the hands of major exporters now amount to about a year's entire output or use, and twice the annual export requirement. This situation did not result from complete disregard of the surplus problem; in fact, as shown in chart 12, initially there was provision for a series of downward price adjustments. Yet these downward adjustments were reversed in the second Agreement, and prices under the third Agreement, though slightly reduced, stood appreciably above those of the first Agreement. More importantly, domestic prices have been pegged at an extremely attractive level. Despite efforts to reduce domestic price support levels and special measures to dispose of accumulated stocks, the surplus problem is likely to persist unless bolder measures are employed to equate production and consumption.

While the measure of success achieved thus far in dealing with the surplus problem through restrictive measures in sugar and tin offers a significant contrast with the failure in wheat, it needs to be noted that restrictive measures also give rise to long-term problems in so far as they tend to freeze the pattern of production among the participants and to encourage expansion of production by non-participants. Certain aspects of this point have already been considered in connexion with national policies of restriction in chapter 2. Here it may be noted that international agreements involving quotas have a bias towards freezing production patterns on the basis of past experience or of relative bargaining strength rather than of considerations of cost or efficiency. Rationalization schemes for the orderly elimination of high-cost producers are lacking. Indeed, as pointed out earlier, there is a strong tendency to protect high-cost producers who might find it difficult to retain the same share of the market under more competitive conditions. True, the pattern of production is subject to revisions and a number of participating countries have actually succeeded in enhancing their share in the total market. Nevertheless, these concessions are made by the other participants mainly to prevent a deadlock in negotiations for an agreement rather than to achieve a more rational distribution from the point of view of resource allocation. This situation contrasts with that prevailing in buffer stock or multilateral contract arrangements, which do not tend to freeze the pattern of production but are, at the same time, ineffective in bringing about a more rational allocation of resources.

The encouragement to producers who stay outside an agreement may be especially damaging to the participating countries, as is amply illustrated by pre-war experience in rubber and coffee. So far, however, there is no evidence that the share in production and exports of the participating countries has been significantly affected by the post-war international agreements. Nevertheless, the very desire of the participants to include as many producers and exporters as possible within the scope of an agreement tends to encourage some countries, especially relatively small ones, to remain aloof in order to exact an advantageous bargain. These countries sometimes succeed in obtaining a relatively high, and perhaps even a progressively increasing, share of the market.

In the buffer stock type of agreement, the incentive to non-participating countries to join is especially weak since it is difficult to prevent these countries from enjoying the protection provided by the buffer stocks. One way of dealing with this situation is to discriminate against non-participants. It has already been noted above that this was done in the case of tin. In the case of sugar, preferential treatment is given to participating countries, and a similar provision may also be found in the 1959 Wheat Agreement. Such discriminatory provisions, however, raise problems of compatibility with broad multilateral principles, especially the most-favoured-nation clause.

In some respects, the shortcomings of commodity agreements are those of omission rather than of commission. Thus, in the operation of the Wheat Agreements, the danger is to be found not so much in any tendency to freeze the existing pattern of production as in the ability of some major exporter to increase its production, both absolutely and relatively, of a commodity in surplus supply. In the case of sugar, aside from the tendency to freeze the pattern of production among the exporters, it is perhaps the conspicuous inability to do anything about subsidized high-cost sugar production in importing countries that seems open to the most serious objections from an inter-

national point of view, because of the outstanding example of uneconomic resource allocation that it provides. It may be noted that in these directions the pre-war agreements attempted much more, by requiring, for example, the reduction of tariffs when prices reached a certain level. The problem of uneconomic resource allocation is less important in the case of tin, owing to the close link between production and natural resources.

It will be evident from the foregoing considerations that when a limited objective is adopted in an international agreement, significant success may be obtained. The goal of price stability may be assured if unlimited support at that price is forthcoming and income stability can also be secured through unlimited purchases or sales by devices such as a buffer stock financed by the importers. The achievement of a single objective does not, however, always imply the solution of the major problem at hand, and even if it does, it frequently creates new problems.

A reconsideration of international commodity schemes

Post-war international commodity arrangements have been based on the whole on the commodity-by-commodity approach. This is the result partly of deliberate choice and partly of lack of general agreement on alternative approaches. Each primary commodity has its own peculiar characteristics and problems, and the right way of dealing with one commodity may thus not be the same as that for dealing with another. Buffer stock arrangements are evidently inappropriate for perishable commodities. Restrictions on commodity production are not likely to be effective when close substitutes are outside the control.

Perhaps more important than the intrinsic differences in the properties of the commodities themselves is the tendency of those concerned with commodity policy to concentrate on the problems of direct and immediate interest to them. It is no accident that most international commodity arrangements have been initiated by the principal producers of a single commodity, especially in periods of declining demand when the incentive among producers to compete has, at least temporarily, been overshadowed by the desire to defend a common interest. The bond of common interest is naturally much weaker among producers of a group of commodities; and the practical possibility of arriving at effective common programmes is dimmed by the much larger number of producers involved. The commodity-by-commodity approach is also in line with the general attitude of caution in this field, especially among industrial countries; it is maintained that experience should first be gained of agreements of limited scope and any defects corrected as necessary, while bolder schemes may be thought to have harmful implications yet unrevealed.

Despite some progress since pre-war years, however, the post-war record of the commodity-by-commodity approach has not generated unmixed optimism. Measured against the problem at hand the achievements under this approach have been significant but limited, and the pace of progress does not appear to be accelerating. The question has therefore arisen whether more comprehensive approaches would afford a more adequate solution of the commodity problem.

In principle, the advantages of comprehensive approaches lie chiefly in their relative simplicity and universality. In terms of the sheer mechanics of negotiation and implementation, literally hundreds of negotiating sessions and scores of governing boards and councils may be required if each commodity is considered separately, whereas this unwieldy number may be greatly reduced to more manageable proportions if some unifying principle can be applied to a large number of commodities. Furthermore, the pressure of self-interest, which is likely to be great when a single commodity is the sole frame of reference, may be reduced when a number of commodities are considered together and the issues are presented on a more general plane. Moreover, owing to the interdependence of various commodities and, indeed, of the various sectors of the economy as a whole, a partial solution of a single commodity problem can rarely be achieved without a simultaneous attack on other commodities and economic variables.

In the discussion which follows, two major types of comprehensive approach are distinguished, involving first over-all measures which do not deal with particular commodities as such, and secondly measures dealing directly with groups of commodities. The latter measures will in turn be discussed, in so far as applicable, as an extension or modification of the individual commodity arrangements already examined, so that principles developed and problems encountered under these arrangements may be linked with the more comprehensive approaches.

OVER-ALL ECONOMIC MEASURES

It has been widely recognized that the commodity problem does not exist in isolation from other problems of the economy. The difficulties experienced by most primary producers are rooted in their low level of development and are only magnified by their dependence on exports of a few primary commodities. The economic development of primary producing countries is therefore fundamental to the solution of the commodity problem, and the changing structure of production which almost inevitably accompanies the process of

development is likely to reduce the vulnerability of the economy to shocks generated in the commodity sector. The experience along these lines of such countries as Australia, Canada and New Zealand, despite the continued predominance of primary products in their exports, is of particular interest in this connexion.

To the extent that the fortunes of primary products are closely linked with the markets of the industrial countries, much also depends on the ability of the industrial countries to achieve a sustained rate of economic growth. Moreover there is substantial scope for an enlargement of the market for primary products in industrial countries through reduction of trade restrictions on a selective basis, as has been shown in chapter 2; and there are important cases in which the liberalization of imports of manufactures would operate to the advantage of exports from under-developed countries, especially in providing them with more rapidly expanding markets in the future.

Even under the best conditions from a long-term point of view, however, there remains the problem of cyclical fluctuations. The success achieved in avoiding severe depression during the post-war years has not spared commodity markets from exaggerated fluctuations. It appears that even a relatively minor degree of instability in the industrial countries—such as no measures of stabilization are likely to eliminate completely—may set off greatly magnified oscillations in primary commodities, if only because fluctuations in inventories may be much greater than in total demand.

Granted that the commodity problem may persist even under conditions of general stability, the impact of the problem may be mitigated or compensated for by over-all national and international measures. Thus a temporary fall in the export proceeds of a primary producer may be compensated for by drawing on resources from a national reserve fund or from international credit institutions. It seems likely that the preoccupation of primary producing countries with the instability of export proceeds stems largely from the low level of their foreign exchange reserves. If the liquid reserves of these countries were really adequate, they would presumably not need to be as concerned as they in fact are with the consequences of temporary declines in their export proceeds. Granted the present level of reserves, the difficulties resulting from commodity instability could still be greatly reduced if reserves were accumulated during periods of high earnings and made available in periods of low earnings. As noted in chapter 2, however, the pressures on under-developed countries have been too great to permit most of them to set aside such reserves to any appreciable extent. All the more importance attaches, therefore, to an increase in the potential lending power of an international institution such as the International Monetary Fund, which performs the function of tiding countries over periods of temporary shortage of foreign exchange.

There is, however, no specific obligation upon existing international financial institutions to come to the aid of countries experiencing declines in the proceeds of their commodity exports. It is for this reason that proposals have been made to fill this gap, for example through the extension of loans against the collateral of primary products under certain conditions. Such a proposal lies midway between the over-all economic measures discussed here and the commodity schemes to be studied in the following paragraphs. If a successful arrangement of this sort can be made, one preponderant advantage is that it would avoid many of the difficulties of the commodity schemes, such as their tendency towards ridigity or misallocation of resources. It is, of course, possible that the proposal might encourage countries to establish their own buffer stocks. But the pressure for high prices by producers, often experienced in international buffer stocks, would be absent, and some co-ordination of national policies might be achieved through the lending institution.

It is of some importance to note, in connexion with the latter proposal, that there have already been several occasions in recent years on which particular industrial countries have made substantial short-term or medium-term loans to individual under-developed countries following upon declines in the prices of their principal commodity exports. It would appear that accommodation of this type does mitigate the difficulties of the recipient countries, at least for a time, and that the industrial countries are prepared to consider requests along these lines. This approach therefore has the initial advantage of having been tested in practice, at any rate on a bilateral basis. And although there was no question in these instances of the loans having been granted against commodity collateral, the experience gained suggests that there may be scope for further development on a more systematic basis in this field. Moreover the notion of commodity collateral need not be regarded as an indispensable element; other criteria which would be just as effective could, if necessary, be devised.

Another plan would require a compensatory payment by the industrial countries to the primary producing countries if the terms of trade, or—according to other variants—export prices or proceeds of primary products were to fall by more than a certain percentage. A significant implication is that the impact of the commodity problem on primary producers would be shouldered in part by the industrial countries.

COMPREHENSIVE COMMODITY SCHEMES

Attempts to give special emphasis to the commodity problem in over-all economic schemes shade into comprehensive schemes which are clearly commodity-oriented. The comprehensive commodity schemes may thus be viewed as more specific forms of the over-all economic measures just discussed, or as an extension of various commodity-by-commodity arrangements.

International co-ordination of national stabilization schemes

A chief defect of national policies to deal with commodity instability is that these policies have rarely been co-ordinated at an international level, even where commodities are covered by international agreements. Thus the Wheat Agreements specifically allow each country "complete liberty of action in the determination and administration of its agricultural and price policies". Even when provisions are made for national policies, they are usually couched in the most general terms. Still less co-ordination of national policies is to be found where no international agreements exist.

If truly international agreements are difficult to achieve, the co-ordination of national stabilization schemes may offer important advantages. One of the methods for international co-ordination of this type lies in the greater use of the various international organs referred to above for the confrontation of national policies and detailed examination of their interaction and mutual consistency. It has also been suggested that national buffer stock schemes are well suited for extensive co-ordination. A chief advantage here is that such co-ordination may be carried out without elaborate machinery and on an informal basis. On the other hand, the scope of application may be limited because existing stocks which may be regarded as operating according to buffer stock principles are relatively few in number, and tend to be concentrated in a few hands, such as wheat in the United States and coffee in Brazil. If numerous new national buffer stocks have to be created and co-ordinated, it is open to question whether an international buffer stock might not just as well be established. It is, however, possible that notwithstanding the greater simplicity and economy of the latter method, Governments are psychologically less prepared for it than they might be for national buffer stocks.

Multilateralization of commodity agreements

Another way of co-ordinating national policies, and more particularly international policies, is to consider a large number of commodities simultaneously. When a single commodity is at issue the interest of particular countries is usually well defined. Thus, the interest of a producer is usually different from that of a consumer, and the low-cost producer frequently finds himself in opposition to the high-cost producer. However, when discussions cover a whole series of commodities at the same time, as in negotiations for tariff reductions under the auspices of the General Agreement on Tariffs and Trade (GATT), countries are likely to consider their interest as producers dominant in some instances and as consumers in others, so that there may be a greater possibility of reaching compromises in the interests of all. At the same time the effectiveness of individual commodity agreements is likely to be greater if they are properly co-ordinated and rendered fully consistent with one another.

On the other hand, there are great mechanical difficulties in setting up such complex negotiations among a large number of countries. There is also some doubt as to how far the interests of primary producing countries in the one or two commodities which dominate their exports would really be modified by considerations relating to other commodities which may play a negligible role in their economies; and the converse would apply to those industrial countries, mainly in Europe, which are bound to view commodity problems mainly as consumers since their own primary production is so small. Furthermore, unlike the case of tariff negotiations where bilateral concessions can be identified and evaluated, the link between concessions made and benefits obtained in multi-commodity stabilization schemes would be exceedingly difficult to establish. In fact the concessions made by one country to another in a multilateral commodity negotiation, whether under a buffer stock scheme, a multilateral contract scheme, an export quota scheme, or any combination of such schemes, are likely to be complex and not readily recognizable as equivalent to each side at the bargaining table.

International buffer stock scheme

A logical extension of the proposal for co-ordinated national buffer stocks or for the multilateralization of commodity arrangements is the scheme for the creation of an International Buffer Stock Agency; variants of this scheme, with some modifications, are known as the International Commodity Clearing House, the International Commodity Corporation, or the International "Ever-normal Granary". The basic principle, except for the number of commodities covered, is the same as for a national or international buffer stock, and an example—the operations of an international tin buffer stock—has already been examined.

The proposal calls for the accumulation of stocks when the market is weak and their release when the market is strong. Within this general principle, various operating principles may be devised. The buffer stock manager may be granted more or less discretion and the rules under which he operates may be more or less rigid. He may make frequent or occasional interventions in the market, operate within a certain fixed price range, or make unlimited purchases and sales at announced minimum and maximum prices, respectively. The latter method has the great advantage of predictability and tends to promote confidence; and speculators are therefore less likely to conduct their operations in a destabilizing manner.

The main problem, as in the other schemes for commodity stabilization, is that of maintaining contact with market realities by providing adequate means of adjust-

ing the average stabilized level of prices as required; failure to do so would cause the ultimate breakdown of the scheme. It is not likely that an automatic method of adjustment can meet all contingencies. While Governments may be reluctant to grant discretionary authority to the buffer stock manager, there is danger in over-reliance on automaticity; for it is difficult to build into any generally acceptable automatic formula all the refinements and variations which are encountered in practice. However, various degrees and combinations of automaticity and discretion are feasible. For instance, as in tin, the buffer stock manager may be given discretion to purchase or sell maximum amounts of commodities within certain price ranges and at the same time obliged to take action once a certain upper or lower critical figure is reached. If necessary, a higher discretionary authority may also be created to determine matters of critical importance, and the actions of this authority may in turn be guided by automatic rules regarding, say, the extent to which price goals in any year may be allowed to deviate from those of the previous year or from a moving average.

Composite index stabilization scheme

An international buffer stock agency may seek to stabilize the weighted average price of a group of commodities, rather than individual prices, by means of purchases or sales of the commodities in certain fixed proportions. Here no attempt is made to stabilize the price of any particular commodity; it is claimed that the stabilization of the composite price index allows the full play of market forces to affect individual commodities. There is consequently no danger of miscalculation of the trend of any given commodity such as may occur when the attempt is made to stabilize single commodities. Furthermore, owing to the close interrelationship of the various commodities, the stabilization of a group of commodities is likely to have an indirect stabilizing effect on all commodities, including those not in the group.

A decisive drawback of the composite commodity proposal is that the benefit of, say, a price support operation may be largely concentrated in a particular group of commodities and countries. For example, a fall in world industrial activity will depress the prices of those raw materials which are sensitive to industrial demand, but prices of foodstuffs may be relatively little affected. Price support operations based on the purchase of fixed quantities of the commodities included in the composite index—determined in accordance with such criteria as their relative importance in world production or exports—will, under these conditions, tend to raise food prices, while relief may be less than adequate for the commodities most directly affected.[10]

Since under-developed countries typically specialize in only one or two principal export products, they are likely to regard any such scheme as rather academic and remote from the realities of the problem. For it would be of singularly little comfort to any one of them, confronted by a severe decline in world prices and therefore export earnings, to know that by dint of support operations, the prices of other commodities were rising sufficiently to compensate for that decline and thus maintain the average price level of all commodities included in the scheme. For the country experiencing the decline, such a solution is no solution at all.

Commodity reserve currency scheme

An important limitation on the feasibility of an international buffer stock agency arises from the problem of finance. If such a scheme is to be able to withstand sharp and persistent movements either in an upward or in a downward direction, it is essential that financial resources amount to a sizable proportion of world primary production or trade. To gain an idea of the order of magnitude involved, it may be noted that the value of world exports of thirty major primary products amounts to about $30 billion in a single year. It is open to serious question whether under-developed countries can afford to lock up large quantities of resources for the purpose of international stabilization.

One proposal for solving the problem of financing international commodity stocks is to provide an automatic link between such stocks and the currency. The proposal for loans on the collateral of commodities already mentioned may be one way of partially monetizing commodities. A logical extension of this proposal would be to require an international institution to grant drawing rights to an international buffer stock agency or for the purposes of the composite index stabilization scheme. A more ambitious proposal, namely the commodity reserve currency scheme, would further strengthen the financial backing by putting currencies on a composite commodity standard similar to the gold standard. The principle of operation would be similar to that of the composite index stabilization scheme since the object would be, as before, to stabilize the price of the composite commodity included in the reserve rather than of single commodities; and the problems of that scheme, as discussed above, would apply with at least equal force.

As under a true gold standard, unlimited currency would be issued against units of the composite commodity presented to the monetary authorities, and

[10] It is theoretically possible to remedy the uneven impact on commodities by arranging the weights of the composite group in accordance with the degree of sensitivity to industrial demand or other criteria; for example, the commodities most affected by a given change, such as a decline in industrial activity in the importing countries, might receive the most support. The difficulty of estimating such sensitivity and the uncertainty as to how constant it might be are serious limitations on the practical possibilities of this approach—quite apart from the fact that such an approach provides against only one particular contingency such as a decline in industrial activity.

currency would likewise be redeemed in similar composite units on demand. The stabilization is therefore automatic and it is claimed that just as it is impossible for the price of gold to fluctuate under a gold standard, short of a deliberate change in units, so is it impossible for the price of a composite commodity to deviate from the set level. Moreover, just as gold production tends to be stimulated in a deflation, any deflationary tendency would be met by an increase in production of all the commodities covered in the composite index.

However, a huge social cost is involved in accumulating commodities on a large scale merely to serve as currency backing. This cost is necessarily much greater than similar costs under the gold standard, since the storage and spoilage costs of commodities are substantially higher than those of gold. The production of commodities not for their ultimate use but for safe storage in vaults or burial underground to support a man-made financial instrument hardly accords with a rational utilization of resources. Certainly the stimulating effect on the economy can be obtained at less cost to society by such devices as outright grants to primary producers or conventional fiscal and monetary policies.

Like the gold standard, the commodity reserve currency scheme is inherently asymmetrical in that it provides an unlimited market for commodities but does not necessarily guarantee that commodities will always be available at the set prices. For under inflationary conditions there may be a run on commodities just as there may be a run on gold under the gold standard. It follows that in the final analysis the success of the scheme depends on the nature of the fiscal and monetary policies pursued in the various countries. It should not be thought, furthermore, that inflationary conditions will automatically be stopped if all the countries strictly limit their currency issue to the amount of commodities in reserve, because the cost of commodities in terms of wage units may still rise unless wages are controlled or wage increases are offset by higher productivity or reductions in other costs.

From the point of view of a participating country, fears of a possible deflationary impact on the economy are perhaps more weighty than the possible breakdown of the scheme under inflation. While the scheme tends to stimulate commodity production in a period of deflation, the strict subordination of national policies to international currency requirements may imply, as in the case of the gold standard, large-scale domestic unemployment which most countries can no longer tolerate under modern conditions. In any event, most countries are not prepared to forgo their freedom of action in the domestic economic sphere to the extent which would be required if a commodity reserve standard were established.

Multi-commodity insurance scheme

Since the possibility of declines in export prices may be viewed as a type of risk, the question arises whether the principle of insurance might not usefully be applied in this field. While an element of insurance or protection against extreme market fluctuations may be implicit in a multilateral contract, a more explicit insurance scheme could be devised. Each participant might, for example, pay a premium into a central fund in return for indemnity payments in the event of declines in absolute or relative export prices below a certain level. The level of prices relevant for insurance purposes could be adjusted periodically in accordance with the experience of preceding years. Furthermore, as in many insurance schemes, indemnities might be limited to a certain fraction of the actual loss over a maximum period. The scheme could, if desired, also be made to insure against the loss of export proceeds due to reasons other than a decline in absolute or relative export prices.

Naturally actuarial calculations are not strictly applicable in the field of commodity price fluctuations. But the extension of the insurance principle to such risks as those of unemployment, war or government expropriation, which are also beyond the competence of the actuary, offers encouragement that it might be similarly applicable to commodity risks. In so far as a commodity insurance scheme did no more than pool the resources of participants over time, its interest might be limited, especially since some commodity producers would appear to be subsidizing others on account of differences in the pattern and periodicity of fluctuations. The latter consideration might make it particularly difficult to secure agreement on a scale of premiums. On the other hand, it should be emphasized that one important advantage of a multi-commodity insurance scheme is that most objections against other types of international commodity measures are not applicable. For the scheme does not attempt to tamper with the market mechanism, to regulate supplies or prices, or to impose fixed patterns of production, but merely aims at providing relief against disaster.

Surplus disposal scheme

It remains to consider measures for dealing, at an international level, with one of the major unsolved commodity problems of the day—namely, the existence of burdensome surpluses in a number of commodities. As has been shown, most of the stabilization schemes are ill-suited for dealing with the surplus problem because persistent surpluses involve something more than the alternation of excessive ups and downs. International buffer stocks are impossible to operate without first tackling abnormally high national inventories. Multilateral contract schemes do not in themselves deal with the problem of surpluses. Nevertheless, large surpluses constitute a continuous threat to an orderly

and stable market since there is always the fear that they may be dumped onto the market. This uncertainty is particularly significant when the surplus commodity is in the hands of a number of producers, especially if they are financially weak.

The fact that large surpluses frequently originate from national policies and that a change of these policies is necessary to remedy the situation has already been indicated. International forums for promoting the orderly disposal of surpluses by national Governments, avoiding the disruption of normal patterns of trade, have also been mentioned. It may be worth considering, however, whether measures involving a greater degree of international co-ordination of surplus disposal than has been achieved thus far might serve national and international purposes more efficiently. Such measures might provide the basis not only for emergency relief and for international aid to countries in balance of payments difficulties, but also for the creation of national reserves in consuming countries and the stimulation of consumption in low income areas. The case for proposals along these lines is that measures adopted by agreement among Governments are likely to secure the greatest benefits from surplus disposal while minimizing their adverse effects; and that international co-operation will help to ensure that in so far as such devices as barter deals are employed, broader international goals are not impaired.

Conclusion

International policy, in a context of sovereign nations and conflicting national interests, is in essence a policy arrived at among nations rather than above nations. There is therefore a strong tendency to gravitate to the compromise solution which offers the largest common denominator. In the process of incessant search for common ground, what is seriously objectionable tends to be weeded out, but the final product often suffers from dilution and lack of vigour. The post-war international commodity arrangements are not immune from this process of international policy formation. Their strengths and weaknesses are traceable to the compromises which made them possible. It seems fair to say that notwithstanding the accomplishments, many problems persist and much remains to be done.

It is not surprising that the chief accomplishment of the post-war international commodity arrangements is to be found in an area of little controversy. There is scarcely any doubt that the numerous post-war international institutions have provided a useful forum for airing views on commodity problems. National policies are thereby subject to the inquiring eye and restraining influence of international public opinion. The consultations and discussions have led a step further to the formation of numerous study groups and conferences dealing more specifically with the long-run and short-run problems of individual commodities. A common feature of the work of these groups and conferences has been improvement in the collection and analysis of data, promotion of research and close observation of the commodity situation. In some cases, the confrontation of national policies with international requirements has materially reduced the tensions or conflicts between them.

In more formal approaches to international commodity arrangements the degree of success is more limited. International commodity agreements have been relatively few in number as compared with pre-war, and the stabilizing influence of these agreements has been of limited effectiveness. The chief accomplishment here is the emergence of a set of new principles. One of the most important of the principles is universality, a corollary of which is the recognition of the interest of consuming countries. At the same time it has become widely recognized that international agreements are likely to be self-defeating if they interfere unduly with dynamic processes of change in the pattern of production, or if they move too far out of line with market forces.

It is true that the export quota and buffer stock arrangements are not new in international commodity agreements. What is noteworthy is that they have not been more prevalent and that they have not been more restrictionist. A partial explanation apparently lies in the insistence on consumer representation. But a general awareness by the exporters themselves of the dangers of maintaining artificially high prices by means of restrictions on the exports and production of participants seems to play an important role. This is demonstrably the case with sugar as the price range laid down in the Agreement is considerably below the level at which sugar is traded in the rest of the world market. Even in the case of tin, where restriction would be most likely to enjoy a short-term success owing to the concentration of production in a few hands, past experience of substitution through technological advance, the uncertainty of intentions of non-participating producers, the existence of large stockpiles in a major importing country, and the practical limit of buffer stock resources have all combined to exercise a restraining influence.

The total absence of restrictionism in the multilateral contracts introduced under the International Wheat Agreements represents a major innovation. However, the rigid determination of guaranteed quantities and prices over a long period, the practical difficulty of enforcing guaranteed purchases by importers,

particularly the less developed countries, and above all, perhaps, the indifference of consuming countries at a time when massive surpluses overhang the market, have greatly weakened the applicability of the multilateral contract provisions and have led to a considerable modification of these provisions in the 1959 Agreement.

Within limits, post-war international commodity arrangements have provided stabilizing mechanisms while carefully avoiding the serious difficulties experienced before the war. The larger degree of stability achieved cannot, of course, be attributed entirely to the operation of the Agreements. Much of the stability of the price of wheat is attributable to national policies of a few major exporters. The effectiveness of measures to prevent wide fluctuations varies depending on whether the movement is upward or downward. In a quota type of agreement there are limits on the extent to which increases in prices can be prevented by relaxing quota restrictions and the operation of buffer stocks may be limited by an initial lack of stocks or by the exhaustion of funds.

The chief weaknesses of post-war international commodity agreements have been those of omission rather than of commission. Thus, the wheat surplus problem has been intensified in the course of the three successive International Wheat Agreements, mainly because national policies involving subsidies to production have been entirely left alone. The encouragement of high-cost sugar production under protection has not abated despite the recognition of the subsidy problem in the Sugar Agreements. In both sugar and tin there is little attempt to remedy the maldistribution of resources arising from quota restrictions.

More recently the serious excess capacity in coffee, and very heavy accumulated stocks, made some kind of international arrangement imperative if disastrous declines in prices were to be avoided. The Latin American Coffee Agreement represents a first response to the situation. While the Agreement has thus far exercised a limited steadying influence in the coffee market, neither the consumers nor the growing African exporters have been persuaded to join it. A broadening of the Agreement is, however, required if there is not to be a retreat from post-war principles for commodity agreements and, indeed, if it is to be workable in the longer run.

On the whole the progress that has been achieved since the war in dealing with the commodity problem is noteworthy, but it cannot be considered as in any way commensurate with the magnitude of the problem. No comprehensive solution of the problem is even being attempted, and partial solutions on a commodity-by-commodity basis cover only a very small fraction of the whole field. Nor does the present rate of progress offer hope that the coverage will become appreciably greater within the foreseeable future. Indeed, as noted above, the recent past gives evidence of some loss of ground in developing commodity agreements.

If Governments are not content with the scope of current activities in dealing with the commodity problem, a bolder and, perhaps, more comprehensive approach may be indicated. It is true that over-all economic measures examined above for attacking the commodity problem at the root by promoting growth and stability and by progressive liberalization of trade, have gained international support, and some measure of relief from the impact of the commodity problem on under-developed countries can be derived from general economic aid and from over-all increases in international liquidity. Here too the pace of progress is not rapid and the bearing on the commodity problem is only partial. It is the intermediate approach between the microcosm of single commodities and the macrocosm of the general economy that appears to be largely neglected, as a complement to existing approaches.

Several of the comprehensive commodity schemes considered do not seem to offer great possibilities beyond the existing approaches and some suffer from being over-ambitious. Nevertheless there is clearly an abundance of fruitfulide as in this field as well as a growing body of experience. A variety of comprehensive schemes have been examined that could, if required, provide the basis of a realistic and workable programme of action. If sufficient interest were expressed in that direction, numerous technical, financial and administrative details would, of course, have to be carefully worked out, both objectively and at the bargaining table. However, the foregoing examination of existing international commodity arrangements as well as of various proposals suggests that none of these details should offer any insurmountable difficulties once the basic decision to proceed has been made by Governments.

Chapter 4

PROBLEMS OF PRIMARY COMMODITIES IN THE CENTRALLY PLANNED ECONOMIES

The problems of primary commodities faced by the centrally planned economies differed from those encountered by the private enterprise economies, owing to dissimilarities in institutional framework, pattern of development and policies.

It was shown in chapter 1 that the internal stability and rate of growth of the primary producing countries were affected by the dependence of these countries on output of or trade in but a few commodities, by the slow rate of increase in demand for primary commodities and by the fluctuations in their foreign demand. The solution to these problems was generally sought in the acceleration of the rate of industrialization, in the diversification of output and trade and in measures to eliminate sharp fluctuations of export proceeds and the effect of price fluctuation on the national income of exporting countries. The attenuation of cyclical fluctuations in industrial countries was an essential factor in any long-term solution of commodity problems.

In the centrally planned economies such measures were inherent in the institutional framework and in the pattern of economic development. The rapid rate of economic expansion associated with large-scale shifts of resources towards manufacturing resulted in a sustained rise in demand for primary commodities. The process of expansion was characterized by considerable diversification of output, thus reducing the dependence of national economies upon a limited number of products. Such diversification occurred not only in over-all production but also within specific sectors, such as agriculture and mining. A characteristic feature of this development was that the rate of expansion and the structural changes were more substantial in the less developed than in the more developed economies. It is worth mentioning that the pattern of growth was not always fully justified by economic reasons. The simultaneous growth of identical industries in several countries, which reflected a lack of co-ordination in planning and a disregard of the problems of long-term comparative costs, has been amply criticized in the literature of the planned economies. But whether justified or not, it was certainly an important factor in raising the demand for primary goods in the area as a whole.

Problem of scarcities

This rapid growth was associated with nationalization of a large proportion of domestic resources, with centralized direction of resources into productive investment—during certain periods at the cost of a deterioration in the standard of living—and with the elimination of cyclical fluctuations originating within the domestic economy. In addition, the formation of a large "common market" by a group of countries disposing of a considerable variety of essential commodities, free of cyclical fluctuations, and undergoing rapid industrialization, created a continuously expanding market for primary commodities. On the other hand, the effect of cyclical fluctuations originating in the rest of the world was largely eliminated by the monopoly of foreign trade and the severance of any direct link between foreign and domestic prices. The margin between domestic and foreign prices, whether positive or negative, was absorbed by the State foreign trade agencies and transferred to the budget without any effect on prices paid by the purchasing enterprises or received by the producing enterprises. Although, as will be shown later, this dissociation of domestic and foreign prices had some negative effects on the efficient use of resources, it was doubtless an important stabilizing factor.

As a result of these developments, there was at no time since the beginning of the long-term plans of economic development an excess of supply over demand of primary commodities within the area. In contrast to the situation in the private enterprise economies, the commodity problem in the centrally planned economies was one of persistent shortages rather than of undisposed surpluses. The fact that the area as a whole was a net exporter of certain commodities indicates, in most cases, only that consumption was restrained in order to procure foreign exchange for necessary imports.

The scarcity of primary commodities was not of the same magnitude in all countries of the area and for all commodities. The output of agriculture was everywhere below the level required for the full satisfaction of increasing needs. This was also true of output in the extractive industries in most of the centrally planned

economies, but in the Soviet Union and mainland China, endowed with a great variety of natural resources, output was more in line with the rising demand of manufacturing industries. Nevertheless, even in the Soviet Union, the balance between supply and demand was continuously strained, and at times deficiencies in supply of raw materials prevented the fulfilment of plans in certain sectors or restrained the planned rate of growth of the economy. It should be added that in the Soviet Union as well as in the other countries the domestic supply of certain commodities was affected not only by the need to export so as to secure foreign currency for imports, but also by the increasing claims of the other centrally planned economies, whose expansion was considered beneficial for the economic strength of the area as a whole.

This lag in supply in countries which, before the planning era, suffered from excessive surpluses might be traced to several interrelated causes. Apart from miscalculations in planning, the most important was the fact that the same factors which accounted for the increases in requirements for primary commodities were simultaneously responsible for the much slower expansion in supply. The emphasis placed on the expansion of manufacturing industries, especially heavy industries, in the plans of economic development imposed severe restrictions on investment in agriculture. It seems that this attitude also influenced the amounts originally planned for investment in extractive industries, at least in some countries. The upward revision of plans for manufacturing associated with the hostilities in Korea increased the discrepancy between the rising demand and the supply of extractive industries. Despite the fact that at the same time investment in extractive industries was also substantially increased at the expense of consumer goods industries, the increase in production proved to be insufficient, probably because the maturation period was longer and the output-investment ratio smaller than had been anticipated.[1]

The expansion of heavy industry without a corresponding enlargement of raw material output was presumably based on the belief that, if necessary, raw materials and fuels could be withdrawn from less essential sectors. On the other hand, since the national plans were not co-ordinated, the expectation of additional imports from exporting countries within the area frequently could not be realized, owing to inadequate export availabilities. In any event, the prevailing tendency was to push the expansion of manufacturing up to the limit at which the resulting bottlenecks would slow down the pace of industrialization.

Two other factors may explain why, despite planning, the supply of fuel and raw materials was inadequate to meet the needs of the expanding manufacturing sector. The first reflects the fact that several components of the economic plan were not under the absolute control of the authorities; thus actual agricultural yields, changes in output per man and input-output coefficients may vary considerably from the planned quotas. In practice, targets for agricultural supplies had been based, in the past, on too optimistic expectations, and the input-output coefficients used for the calculation of material balances had been derived from the experience of the most efficient plants. The failure to achieve these results would obviously be reflected in imbalance between supply and demand for primary goods.[2] The other factor, entirely independent of planning methods, is probably characteristic of any economy in process of rapid growth and in conditions of full utilization of resources. On technical and economic grounds an industry may expand beyond the limits set by the existing supply of raw materials in anticipation of future growth of supply. The economy of scale and the indivisibility of investment projects make it worth while to expand capacity at a rate over and above that commensurate with the expected increase in supply. This was especially important in several centrally planned economies during their first plans of economic development, when the construction of new projects, begun simultaneously in various sectors, was bound to result in disproportions, since the time required to build manufacturing plants was considerably shorter than that required to construct new mines. The effect of this factor was considerably reinforced during that period by the fact that in some countries investment in extractive industries proved to be more costly than planned and the construction period longer than anticipated.

The scarcity of supply of agricultural commodities was due not only to the investment policy during this period but also to the officially recognized failure to provide sufficient incentive for the peasants to produce and sell more. However, the recent experience of the Soviet Union and of mainland China seems to indicate that agricultural output could have been substantially raised in the past despite the need to devote a rising

[1] The scarcities of raw materials, especially coal, as well as shortages of power, which led to serious disturbances in key industries, were repeatedly mentioned by government officials in the centrally planned economies. The Bulgarian Premier, Mr. Chankov, stated in a speech at the Sixth Congress of the Bulgarian Communist Party, in March 1954, that the "needs of the country for coal were not correctly taken into account in the draft of the first five-year plan . . . The capital investments earmarked and allotted for the development of coal production for the first five-year plan were insufficient to ensure us the coal necessary for the national economy." The Czechoslovak Premier, Mr. Siroky, stated at the June 1954 Congress of the Communist Party of Czechoslovakia that the "present output of coal is below the needs of the national economy and the coal situation is very serious." Similar statements were made in most of the other centrally planned economies and the situation did not improve during the following years. Even in Poland, the main exporter of coal, the rise in output was stated to be insufficient to meet both domestic needs and export commitments, which had to be substantially curtailed.

[2] In several countries the extractive industries experienced considerable difficulties in securing a stable labour force and were plagued by shortages of labour, absenteeism and a high rate of turnover, with detrimental effects on output and productivity. In Poland, for instance, output per worker in coal mines was 37 per cent lower in 1956 than in 1937.

proportion of resources to industry. In the Soviet Union, the substantial increases in agricultural output during the past few years were achieved largely through an extension of the sown area, with relatively small shifts in investment from industry to agriculture, and in mainland China, the sharp increases in yields were largely due to the extension of irrigation works, at little cost to the Government, by a fuller utilization of agricultural manpower. These achievements seem to indicate that the deficiencies in agricultural production and in the supply of agricultural commodities were due, not only to limitations imposed on investment in agriculture and to price policies, but also to faulty estimates of existing possibilities and to the low priority given by the planning authorities to the task of raising the supply of agricultural goods.

The difficulties encountered by the centrally planned economies with regard to the supply of primary commodities are partly reflected in the data on fulfilment of their plans indicated in table 31. Even on the assumption that production plans for primary commodities were correctly synchronized with the planned requirements of manufacturing industries and of consumers, the non-fulfilment of commodity production plans, or their fulfilment to a lesser degree than those for manufacturing, would indicate the emergence of bottlenecks. The information reproduced in table 31, incomplete owing to the lack of data on targets set for several commodities, shows that, except for the Soviet Union and Romania, the targets set for fuel and power were not achieved, and that in almost all cases, including the Soviet Union, the extent of plan fulfilment lagged behind that of total industrial production. With respect to crude oil and iron ore, the degree of fulfilment of plans was, in all countries except Romania, below that achieved in total production. Among the non-ferrous metals, only aluminium exceeded the planned quotas, while production of copper, lead and zinc failed to reach the target in the Soviet Union, the main producing country.

In the agricultural sector, none of the centrally planned economies were able to fulfil their plans. The most significant shortfalls were those registered in the Soviet Union where none of the planned increases of individual commodities were achieved.

Table 31. Degree of Fulfilment of Plans in the Centrally Planned Economies

(Planned target=100)

Item	*Bulgaria (1953–1957)*	*Czechoslovakia (1949–1953)*	*Eastern Germany (1951–1955)*	*Hungary (1950–1954)*	*Poland (1950–1955)*	*Romania (1951–1955)*	*USSR (1951–1955)*
Industrial production.....	110	101	98	74	112	83	109
Electric energy.....	98	86	83	69	92	93	104
Hard coal.....	75	84	...	...	94	224	105
Brown coal.....	99[a]	107[b]	89	78	71		
Crude oil.....	—	—	—	...	46	105	101
Iron ore.....	91	67	47	...	62	85	...
Aluminium.....	...	...	...	...	170	—	104
Copper.....	114	...	48[c]	...	31[c]	...	81
Lead.....	42	...	...	...	...	...	85
Zinc.....	—	—	—	—	79	—	80
Agricultural production...	75	90	...	73	80[d]	82	...
Grain.....	119	100[e]	93	...	73[e]	110	89
Raw cotton.....	31	—	—	—	—	100	68
Sugar-beets.....	137	100	90	...	127	...	88
Meat.....	48	81	...	...	...	48	70
Milk.....	...	67	...	48[f]	...	...	81
Wool.....	...	...	...	...	...	...	63

Source: Directives on five-year plans; reports on fulfilment of plans.

[a] Lignite, 60 per cent of plan.

[b] Including lignite.

[c] Copper ore.

[d] Based on originally planned goals of 35 to 45 per cent increase. The revised targets were set at 50 per cent.

[e] Wheat only.

[f] Yield per cow. The increase in cattle was equal to 86 per cent of target.

The role of the price mechanism

An important difference between the commodity problems in private enterprise economies and those encountered in centrally planned economies relates to price formation and its effects both on supply and demand, and on incomes of primary producers.

One of the distinctive characteristics of the price system prevailing in the centrally planned economies is the lack of correspondence between consumer prices, prices paid to producers and foreign trade prices. Within the sectors producing primary commodities an

essential difference also exists, with respect to the formation and effect of prices, between agricultural and non-agricultural commodities.

Prices of products of the extractive industries, like industrial producers' prices in general, are in principle based on cost. However, cost as calculated in the centrally planned economies differs from that used in private enterprise economies in that it is based solely on labour and materials cost and amortization, and excludes rent and interest. Wholesale prices are likewise based, in principle, on the average cost in a given industry plus a certain percentage markup. While this principle of pricing is applied to all industrially produced goods, including primary commodities produced by extractive industries, an entirely different system prevails in agriculture, where the predominant part of output is produced by co-operative farms and individual peasants. Since most agricultural producers are not wage-earners and their income depends on prices received from the disposal of their products, the concept of cost as a basis for price determination is hardly applicable. A more important factor, however, is the fact that until recently, in all centrally planned economies, there were several prices paid to producers for identical commodities—prices for compulsory deliveries, prices for contractual deliveries and free State purchases, and prices received for direct sales to consumers on the free farm markets. Thus the average prices received by agricultural producers were, to a large extent, determined by the Government and included a strong element of taxation. They could hardly be considered as bearing any direct relation to cost, and, in fact, if compared with the cost on State farms employing hired labour, the prices paid for compulsory deliveries, at least up to 1953, were considerably below cost.

It should be added that even prices of primary commodities produced in State-owned industries were not, in fact, always based on actual cost, and the price relationships of various industrially produced goods were, in most countries, far removed from their respective average costs. These deviations from the principle were due in most cases to the tendency to keep prices of producer goods unchanged over long periods despite changes in cost. During the periods of rising costs due to inflationary increases in wages, the difference between rising costs and relatively stable prices was covered by subsidies. From time to time prices were adjusted to cost, although in most countries the adjustment was extremely uneven and therefore the relative prices of various goods were out of step with their relative cost. Even when prices were adjusted to current wage cost, actual cost was frequently underestimated because amortization did not allow for increasing replacement costs and the cost of imported raw materials was based on rather arbitrary exchange coefficients. However, the general tendency was to bring prices into harmony with average cost, and the reforms of prices of producer goods in the Soviet Union in 1936, 1949–1950 and 1955, as well as the more recent reforms in Eastern Germany, Hungary, Poland and other countries, tended to achieve this end. In the field of agricultural commodities, also, significant steps were taken to unify prices paid to primary producers and to bring them into closer relationship with relative cost.

An even more important distinction between the centrally planned and private enterprise economies exists as regards the bearing on consumer prices of prices paid to producers. Prices of consumer goods are, in the aggregate, determined so as to equate effective demand and supply, that is, they are based on the ratio of investment and other government expenditure to national income.[3] But their levels are not directly related to prices paid by government agencies to producers, the difference between these two sets of prices —apart from the cost of processing, handling and trade margin—being absorbed by a heavy turnover tax.[4]

THE EFFECT OF PRICES ON SUPPLY AND DEMAND

Despite the fact that the bulk of primary commodities are allocated to various uses by the central authorities, the defects inherent in the prevailing system of prices proved to be an important obstacle to the rational utilization of resources. Even in the most centralized economies, individual enterprises work on the basis of economic accounting, and therefore their decisions are to a certain extent determined by the price relationships of various inputs and by prices received for their outputs. At the same time the decisions of the central authorities with respect to allocation of specific resources are based on the information and suggestions formulated by lower echelons, which may be influenced by relative costs of labour and various raw materials. And finally, since the over-all management of the economy cannot be based exclusively on physical data and has to deal with aggregates, the prices used for the calculation of such aggregates play an important role in any system of planning. The absence of a uniform pricing system, whether based on average or marginal cost or on scarcity relationships, deprives the planning and managing authorities of any common measurement of various factors of production.[5] Thus, for instance, the essential difference between the pricing of consumer and producer goods—the considerable discrepancy between the nominal markup applied to producer goods and the tremendous markup on consumer goods through the addition of a turnover tax—has resulted in a substantial under-

[3] *See* United Nations, *World Economic Survey, 1957* (sales number: 58.II.C.1).

[4] This did not, however, apply to the part of agricultural supplies sold by the peasants directly to consumers.

[5] The role of adequate pricing methods became even more important when the scope of rigid administrative decisions taken by the central authorities was reduced in favour of greater initiative on the part of lower echelons and greater reliance on incentives as a means of fulfilment of the planned targets.

valuation of producer goods in relation to labour cost or to the prices which would obtain if a uniform method of pricing were applied. Such under-valuation was not conducive to economies in the utilization of raw materials and equipment.

The effect of prices on supply and demand is not the same for agricultural commodities as for commodities produced by extractive industries. The difference stems from the fact that, while extractive industries are State-owned and the income of producers is determined independently of the prices paid for their products, the income of collective farms, or of private agricultural producers, depends directly on prices received for agricultural commodities.

The effect of prices on supply of primary commodities originating in extractive industries is, in general, of little significance in the centrally planned economies. Since the output of the State-owned extractive industries is in general homogeneous, the prices paid to the enterprises are not of primary importance in influencing the fulfilment of plans. The prices are fixed by the central authorities on the basis of planned cost plus a certain percentage of profit, while the bonuses paid to the enterprises depend on fulfilment, or over-fulfilment, of plans and on cost reductions. In this respect the situation in extractive industries differs from that in manufacturing, where a rise in prices paid for specific items could, through variations in price-cost ratios, induce the management to achieve the planned assortment of goods. In these circumstances the price elasticity of supply of commodities produced by extractive industries is practically nil. Demand is, however, significantly affected by prices of such commodities. Since with some notable exceptions these prices do not reflect the scarcity relationships, and in some instances are fixed below cost, they do not provide sufficient inducement for economizing raw materials and for the substitution of less scarce commodities for scarcer ones. Even when the central authorities were aware of the scarcity relationships and took measures to improve the balance of raw materials, the effectiveness of such measures depended to a considerable extent on income incentives. Both in the planning stage and in the execution of plans, the requirements of individual enterprises for specific commodities and their willingness to substitute certain materials for others are shaped by the established prices, since these prices are reflected in their cost and affect their profits and bonuses.

In contrast to the extractive industries where it is demand that is sensitive to prices, in the sector producing agricultural primary commodities, it is supply that is most affected by prices paid to producers. In all centrally planned economies the bulk of farm products is purchased by State agencies at prices determined by the authorities. The amounts purchased by the State are planned by the authorities and do not depend on prices paid to the primary producers. The retail prices of consumer goods sold in the State and co-operative trade are not directly related to prices paid to primary producers. Although retail prices of consumer goods are, in principle, set at the level balancing supply and demand, they have no direct effect on prices paid to producers because the gap between these prices is filled by the turnover tax.[6] This lack of correspondence is best illustrated by the example of the Soviet Union, where prices of compulsory deliveries remained generally stable from 1928 to 1953, while consumer prices increased considerably during a great part of the period and did not begin to decline until 1947.

In contrast to this, the supply of agricultural primary commodities proved sensitive to prices paid to agricultural producers. This was explicitly recognized in 1953, when the considerable lag in agricultural production was attributed to the lack of sufficient income incentives for the peasants, and when prices paid to primary producers were substantially increased in most of the centrally planned economies. Before these reforms, which continued during the following years, prices for compulsory deliveries were not only below free market prices but also substantially below costs.[7] However, in contrast to prices in industry, the price-cost ratios in agriculture were determined, at least to some extent, with a view to inducing peasants to accelerate output of certain commodities in preference to others in accordance with government plans. This was achieved either by raising the prices of certain commodities or by reducing compulsory quotas at lower prices and enabling peasants to increase the share of their sales at higher prices. The existence of multiple prices received by agricultural producers, and the *ad hoc* changes in the system of compulsory deliveries, resulted, however, in extremely haphazard price relations among the primary commodities. In many instances primary producers were not able to anticipate the average price and to schedule their output on the basis of profitability. The movement of average prices received by peasants was, in some cases, the reverse of what would have occurred in a different system. Thus, when delivery quotas were based on the acreage under crops, a good harvest would result in an increase in average prices owing to the fact that the share of sales at higher prices to the government agencies would increase in relation to compulsory deliveries at lower prices.

DETERMINATION OF FOREIGN TRADE PRICES

One of the characteristics of the price system prevailing in the centrally planned economies is the lack

[6] It should be noted, however, that to the extent to which agricultural producers were selling directly to consumers, the demand for primary goods was influenced by prices set by the producers.

[7] As estimated on the basis of wages in the State farms and expenditure of collective farms on fertilizer and other materials as well as their payments to the State machine and tractor stations.

of any direct correspondence between domestic and foreign price relations. Apart from this, at various times there have been considerable differences between prices for similar commodities in trade with the rest of the world and in trade among the centrally planned economies. Moreover, even in trade among the planned economies themselves, there was little uniformity at times between the prices charged by an exporting country to different importing countries.

Foreign trade prices in the trade of the centrally planned economies with the rest of the world were closely related to world prices. As to the principles governing price formation in the trade among the centrally planned economies, it is difficult to arrive at any definite conclusion because official pronouncements on the subject were often contradictory. Thus, according to some statements, prices in intra-trade were initially based on world prices, apparently for the year 1950, but were kept fixed for a number of years with a view to eliminating the effects of cyclical fluctuations and changes caused by extraordinary circumstances, such as wars, booms and their aftermaths. According to other statements, there was only a general tendency to bring intra-trade prices into conformity with world prices. It has also been asserted that there was a tendency to base prices in trade among the centrally planned economies on domestic prices of the Soviet Union[8] or on world prices adjusted to cost levels of the exporting country and to conditions in importing countries.[9] However, the principle of using world prices as a basis of pricing in the trade of the centrally planned economies with each other was unequivocally reasserted in 1956 and, according to official statements, was to be implemented in new trade agreements.[10]

The equalization of prices in intra-trade with those in world markets, rather than their determination on the basis of cost or scarcity relations within the area of the centrally planned economies, was motivated by several considerations. First, the lack of uniform pricing methods in different countries and considerable differences between relative domestic costs made it difficult to find an appropriate basis for a unified foreign price system. Second, price differentials between intra-trade and trade with the rest of the world might induce some countries to give preference to trade with countries outside the group if the price relationships in this trade were found to be more favourable. Finally, as long as trade within the area is conducted on a strictly bilateral basis, and domestic prices are entirely dissociated from foreign prices, the establishment of foreign trade prices on any basis other than world prices might provoke considerable difficulties in trade negotiations.

In any event, world prices were employed only as a starting point in negotiations and the prices finally adopted were the result of bilateral agreements, differing substantially from country to country. The extent of deviations from world prices is not known for most of the period, but in some cases such deviations were very large. Thus, substantial proportions of Polish coal and Hungarian bauxite were exported to the Soviet Union at prices considerably below world prices and differing substantially also from prices paid by the other centrally planned economies. In most cases there was, however, a tendency to compensate for such deviations in prices paid for exports by offsetting deviations in import prices. In recent years, however, both official statements and available statistical data indicate that deviations from world prices are being eliminated and that trade between the centrally planned economies tends to be conducted on the basis of world prices.

The exchange rates of the centrally planned economies were and still are unrelated to the domestic purchasing power of various currencies. What was perhaps more important was the lack of any correspondence between relative prices of various commodities in domestic and foreign markets. If, on the one hand, the severance of direct links between foreign and domestic price movements was a factor contributing to internal stability, on the other hand, it also had a detrimental effect on policy decisions with respect to output and foreign trade. The lack of a uniform price system and, in some countries, the entirely haphazard price-cost ratios for various commodities, together with the complete dissociation of domestic and foreign price relationships between various commodities, made it practically impossible for the planning authorities to estimate the most advantageous product mix for domestic production and foreign trade and to induce the management of enterprises to plan their inputs of various commodities accordingly.

CHANGES IN PRICING SYSTEM

The defects inherent in the price system prevailing in the centrally planned economies became the subject of public debate after 1953, and in almost every country important steps were taken to correct the deficiencies. In countries where prices of industrial producer goods had remained below cost, the general tendency was to increase prices and eliminate the subsidies.[11] These reforms affected not only the general levels of commodity prices, but also the price relations between various goods, which were brought more closely into line with relative costs.

The most essential changes consisted of considerable increases in prices paid for agricultural primary com-

[8] G. Kohlmey, *Der Demokratische Weltmark* (Berlin, 1956).
[9] *Vnshna Trgovia*, No. 10, 1956 (Sofia).
[10] Prices were to be fixed for a period of at least one year.

[11] Such reforms have recently taken place in Eastern Germany, Poland and Hungary. In the Soviet Union prices of producer goods were brought into line with average costs in 1949–1950 and further readjusted to costs in subsequent years. In Hungary a major change in prices was announced for 1 January 1959, the main purpose of which was to raise prices of basic commodities, such as coal, ores, metals, electric power and chemicals, which previously had been set below cost.

modities and the reduction or elimination of compulsory deliveries at lower prices. These measures led to a substantial narrowing of the discrepancy between various prices paid to the peasants for identical commodities. The abolition of compulsory delivery quotas in Hungary in 1956 and in the Soviet Union in 1958[12] resulted in the elimination of multiple prices in the State procurement system, although the unified State procurement prices continued to differ from free market prices. The influence of the State on prices has remained decisive for most commodities, because the wholesale trade in agricultural commodities remains a State monopoly and therefore the peasants' transactions on the free markets are generally limited to direct sales to consumers.

While in Poland and Hungary prices paid by the State to the peasants tended to approach the relationships prevailing on the free market, reflecting the various degrees of scarcity, in the Soviet Union the general tendency was to eliminate the discrepancies between cost and price ratios for various commodities and to introduce in agriculture a price system similar to that existing in industry, that is, one based on cost.[13] Two important distinctions were made, however. Since, unlike the State enterprises, collective farms have to finance their investment out of their own funds, the markup for agricultural goods is to be much larger than that for industrial products; and, in order to eliminate the differential rent, prices will not be based, as in industry, on the average cost for industry as a whole, but will vary according to region. The reform involved a considerable change in the price relationships of different commodities and, although it resulted in a more unified price-cost ratio, it brought about, in fact, a relative increase in the prices of those commodities whose supply the authorities plan to increase more than the average.

Apart from these steps already taken, suggestions presented in different countries indicate a general tendency towards greater rationalization of pricing methods and policies, with a view to a more efficient use of the price mechanism as an instrument of economic calculation for the planning authorities, and as a means of influencing the producing units to achieve the goals set by the central authorities. The reconsideration of former pricing methods and policies during recent years was evidently directly connected with the general reappraisal of methods of economic management, with the trend towards decentralization and towards extending the prerogatives of local authorities and producing enterprises. The reduction of the scope of purely administrative management and the increase in the scope of decisions taken by the producing units on the basis of economic accounting brought into sharper focus the problems of price formation.

In the Soviet Union the main subject of discussion was the elimination of the duality in price determination as between producer and consumer prices.[14] This duality of prices, which resulted in a relative undervaluation of producer goods, adversely affected investment decisions and decisions related to the choice between various combinations of capital and labour. According to the new suggestions, uniformity of prices could be achieved by equalizing the ratio of markups to costs for all commodities. Such reform would obviously result in a rise in prices of producer goods in relation to wages.[15]

While, in the Soviet Union, the principle of fixing prices according to average cost was retained and most of the other centrally planned economies adopted a similar attitude, in Poland the general tendency has been to remould entirely the method of price determination. The proposal presented by the State Economic Council, but not yet adopted by the Government, represents a fundamental departure from the principles of price formation prevailing in the centrally planned economies. The originality of the Polish project lies not only in the fact that it tends to eliminate the duality in price structure of consumer and producer goods, but that it introduces for the first time as a basis for price formation "marginal cost"[16] instead of average cost used in all the other planned economies, and states that prices of producer goods should reflect the scarcity relationships among various commodities. This principle does not apply to prices paid to agricultural producers, for which no definite policy has yet been suggested. Price relations of industrial primary commodities and some semi-finished materials, which play an important part in foreign trade, are to be based not on domestic cost but on price relations in world markets, and their levels are to be based on world prices converted into domestic currency by a "correctly determined rate of exchange" which should relate the internal balance between supply and demand to the foreign balance of payments.[17] The introduction of this system of pricing would link domestic and foreign prices of primary commodities.

[12] In Poland the abolition of compulsory deliveries was announced, but has not yet been implemented.

[13] The wage cost of collective farms was to be estimated provisionally on the basis of wages of workers in State farms.

[14] As already stated, prices of producer goods were fixed on the basis of cost, plus a relatively small markup, while consumer prices carried, in addition to cost, a large turnover tax, the aggregate amount of which was related to investment, social services, defence and other expenditures.

[15] The rise in prices of producer goods would not affect retail prices of consumer goods. It would be reflected only in an increase in cost for consumer goods industries and in a decline in the turnover tax. In the State budget, the revenue from turnover tax would decline, but the revenue from profits of producer goods industries would increase by the same amount.

[16] Defined as the average cost in the "group of marginal enterprises".

[17] *Zycie Gospodarcze* (Warsaw).

Movement of prices of primary commodities

Although the paucity of statistical data makes it difficult to present a consistent picture of price movements of primary commodities, their relations to changes in cost and their effect on demand and supply can be illustrated by the quantitative information available for some countries.

PRICES OF EXTRACTIVE PRIMARY COMMODITIES

The price movements of extractive primary commodities in the centrally planned economies are hardly relevant as indicators of changes in supply-demand relations or of changes in cost since, as a rule, they were fixed for a certain period, in principle for the duration of the given plan period, and readjusted to cost changes from time to time. This principle was not always respected, however, and in some countries for some periods, the readjustment was gradual, stretching over several years, and was not uniformly applied to all commodities. During periods of inflationary wage increases, prices of primary commodities were frequently kept below the rising cost, the difference being covered by subsidies, whereas during a period of declining cost, profit margins would often rise far above the original markups. In consequence, the significance of various price movements cannot be ascertained without complementary information on cost changes in specific industries, which generally is not available. In some cases, however, where prices are known to have been readjusted to cost, their comparison may yield important information on changes in relative cost of production of primary commodities and of manufactured goods.

The only country which published price indices for several commodities covering a number of consecutive years was Hungary. The data reproduced in table 32 may serve as an illustration of price policies in the centrally planned economies, although the timing of changes and their magnitude undoubtedly varied from country to country.

Table 32. Hungary: Indices of Prices of Selected Commodities

(1949=100)

Item	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*
Consumer goods	99	105	177	179	181	181
Producer goods	106	107	108	109	109	108
Machinery	116	109	98	98	95	95
Fuels	101	113	99	109	113	104
Brown coal	100	120	114	112	110	110
Hard coal	100	137	130	133	158	158
Crude petroleum	100	125	119	124	127	127
Lignite	100	119	114	106	92	92
Materials	100	104	118	118	120	119
Bauxite	87	87	86	83	108	107
Iron ore	129	129	103	103	103	103
Aluminium ingots	100	107	107	107	117	117
Average unit wage cost	101	95	112	115	129	128

Source: United Nations, *World Economic Survey, 1957*; *Avalakulas Magyarovszagon 1938–Ban es 1949–1955–Ban* (Budapest).

A comparison of the indices shown in the table indicates first of all the complete dissociation of changes in producer and consumer goods; in fact, an almost complete stability of producer prices between 1950 and 1955 was accompanied by an 80 per cent increase in consumer prices. During the same period prices of specific primary commodities changed significantly, but, for almost every commodity, prices remained practically stable for several years followed by a sudden upward or downward revision. The reasons for such revisions were not always discernible. The upward revisions are likely to reflect rising unit costs, since data on the average unit wage cost for all industries show an increase during this period. It should be added that, according to official sources, the changes in prices of primary commodities were often largely accidental, and the level of prices, especially for coal, ores and metals, was below cost before the reform of 1 January 1959.

The direction of changes in prices of extractive primary commodities was more uniform in Eastern Germany between 1950 and 1955; in contrast to Hungary, the unit wage cost did not increase during that period and the cost of living declined. The almost general increase in prices of producer goods during that period was chiefly due to the gradual lifting of prices to cost levels and to the elimination of subsidies. Until 1950 prices of producer goods, inclusive of primary commodities, were frozen at their 1944 level.

Several price increases which have taken place since 1950 have not as yet—or had not by 1955—resulted in a complete readjustment of prices to cost.[18] In addition to bringing prices into line with costs, the reforms in Eastern Germany attempted to eliminate the multiplicity of prices of identical producer goods, which, in violation of the proclaimed principle of price formation, were frequently based on costs in the individual producing units rather than on the average cost of the entire industry. According to official statements, neither the unification of prices nor their adjustment to cost was achieved until 1956, when a general price reform completed the process of readjustment.

Similarly, in Poland until 1956, prices of fuels, metals and minerals, as well as of various producer goods, were set below their average cost. Prices paid by manufacturing industries for several materials, in particular coal prices, represented a form of hidden subsidy which resulted in a considerable waste of resources. The magnitude of the under-valuation in coal mining was reflected by the fact that the ratio of net receipts to cost was equal to no more than about 63 per cent.[19] The price reform of 1 January 1956 led to a rise in prices of producer goods, but the considerable increase in wages during that year resulted again in deficits in some industries. In coal mining the deficit still amounted to about 19 per cent of cost in 1956.

In the Soviet Union, general price reforms tending to synchronize prices of producer goods with cost changes took place in 1936, 1949, 1950 and 1955, although during the intervening years some minor price changes were also undertaken. Whereas the reforms of 1936 and 1949, following upon periods of inflation, were characterized by upward revisions of prices and elimination of subsidies, the reform of 1950 represented mainly a downward correction of the 1949 prices, which apparently had been set too high, and the reform of 1955 was designed to reduce prices in line with the decline in costs that had been brought about by increases in productivity during the five-year plan. Although no data on production costs of various primary commodities are available, it is generally stated that price relations in 1928, 1950 and 1955 were a fairly good approximation of cost relations of various commodities. Changes in prices of primary commodities and of some manufactured goods during these benchmark years are indicated in table 33. The considerable differences in price changes of various commodities reflect primarily changes in unit cost. In the case of lead, which shows a pattern of change different from that of other primary goods, the price increases between 1950 and 1955 reflect at least partly the stated government policy of raising prices irrespective of cost changes with a view to discouraging consumption.[20] The considerable divergence in the price movements of primary commodities and manufactured goods is clearly due to a decline in cost of manufactures in relation to production costs of primary products.

Table 33. Union of Soviet Socialist Republics: Indices of Prices of Selected Commodities

(1950=100)

Commodity	*1928*	*1955*
Coal	9.3	91.6
Iron ore	16.7	88.5
Manganese ore	16.6	88.6
Aluminium	22.9	72.5
Copper	15.0	89.9
Lead	20.1	195.7
Tin		84.0
Zinc	24.7	111.4
Timber	18.6	149.0
Caustic soda	9.8	55.0
Sulphuric acid	37.7	70.2
Pig-iron	12.0	90.0
Steel	17.7	70.9
Cement	15.2	53.5
Bricks	9.3	65.3
Window glass	22.1	49.8
Tractors		55.2
Trucks	73.0	62.0
Automobiles	71.9	80.6
Motor cycles	50.0	55.0
Steam boilers	55.9	98.3
Electric motors	87.0	94.7

Source: Indices computed on the basis of price quotations given in the following publications: *Universalny Spravochnik Tsen* (Moscow-Leningrad, 1928); *Nomenklaturny Spravochnik i Tseny na Materialy i Oborudovanie Primenyaemye v Ugolnoy Promyshlennosti* (Moscow, 1950); *Spravochnik-ukazatel Tsen i Srednikh Srokov Sluzhby* (Moscow, 1929); *Spravochnik Tsen na Stroitelnye Materialy i Oborudovanie Tsen Deistvuyushchikh s l iyulia 1955 Goda*, parts I-III (Moscow, 1956); D. D. Kondrashev, *Tsenoobrazovanie v Promyshlennosti SSSR* (Moscow, 1956).

It should be added that the 1928 prices of several products of the engineering industry reflected the very high cost of the initial stages of manufacturing, preceding the introduction of serial production.[21] In addition, their changes should be considered only as a rough indication of the trend, since the engineering products may differ considerably with respect to technical specifications and quality.

[18] According to *Statistische Praxis* (Berlin), March 1957, between 1950 and 1954, prices of producer goods increased by 40 per cent for steel ingots, 81 per cent for flat bars, 150 per cent for copper plates and 19 per cent for steel plates. The following indices for 1955 based on 1949=100 were derived from data published in *Gesetzblatt der Deutschen Demokratischen Republik* (Berlin): bituminous coal 148, coke 159, lignite 100; copper 512, zinc 118, aluminium 65.

[19] The aggregate deficit of industries subject to central planning amounted in 1955 to 2.3 billion zlotys, that is, to 1.6 per cent of cost. After the price reform of 1 January 1956, total profits amounted to 2.6 billion zlotys, that is, to 1.4 per cent of cost.

[20] The timber industry showed a deficit before 1955 and price increases of timber in that year seem to reflect a readjustment to cost.

[21] This is partly reflected in data reproduced in table 33. The much smaller increase in prices of products of the engineering industry than in those of primary commodities was mainly due to the very considerable increase in output per man in engineering which resulted from the gradual extension of serial production.

Between 1940 and 1949, the prices of primary commodities, as well as those of other producer goods, remained unchanged despite the very considerable increase in unit wage cost which occurred during the war, particularly in mining and metallurgy. The large deficit resulting from the widening gap between prices received by producing units and their cost was covered by budgetary subsidies, which rose from about 5 billion roubles in 1940 to 45 billion in 1948.[22] The reform of 1949 resulted in an 80 per cent increase in prices of producer goods, with higher than average increases in prices of primary commodities. Thus, coal prices were raised by about 190 per cent. However, while the intention of the Government was to bring prices to a level determined by cost plus 3 to 4 per cent profit, the new prices exceeded cost by a considerably larger margin,[23] and therefore were reduced during the following years. The index of wholesale prices, based on 1949 = 100, was reduced to 80 in 1950, 77 in 1951 and 70 in 1952. The next general price reform took place in 1955, with the object of adjusting prices to the cost changes which had taken place between 1952 and 1955. Average prices, fixed for the duration of the new five-year plan, were set at a level of 8 to 10 per cent below that of 1948.[24] It is significant, however, that this reduction was mainly the result of changes in cost in machine-building industries, while in the remaining branches prices were still 20 per cent above those of 1948. Prices of primary commodities such as coal, ferrous metals and several non-ferrous metals were 50 to 100 per cent and more above the 1948 level. These differences in price changes indicate that between 1940 and 1955 the cost of manufactured products declined substantially in relation to that of primary commodities.[25]

CHANGES IN PRICES PAID TO AGRICULTURAL PRODUCERS

The multiplicity of prices paid to agricultural producers for identical commodities and the scarcity of data make it difficult to analyse the changes in average prices of agricultural primary commodities. These average prices were influenced not only by changes in prices paid for compulsory deliveries and for above-quota State purchases, and by changes in free market prices, but also by changes in the share of each of these transactions in total sales.

In most of the centrally planned economies prices of compulsory deliveries were kept at a very low level until 1953 and then substantially increased, together with prices for other State purchases. Prices on the free market, however, fluctuated under the influence of changes in supply and demand.

In the Soviet Union prices paid to the peasants for compulsory deliveries of most agricultural commodities remained practically unchanged between 1928 and 1955[26] despite the fact that consumer retail prices rose during this period approximately eight times. Prices of other State purchases increased substantially, although much less than retail prices. However, in 1953–1954, delivery quotas were reduced for several commodities and prices of meat, milk, butter, vegetables and potatoes were increased, resulting in a substantial increase in average prices.[27] The rise in average prices paid to agricultural producers had a significant effect on profitability and played an important part in increasing output during subsequent years. In 1958 the multiplicity of prices paid by the State to agricultural producers was abolished and the new unified prices were to be set at a level approximately corresponding to average cost plus about 30 per cent markup.[28] In order to eliminate the effect of differential rent, however, prices set by the central authorities will be differentiated on the basis of regional differences in natural conditions. The changes in prices paid to the peasants are indicated in table 34.

The differences in the direction and magnitude of changes caused by the 1958 reform were due to the fact that one of the purposes of the reform was to eliminate the entirely haphazard cost-price relationships for various commodities which had developed during previous years. The cost estimates were to be provisionally based on wages paid to workers on State farms plus amortization, and other current expenditure. The rise in prices for grain, potatoes, milk and livestock reflects both the readjustment to estimated cost and the inclusion of markup necessary for financing investment expenditure which, before the abolition of machine and tractor stations, was financed by the State. The decline in prices paid for cotton, flax, hemp and other textile crops reflects the elimination of sharply progressive premiums paid to producers for increases in yield in excess of plan. Prices paid for cotton, even without the premium, had been set at a profitable level. In 1956 they rose by more than 50 per cent over 1955 and were slightly reduced in 1957. The new price set for 1958 is in fact equal to the 1957 price, exclusive of the premium. While the gap between State procurement and collective farm market prices was substanti-

[22] Coal prices represented 39 per cent of cost, timber 48 per cent and pig-iron 68 per cent (D. D. Kondrashev, *Tsenoobrazovanie v Promyshlennosti SSSR*, pages 132 and 133).

[23] The new prices were calculated on the basis of cost estimates during the fourth quarter of 1948 and their projection for 1950. The preliminary estimate of cost for 1950 proved to be erroneous (D. D. Kondrashev, *op. cit.*, pages 140 to 143).

[24] In 1948 wholesale prices were generally equal to those in 1940.

[25] D. D. Kondrashev, *op. cit.*, page 148. According to Sh. Turetskoi, *Voprosy Ekonomiki*, No. 5, 1957 (Moscow), "compared to the pre-revolutionary period, the wholesale price index of machinery is now approximately 4.5 times lower than the index of prices of coal and timber industry and 1.5 to two times lower than the price index for metals".

[26] *Voprosy Ekonomiki*, No. 3, 1958, page 59.

[27] Prices paid for compulsory deliveries of milk and butter doubled, for potatoes increased threefold, and for meat and poultry increased fivefold.

[28] It seems that this was not entirely achieved in 1958, and it is to be introduced gradually during 1959. Price levels are to be reviewed every year on the basis of cost and may also vary with harvest prospects.

Table 34. Union of Soviet Socialist Republics: Average Prices Paid to Collective Farms for Agricultural Products and Free Market Prices

(Roubles per quintal)

Product	State procurement				Farm markets[a]	
	Compulsory deliveries, 1953–1954	State purchases, 1953–1954	Average prices, 1956	Unified prices, 1958	1954	1957
Wheat	12	120	53[b]	74[b]	—	—
Potatoes	10	27	...	40	194	118
Sugar-beets	21	32[c]	24	24	—	—
Cotton[d]	...	260	372	340	—	—
Milk	55	120	97	115	394	307
Hogs	320	700	...	826	...	...
Cattle	150	410	...	619	...	...
Eggs[e]	20	50	...	60	239	226
Wool	1,630	...	2,581	2,945	—	—

Source: United Nations, *Economic Bulletin for Europe*, vol. 10, No. 2, 1958 (Geneva), page 18; *Pravda* (Moscow), 26 September 1953, 2 February 1956, 7 July 1956, 1 June 1958.

[a] Moscow collective farm market.

[b] All grains.

[c] Contractual delivery prices.

[d] All cotton is sold to the State at special contractual prices. The considerable increase in prices in 1956 reflects largely the steeply progressive premiums paid to cotton growers for increases in yield per hectare.

[e] Hundreds of units.

ally reduced by the 1958 reforms, it has remained very considerable for the few commodities for which farm market data are available. Among the commodities listed in the table, grain, sugar-beets, cotton and wool are hardly sold at all on collective farm markets. With respect to other commodities, such as potatoes, milk and eggs, the farm market prices were still about three times as high as State procurement prices, and prices of meat were about 70 per cent higher than the meat equivalent of cattle sold to the State.

Among other centrally planned economies, only Czechoslovakia and Hungary published detailed indices of prices paid to agricultural producers covering a number of years. The data reproduced in table 35 show a substantial increase in average prices paid to agricultural producers in 1953/54 and again in 1955/56. The changes in average prices reflect the increased prices paid by the State for compulsory deliveries and for other purchases, respectively, as well as changes in the relative share of these two kinds of State procurement in total sales. It should be pointed out that the favourable effect of the reduction of delivery quotas[29] on average prices was occasionally offset by declines in output. In consequence, substantial increases in prices paid for State purchases were not always reflected in average prices. In Czechoslovakia, in 1956, the rise in average prices paid for livestock products was much greater than price increases for compulsory deliveries and for State purchases, reflecting a shift in total procurements towards higher-paid State purchases. The rise in prices paid by the State purchasing agencies resulted in a narrowing of the gap between the free market and State procurement prices in both countries. In Hungary, however, the multiple prices paid by the State procurement agencies were abolished and the unified prices were set at levels exceeding the former average prices and, in the case of cattle, above the former State procurement prices.

[29] Delivery quotas were set in absolute quantities.

In Poland, as in Hungary, there were important price changes from 1953 to 1954 and from 1955 to 1957. Delivery quotas were abolished for milk and were reduced by one-third for grains; prices for above-quota sales were considerably increased. The average prices paid for compulsory deliveries and State purchases increased as follows (1950=100):

	1955	1956	1957
Wheat	132	184	255
Potatoes	113	151	185
Cattle	210	272	257
Hogs	141	177	217
Milk	158	192	258

Source: Rocznik Statystyczny, 1956 and 1958 (Warsaw).

As in other countries, the margin between free market and State procurement prices declined substantially.

The increase in prices paid to agricultural producers in all European centrally planned economies resulted, after 1953, in a recovery of the terms of trade between agricultural primary commodities and goods purchased by the peasants. These changes can be illustrated by the following indices of the ratio of price received to prices paid by the peasants in Hungary and Poland:

	1952	1953	1954	1955
Hungary (1951=100)[a]	67	80	98	103
Poland (1950/51=100)[b]	116	88	87	104

Source: Hungary: *Avalakulas Magyarovszagon 1938–Ban es 1949–1955—Ban*; Poland: *Ekonomista*, No. 3, 1957 (Warsaw).

[a] National averages.

[b] Unweighted mean of price ratios for medium-sized farms in Poznan-Bydgoszch and the western provinces. While the magnitude of changes varied among farms of different sizes and in different parts of the country, the direction and timing of changes seem to be typical for the country as a whole.

Table 35. Czechoslovakia and Hungary: Indices of Prices Paid to Agricultural Producers

Product and item	Czechoslovakia				Hungary			
	1952 prices (korunas per quintal)	Indices (1952=100)			1952 prices (forints per quintal)	Indices (1952=100)		
		1953	1956	1957		1953	1956	1957[a]
Wheat								
Average procurement price[b]	101	129	143	138	...	...	...	...
Compulsory deliveries	80	125	125	125	63	100	118	335
State purchases	120	250	200	175	81	199	342	263
Farm market price	...	...	...	...	250	129	128	96
Cattle								
Average procurement price[b]	264	113	246	248	278	97	260	324
Compulsory deliveries	261	108	222	220	260	100	104	346
State purchases	515	169	183	182	340	85	238	265
Farm market price	...	...	...	...	510	100	173	206
Hogs								
Average procurement price[b]	645	101	141	138	570	104	254	342
Compulsory deliveries	606	100	98	97	570	91	95	342
State purchases	1,600	100	94	87	630	138	311	309
Farm market price	...	...	...	...	2,180	115	94	83
Milk[c]								
Average procurement price[b]	100	106	148	153	71	129	281	338
Compulsory deliveries	100	107	122	122	71	104	108	338
State purchases	200	117	112	124	71	345	372	338
Farm market price	...	...	...	...	350	100	91	91
All agricultural products								
Average procurement price[b]	...	111	158	161	...	...	...	...
Compulsory deliveries	...	108	130	130	...	...	...	...
State purchases	...	120	118	116	...	...	...	...

Source: For Czechoslovakia: *Statistical Yearbook of Czechoslovakia, 1958* (Prague); for Hungary: *Magyar Statisztikai Zsebkonyv* 1958 (Budapest).

[a] For compulsory deliveries, State purchases and their weighted average, the data represent the unified prices; for farm markets, the current farm market prices.

[b] Average weighted prices of compulsory deliveries and State purchases.

[c] Price per one hundred litres.

Although comparable data are not available for other countries of the group, the existing information on changes in retail trade prices and in average prices paid to peasants indicate that the change in terms of trade in favour of agricultural primary commodities was similar, if not greater, in most of the other European centrally planned economies between 1953 and 1955.

CHANGES IN FOREIGN TRADE PRICES OF PRIMARY COMMODITIES

It has been stated previously that the foreign trade prices of commodities and their changes over time were not related to price movements on domestic markets, and that prices in trade between the centrally planned economies differed from world market prices during most of the post-war period. Some insight into price relationships and their changes in 1955, 1956 and 1957 can be gained from the extensive trade statistics recently published by the Soviet Union.

The data reproduced in table 36 represent the unit value of relatively homogeneous commodities derived from value and quantum statistics of Soviet exports. They indicate that Soviet export prices in 1956 and 1957 generally changed in the same direction as prices in world markets although the amplitude of change was often different, partly because price variations in trade with other centrally planned economies differed from those in exports to the rest of the world. It should be added that the fluctuation of prices of Soviet exports to the centrally planned economies between 1955 and 1957 was much greater than during the preceding period when prices were usually fixed for a number of years. The rather extensive changes in prices of several primary commodities during the past two years reflect, at least partly, the readjustment of prices in intra-group trade to those prevailing in world markets.

The comparison of changes in ratios of world prices to those of Soviet export prices would hardly be relevant because of possible differences in quality and in transportation cost included in price quotations. Such differences are obviously much smaller between Soviet prices of exports to the centrally planned economies and those to the rest of the world. Since all Soviet export prices are f.o.b. the frontier of the Soviet Union, and most of the primary commodities cross the Soviet border at points that are relatively close to one another, the price difference due to transportation cost seems to be of little significance if one excludes export prices to mainland China. The data presented in the last three

Table 36. Union of Soviet Socialist Republics: Indices of Unit Values of Exports in Trade with Centrally Planned Economies and with Rest of World

Commodity	World market prices		Prices of USSR exports to: World, total		Centrally planned economies		Rest of world		Ratio of USSR prices of exports to rest of world to prices of exports to centrally planned economies		
	1956	1957	1956	1957	1956	1957	1956	1957	1955	1956	1957
	(1955=100)								(unit value of exports to centrally planned economies=100)		
Coal, bituminous	125	139	118	148	121	154	116	136	86	83	76
Anthracite			119	140	100	118	120	145	94	113	115
Coke			108	137	71	92	121	149	57	98	93
Iron ore	108	120	102	125	102	125	—	—			
Manganese ore			133	199	99	159	187	250	98	186	154
Chrome ore			120	143	103	121	123	146	77	93	95
Apatite			97	82	48	80	95	—	93	91	
Crude oil	94	102	97	102	98	97	100	118	73	73	82
Copper	102	80	102	79	103	81	102	75	107	109	99
Lead	100	92	98	86	98	89	—	82	88		81
Zinc	105	95	99	88	98	92	103	88	87	91	83
Aluminium	106	111	114	110	105	121	115	97	113	123	90
Tin	108	105	72	69	71	70	101	98	66	95	93
Wheat	100	97	91	96	98	96	90	96	93	86	94
Rye			96	97	99	96	91	103	97	89	104
Barley	100	93	97	97	100	99	103	100	82	84	82
Oats			96	97	100	101	92	93	109	99	100
Cotton	92	86	99	91	99	88	94	98	84	81	95
Flax fibre			70	55	100	56	82	83	58	48	86
Tobacco	100	107	100	98	84	110	104	113	75	93	77
Sawn wood			96	97	95	98	95	92	89	89	84
Vegetable oil	105	106	116	115	112	111	125	126	75	84	86
Sugar	101	119	102	129	122	126	105	133			

Source: For Soviet Union export prices: *Vneshnyaya Torgovlya SSSR za 1956 God* and *Vneshnyaya Torgovlya SSSR za 1957 God* (Moscow, 1957, 1958); for world market prices: coal, United Kingdom export value unit; crude petroleum, United States export value unit; iron ore, United States export value unit; copper, aluminium, lead, zinc and tin, United Kingdom export value units, as given in United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D, 1955, 1956 and 1957; wheat, barley, cotton, wool, vegetable oil, sugar and tobacco, data supplied by the Food and Agriculture Organization of the United Nations.

columns of table 36 represent ratios of unit values of exports to the rest of the world to the unit values of exports to the centrally planned economies, with the exclusion of mainland China and North Korea. Even after this correction the ratios may be influenced by some differences in transportation cost and by the fact that the commodities listed are not clearly defined and may not be completely homogeneous. Notwithstanding all these qualifications, the ratios shown in the table indicate that for most of the primary commodities Soviet export unit values in trade with the centrally planned economies exceeded those in trade with the rest of the world, but in most cases there was a tendency to reduce this margin, especially in 1957. The lack of information on other commodities, both in exports and imports, makes it difficult to draw any definite conclusions about the significance of these discrepancies. It is likely that the differences reflected in the ratios were offset in bilateral agreements by compensatory deviations in prices paid for imports or received for exports of manufactured goods.[30]

The data in table 37 indicate that the differences in unit values of exports to various centrally planned countries were considerable for anthracite coal, iron ore, manganese ore, copper and cotton, and much smaller, or insignificant, for other commodities. The

[30] It is interesting to note that the ratio of imports to export unit values of some primary commodities which appear both in Soviet exports and imports in the trade with the European centrally planned economies was increasing in the following fashion:

	1955	1956	1957
Coal, bituminous	96.0	95.4	106.5
Coke	64.9	107.6	103.5
Zinc	98.8	100.8	104.3
Lead	80.6	92.5	96.5

The ratio of import and export prices for crude oil has remained practically unchanged during 1955, 1956 and 1957.

Table 37. Union of Soviet Socialist Republics: Unit Value of Selected Primary Commodities Exported to Various Centrally Planned Economies

(As percentage of average)

Commodity and country	1956	1957
Bituminous coal		
Czechoslovakia	108	101
Eastern Germany	99	103
Hungary	93	96
Anthracite		
Czechoslovakia	95	82
Eastern Germany	99	95
Hungary	105	103
Poland	100	121
Iron ore		
Czechoslovakia	101	104
Eastern Germany	101	90
Hungary	98	85
Poland	101	115
Romania	101	106
Manganese ore		
Czechoslovakia	118	131
Eastern Germany	94	55
Poland	88	114
Crude oil		
Czechoslovakia	103	99
Eastern Germany	107	101
Hungary	94	95
Poland	96	106
Copper		
Bulgaria	101	105
Czechoslovakia	109	108
Hungary	113	105
Poland	77	82
Tin		
Bulgaria	103	104
Czechoslovakia	100	101
Hungary	99	98
Poland	90	99
Romania	98	97
Zinc		
Czechoslovakia	97	90
Eastern Germany	101	105
Romania	101	105
Lead		
Czechoslovakia	98	98
Eastern Germany	100	102
Hungary	102	100
Wheat		
Bulgaria	102	102
Czechoslovakia	100	102
Eastern Germany	100	95
Hungary	—	101
Poland	90	98
Romania	108	102
Cotton		
Bulgaria	103	109
Czechoslovakia	99	—
Eastern Germany	100	92
Hungary	101	115
Poland	98	93
Romania	99	89

Source: Vneshnyaya Torgovlya SSSR za 1956 God and *Vneshnyaya Torgovlya SSSR za 1957 God* (Moscow, 1958).

deviations from the average do not show any significant decline in 1957 as compared to 1956, and in some cases were even greater than in 1956. Although they could be partly the effect of differences in transportation cost or in quality, it is doubtful that, for instance, changes in the relative prices of anthracite or manganese ore between 1956 and 1957 could result from these factors.[31] It is likely, however, that the differences in commodity prices fixed by bilateral agreements with various countries were compensated by inverse differences in prices of other exports or imports. The fragmentary data on unit values of exports of other centrally planned economies indicate similar deviations from the average price by countries of destination. This is partly shown by the following examples indicating variations from the annual average price, taken as 100:

	1954	1955
Exports from Hungary		
Crude oil to		
Czechoslovakia	95	120
Eastern Germany	90	90
Poland	114	91
Aluminium to		
China (mainland)	112	139
Poland	88	61
Exports from Bulgaria		
Nitrogenous fertilizer to		
China (mainland)	107	107
Czechoslovakia	111	78
Hungary	114	114
Poland	108	82
Romania	60	116
Tobacco to		
Czechoslovakia	121	113
Eastern Germany	85	117
Poland	92	85
USSR	90	84

Unlike the Soviet data, the unit values indicated above are not f.o.b. frontier, but are valued at point of change of ownership and may therefore reflect considerable differences in transportation cost, not only by country of destination but also from year to year. Despite this,

[31] It is unlikely that the quality of these two homogeneous commodities changed between 1956 and 1957 or that their transportation cost to the Soviet border recorded any significant change.

it is unlikely that the changes in price relations are entirely due to these factors. As in the case of Soviet export prices, they also reflect the fact that despite the principle of unified prices based on world prices, actual prices established in bilateral agreements may vary considerably from country to country.

Changes in output of manufacturing, mining and agriculture

During the inter-war period, output and trade of primary commodities were influenced in less industrialized Europe and in mainland China[32] by general economic backwardness, agricultural over-population, low degree of diversification of national production and by a deficiency of effective demand, which in most cases was below the level required for full utilization of the existing productive capacity. In all these countries at one period or another, steps were taken by the Governments to stimulate the development of manufacturing industry and thus achieve a more complete utilization of natural and human resources. In no case, however, were these efforts adequate to generate a rate of economic growth sufficiently high to alleviate the existing conditions. In Czechoslovakia and Eastern Germany, the most industrialized countries of the group, demand during most of the inter-war period was seriously affected by the world depression. The demand-supply balance for primary commodities changed completely in all these countries following the introduction of large-scale industrialization.

[32] For the sake of convenience, less industrialized Europe is defined in this section as including Bulgaria, Hungary, Poland and Romania; more industrialized Europe, Czechoslovakia and Eastern Germany, and eastern Europe, all six countries.

In the Soviet Union, which began its plans of economic development in 1928, industrial production rose, according to the official index, more than ten times between 1928 and 1950. Similarly, very high rates of growth were achieved during the post-war period by all centrally planned economies, where industrial production rose from 1950 to 1957 by as much as 136 per cent. Although these indices based on gross value overstate the increase in value added,[33] the actual expansion, measured by any standard, was unprecedentedly high and it has continued at very high rates into recent times (see table 38).

It is significant that the rapid expansion of manufacturing was a phenomenon common to all centrally planned economies, irrespective of their size or the

[33] This is particularly true for the Soviet index for the period from 1928 to 1950 (*see* United Nations, *World Economic Survey, 1955* (sales number: 1956.II.C.1), page 89). It should be noted, on the other hand, that indices of gross industrial production—which includes, in addition to manufacturing, mining and electric power output—are used here to trace the development of manufacturing. The latter is somewhat underestimated, on this score, inasmuch as output of mining has lagged behind gross industrial production. The understatement cannot be large, however, because the relative weight of mining in total industrial output is small. Output of electric power generally moved more in line with the expansion of manufacturing.

Table 38. Indices of Gross Output of Industry, Agriculture and Mining,[a] by Area

(1950=100)

Area and item	*1928*	*1937*[b]	*1953*[c]	*1956*[d]	*1957*
Eastern Europe					
Less industrialized countries[e]					
Industry	39	50	167	216	240
Agriculture	106[f]	112	108	122	128
Mining[a]	82	81	125	138	138
More industrialized countries[g]					
Industry	84	83	154	195	212
Agriculture	119[f]	115	112	125	131
Mining	72	78	124	151	157
Total, eastern Europe					
Industry	61	68	160	204	224
Agriculture	108[f]	113	109	123	129
Mining	78	79	124	144	147
USSR					
Industry	9	40	145	205	225
Agriculture	80	90	108	137	138
Mining	17	58	128	176	195
China (mainland)					
Industry	...	89	213	351	376
Agriculture	...	122	132	154	159
Mining	...	66	167	281	326
Total, planned economies					
Industry	...	53	155	216	236
Agriculture	...	107	117	140	144
Mining	...	65	129	172	188

Source and footnotes to table 38 on page 146.

availability of industrial skills and resources. There was, however, a tendency towards retardation of the rate of growth as higher levels of development were approached. This tendency was reflected in some levelling off of the inequalities in the degree of industrialization within this group of countries from 1950 onwards. Thus, as indicated in table 38, in mainland China, where industrial development started from an extremely low level, industrial production increased, from 1950 to 1957, 3.8 times. A much lower, but nevertheless the second largest rate of increase—2.4 times—was achieved in the less industrialized area of Europe.[34] It was still lower—2.3 times—in the Soviet Union, and lowest, only 2.1 times, in the industrially most devel-

[34] This group includes Hungary, where industrial output declined in 1956 as a result of the uprising. From 1950 to 1955, Hungary's gross industrial production expanded at the same rate as the average. In the other three countries of the group, output increased 2.5 times from 1950 to 1957.

Source: Industry: Gross industrial production indices as given in national statistical yearbooks and reports on fulfilment of plans. Group indices are weighted by the method described in United Nations, *World Economic Survey, 1957*, page 206. The 1937 figure for China (mainland) represents a rough estimate.

Agriculture: Except for the Soviet Union for the years indicated below and for China (mainland) in 1937, indices of gross agricultural production as given in national statistical yearbooks and reports on fulfilment of plans. Group indices are weighted, using the output of an identical list of agricultural commodities in each country in 1956 valued by the Soviet Union export prices and—when no such prices were available—import prices in that year. The list includes: grain and rice, tobacco, vegetable oil, sugar, meat, milk, eggs, cotton, wool, flax, hemp, silk, jute, and tea. Since data on fruit and vegetable production were not available for each country, both fruit and vegetables, including potatoes, were excluded from this list to make the indices for various countries more comparable. For the Soviet Union no official index of agricultural production is available for the period covered except for the statement by Mr. Krushchev (*Pravda*, 21 June 1958) that the average increase in output of agriculture was 1.6 per cent from 1950 to 1953 and 7.1 per cent from 1954 to 1957. This statement expressed in index form implies an increase of about 5 per cent in production from 1950 to 1953, and a 38 per cent increase from 1950 to 1957. Using Soviet export prices of 1956 and the available series on the physical output of commodities included in the list above (excluding tobacco and hemp but including potatoes), the following indices of production were obtained (1950=100):

1913	*1928*	*1937*	*1953*	*1955*	*1956*	*1957*
90	80	90	108	127	146	141

The index given in the table is based on the estimates above adjusted for minor discrepancies between these data and those given in Mr. Krushchev's statement. The 1937 figure for China (mainland) is derived by a similar method. As in the case of the Soviet Union, the index obtained by this method is very close to the official index reported for other years. This can be seen from the following comparison:

	1936	*1949*	*1952*	*1953*	*1954*	*1955*	*1956*	*1957*
Official index	56	83	86	88	96	100	104	
Computed index	79	57	85	86	87	96	100	104

The closeness of the results is the more remarkable in this case as no data for livestock production are available for China (mainland); consequently the list of commodities had to be reduced accordingly. It should be noted, however, that the share of livestock production in China's agricultural output is relatively very low. Thus, according to Ta Chung Lin (*China's National Income 1931–1936*, The Brookings Institute, Washington, D. C., 1946), the gross value of output of livestock production was, in 1931–1936, only 14 per cent of the gross value of grains. This ratio was applied for the derivation of the relative weight for China (mainland) which would be comparable to the weight derived for other countries.

Mining: In contrast to the indices of industry and agriculture which are, with the above-mentioned exceptions, based on national statistics, the indices of mining output are derived entirely on the basis of physical output series weighted by Soviet foreign trade prices in 1956. A check on the accuracy of these estimates can be provided for countries which publish indices of mining output or for which such indices can be derived by combining indices for fuel and metals given separately weighted either by the value of product or the number of workers employed in these branches. As may be seen from the comparison given below, the discrepancies are generally small despite the fact that the relative weights used in the computation of the indices most probably differ significantly. The following indices of mining output are based on 1950=100; those in the first column for each country were derived from physical output data and those in the second column from data on gross value of output.

	Czechoslovakia		*Eastern Germany*		*Hungary*		*Romania*	
1937	79	...	77	69[1]	60[2]	64[2]	109[2]	97[2]
1953	119	123	127	125	155	174	167	180
1956	149	149	151	153	151	167	203	220
1957	159	165	155	...	147	158	211	234

[1] 1936; no data available for 1937. The index of gross output for 1937 was obviously higher.
[2] 1938.

[a] Fuel extraction, mining of iron and manganese ores, mining and smelting of non-ferrous ores.
[b] Figures for 1937 refer to the years from 1936 to 1938 according to the availability of data.
[c] Figures for agriculture represent averages from 1952 to 1954.
[d] Figures for agriculture represent averages from 1955 to 1957.
[e] Includes Bulgaria, Hungary, Poland and Romania. Data for 1928–1937 pertain to pre-war territory, those for 1937–1957 to post-war territory.
[f] Grain only.
[g] Includes Czechoslovakia and Eastern Germany from 1937 on; up to 1937, Czechoslovakia only.

oped planned economies.[35] The differences in the rates of growth were not entirely the result of the greater importance of retarding factors in the more developed economies, but were also due to the strenuous efforts of the national Governments to achieve a high degree of self-sufficiency in all stages of manufacturing. While this policy undoubtedly had the positive effect of bringing each country onto the path of industrial development, it often resulted in an over-emphasis on heavy industry and, within this sector, on engineering industries. The defect of this approach, now generally recognized, was the sacrifice of benefits from specialization and trade along lines of comparative advantage, based on differences in natural resources, together with economies of scale based on expansion of the market.

The expansion of manufacturing raised the demand for minerals, fuels and raw materials of agricultural origin, and resulted in increased import requirements of raw materials and products which could not be produced locally, or of which domestic supply was inadequate. In primarily agrarian countries, this increased demand for imports could be met largely by the expansion of exports of primary commodities, hence by an intensified pressure on domestic supply. In the more developed countries, expanded requirements of raw materials could be covered partly by increased exports of machinery and other finished products, the import content of which probably did not increase proportionally. Such exports, however, were in competition with the huge domestic investment programmes which absorbed a large proportion of the output of engineering industries.

Demand for primary commodities was, in all countries, further enhanced by rising domestic demand for food, associated with the increase in real disposable income of the working population as compared to its pre-war level. However, even in periods when real income was not rising, shifts of labour from the countryside to the cities, not accompanied by a commensurate shift in food supplies, resulted in relative increases in per capita food consumption by the peasants and considerable pressures of demand upon supply in the urban areas.

Expansion of agriculture was very moderate compared to the swift growth of manufacturing in all centrally planned economies. After a disastrous decline in the early nineteen thirties, Soviet farm output, on the eve of the Second World War, exceeded its 1928 level by only about 10 per cent and was approximately at the same level as in 1913. The performance of agriculture was considerably better during the post-war reconstruction period if all centrally planned economies are considered as a group. As may be seen from table 38, the increase from 1950 to 1957 was of the order of 44 per cent; however, the expansion was very uneven both from year to year and from country to country. In mainland China, where agricultural output expanded during this period more than in any other country, the increase was spread more or less evenly throughout the period;[36] part of it, however, was a result of recovery from war devastation, the 1936 level of output not having been regained until 1951–1952. In the Soviet Union the over-all rate of increase in agricultural production exceeded that of mainland China for the period from 1937 to 1957 as a whole, but fell considerably short of it during the 1950–1957 period. A characteristic feature of developments in the Soviet Union was the fact that most of the expansion occurred between 1954 and 1957, whereas between 1950 and 1953 the increase was below 2 per cent a year. The expansion of farm output was smaller in the eastern European countries, which, except for Eastern Germany, did not regain their pre-war level until 1954 and exceeded it by only 13 per cent in 1957. Changes in individual countries ranged from a decline of 4 per cent in Czechoslovakia to an increase of about 20 per cent in Eastern Germany.

On the other hand, although the expansion of mining output clearly lagged behind the expansion of manufacturing in all countries throughout the period of central planning,[37] the lag was in most cases moderate, quite unlike that of agriculture. Thus, the growth of manufacturing in the Soviet Union from 1928 to 1950 was sustained by an almost sixfold increase in mining output. A fairly close relation between gross industrial production and mining output is also ascertainable for the entire group of centrally planned economies from 1950 to 1957 when an increase of 136 per cent in the former was matched by an increase of 88 per cent in the latter. However, during this latter period the relative rates of growth of mining output in individual countries were less directly associated with the rates of expansion achieved in manufacturing. Thus, the highest rate of growth in mining was achieved in mainland China, followed in decreasing order by the Soviet Union, more industrialized eastern Europe and less industrialized eastern Europe.

The differences between the rates of growth of mining output in different areas reflect primarily differences in the availability of untapped mineral resources at the period of inauguration of the long-term plans. Although during the pre-revolutionary period and throughout the period of reconstruction the rate of growth of extractive industries outdistanced the growth of manufacturing in the Soviet Union, the level of mining output attained by 1928 was low relative to the country's endowment in mineral resources. Expanded geological re-

[35] The rate of increase would have probably been lower in this group were it not for the fact that Eastern Germany was still going through a process of recovery in the earlier part of the period.

[36] Disregarding fluctuations due to weather conditions.

[37] It should be noted that in at least two countries, mainland China and Eastern Germany, mining output during the pre-planning period grew faster than that of manufacturing. This reflects mostly war-time expansion of coal mining.

search and prospecting during the five-year plans brought further discoveries and resulted in a widening of the mineral base to include a range of previously unavailable raw materials. Improvements in technology and transportation made possible the exploitation of mineral deposits which previously had been physically inaccessible or the extraction of which had been uneconomical, with the result that the rate of expansion of mining output, by and large, fell into step with the general pace of industrial development. More exactly, at different periods of time, the supply of minerals was short of the requirements imposed by the plan. Such shortages, however, were the result of inadequacies in planning, different degrees of plan fulfilment in different sectors, long maturation periods in mining construction and similar factors affecting the short-term supply-demand position, rather than the result of an inability to expand the mineral base sufficiently.

The situation in the eastern European countries was different in this respect. This area is much poorer than the Soviet Union in mineral deposits, and the rates of utilization of available resources were relatively much higher at the time planning was initiated. While in the Soviet Union the exploitation cost of new deposits was frequently lower than in the older producing regions, expansion of mining in eastern Europe was mostly achieved at increasing cost. In fact, increases in output had often to be brought about by re-opening mines previously abandoned because of high cost. The shift towards poorer deposits, particularly intense in eastern Europe, entailed rising unit costs and became an important limiting factor of the expansion of mining.

While these considerations seem to offer a valid explanation of the differences in the relative rates of growth of mining in the two areas, there are some variations in the rates of change within the group of eastern European countries which deserve notice. Between 1950 and 1957, the rate of increase in mining output was particularly high in Bulgaria and Romania; it even exceeded that of the Soviet Union. Among all the eastern European countries, Bulgaria is industrially the least developed and its natural resources were largely untapped at the beginning of industrialization. In Romania, on the other hand, the high rate of increase reflects, to a large extent, the recovery of crude oil output which reached its 1936 level as late as 1953, and also a very substantial improvement in drilling and exploitation technology not experienced to any comparable extent in other branches of mining.

DIVERSIFICATION OF FOREIGN TRADE

The lack of diversification of production before the plan era in most of the centrally planned economies had its counterpart in a low level of diversification of exports. Practically all commodities available for exports in the Soviet Union, mainland China, Bulgaria and Romania were products of land and mines. By exporting such products these countries were able to cover most of their demand for machinery and a large part of their demand for industrial consumer goods. In Hungary and Poland exports of manufactures, mostly consumer goods, were relatively more important although, here too, most of the exports consisted of primary commodities.

The dependence on exports of a limited number of primary commodities as earners of foreign currency may be illustrated by the fact that in Russia, for instance, prior to the First World War, grain and lumber accounted for as much as 50 per cent of total exports. In Bulgaria, prior to the Second World War, exports of tobacco and fresh fruit represented 60 per cent, while in Hungary exports of meat, including animals for slaughter, and grain accounted for 40 per cent of the total. Even more dependent on a single commodity for its export proceeds was Romania, where the share of petroleum and petroleum products in total exports was 40 per cent. The list of exported primary commodities was somewhat more diversified in Poland; none the less, two items—coal and lumber—accounted for over 30 per cent of its export proceeds. Such an export structure made these countries very sensitive to the fluctuations of foreign demand for primary commodities.

Unlike exports, the structure of imports was characterized by a relatively low weight of raw materials. Unfortunately, the available commodity classification does not permit a distinction to be made between raw materials and semi-manufactures, but it is none the less quite certain that, whereas most food exports consisted of staple commodities, food imports represented refined and finished products. Similarly, whereas most of the export commodities included in table 39 under "raw materials and semi-manufactures" consisted in 1938 of raw materials, most of the imports were semi-manufactures. In certain cases imports of textile raw materials and fuel, or even ores, accounted for a sizable percentage of the total, but even then the share of raw materials in imports was small as compared with that of exports.

The changes in economic structure which occurred in all these countries during the period of industrialization resulted in a significant diversification of exports and considerable changes in the demand for imports. This was associated with a general lessening of the relative importance of individual commodities in exports.[38] It involved at the same time, at least for the eastern European countries, a greater dependence on imports of staple foods and industrial raw materials.

The diversification of exports took the form of a decline in the share of foodstuffs and a corresponding increase of the share of manufactures, specifically of machinery and equipment (see table 39). In certain countries, some degree of substitution took place be-

[38] With the exception of Poland. See page 150.

Table 39. Changes in Commodity Composition of Foreign Trade, by Country

(Percentage distribution)

Country and item	Imports					Exports				
	1938	1949	1953	1956	1957	1938	1949	1953	1956	1957
Less industrialized countries										
Bulgaria[a]										
Machinery and equipment	31.5	25.0	39.3	42.4	29.6	—	0.2	2.2	3.6	7.5
Industrial consumer goods	5.4	4.3	4.4	4.0	11.6	4.0	...	3.1	17.4	27.7
Food	3.2	9.7	1.3	1.7	6.7	48.0	13.7	37.5	29.1	24.8
Raw materials and semi-manufactures	59.9	61.0	55.0	51.9	52.1	48.0	86.1	57.2	49.9	40.0
Hungary										
Machinery and equipment	8.0	17.4	18.7	12.5	11.8	9.0	17.4	35.2	30.3	38.0
Industrial consumer goods	29.0	2.7	1.7	4.0	6.2	21.0	17.2	20.1	15.4	13.5
Food	6.0	3.5	11.9	12.7	10.3	57.0	43.2	24.7	30.9	26.4
Raw materials and semi-manufactures	57.0	76.4	67.7	70.8	71.7	13.0	22.2	20.0	23.4	22.1
Poland										
Machinery and equipment	14.0	24.4	40.6	33.2	23.8	1.0	2.4	12.3	15.6	20.0
Industrial consumer goods	14.0	2.8	2.7	5.8	5.7	9.0	9.1	9.6	8.9	6.4
Food	9.0	11.4	6.7	12.4	17.4	32.0	19.8	20.3	11.7	12.6
Raw materials and semi-manufactures	63.0	61.4	50.0	48.6	53.1	58.0	68.7	57.8	63.8	61.0
Romania[b]										
Machinery and equipment	23.0	24.5	41.6	20.5	...	—	0.8	8.3	10.1	...
Industrial consumer goods	55.0	7.6	3.3	4.4	...	1.0	0.2	4.2	3.5	...
Food	4.0	4.8	2.7	6.9	...	41.0	48.7	16.7	23.8	...
Raw materials and semi-manufactures	18.0	63.1	52.4	68.2	...	58.0	50.3	70.8	62.6	...
More industrialized countries										
Czechoslovakia[c]										
Machinery and equipment	9.8	7.3	14.0	17.2	18.7	6.4	27.2	42.4	40.3	40.8
Industrial consumer goods	5.9	1.7	1.5	3.2	3.9	36.8	27.9	12.2	15.4	17.4
Food	16.3	26.4	30.2	24.6	23.4	9.8	7.8	8.6	7.4	7.0
Raw materials and semi-manufactures	68.0	64.6	54.3	55.0	54.0	47.0	37.1	36.8	36.9	34.8
Eastern Germany[d]										
Machinery and equipment	12.1	8.2	5.2	4.7	...	87.0	31.9	62.7	60.4	...
Industrial consumer goods		16.5	23.9	18.3	...		20.8	19.3	20.8	...
Food	36.3	31.4	40.9	36.1	...	1.3	7.0	1.0	2.0	...
Raw materials and semi-manufactures	51.6	43.9	30.0	40.9	...	11.7	40.3	17.0	16.8	...
USSR										
Machinery and equipment	34.5	...	...	24.8	23.9	5.0	...	...	17.3	15.3
Industrial consumer goods	1.0	...	...	9.5	11.4	7.9	...	...	2.8	3.3
Food	12.8	...	...	16.4	14.5	30.5	...	...	10.8	18.0
Raw materials and semi-manufactures	51.7	...	...	49.3	50.2	56.6	...	...	69.1	63.4

Source: In addition to the sources given in United Nations, *World Economic Survey, 1955*, table 55, page 120, and *Economic Survey of Europe in 1957* (sales number: 58.II.E.1), chapter VI, table 4, page 8 and appendix table XXXIII, page A-53, the following sources were used:

Bulgaria: *Statisticheski Godishnik na Tsarstvo Bulgaria, 1942* (Sofia);

Hungary: *Magyarorszag 1938 Evi Kulkerskedelmi Forgalma, 1939* (Budapest) and reply of the Government of Hungary to the United Nations questionnaire of 1957/1958 on economic trends, problems and policies;

Poland: *Concise Statistical Yearbook, September 1939–June 1941* (Glasgow); *Rocznik Statystyczny* 1955, 1956, 1957 and 1958;

Czechoslovakia: *Postaveni CSR ve Svetovem Hospodarstvi* (Prague); *Statisticka Rocenka Republiky Ceskoslovenske, 1958* (Prague);

USSR: *Statistika Vneshnei Torgovli SSSR*, No. 12, 1938 (Moscow); *Vneshnyaya Torgovlya SSSR*, Nos. 4 and 8, 1958 (Moscow); *Vneshnyaya Torgovlya SSSR za 1957 God* (Moscow, 1958). Figures for 1956 and 1957 include re-exports, also the value of goods purchased and resold by Soviet agencies without crossing the Soviet border. Grants-in-aid and other non-commercial transactions, and the value of goods in transit across Soviet territory are not included.

[a] Data indicated in columns for 1938, 1949 and 1953 refer to 1939, 1948 and 1952 respectively.

[b] Data indicated in columns for 1949 refer to 1948.

[c] Data indicated in columns for 1938 refer to 1937.

[d] Data indicated in columns for 1938, 1949 and 1956 refer to 1936, 1950 and 1955 respectively.

tween exports of foodstuffs and exports of agricultural raw materials and minerals. But even in these countries, the increase in the relative importance of the latter in total trade was insufficient to offset the fall in the relative importance of the former. In consequence, exports of primary commodities generally declined in relation to total trade.

The fall in the share of foodstuffs was already well marked in the industrially less developed eastern Euro-

pean countries as early as 1949.[39] This decline reflected the shrinkage of agricultural output, as well as of the share of food production offered for sale, which, at that stage, was in part due to the distribution of large landholdings among the peasants. The decline in the share of food in exports continued in Bulgaria and Poland throughout the post-recovery period, and in Hungary and Romania until 1953. In all these countries this reduction took place in the face of the most intense drive for industrialization and the related rise in demand for imports. In contrast, the rise in the share of manufactured goods began only after the inauguration of the five-year plans and continued at an undiminished rate until very recent times. However, the movement of the shares of the two components of manufactures—capital goods and industrial consumer goods—was quite different in the various countries. Between 1938 and 1949, there was already some increase in the share of capital goods, particularly in Hungary, which subsequently accelerated everywhere. On the other hand, the share of industrial consumer goods was, in practically all countries, lower in 1949 than in the pre-war period and, except for Bulgaria, has not risen appreciably anywhere since then. In fact, the only two countries of the group, Hungary and Poland, where the relative share of industrial consumer goods in total exports was not negligible before the war, registered a fall in the share of such goods, after a temporary rise, with the result that it was even lower in 1957 than in 1949.

The post-war decline in the share of food exports in the industrially less developed centrally planned economies had its parallel in the decline of Soviet food exports in the post-revolutionary period. Thus, while in 1913 foodstuffs accounted for as much as 58 per cent of total exports from Russia, their share had declined to 21 per cent by 1928. Unlike the post-war developments in the eastern European countries, however, the share of food exports increased considerably during the great industrialization drive in the early nineteen thirties and, although it declined subsequently, it rose again by 1938 to 30 per cent of total exports. Conversely, Soviet exports of machinery and equipment remained a negligible proportion of total exports throughout the first two five-year plans. These differences in development are remarkable inasmuch as they reflect the impact of the creation in the post-war period of a self-contained market within the group of centrally planned economies which permitted an expansion of exports of engineering products from countries which otherwise would not be able to meet the competition and standards of international markets.

During the post-war period the share of foodstuffs in Soviet exports declined very substantially. A reversal of this decline may have occurred only in 1955 in connexion with the significant increase in output since that year. As in the other countries, the decline of the relative importance of food exports was associated during this period with a rise in the share of exports of machinery and equipment. The latter increase, although not as spectacular as in most of the other countries, was sharp enough to bring the shares of foodstuffs and capital equipment to about an equal level by 1957.

The relative importance of single commodities as earners of foreign exchange has been considerably lower in most countries of the group in recent years than it was before the inauguration of the five-year plans. In the Soviet Union the two largest single export items in 1957 were grain and cotton. These together accounted for only 19 per cent of the total, despite the fact that grain exports were at an unusually high level in that year, exceeding more than twice the average for 1955 and 1956. In Bulgaria the share of tobacco and fresh fruit amounted in 1956 to 20 per cent of total exports. Even more diversified was the list of primary commodities exported in 1956 from Hungary, where the combined exports of meat, bauxite and grain did not exceed 15 per cent. Only in Poland did the relative importance of a single commodity in total exports increase, exports of coal (and coke) accounting for as much as 43 per cent of the total in 1956 and 34 per cent in 1957. This exception, however, was due to the acquisition of western Upper and Lower Silesia which made Poland one of the world's largest producers and exporters of coal in the post-war period. However, the share of coal in total exports, which was considerably higher in 1949 than before the war, has tended to decline since that year as other exports expanded, while the volume of coal exports declined. This is not fully reflected in the statistical data based on current prices owing to the steep increase in prices received for a sizable proportion of Polish coal shipments to the Soviet Union, which before 1953, were delivered at extremely low prices.

Although the relative importance of major export commodities generally declined in some countries, there was a rise in the share of some primary commodities previously not available for export or available in small quantities only. This was especially important in the Soviet Union, where the fall in the relative share of lumber and foodstuffs after the war was, to a large extent, compensated by an increase in the share of fuel, iron ore, non-ferrous metals, cotton and some other materials. Similarly, there was an increase in the share of fuel and metals in Bulgaria. In Hungary and Poland the relative importance of exports of metals has also tended to rise.

On the import side, the share of machinery and equipment tended to rise in all countries until about 1953 and to decline afterwards. The increase between 1938 and 1949 was accompanied by a decline in the

[39] Though data on exports in physical terms are scanty for this period, there are indications that the decline was also in absolute amounts. In fact, it appears that most of the absolute decline in food exports of this area between 1937 and 1956 occurred between 1937 and 1949 (see page 153).

relative importance of imports of industrial consumer goods. Similarly, the increase in the share of capital goods imports between 1949 and 1953 was accounted for by a decline in the share of imports of raw materials for industrial consumer goods and also, in most cases, of foodstuffs. Conversely, the decline in the share of machinery and equipment after 1953 had its counterpart in an increase in the share of food imports. On balance, the rise in the share of foodstuffs between 1938 and 1949, and again between 1953 and 1957, was larger than the intervening decline. In consequence, the relative share of foodstuffs in total imports was, in each country, higher in 1957 than before the war.

While the share in total imports of raw materials and semi-manufactures, taken together, tended either to decline or to remain unchanged, the relative importance of raw materials, taken alone, tended to rise. These developments appear to have been different only in the Soviet Union where the share of imported metals and some agricultural raw materials showed a tendency to decline.

Unlike the other centrally planned economies, Eastern Germany and most parts of Czechoslovakia were industrially highly developed at the time of inauguration of the long-term plans. Although before the war these countries were major sugar producers and exporters, and Eastern Germany had some exportable surplus of grain and potatoes, most of their exports consisted of greatly diversified and high quality products of manufacturing industry. Their imports, on the other hand, consisted to a large extent of processed foods, agricultural raw materials for industry and minerals.

None the less, the composition of the foreign trade of these two countries differed significantly before the plan era. While more than 85 per cent of the commodities leaving the area of Eastern Germany before the war consisted of finished manufactures, such goods accounted for only 43 per cent of Czechoslovak exports. Moreover, while most of the German manufactures consisted of machinery and equipment, the greater part of manufactures exported from Czechoslovakia were consumer goods. Although exports of food and raw materials represented a relatively small part of the total in both countries, the share of such goods in Czechoslovak exports was much higher. Conversely, although both countries were heavy food and raw material importers, the share of imported foodstuffs and raw materials was much higher in German than in Czechoslovak imports.

The situation changed drastically during the period immediately following the war. Devastation and underutilization of capacity were more severe in Eastern German industries producing finished commodities than in industries producing raw materials and semi-finished goods. As a consequence, the share of this country's exports of machinery and equipment fell sharply, while that of raw materials and semi-manufactures increased. In Czechoslovakia, on the other hand, there was in the meantime a steep rise in the share of exports of machinery and equipment accompanied by a decline in the share of both industrial consumer goods and basic materials.[40] These changes brought the composition of exports of these two countries quite close to one another. The rise in the import share of foodstuffs in Czechoslovakia, brought about by the decline of agriculture, had a somewhat similar effect on the import side.

During the following years, the composition of exports of these two countries was largely influenced by changes in the composition of imports of the other countries of the group. Between 1949 and 1953 machinery and equipment increased in importance in both countries, although to a greater extent in Eastern Germany, in line with the reconstruction of capacity. The shift towards machinery and equipment was accompanied in Eastern Germany by a decline in the share of exports of basic materials, and in Czechoslovakia by a further decline in the relative importance of exports of industrial consumer goods. After 1953, as the investment programmes in other eastern European planned economies slowed down, the share of exports of machinery and equipment became stabilized at about 60 per cent in Eastern Germany and about 40 per cent in Czechoslovakia. Correspondingly, the share of exports of basic materials remained fixed in Czechoslovakia at a higher level than in Eastern Germany.

On the import side, developments in these two countries during the plan era were the reverse of those in the other eastern European countries. Between 1949 and 1953, the share of food imports rose and that of basic materials declined. Between 1953 and 1957 the movement was reversed in Eastern Germany, while in Czechoslovakia the decline in the relative importance of food imports during this period was counterbalanced by an increase in the share of imported manufactures.

CHANGES IN OUTPUT, CONSUMPTION AND TRADE, BY MAJOR COMMODITY GROUPS

The decline in the share of exports and the increase in the share of imports of primary commodities in the foreign trade of the centrally planned economies was the result of a steeper rise in consumption than in domestic production of these commodities. This pattern of change was particularly marked in the eastern European countries, but it was also apparent in the Soviet Union. Only in mainland China was the rate of increase in domestic consumption of primary commodities somewhat lower than that of domestic output (see table 40). This exception was not, however, of sufficient weight to prevent the shrinking of the traditional export surplus of this group of countries to about 17 per cent of its pre-war size.

[40] This reflects in part the fact that Czechoslovakia suffered little from war destruction and that its industrial capacity was expanded during the war.

This general trend, however, conceals the existence of divergent tendencies for commodities available for export and for those of which domestic production was inadequate during the pre-war period. In the case of surplus commodities the rise in consumption as a rule exceeded the increase in production, thereby reducing the share of output available for export to the rest of the world. In contrast, consumption of deficit commodities increased less than output and, in consequence, the dependence on imports from the rest of the world tended to decline. These very characteristic differences in relative changes in output and consumption are clearly seen from the comparison of the ratios of percentage increase of output to percentage increase of apparent consumption of selected primary commodities shown below.[41]

Deficit commodities	*Ratios*
Copper	2.27
Tin	1.69
Lead	1.64
Wool	1.27
Aluminium	1.23
Cotton	1.17
Iron ore	1.03
Hemp	1.01

Surplus commodities	*Ratios*
Zinc	1.07
Grain and rice	0.99
Brown coal	0.98
Meat	0.97
Sugar	0.97
Eggs	0.96
Petroleum	0.93
Hard coal	0.90
Flax	0.90
Manganese	0.88
Silk	0.70

Table 40. All Primary Commodities: Indices of Output, Trade and Apparent Consumption
(Pre-war as percentage of late post-war period)[a]

Area	*Output*	*Imports*	*Exports*	*Apparent consumption*
Eastern Europe				
Less industrialized countries	76	45	122	68
More industrialized countries	74	58	45	74
TOTAL, EASTERN EUROPE	75	53	99	70
USSR	50	23	37	49
TOTAL, USSR AND EASTERN EUROPE	58	40	65	56
China (mainland)	65	61	80	66
TOTAL, CENTRALLY PLANNED ECONOMIES	59	47	68	58

Source: Estimated by applying 1956 Soviet export prices or, when not available, import prices to the quantities of output and trade of selected commodities.

[a] Data for agricultural commodities used for the calculation of indices represent averages for 1934–1938 and 1955–1957; for mineral raw materials and timber, averages for 1937–1938 and 1956–1957.

All of the eight major deficit commodities show a higher increase in production than in consumption, while the reverse is true for all but one of the eleven major surplus commodities. Notwithstanding these differences, changes in output and consumption show a fair degree of correlation. The higher or lower rates of increase in output were generally associated with higher or lower rates of expansion of consumption. Consumption of some deficit commodities, though rising more slowly than output, expanded at a much higher rate than consumption of several surplus commodities, which increased more than output. Changes in production were primarily geared to changes in domestic requirements rather than to the foreign demand and were determined by relative priorities assigned by the planning authorities to various commodities.

Since the real income of the population increased less than total production, consumption and therefore output of raw materials used primarily in production of consumer goods increased at a lower rate than consumption and output of commodities used primarily for production of capital goods. This tendency was best reflected in the lower rates of growth achieved in output and consumption of food and agricultural raw materials as compared to those achieved in output and consumption of metals and fuels. It should be added, however, that although this pattern of growth was obviously largely influenced by the considerable increase in the rate of investment in relation to national income, it cannot be entirely attributed to this factor. The rise in the real income of the population would in any event result in a shift of demand in favour of durable consumer goods and, therefore, call for a greater increase in supply of metals and other raw materials than of food. In fact, such a shift in demand took place in most of the European centrally planned economies during very recent years on the basis of rising levels of consumption. The effect of such shifts in demand on supply is much less direct in the centrally planned economies than in private enterprise economies and depends largely on the preference schedules of the planning authorities. However, recent experience indicates that the composition of supply and output in the centrally planned economies shows a fair degree of sensitivity to changes in consumer demand, provided that such changes do not infringe upon higher priority sectors, such as output of capital goods and foreign trade balances.

The rise in output of foodstuffs was considerably smaller than that of all other primary commodities. In

[41] For agricultural commodities indices for 1955–1957 based on 1934–1938 = 100; for industrial commodities indices refer to 1956–1957 based on 1937–1938 = 100. All indices were derived from tables 48 to 53.

Table 41. Indices of Changes in Population and Per Capita Food Production and Consumption

(1955–1957 = 100)

Area and item	1934–1938[a]	1934–1938[b]	1950
Eastern Europe			
Less industrialized countries			
Population	100	100	92
Food production per capita	81	87	89
Food consumption per capita	76	81[c]	87
More industrialized countries			
Population	103	100	100
Food production per capita	99	100	79
Food consumption per capita	88	89[c]	71
Total, eastern Europe			
Population	108	100	95
Food production per capita	86	91	86
Food consumption per capita	80	84[c]	81
USSR			
Population	85	95	90
Food production per capita	65	66	78
Food consumption per capita	64	65[c]	78
Total, USSR and eastern Europe			
Population	92	97	92
Food production per capita	73	74	81
Food consumption per capita	71	72[c]	79
China (mainland)			
Population	77	77	88
Food production per capita	99	99	85
Food consumption per capita	101	101[c]	..
Total, centrally planned economies			
Population	82	83	89
Food production per capita	86	88	83
Food consumption per capita	85	87[c]	..

Source: For methods of calculation, see source for table 40. Population indices based on data from national statistical yearbooks and Statistical Office of the United Nations. The 1937 index for China (mainland) is based on an estimated population of 476 million which may be subject to a substantial margin of error.

[a] Pre-war territory; population in 1937.

[b] Post-war territory; population in 1937.

[c] Trade in pre-war territory, production in post-war territory.

the more industrialized countries per capita production of food remained in 1955–1957 at about the same level as before the war (see table 41). In the other eastern European countries, it did not increase by more than 15 per cent.[42] In mainland China the substantial increases in food output during recent years were barely sufficient to make up for the decline in output during the war and the continued growth of population. In consequence, per capita output in 1955–1957 did not exceed the pre-war level. The only country showing a considerable rise in per capita production was the Soviet Union. While Soviet food production increased between 1934–1938 and 1955–1957 by about 60 per cent, the population rose by 5 per cent only. This rise in food production, however, was from an extraordinarily low level caused by the decline of output during the collectivization period from which it had not fully recovered by 1934–1938. In fact, the decline in per capita output during the period 1926–1930 to 1934–1938 was so severe that most of the increase during succeeding years merely compensated for this decline. In that period, food output diminished by about 13 per cent and the population increased by about the same percentage; these together resulted in a per capita decline of about 23 per cent. In effect, per capita food production by 1955–1957 was no more than 17 per cent higher than in 1926–1930.[43]

As a result of the lag in output, the balance of food trade of the centrally planned economies changed significantly. The rise in consumption in excess of output resulted in considerably greater increases in imports than in exports (see table 42), and the centrally planned economies tended to become net importers of food in contrast to the pre-war period when they were consistently net exporters. The most marked changes in the balance of food trade took place in the eastern European countries. The once substantial export surplus of Bulgaria, Hungary, Poland and Romania was reduced, between 1934–1938 and 1955–1957, by about 80 per cent as a result of a decline in exports and a fourfold increase in imports. Simultaneously, there was a threefold increase in the food deficit of Czechoslovakia and Eastern Germany.

The Soviet Union and mainland China were able to increase food exports very considerably. However, although Soviet food exports in 1955–1957 were more than double their pre-war level, the rise in imports was about sixfold and the average deficit increased. Only mainland China succeeded in reducing food imports and increasing exports, despite its prevailing low level of consumption, and the resulting export surplus seems to have offset the deficit of the other areas in 1955–1957.

The relative importance of the food trade in various areas may be seen from the average export and import values for 1955–1957, indicated in table 43. Since exports and imports of food may fluctuate from year to year under the influence of changes in harvest, an average for the three years for which data were available seems more indicative of the relative importance of trade of various countries than data for any single year. It should be stated, however, that although the

[42] In these two regions population was, in 1957, approximately the same as before the war. In Eastern Germany and Czechoslovakia this was the result of the outflow of population to the Federal Republic of Germany, or of the expulsion of the Sudeten Germans. In the other group of countries, the main reasons were the losses of population suffered during the war by Poland.

[43] The considerable discrepancy between changes in food production indicated in the text and in total agricultural output as given in table 38 is due to differences in the periods covered as well as to a considerable disparity between rates of increase in food production and in output of industrial crops. While output in 1926–1930 was approximately the same as in 1928, in 1937 it was considerably above the 1934–1938 average owing to the recovery from 1932 to 1937. On the other hand, while food output, which had suffered a severe decline during the early nineteen thirties, had only regained its 1928 level in 1937, production of industrial crops had doubled between these two years. In consequence, total agricultural production increased by about 12 per cent between 1928 and 1937.

Table 42. Food and Agricultural Raw Materials: Indices of Output, Trade and Apparent Consumption
(1955–1957 = 100)

Area and item	Food[a]				Agricultural raw materials[b]			
	1926–1930 (pre-war territory)	1934–1938 (pre-war territory)	1934–1938 (post-war territory)	1948–1952 (post-war territory)	1926–1930 (pre-war territory)	1934–1938 (pre-war territory)	1934–1938 (post-war territory)	1948–1952 (post-war territory)
Eastern Europe								
Less industrialized countries								
Production	...	89	86	82	...	74	65	78
Imports	44	25		(17)	49	65		(77)
Exports	162	133		(73)	189	169		(14)
Apparent consumption	...	83	81[c]	80	...	66	63[c]	78
More industrialized countries								
Production	...	102	100	79	...	37	37	55
Imports	76	40		(33)	122	101		(56)
Exports	281	103		(92)	...	—		—
Apparent consumption	...	91	90[c]	71	...	94	94[c]	56
Total, eastern Europe								
Production	...	93	91	81	...	68	61	74
Imports	65	35		(27)	80	83		(66)
Exports	172	129		(75)	175	149		(11)
Apparent consumption	...	86	84[c]	77	...	78	76[c]	69
USSR								
Production	...	55	63	70		52	54	78
Imports	15	16	(18)	38	68	39	(49)	51
Exports	41	26	(41)	23	11	11	(11)	...
Apparent consumption	...	55	62[c]	71		57	61[c]	...
Total, USSR and eastern Europe								
Production	...	68	72	74	...	53	55	78
Imports	46	31		(32)	61	52		(61)
Exports	92	66		(44)	15	14		...
Apparent consumption	...	66	69[c]	73	...	63	65[c]	...
China (mainland)[c]								
Production	...	76	76	74	...	48	48	...
Imports	573	384		...	129	74		...
Exports	72	81		...	165	113		...
Apparent consumption	...	77	77[c]	...	...	45	45[c]	...
Total, centrally planned economies								
Production	...	70	73	74	...	51	52	...
Imports	63	42		...	86	68		...
Exports	85	71		...	53	39		...
Apparent consumption	...	69	72[c]	...	...	56	58[c]	...

Source: For methods of calculation, see source given for table 40. Indices in parentheses based on incomplete data.

[a] Including wheat, rye, barley, oats, maize, rice, meat, milk, eggs, tobacco, vegetable oils, sugar, tea, coffee, cocoa beans. Trade of meat includes animals for slaughter; trade of milk includes milk equivalent of butter only.

[b] Including cotton, wool, flax, hemp, silk, jute, natural rubber.

[c] Trade in pre-war territory, production in post-war territory.

pattern of trade was similar in 1955 and 1956, it altered considerably in 1957, mainly under the impact of an extremely steep increase in Soviet exports and Polish imports of food. While Soviet imports remained practically unchanged, Soviet exports rose from about 1.6 billion roubles in 1955 and 1956 to about 3.2 billion roubles in 1957, resulting in a change from an import surplus of 810 million roubles in 1956 to an export surplus of 876 million roubles in 1957. In contrast, Polish net imports increased between 1956 and 1957 from about 50 to 380 million roubles.

Changes in the balance of food trade were associated with significant changes in per capita food consumption of the eastern European countries. In Czechoslovakia and Eastern Germany food consumption per capita

Table 43. Imports and Exports of Food of the Centrally Planned Economies in 1955–1957
(Millions of roubles; in current prices)

Area	Exports	Imports	Balance
Eastern Europe			
Less industrialized countries	1,868	1,057	811
More industrialized countries	473	3,164	−2,691
TOTAL, EASTERN EUROPE	2,341	4,221	−1,880
USSR	2,104	2,385	−281
TOTAL, USSR AND EASTERN EUROPE	4,445	6,606	−2,161
China (mainland)	(2,300)	(200)	(2,100)
TOTAL, CENTRALLY PLANNED ECONOMIES	(6,745)	(6,806)	−(61)

Source: Source for table 39, except that data for China (mainland), Eastern Germany and Romania are partly estimated. Figures within parentheses are estimates based on incomplete data.

increased by about 12 per cent above the pre-war level, despite the fact that per capita production did not increase. In the other eastern European countries taken as a group, the 23 per cent increase in per capita consumption was associated with a decline in the export surplus. On the other hand, in the Soviet Union, changes in the balance of trade had little effect on aggregate per capita consumption on account of the low share of trade in total consumption. This was true to an even larger extent in mainland China (see tables 41 and 42).

The rate of expansion of output of agricultural raw materials exceeded significantly that achieved in food production. In eastern Europe, the increase in output of textile fibres amounted to about 64 per cent between 1934–1938 and 1955–1957. In the Soviet Union the increase was 85 per cent and in mainland China, output more than doubled during the same period (see table 42). The much greater rate of increase in output of raw materials than of foodstuffs, as well as an extension of the use of man-made fibres and synthetic rubber, resulted in a different pattern of change in the relationship of output, consumption and trade. Unlike foodstuffs, domestic production of raw materials increased more than apparent consumption in the centrally planned economies taken as a whole. The considerably higher rate of expansion of output between 1934–1938 and 1955–1957 resulted in a sharp reduction in net imports from the rest of the world. The relative changes of output, consumption and trade differed considerably, however, in various areas. In less industrialized eastern Europe, imports of agricultural raw materials rose at about the same rate as production, while exports, which even before the war were negligible, declined. In consequence, consumption increased at about the same rate as output and the share of imports in apparent consumption remained approximately unchanged. In Czechoslovakia and Eastern Germany both imports and the negligible amount of exports remained, in 1955–1957, at approximately the same level as before the war; consumption increased somewhat as a result of increased production. In the Soviet Union and mainland China, on the other hand, consumption increased more slowly than output while exports rose faster than imports. In consequence, Soviet exports and imports of raw materials were nearly in balance in the recent years, while mainland China succeeded in increasing the value of its net exports.

Comparison of changes in consumption of food and agricultural raw materials and, what is more relevant in this connexion, of apparel fibres, shows a substantially higher rate of increase for raw materials than for foodstuffs in the centrally planned economies taken as a group. Closer scrutiny shows, however, that while in the apparently more developed countries such as Eastern Germany, Czechoslovakia and the Soviet Union the rates of increase in consumption of food were slightly above those of raw materials, in the less developed areas the percentage increase in consumption of raw materials was more than twice as high as that of food, while in mainland China it was four times as high. This somewhat surprising pattern of change might have been due to several factors.

Although influence of consumer choice on the composition of output was severely limited by government decisions relating to output and foreign trade, the priorities attached by Governments to the expansion of supply of various commodities was obviously not haphazard, but reflected, at least partly, changes in consumer demand. It seems probable, therefore, that the differences in relative rates of increase in apparent consumption of food and of agricultural raw materials were influenced by the scope and nature of economic and social changes from 1934–1938 to 1955–1957. The impact of land reforms and of shifts of population from rural to urban areas on consumption patterns was much more significant in the predominantly peasant countries than in the more industrialized countries of eastern Europe. It is, therefore, likely that the higher rate of increase in apparent consumption of agricultural raw materials than of food which occurred in mainland China and in the less industrialized eastern European countries was largely due to improved consumption levels of the peasants and to the integration of former subsistence farmers into the exchange economy. These changes resulted in a considerable increase in demand for manufactured goods among which cotton fabrics were of primary importance.[44]

[44] It is obvious that the changes in apparent consumption of agricultural raw materials are related not only to domestic, but also to foreign, demand for fabrics. However, the data on apparent consumption of textiles in the centrally planned economies seem to confirm the conclusions arrived at by comparison of the increases in apparent consumption of food with those of agricultural raw materials. This can be seen from the following data:

Indices of apparent consumption, 1955–1957
(1934–1938 = 100)

	Eastern Europe		
	Less industrialized	*More industrialized*	*USSR*
Food	123	110	161
Agricultural raw materials	159	106	164
Cotton fabrics	146	100	164

In mainland China, where consumption in 1949 was about equal to that of pre-war levels, the increase in per capita consumption of cotton cloth was, for urban population, from 9.13 metres in 1949 to 20.6 metres in 1956, and for rural population, from 2.3 metres to 6.67 metres, respectively. According to these figures, total apparent consumption of cotton cloth increased during that period 3.3 times (*see* United Nations, *Economic Survey of Asia and the Far East, 1957* (sales number: 58.II.F.1)).

In the Soviet Union the pattern of change was influenced by the fact that, prior to 1953, the Government concentrated its efforts on raising output of industrial crops and therefore, even in the early nineteen fifties the demand pressure on food, especially on meat, was no smaller than on textiles. In Czechoslovakia and Eastern Germany changes in apparent consumption of

agricultural commodities is likely to have been influenced by lack of foreign exchange to pay for imports of wool from the West, while imports of food from the other centrally planned economies were more readily available.

While changes in apparent consumption of food and agricultural raw materials were mostly geared to changes in the real income of the population, the growth of apparent consumption of fuels and metals was directly linked with the pace of industrialization. Despite considerable efforts to raise output of fuels and metals in line with requirements, supplies were often deficient, and these deficiencies were frequently a decelerating factor of economic growth.

Apparent consumption of fuels and metals in the centrally planned economies taken as a group increased much less than industrial production (see table 44). This was in some degree true of each individual country except mainland China where the growth of apparent consumption of mineral raw materials exceeded that of industrial production. In the case of metals the lag in apparent consumption appears to have been greatest in Czechoslovakia and Eastern Germany, followed in diminishing order by the Soviet Union and by the less industrialized countries of eastern Europe.

Table 44. Changes in Output and Consumption of Fuels and Metals in Relation to Changes in Gross Industrial Output, 1956–1957

(1937–1938 = 100)

Area	Output		Consumption	
	Fuels	*Metals*	*Fuels*	*Metals*
Eastern Europe				
Less industrialized countries	55	71	70	59
More industrialized countries	81	64	88	48
TOTAL, EASTERN EUROPE	60	76	74	58
USSR	62	70	65	55
TOTAL, USSR AND EASTERN EUROPE	61	80	67	59
China (mainland)	116	98	116	126
TOTAL, CENTRALLY PLANNED ECONOMIES	65	71	71	61

Source: Tables 38 and 45. For less industrialized eastern Europe the base year pertains to pre-war territory.

These differences were related to variations in the composition of industrial output, in the degree of substitution of materials, the proportion of scrap used and other factors, the analysis of which is beyond the scope of the present report. It is, however, of interest to note that differences in the comparative rates of growth of consumption of minerals and of industrial production in various centrally planned economies were, in general, closely related to the degree of economic development of various regions. In conformity with long-established trends in the private enterprise economies, the index of the ratio of apparent consumption of minerals to industrial production tended to be lower in the more developed than in the less developed countries. The exception, consisting of the higher relative growth of fuel consumption in Eastern Germany and Czechoslovakia as compared to the less industrialized eastern European countries and the Soviet Union, possibly reflected the faster growth of heavy metallurgy and engineering industries, which would require a larger coal input.[45] It should be added that shifts, in some cases considerable ones, in the allocation of fuel to industrial or other uses might have partly accounted for the differences in rates of increase in fuel consumption relative to those of industrial production in various regions.

The changes in the relationship between aggregate output, consumption and trade of the centrally planned economies differed as between metals and fuels. While apparent consumption increased for each of these commodity groups almost three times between 1937–1938 and 1956–1957, production of fuels rose 2.7 times and output of metals about 3.3 times. The result of these changes was a decline in net exports of fuels to about 40 per cent of their pre-war level and the reduction of net imports of metals from the rest of the world to some 20 per cent of their pre-war level.[46] On a regional basis, the differences between relative changes in output and consumption were less pronounced for fuels than for metals and ores.

In the Soviet Union and mainland China, output of fuels increased at approximately the same rate as consumption, while in eastern Europe production lagged behind consumption, especially in the less industrialized countries (see table 45). In consequence, the export surplus of fuel declined considerably between 1934–1938 and 1955–1957 in less industrialized eastern Europe while the once negligible fuel deficit of more industrialized eastern European countries rose substantially. The net fuel exports from these two regions dwindled by 1956–1957 to only about one-fourth of their pre-war level. In the Soviet Union the net exports, and in mainland China the net imports, increased at slightly slower rates than did apparent consumption.

The changes in output and apparent consumption of metals on a regional basis are even more difficult to ascertain than for the area as a whole, because of the highly conjectural character of the estimate of certain items in several countries. Notwithstanding this, the data reproduced in table 45 give at least a general indication of relative changes. They show that, unlike the case of fuels, in metals there was a smaller rise in con-

[45] This factor might not have had the same effect on the requirements of metals because of increases in the share of imported semi-manufactures, such as iron and steel plates, increased use of scrap and substitution for expensive metals of cheaper ones.

[46] It should be noted that a large part of the remaining deficit was covered by imports from North Korea, not included here in the group of centrally planned economies.

Table 45. Fuels, Metals and Timber: Indices of Output, Trade and Apparent Consumption

(1956–1957=100)

Area and item	Fuels[a]		Metals			Timber[b]	
	1937–1938	1950	1937–1938[c]	1937–1938[d]	1950[c]	1937–1938	1950
Eastern Europe							
Less industrialized countries							
Production	62	74	31	23	54	68	79
Imports	14	(23)	47	47	...	100	120
Exports	128	(126)	47	19	...	205	116
Apparent consumption	46	61	37	37	...	55	77
More industrialized countries							
Production	50	66	64	23	37	102	97
Imports	24	(75)	107	107	...	12	26
Exports	109	(65)	280	6	...	127	70
Apparent consumption	46	67	84	84	...	94	93
Total, eastern Europe							
Production	56	70	45	23	52	82	86
Imports	21	(61)	76	76	...	56	73
Exports	125	(117)	70	10	...	183	103
Apparent consumption	46	64	59	59	...	71	84
USSR							
Production	31	55	28	28	50	53	71
Imports	2	(107)	91	23	...	2	169
Exports	21	(14)	10	10	...	179	38
Apparent consumption	31	57	36	29	...	49	72
Total, USSR and eastern Europe							
Production	39	60	30	27	51	58	74
Imports	14	(77)	81	42	...	38	104
Exports	85	(78)	19	10	...	181	65
Apparent consumption	36	60	41	(35)	...	57	75
China (mainland)							
Production	21	36	25	(18)	...	...	...
Imports	103	...	(190)	(190)	...	...	...
Exports	293	...	(73)	(27)	...	...	...
Apparent consumption	21	...	(17)	(17)	...	...	...
Total, centrally planned economies							
Production	37	57	34	30	(47)	...	...
Imports	20	...	82	82	...	...	...
Exports	88	...	25	25	...	...	...
Apparent consumption	34	...	40	34	...	...	...

Source: For methods of calculation, see source for table 40. Indices in parentheses based on incomplete data.

[a] Anthracite, bituminous coal, brown coal, lignite, crude oil and natural gas. Indices for the Soviet Union include also peat and oil shales. Trade of petroleum products calculated on a ton-by-ton basis and weighted by prices of crude oil.

[b] Production refers to total industrial wood; trade represents the sum of sawn wood and wood logs, the latter including sleepers, saw logs and veneer logs, pit props, pulpwood and, for the Soviet Union, other industrial logs.

[c] Iron ore, manganese ore, aluminium, copper, lead, zinc and tin.

[d] Includes in 1956–1957, in addition to the ferrous ores and non-ferrous metals listed under *c*, the value of rare and non-ferrous ores. This value was assumed to be negligible in 1937–1938.

Note: Unlike other quantity data used in the calculation of the aggregate indices, the underlying data on metals represent mostly estimates adopted from unofficial sources. The indices should, therefore, be considered as approximations only.

sumption than in production in eastern Europe, though not in the Soviet Union and mainland China where output and consumption seem to have increased at similar rates. Expressed in constant prices, net imports of metals of less industrialized countries appear to have been somewhat lower in 1957–1958 than in 1937–1938, while the substantial pre-war import surplus of more industrialized countries was turned into an export surplus in 1957–1958. In consequence, aggregate metal exports of eastern Europe in 1956 somewhat exceeded the volume of imports, whereas before the war this area showed a considerable import surplus. In the Soviet Union net imports of metals rose nearly 2.5 times compared to pre-war, reaching the sum of 850 million roubles in 1956–1957. In mainland China, on the other hand, net exports increased considerably, exports to the Soviet Union alone amounting in 1956–1957 to 535 million roubles.

It should be added that the changes in the trade of different centrally planned economies reflected the considerable increase of transactions in rare and non-ferrous ores which were negligible before the war. Thus, post-war metal exports of Czechoslovakia and

Eastern Germany consisted exclusively of rare and non-ferrous ores and it was the development of this trade which accounted primarily for the shift in the position of these countries from net importers to net exporters of metals. The very steep increase in the Soviet net imports of metals was largely due to expansion of imports of rare and non-ferrous ores and concentrates which, during the post-war period, represented a major part of Soviet imports.[47] Almost all exports of metals from the Soviet Union consisted of ferrous ores and non-ferrous metals. Less industrialized eastern Europe imported mostly ferrous ores and non-ferrous metals, while the bulk of its exports consisted of non-ferrous ores. The composition of exports from mainland China was somewhat similar.

This pattern of post-war trade of metals and ores was obviously mainly determined by the differences in endowment in natural resources although, particularly for the less industrialized countries, the lack of smelting capacity for non-ferrous metals was an important factor. The effect of these developments was a considerable increase in the dependence of eastern Europe on imports of conventional industrial metals and ores from the Soviet Union, which, in turn, became increasingly dependent on imports of rare ores from eastern Europe.

[47] According to *Vneshnyaya Torgovlya, 1957* (Moscow), Soviet imports of ores from Czechoslovakia amounted, in 1956–1957, to 440 million roubles. Evidently these consist exclusively of rare and non-ferrous ores, since no iron or manganese ore is exported from Czechoslovakia.

The preceding review of changes in the relationship between apparent consumption, output and foreign trade of the broad categories of commodities is complemented by a more detailed analysis of specific primary commodities in the appendix to this chapter.

PRIMARY COMMODITIES IN LONG-TERM PLANS

The new long-term plans of economic development adopted during the past three years provide for very substantial increases in output and trade of primary commodities. For most commodities the rates of expansion set in the new plans are higher in relation to planned increases in manufacturing than in the past. The emphasis placed on the expansion of output of raw materials represents a serious attempt to eliminate the bottlenecks which in several countries had been, in the past, a limiting factor of their economic growth. In countries poorly endowed with mineral resources the increase in supply of industrial raw materials is to be achieved by an extended exploitation of lower-grade deposits and by a steep increase in imports, mainly from the Soviet Union. The growing importance of the Soviet Union as the main supplier of raw materials was one of the reasons which prompted several eastern European countries to synchronize their national plans with the new seven-year plan of the Soviet Union.

The planned changes in output of industrial primary commodities in the Soviet Union and eastern Europe are indicated in table 46. The figures for 1965 represent

Table 46. Planned Output of Selected Industrial Primary Commodities
(Millions of tons, except as indicated; indices, 1957 = 100)

Item	USSR		Eastern Europe[a]		Total[a]	
	1960	1965	1960	1965	1960	1965
Hard coal	524[b]	606[b]	139	156	509	584
Index	113[b]	130[b]	111	125	112	129
Brown coal			383	554	537	732
Index			125	180	121	165
Crude petroleum	139	235	16	24	155	259
Index	141	239	126	192	140	234
Aluminium (thousands of tons)	823[c]	1,714[c]	189	409	1,012	2,123
Index	155	323	207	447	163	342
Copper (thousands of tons)	556[c]	879[c]	74	106	630	985
Index	131	207	135	193	131	205
Zinc (thousands of tons)	419[c]	534[c]	192	250	611	784
Index	120	153	115	150	118	152
Iron ore	104	155	13	29	117	184
Index	124	184	173	391	128	201
Pig-iron	43	68	14	21	57	89
Index	116	182	128	199	119	185
Electric power (billions of kilowatt-hours)	290	510	118	186	408	696
Index	138	242	138	218	138	236
Industrial production, index[d]	130	198	132	204	131	201

Source: Long-term plans, national statistical yearbooks and sources given for tables 52 and 53.

[a] Targets for 1965 partly estimated. Hungary and Romania have not announced their plans for 1965 and Eastern Germany has published targets for only a few commodities. The 1965 data for these countries were estimated on the basis of average rates of increase scheduled in their plans ending in 1960 or 1965.

[b] Including brown coal.

[c] Output of non-ferrous metals estimated on the basis of indices announced in the plan and the estimated production in 1957. See note to table 53.

[d] Weighted as in United Nations, *World Economic Survey, 1957* (sales number: 58.II.C.1), table 96, page 206.

the targets announced for that year by Bulgaria, Czechoslovakia, Poland and the Soviet Union. For other countries the data were estimated on the basis of average rates of increase scheduled in their plans ending in 1960 or 1962. In consequence data for eastern Europe and for the total can be considered only as indicating a general tendency. Data for mainland China were omitted because the extremely sharp increases in output of several commodities which took place in 1958 made the original targets set for 1962 largely obsolete and inappropriate for any estimate of future rates of expansion.

The estimates of planned increases in output between 1957 and 1965 indicate exceptionally high rates of increase in production of non-ferrous metals, especially of aluminium and copper. They provide, however, for a relatively small increase in production of hard coal—no more than 30 per cent in the Soviet Union and 25 per cent in eastern Europe, whereas industrial production is to increase during the same period by 98 and 104 per cent, respectively. In eastern Europe the effect of the slow rate of increase in production of hard coal is to be partly offset by an increase of 80 per cent in production of brown coal and by sharp increases in imports of petroleum. In the Soviet Union the planned rise in petroleum output by almost 140 per cent would result in a considerable increase in its share in the over-all fuel balance.

Despite the fact that in eastern European countries the rate of increase scheduled for the output of primary commodities in relation to industrial production is considerably higher than in the past, their imports, mainly from the Soviet Union, are planned to increase very substantially, especially for commodities the output of which has been small in relation to requirements. The rise in imports of eastern Europe is to be particularly large for iron ore, mainly from the Soviet Union. Since the Soviet Union plans to increase its output of iron ore at approximately the same rate as that of pig-iron, its exportable surpluses are likely to increase at a rate similar to that to be achieved in output. The growing role played by the Soviet Union as the main supplier of industrial raw materials is clearly indicated by the plans for foreign trade announced by some of the centrally planned economies. Thus, between 1957 and 1965, Eastern Germany plans to increase its imports of crude petroleum, aluminium and pig-iron fivefold, its imports of copper and wool threefold, natural rubber by 90 per cent and cotton by 60 per cent. With the exception of rubber and wool, the bulk of these imports is to come from the Soviet Union.[48] Similarly, a considerable expansion of imports of raw materials from the Soviet Union was announced by Czechoslovakia, which plans to increase imports of

[48] Imports of oil by Eastern Germany from the Soviet Union are to amount to 5 million tons in 1965 (*Der Aussenhandel*, No. 15, 1958 (Berlin)).

Table 47. Actual and Planned Production of Selected Agricultural Commodities
(Millions of tons, except as indicated)

Commodity and period	*Bulgaria*	*Czechoslovakia*	*Eastern Germany*	*Hungary*	*Poland*	*Romania*	*USSR*
Grains							
1955–1957	2.2[a]	5.3	5.5	6.2	12.7	9.5	110.5
1960	5.5[a,b]	...	6.2	6.9	14.2	15.3	...
1965	6.6[a]	6.6	...	...	15.6	...	172.0
Sugar-beets							
1955–1957	1.0	5.8	5.5	2.2	7.1	1.9	34.0
1960	2.7[b]	6.8	8.3	...	...	3.0	...
1965	3.0	6.9	...	...	8.4	...	80.0
Raw cotton							
1955–1957	0.056			—			4.2
1960	0.170[b]			—			...
1965	0.210			—			5.9
Meat							
1955–1957	0.4[c]	0.84	1.2	0.3	1.9[c]	...	6.8
1960	1.2[b]	...	1.4	...	2.4	...	...
1965	1.3	1.3	...	...	3.0	1.3	16.0
Milk[d]							
1955–1957	0.8	3.6	5.3	1.5	11.3	2.1	48.6
1960	2.6[b]	5.1	7.7	2.0	11.9	2.6	...
1965	3.3	5.4	...	...	15.4	...	99.4
Wool[e]							
1955–1957	14.4	2.9	...	4.3	9.4	18.7	273.0
1960	30.0[b]	8.0	...	6.0	15.2	34.0	...
1965	35.0	...	...	...	...	...	548.0

Source: Long-term plans and national statistical yearbooks.

[a] Fodder crops. According to the original version of the plan for 1962, the total output of grain, which in 1955–1957 was 4.2 million tons, was to amount to 5 million tons in 1962.

[b] 1962.

[c] Live weight.

[d] Billions of litres.

[e] Thousands of tons.

iron ore almost 2.8 times, and imports of crude petroleum almost 4.5 times.[49] Information on planned changes in output of specific agricultural primary commodities announced thus far is limited to only a few products and applies to different periods in various countries (see table 47).

According to the plans, in most countries the average rate of increase in total agricultural production is to be about 3 or 4 per cent. Under the Soviet seven-year plan for 1959–1965 agricultural output is to expand at an average annual rate of about 8 per cent, that is, more than two-thirds higher than during the preceding seven years, but only slightly higher than the average rate achieved between 1954 and 1958. In contrast to this, the revised Bulgarian plans provide for an extraordinarily high rate of increase, amounting to as much as 29 per cent *per annum*[50] from 1957 to 1962. Since agricultural production had hardly expanded in 1958, this would, in fact, amount to an average annual rate of increase of 37 per cent from 1958 to 1962. In mainland China the 6 per cent of annual increase scheduled for 1958–1962 was, as in the case of industrial raw materials, rendered obsolete in view of the very steep increases in output in 1958.

In all countries the new plans provide for a relatively higher rate of increase in livestock products than in crops. This shift is particularly significant for the Soviet Union, where output of meat and milk is scheduled to more than double from the average of 1955–1957 to 1965, and output of grain is to increase by 53 per cent. In Poland, during the same period, output of meat and milk is to increase by 59 per cent and 32 per cent, respectively, while production of grain is planned to rise by about 28 per cent. In Bulgaria, the threefold increase in output of coarse grain seems to be associated with a much smaller increase in production of bread grain, for which no data are announced, and, in consequence, total output of grain is probably planned to rise at a much lower rate. These increases are to be brought about by improvement in yields through greater inputs of fertilizer and labour, expanded irrigation works and enlargement of the area sown. The area under coarse grain will probably be extended at the expense of that under bread grain. The steep increase in output of fodder is to provide the basis for even greater increases in output of livestock products: output of meat is scheduled to increase 3.6 times from the 1955–1957 average, and that of milk more than four times. One of the characteristics of the Bulgarian plan is a shift towards horticulture, in conformity with the long-term trade agreements concluded, under the auspices of the Council for Mutual Economic Aid, with the Soviet Union, Czechoslovakia and Eastern Germany, which provide for considerable increases in exports of grapes, apples, tomatoes and vegetables.

Foreign trade policies

POLICIES IN TRADE AMONG THE CENTRALLY PLANNED ECONOMIES

Foreign trade policy as applied to primary commodities has not presented any specific features distinct from general trade policy. The present section will therefore briefly review changes in the foreign trade policy of the centrally planned economies and indicate their impact on trade in primary commodities.

During most of the post-war period, the foreign trade policy of the centrally planned economies was hardly based on fine economic calculation or careful planning. The war destruction had created urgent needs for imports which had to be satisfied at any cost and, in consequence, export policy was guided exclusively by balance of payments considerations. This attitude, justified during a period when the chief task was the reconstruction of existing capacity, was not, however, abandoned during the subsequent period. It was even reinforced during the era of the first long-term plans of economic development by the general tendency to introduce in all countries a pattern of growth similar to that adopted by the Soviet Union, although under entirely different conditions. The fact that the Soviet Union was endowed with practically unlimited natural resources, and that it was developing its economy in isolation from the rest of the world, was generally disregarded. Instead, each country attempted to develop simultaneously a large variety of industries, paying little attention to the problems of existing resources, or to comparative cost. These tendencies were reflected in the attitude towards foreign trade which treated imports as an unavoidable necessity to fill the gaps in domestic supplies, and exports as burdensome obligations necessary to pay for imports. The economic plans of individual countries were drawn up without reference to the plans of other members of the group, and generally overlooked the advantages to be derived from an international division of labour. While such a policy considerably affected the pattern of trade of the centrally planned economies among themselves and with the rest of the world, it was obviously unable to overcome the effects of the uneven distribution of natural resources, especially of minerals, among the various countries of the group. The lack of essential materials in several countries, together with the growing require-

[50] According to a speech by Mr. T. Zhivkov (*Rabotnitscheskoe Delo* (Sofia), 20 January 1959), the index of agricultural production is to increase four times from 1957 to 1965. The originally planned rates of increase for 1958 to 1962 amounted to about 6 per cent annually.

[49] Imports of crude oil from the Soviet Union are to amount to 5.3 million tons in 1965 and imports of iron ore to 10 million tons (*Hospodarske Noviny* (Prague), 28 August 1958).

ments for primary commodities in the area taken as a whole, resulted in a high priority rating for trade in these commodities.

During the immediate post-war period the foreign trade of the centrally planned economies was based on annual bilateral agreements containing lists of goods to be exchanged at given prices. Subsequently, during the period of the first long-term plans of economic development, the general policy was to conclude long-term bilateral agreements which, however, provided only a general framework to be supplemented by annual agreements stipulating the exact quantities and values of goods to be delivered during the year. Long-term agreements tended to introduce a certain element of co-ordination between national plans in so far as they were based on the planned import requirements, and imposed upon the signatories the obligation to produce the exports agreed upon. However, the foreign trade plans were hardly ever an integral part of the general plans, being frequently established without due consideration of the possibility of acquiring the necessary raw materials from abroad, and disregarding the problem of the cost of exports.

The Council for Mutual Economic Aid, created in 1949, did not have, in its initial period, any significant influence on national plans and their co-ordination or on methods of foreign trade policy. The task of the Council was defined as that of "exchange of economic experience, lending of technical assistance and mutual aid in raw materials, consumer goods, machinery and equipment". While little is known about the activity of the Council before 1954, the first period of its existence was characterized by the reorientation of the trade of the centrally planned economies towards each other. This policy was determined both by the shortages of various commodities in world markets and by the tendency of the planned economies to ensure priority in supply to other countries of the group—a tendency which was strengthened by the deterioration in the international situation and by restrictions imposed upon trade with the centrally planned economies by countries outside the group. The reorientation of trade, which took place under the auspices of the Council for Mutual Economic Aid, was not based on considerations relating to prices of various commodities in the two markets, since exporting countries within the group could frequently have obtained higher returns in extra-group trade. In addition to the priority given to intra-trade, an important role was played by credits extended to other countries by the Soviet Union, to be repaid by exports of domestically produced goods. Imports from the West, apart from the restrictions imposed upon essential goods, were hampered by deficient supplies of goods which had been the traditional exports of the centrally planned economies before the war.

The attitude towards foreign trade, and the co-ordination of economic plans have changed significantly since 1953. Although these changes and their timing were largely influenced by political events, there is no doubt that their underlying causes were the difficulties encountered by most of the centrally planned economies at the end of their first long-term plans of economic development. As already stated, the autarkic form of rapid expansion was reflected in some countries in unproductive and frequently unnecessary investment expenditure. In several countries the supply of raw materials, both imported and of domestic origin, lagged considerably behind the rising requirements of the rapidly expanding manufacturing industries. At the same time the need to increase consumption levels resulted, in some countries, in a decline in the share of investment in national income, tending to reduce the rates of economic growth. These circumstances gave a powerful impetus to the reappraisal of former policies and were reflected in a significant increase in activity of the Council for Mutual Economic Aid which began to deal with the problems of co-ordinating the economic plans of individual countries and allocating raw materials. Although the Council had only advisory powers, and had no jurisdiction over the decisions of member Governments, its influence on such decisions seems to have become increasingly important.

Thus, in December 1955 the Council made several recommendations designed to reduce the shortages of fuel and raw materials and to "eliminate the lags in output of raw materials, fuels, metallurgical industries and agriculture".[51] At the same time the Council recommended country-wide specialization in the production of different types of motor vehicles, tractors, combines and other agricultural equipment. The next session of the Council, in May 1956, went much further in this direction and its recommendations were described as the first important experiment in the long-term co-ordination of production and trade plans. The Council discussed the balances of supply and demand of several major commodities for the five-year period starting in 1956, and on this basis recommended increases in output of certain goods, economies in several primary commodities, and methods of disposal of goods available for export.[52] The recommendations with respect to output and trade, for the following five years, related, among others, to about ninety types of machinery and equipment, twenty-three chemical products, twenty-seven items of the iron, steel and non-ferrous metals industries and sixteen agricultural primary commodities. An essential feature of these consultations was the fact that the Soviet Union agreed to increase very substantially its deliveries of iron ore, coal, coke, rolled metals and other commodities to the other centrally planned economies. Although the Council did not intend to co-ordinate the total output of the member countries, and limited itself to planning output and trade of major products only, even this proved to be difficult to implement.

[51] *Voprosy Ekonomiki*, No. 10, 1957.
[52] *International Affairs*, No. 4, 1958 (Moscow).

The recommendations of the Council raised problems of balance of payments and of capital investment required to achieve the planned output within the stipulated period, which were not originally taken into account. Thus, for instance, since investment outlays were larger, and the maturation period longer, in extractive industries than in manufacturing, specialization could impose a greater ratio of investment to national income in countries which were to expand considerably their output of primary commodities. The structure of domestic production inherited from the recent past could not be remoulded in a short period to the mutual advantage of the members of the Council. In view of these difficulties, at its following (eighth) session, in June 1957, the Council decided to reduce the initially agreed scope of co-ordination for the next five years and to undertake the broader dovetailing of national production plans for a period of ten to fifteen years, the preparation of which was recommended to all countries of the group.

While the recommendations of the Council with respect to output and trade were undertaken on a multilateral basis, their practical implementation was to continue in the form of bilateral clearing agreements. However, the resulting changes in the pattern of bilateral trade between each pair of partners made the balancing of trade on a bilateral basis more difficult than in the past.

Prompted by these difficulties, which obviously would increase with any further extension of the international division of labour, the members of the Council signed, for the first time, a multilateral clearing agreement.[53] This is not intended, at least immediately, to replace the bilateral clearing agreements; it is conceived only as an additional, complementary measure which, in its initial stage, will be applied to "reserves of internal market" of individual countries, that is, to available surpluses not earmarked for exports on the basis of bilateral agreements, to deliveries in excess of bilaterally established quotas and to unbalanced accounts in bilateral clearings. The transferable balances cannot, at this stage, exceed 3 per cent of total exports of a given country during the preceding year and, if not liquidated within a definite period, must be paid for by deliveries of such high priority goods as coal, oil, sugar and metals.

It is of interest to mention that even before the signature of the new agreement, certain multilateral elements existed in the trade between the centrally planned economies. In a few cases triangular agreements were concluded, usually with one partner outside the area. In addition, difficulties arising from bilateral trade were, in some cases, overcome by using primary commodities as a form of convertible currency. A given country would exchange some of its exports for commodities produced by one of its trade partners and provide for their direct delivery to a third country. Thus, part of the coal purchased by the Soviet Union from Poland and part of the oil from Romania was directly exported by the producing countries to other countries of the group. These methods of overcoming the difficulties inherent in bilateral trade, however, were cumbersome and not always applicable, and the introduction of multilateral clearing for marginal transactions may lead to their gradual elimination.

The problems of primary commodities again came under debate at the ninth session of the Council for Mutual Economic Aid in June 1958; the Council stressed the need to accelerate output of primary commodities and some basic materials, the shortage of which had become a limiting factor in the further growth of the centrally planned economies. The rate of growth of output of primary commodities was not commensurate with that of manufacturing, and the lag was particularly important in the production of fuel, power and metals. The Council also stressed the need to accelerate the expansion of chemical industries, with the view of eliminating the existing bottlenecks through increased output of fertilizer and of substitutes such as plastic materials, synthetic rubber and fibres. The Council recommended the extension of capacity in raw material industries in countries endowed with natural resources, but stressed that this extension should be brought about by the common efforts of all the centrally planned economies. The high cost of investment in the extracting, chemical and power industries, and the length of the construction period, would result in a considerable rise in investment ratios and, consequently, in restrictions imposed upon consumption were such expansion to be financed entirely out of domestic income. This burden should, according to the Council, be relieved by the participation of other centrally planned economies in the financing of investment in the sectors producing raw materials in those countries best suited to such expansion.

Dealing with the problems of specialization and co-ordination of plans in machine building, the Council again emphasized the urgency of the raw material problems and stated that particular attention should be paid to production of equipment required for the expansion of raw material output, especially for the fuel, power and chemical industries.[54]

The complete dissociation of domestic and foreign trade prices in the centrally planned economies gave rise to complicated problems of estimating the profitability of exports and imports of various commodities. Over a long period the problem of domestic cost of exports was largely neglected and the trade policy was based on little economic accounting. Later on, various methods of calculating trade profitability were devised and used to estimate the relative advantages of export-

[53] The agreement was signed in June 1957 and completed by special agreement between central banks in July 1958.

[54] *Hospodarske Noviny*, 27 July 1958 (Prague).

ing various commodities. The "coefficients of efficiency" were originally conceived as ratios of domestic price to export price, expressed in foreign currency and calculated for each commodity; their comparison was to indicate the differences in cost per unit of export earnings between various products and various countries of destination. Since, however, the domestic price of exports included the cost of imported, or exportable, materials used in their production, such coefficients could not adequately reflect the actual ability of various goods to earn foreign currency. Therefore, more recently in several countries a new coefficient of efficiency was introduced, excluding from the numerator and denominator the cost of imported, or exportable, materials used for production of exports. However, even such a net coefficient of efficiency was only an inadequate criterion for foreign trade policies. As has already been noted, domestic prices of producer goods, especially in Eastern Germany, Hungary and Poland, were related only in a very haphazard fashion to relative costs, and not related at all to the balance between supply and demand. In such conditions the ratios of foreign to domestic prices had little economic meaning. Moreover, the coefficients of efficiency could at best indicate the comparative foreign earning abilities of various goods, but this was not sufficient for the solution of broader issues of planning of output, imports and exports.

These methods were, however, recognized as inadequate for a rational foreign trade policy which, according to the view now prevailing, should be closely integrated with the general policy of development and should tend towards an increase in the over-all productivity of the area. Programmes of imports and exports and, consequently, production plans should take into account the comparative cost of production in various countries, and the price reforms taking place in several countries should provide the basis for such comparison. Decisions relating to production should not, however, according to the prevailing views, be based on comparative advantage stemming from the existing cost ratios, because such a policy would tend to perpetuate the existing differences in the levels of development of various countries; they should depend rather on long-term comparative advantages reflecting long-term production costs of primary commodities in different countries, their endowment in natural resources and the proximity of fuel and raw materials to the location points of industries. It should be added that the closer connexion between production and trade plans and the relative cost of output in various countries has resulted in the re-emergence of the problem of prices in foreign trade among the centrally planned economies, especially with respect to primary commodities. According to some authors, further co-ordination of plans and expansion of trade will make it necessary to devise a single yardstick for comparison of production costs in different countries, that is, to bring the existing exchange rates of national economies into harmony with their domestic purchasing power and to base foreign trade prices on production costs within the area rather than on world prices.[55]

POLICIES IN TRADE WITH THE REST OF THE WORLD

While the trade of the centrally planned economies with one another was conducted exclusively on the basis of bilateral clearings, their trade with the rest of the world presented a much more diversified pattern. Bilateral trade agreements concluded with countries outside the area, frequently covering several years, usually contained lists of goods to be exchanged, while the quantities and prices of goods to be delivered were to be fixed by annual trade protocols. In some agreements prices and quantities were fixed tentatively for a number of years, subject to revision before the expiration of the treaties. The payment arrangements stipulated in the bilateral agreements varied considerably from case to case. The general tendency of the centrally planned economies to achieve bilaterally balanced trade was implemented either by barter arrangements, stipulating the kinds and quantities of goods, or by bilateral clearings with limited swing credits to be repaid by shipments of goods at a later period, or by transfers of convertible currencies. Trade with certain countries was conducted in convertible currencies and trade with the sterling area in sterling on non-transferable accounts.

Trade in primary commodities with the rest of the world was generally directed by the same principles as the trade of the centrally planned economies with each other, though the latter was given first priority. During the period prior to 1954, little consideration was paid to the relative advantages derived from trade with the rest of the world, and trade flows were primarily determined by the pressing import demand for commodities not available within the area and by the need to secure foreign exchange for payments. However, the recent changes in the attitude towards foreign trade, while primarily applied to intra-trade, seem also to have influenced the policy applied to exchanges with the rest of the world and, more specifically, with the primary producing countries. Thus, the greater attention paid to comparative advantage would tend to increase imports of several primary commodities in exchange for exports of manufactured goods. The advantage of such a pattern of trade for the centrally planned economies rests on the fact that, while the terms of trade of primary products for manufactures in world trade seem in recent years to have deteriorated, in the centrally planned economies the reverse is true. Even if such deterioration had not occurred in world trade, there is little doubt that the much more rapid rate of industrialization in the centrally planned economies tended to increase the cost ratios of primary commodities to manufactures as compared with the corre-

[55] K. V. Ostrovitianov in *Pravda*, 8 February 1959.

sponding price ratios in world trade. While no conclusive data on changes in relative cost are available, the existing statistical evidence, as well as information on investment policies and conditions in various economic sectors, point clearly to the conclusion that in all centrally planned economies cost in manufacturing declined substantially in relation to production cost of primary commodities, both in extracting industries and in agriculture. While such a pattern of change could be generally expected in any country in the process of rapid industrialization, special conditions prevailing in the centrally planned economies tended to emphasize it. Thus, the concentration of investment in manufacturing and the low priority given to agriculture in development policies resulted in a very considerable increase in industrial productivity in relation to agriculture. Similarly, in extractive industries, the rising need for raw materials called for the exploitation of less accessible or less valuable deposits in most countries of the area, thus raising the exploitation cost or slowing down its decline. In addition, the rise in prices paid to agricultural producers which occurred in recent years was another factor contributing to the change in domestic terms of trade in favour of primary commodities.

Although such changes in the relationship between domestic cost ratios and foreign price ratios played a part in the shaping of policies affecting trade with the rest of the world, and more specifically with the primary producing countries, their effect on trade in primary commodities was restricted by several other considerations. Probably the most compelling was the reluctance of the centrally planned economies to increase their dependence on imports of raw materials from the rest of the world; in fact, official statements and new plans of economic development indicate a tendency towards a considerable expansion of output of agricultural and non-agricultural raw materials and of synthetic substitutes. While substantial increases in trade with the rest of the world are contemplated, there is no indication of any attempt to shift production schedules or to bring about changes in the allocation of resources based on the advantages which could be derived from the extension of such trade. Such changes, it is true, would hardly be reflected in global output targets because the share of imports of primary commodities from the rest of the world was exceedingly small in relation to output of the centrally planned economies taken as a whole. Apart from this, since the relative costs of output and of imports may be different not only for various commodity groups but even for specific items within a group, it is possible that some shifts in production and imports from the rest of the world were actually planned without any visible effect on global data.

Despite these qualifications, the rising requirements for several primary commodities, especially of agricultural origin, largely due to the increasing need to raise consumption levels, and the advantages derived from procuring them from abroad in exchange for manufacturing, have been increasingly important factors in the foreign trade policy of the centrally planned economies during recent years.

Exports of primary commodities from the centrally planned economies to the rest of the world were motivated mainly by the need to secure foreign currency to finance imports. Thus, exports of a given commodity may be considered warranted from the point of view of the economy as a whole as a means of securing foreign currency, even if its supply is not sufficient to cover demand within the area. The Soviet Union exported in the nineteen thirties considerable amounts of grain, despite tremendous shortages of food, in order to pay for imports of equipment necessary for industrialization. More recently several countries have exported such commodities as meat, coal and some non-ferrous metals, despite the fact that all these commodities were in short supply in individual countries and in the area of the centrally planned economies as a whole. While it may not have been possible to correlate exports of specific commodities with the supply-demand position within the area, such flows were nevertheless generally motivated by over-all objectives of domestic economic policy. Similarly, price policy in trade with the rest of the world was generally based on some economic considerations, although these considerations were naturally not the same as those in the private enterprise economies. The profit motive which influences private entrepreneurs in their choice between exports and sales in the domestic market, does not, of course, influence the decisions of the planning authorities, who may find it expedient instead to export high cost goods at low prices. Notwithstanding this, the centrally planned economies, like any other traders, obviously strive to get the highest prices for their exports and to pay the lowest prices for their imports. In some instances, however, the centrally planned economies were willing to bid up prices to obtain necessary imports, especially when such practice was deemed necessary to induce their trade partner to sell goods included in embargo lists, or to offset disadvantages resulting from payment in kind instead of in convertible currency. Similarly, in some cases the centrally planned economies offered exports at prices below prevailing world prices, but in most instances this was also closely related to the difficulties encountered in the fulfilment of bilateral or barter agreements or to the pressing needs of balancing trade conducted in convertible or partly convertible currencies. The bilateral clearings usually provided for the balancing of current deficits within the following year by exports or by payments in convertible currency. However, in some cases the creditor country was reluctant to raise its imports to the originally stipulated levels because of a change in the pattern of demand, difficulty in obtaining the required variety of goods, delays in deliveries or inferior quality of goods offered

for sale. In such cases the centrally planned economies were willing to offer their exports at a discount with a view to balancing their bilateral accounts. Although, in some instances, political considerations played a part in offering exports at reduced prices or paying for imports at premium prices, it seems that, in general, there were strong economic motivations for such policies.

The attitude of the centrally planned economies towards the stabilization schemes and policies applied to prices of primary commodities in the world markets as reasserted in the course of 1958 in several official statements, [56] has been one of support, in principle, of international commodity agreements and of willingness to participate in arrangements such as the establishment of export quotas and fixing of export prices. At present some centrally planned economies adhere to the International Sugar Agreement, which fixes the export quotas of its participants in their trade with the rest of the world. In some other cases, such as tin and aluminium, the Soviet Union has also agreed to restrict exports of these commodities.

During the last two years the trade of the centrally planned economies with the rest of the world tended to have a stabilizing effect in the case of wool, rice, wheat and rubber, but their trade in sugar, affected by fluctuations in harvest, tended rather to amplify the fluctuations on the world market.

The expansion of exports of non-ferrous metals, in particular, tin and aluminium, despite their relatively small share in world trade, also had a depressing effect on the market, especially in 1958. These increases, under conditions of falling demand, were most likely motivated by the pressing need to restore the balance of payments with the sterling area, with which the Soviet Union was running a deficit. In fact, the rise in exports of aluminium took place in a period when, according to official statements, the Soviet Union was experiencing an acute shortage of this commodity despite the considerable increase in output of recent years. The rise in Soviet exports resulted in the imposition of import restrictions on tin by several countries, and the Soviet Union entered into negotiations with the International Tin Council and agreed to limit substantially its exports to countries other than the planned economies. [57] Similarly, negotiations between the Soviet Union and the United Kingdom led to an agreement limiting Soviet shipments of aluminium in 1959 to their 1957 level. It should be pointed out, however, that, apart from such short-term considerations, the Soviet Union seems to be interested in increasing its exports of non-ferrous metals above the levels achieved prior to 1956–1957, in order to earn additional amounts of foreign currencies needed for increased imports of equipment from the more developed western countries, in accordance with its new long-term plan of development.

During recent years, the centrally planned economies entered into a number of bilateral agreements with several primary producing countries which resulted in a significant increase in their exports of primary commodities. At a time when world markets were depressed, such agreements providing for an exchange of a stipulated amount of goods at fixed prices had a stabilizing effect on the foreign trade proceeds of the exporters of primary commodities. An important advantage of such agreements was that they enabled these countries to exchange surplus commodities for capital goods.

These policies, which at one time or another had a considerable effect on prices and export receipts of some primary producing countries, are best illustrated by the transactions of the centrally planned economies with Egypt, Burma and Ceylon, as well as by the recent purchases of rubber by the Soviet Union. Thus, for instance, the large purchases of Egyptian cotton in 1955 and 1956, which took place during the period of falling world prices, reduced considerably the pressure of existing supply on prices and its effect on the Egyptian economy. [58] Similarly, the bilateral clearing agreements signed with centrally planned economies in 1954, providing for the exchange of Burmese rice for capital goods and other manufactures, enabled Burma to dispose of its large surpluses at relatively stable prices. [59] When the market for rice improved by 1957, Burma terminated several bilateral agreements, reduced the quantities allocated to the trade with the centrally

[56] During the thirteenth session of the United Nations General Assembly, the representative of Czechoslovakia declared that, "The prices of primary commodities must, accordingly, be stabilized quickly by means of international arrangements and commodity agreements, particularly as the diversification of the economy and the industrialization of the under-developed countries were long-term projects". During the same session the representative of the Soviet Union stated that his Government was opposed to the practice of dumping, but that it should be noted that in the case of any country, circumstances might arise which favoured the sale of one or another commodity, and that the Soviet Union "had been an interested participant in the recent international conferences on tin, lead and zinc and would take an active part in any steps to improve the primary commodity situation".

[57] According to a statement by the International Tin Council (United Kingdom Board of Trade, *Board of Trade Journal* (London), 30 January 1959), the ". . . USSR has moved towards the desires of the exporting and importing countries, members of the Council, and has confirmed her intention to reduce her tin exports outside the socialist countries in 1959 compared with exports in 1958. The answer given to the Council is that it is the intention of the Soviet foreign trade organizations to consider the figure of 13,500 tons the limit of such exports". The 1958 exports amounted to some 18,000 tons.

[58] The share of the centrally planned economies in Egyptian cotton exports rose from 14 per cent in 1954 to 27 per cent in 1955, 34 per cent in 1956 and about 46 per cent in 1957. It is of interest to note that the trade agreement of the Soviet Union with Egypt as well as the agreements signed with several other primary producing countries contain a clause prohibiting re-exports of commodities purchased by the Soviet Union.

[59] In 1956 the trade agreements with the centrally planned economies called for annual shipments of rice amounting to about 35 to 40 per cent of total rice exports; actual shipments in 1956 were, however, much smaller.

planned economies and increased the share of its trade conducted on a cash basis.[60]

The five-year bilateral agreement signed in 1952 by Ceylon and mainland China enabled Ceylon to dispose of a large proportion of its rubber at annually fixed prices, at a time when world prices were falling sharply. The effect of this transaction on the economy of Ceylon was considerably strengthened by the fact that, in return, mainland China offered substantial amounts of rice at prices more favourable than those prevailing on the tightening world markets. This policy of mainland China was obviously influenced by its difficulties in procuring rubber, caused by the embargo imposed in 1951. In 1955, however, rubber prices increased in the world markets and the supply of rice improved. This change in the situation prompted Ceylon to reduce its imports of rice from mainland China and to abandon the annually fixed prices for its rubber. The new agreements provided for a premium price for rubber on a sliding scale related to the average market prices in Singapore. In 1957, however, a new five-year agreement was signed, providing for an annual exchange of 200,000 tons of rice for 30,000 tons of rubber at prices prevailing at the time of the signing of the contract, thus stabilizing rice and rubber prices in the trade between the two countries.[61]

It should be added that in several cases, the offer of credits at low interest rates by the centrally planned economies was a factor in stimulating exports of primary commodities to these countries. Such credits, the bulk of which were extended to Burma, India, Indonesia, the United Arab Republic and several other Asian and Middle Eastern countries, not only created a favourable climate for current exchanges of primary commodities for manufactured goods delivered by the centrally planned economies, but they may also have a significant influence on future exports to these countries. The credit agreements provide for the repayment of loans and interest in kind and in domestic currency of the debtor countries, as well as in convertible currencies. To the extent to which such payments will be effected in kind or in domestic currencies they may absorb a part of the surpluses of primary commodities of the debtor countries.[62]

[60] The reduction of rice shipments to the centrally planned economies in 1957 was also due to the fact that the recent purchases seem to have exceeded the actual demand for rice and that the assortment of goods received by Burma in exchange was not always considered satisfactory.

[61] In fact, while the new agreement abandons the premium prices paid previously by mainland China, the effect of this change was offset by a grant to Ceylon amounting to about $16 million.

[62] The total credits so far granted were estimated at about $750 million to Asia and about $580 million to the Middle East and Africa. The actual amounts drawn so far are considerably smaller, most likely less than half the amounts granted. The repayment periods of seven, eight or twelve years are to begin at various periods for different countries, in most cases several years after the deliveries.

Appendix

CHANGES IN OUTPUT, TRADE AND APPARENT CONSUMPTION OF INDIVIDUAL PRIMARY COMMODITIES

Food

The increase in consumption at rates exceeding that of output was characteristic not only for total food, as noted in the text above, but also for all individual commodities for which data are available. As may be seen in table 48, this was reflected in a general decline in net exports which, in the case of butter and sugar, turned into net imports in 1955–1957.

Table 48. Selected Foodstuffs: Apparent Consumption and Net Exports or Imports as Percentage of Apparent Consumption

(Thousands of tons, except as indicated)

Commodity and area	Apparent consumption			Net trade			Net trade as percentage of apparent consumption		
	1934–1938	1948–1952	1955–1957	1934–1938	1948–1952	1955–1957	1934–1938	1948–1952	1955–1957
Cereals[a]									
Eastern Europe									
Less industrialized countries	28,038	26,539	33,861	2,706	437	−1,551	9.7	1.6	−4.6
More industrialized countries	11,461	10,797	13,897	−97	−626	−3,124	−0.8	−5.8	−22.5
TOTAL, EASTERN EUROPE	39,499	37,336	47,758	2,609	−189	−4,675	6.6	−0.5	−9.8
USSR	79,672	76,514	106,200	1,238	1,686	3,956	1.6	2.2	3.7
TOTAL, USSR AND EASTERN EUROPE	119,171	113,850	153,958	3,847	1,497	−719	3.2	1.3	−0.5
China (mainland)	73,921	81,487[b]	105,341	−770	...	627	−1.0	...	0.6
TOTAL, CENTRALLY PLANNED ECONOMIES	193,092	195,337	259,299	3,077	...	−92	1.6	...	...

(*continued on page 167*)

Table 48. Selected Foodstuffs: Apparent Consumption and Net Exports or Imports as Percentage of Apparent Consumption (*continued*)

(Thousands of tons, except as indicated)

Commodity and area	Apparent consumption			Net trade			Net trade as percentage of apparent consumption		
	1934–1938	1948–1952	1955–1957	1934–1938	1948–1952	1955–1957	1934–1938	1948–1952	1955–1957
Meat[c]									
Eastern Europe									
Less industrialized countries	1,842	2,132	2,476	85	62	160	4.6	2.9	6.5
More industrialized countries	1,116	881	1,204	−14	−110	−144	−1.2	−12.4	−12.0
TOTAL, EASTERN EUROPE	2,958	3,013	3,680	71	−48	16	2.4	−1.6	0.4
USSR	2,480	4,900[b]	6,911	20	...	−148	0.8	...	−2.1
TOTAL, USSR AND EASTERN EUROPE	5,438	7,913	10,591	91	...	−132	1.7	...	−1.2
China (mainland)	...	...	...	8	...	131	...	...	...
TOTAL, CENTRALLY PLANNED ECONOMIES	...	...	...	99	...	−1	...	...	...
Butter (factory)									
Eastern Europe									
Less industrialized countries	29.9	38.2	90.0	12.7	4.4	0.5	42.5	11.5	0.6
More industrialized countries	115.4	118.9	210.1	−17.2	−23.6	−38.5	−14.9	−19.8	−18.3
TOTAL, EASTERN EUROPE	145.3	157.1	300.1	−4.5	−19.2	−38.0	−3.1	−12.2	−12.7
USSR	155.0	340.0	525.9	65.1	−3.9	20.4	42.0	−1.1	3.8
TOTAL, USSR AND EASTERN EUROPE	300.3	497.1	826.0	60.6	−23.1	−17.6	20.1	−4.7	−2.1
Eggs (millions of units)									
Eastern Europe									
Less industrialized countries	5,833	5,234	7,577	1,037	425	760	17.7	8.1	10.0
More industrialized countries	3,572	2,751	4,519	−316	−100	−242	−8.8	−3.6	−5.4
TOTAL, EASTERN EUROPE	9,405	7,985	12,096	721	325	518	7.7	4.1	4.3
USSR	7,386	11,765	19,831	114	−65	−181	1.5	−0.6	−0.9
TOTAL, USSR AND EASTERN EUROPE	16,791	19,750	31,927	835	260	337	5.0	1.3	1.1
China (mainland)	...	...	...	313	...	491	...	...	...
TOTAL, CENTRALLY PLANNED ECONOMIES	...	...	...	1,148	...	828	...	...	...
Sugar[d]									
Eastern Europe									
Less industrialized countries	974.2	1,011.7	1,301.7	94.9	246.3	143.4	9.7	24.3	11.0
More industrialized countries	1,051.6	960.0	990.2	220.8	346.0	288.2	21.0	36.0	29.0
TOTAL, EASTERN EUROPE	2,025.8	1,971.7	2,291.9	315.7	592.3	431.6	15.6	30.0	18.8
USSR	2,008.2	2,847.0	4,514.3	66.8	−324.0	−426.3	3.3	−11.4	−9.4
TOTAL, USSR AND EASTERN EUROPE	4,034.0	4,818.7	6,806.2	382.5	268.3	5.3	9.5	5.6	...
China (mainland)	859.1	200.0	688.0	−347.1	−64.0	−193.0	−40.4	−32.0	−28.1
TOTAL, CENTRALLY PLANNED ECONOMIES	4,893.1	5,018.7	7,494.2	35.4	204.3	−187.7	0.7	4.1	−2.5
Tobacco									
Eastern Europe									
Less industrialized countries	45.3	72.6	137.2	23.5	40.7	27.8	51.8	56.1	20.3
More industrialized countries	43.5	22.1	52.6	−32.6	−4.9	−37.7	−74.9	−22.2	−71.7
TOTAL, EASTERN EUROPE	88.8	94.7	189.8	−9.1	35.8	−9.9	−10.2	37.8	−5.2
USSR	212.7	...	...	−0.7	−43.8	−67.2	−0.3	...	...
TOTAL, USSR AND EASTERN EUROPE	301.5	...	...	−9.8	−8.0	−77.1	−3.3	...	...
China (mainland)	...	...	331.7	−20.6	−1.9	31.0	...	...	9.3
TOTAL, CENTRALLY PLANNED ECONOMIES	...	...	...	−30.4	−9.9	−46.1	...	...	...

Source: National statistical yearbooks and bulletins; Food and Agriculture Organization of the United Nations, and United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D, No. 4.

[a] Wheat, rye, barley, oats, maize and rice (milled equivalent).

[b] Production.

[c] Total carcass weight, including offal, beef, veal, pork, mutton, lamb and poultry.

[d] Refined.

Probably the most significant changes occurred in the relationship between output, consumption and trade of cereals. While total apparent consumption of cereals in the centrally planned economies increased between 1934–1938 and 1955–1957 by about 66 million tons, output increased less, and the net exports to the rest of the world of over 3 million tons were practically eliminated. The changes in output, consumption and trade varied considerably from country to country. The rise in total output of cereals by about 32 per cent was mainly accounted for by a 36 per cent rise in the Soviet Union and a 45 per cent increase in mainland China, whereas the output of eastern Europe remained approximately at its pre-war level. In terms of value these differences were even greater because of a rise in the share of more valuable grains in the total production of the Soviet Union and mainland China.

In the Soviet Union, expansion of wheat production by far exceeded the increase in output of other grains. This was accompanied by a decline in the relative share of rye and, to judge by the changes in the distribution of cultivated area, by a decline in the share of coarse grains, despite a considerable increase in the share of maize. In mainland China, output of wheat remained at approximately the pre-war level, but the output of rice increased by 60 per cent. In contrast, in eastern Europe the shares of various grains were quite similar in 1955–1957 to those of the pre-war period, although several shifts occurred during the intervening years. A relatively less marked decline in wheat output than in that of other grains, particularly coarse grains, during the war and the immediate post-war period reflects the increase of direct human consumption of cereals during that period, and the corresponding decline in the share of consumption of livestock products.

The fact that output in eastern Europe hardly exceeded its pre-war level, whereas apparent consumption increased by some 20 per cent, was reflected in the significant shift from an export surplus of about 2.6 million tons in 1934–1938 to an import surplus of 4.7 million tons in 1955–1957.

Before the war, all eastern European countries except Czechoslovakia were net exporters of grain. The total amount of their net exports was sufficient to cover the small grain deficit of Czechoslovakia and leave a surplus for export to other areas. In recent years, net imports of Czechoslovakia have risen to an average of 1.5 million tons a year, while Poland and Eastern Germany have also become substantial importers, average annual net imports of these two countries running at 1.1 and 1.6 million tons, respectively. The other eastern European countries, Bulgaria, Hungary and Romania, were able to maintain a moderate export surplus in years of good harvests, but even those countries incurred some grain deficit on the average for the years 1955–1957, as a consequence of one poor harvest during that period.

In the Soviet Union and mainland China, however, apparent consumption increased less than output and, accordingly, the balance of their trade changed in the opposite direction. The exports of grain from the Soviet Union rose from 1.2 million tons before the war to almost 4 million tons in 1955–1957. If imports of rice are disregarded, the net exports of the Soviet Union amounted on the average to 4.5 million tons of grain, equal to the total net imports of the other eastern European countries during this period. In mainland China, despite a 43 per cent increase in apparent consumption, the net imports of 770,000 tons before the war were replaced by a net export of 627,000 tons in 1955–1957, mainly reflecting the change in the trade balance of rice. A major importer of rice before the war, mainland China has turned into a major exporter during recent years.

As stated previously, net exports of cereals in the trade of the area with the rest of the world were almost entirely wiped out by 1955–1957. This change was brought about through a fourfold increase in imports while exports rose by 40 per cent only. However, while on the average exports and imports of cereals have been in balance in recent years, the cereal trade with the rest of the world may be subject to significant fluctuations caused largely by inadequate synchronization of changes in surpluses available for export and in demand for imports within the group of centrally planned economies. The sharp fluctuations in cereals output in Bulgaria, Hungary, Romania and especially in the Soviet Union, in the face of a relatively stable demand for imports in Czechoslovakia, Eastern Germany and Poland,[1] may significantly affect the amounts of cereals available for exports to the rest of the world. Instability of export supplies is likely to persist in view of the fact that the rise in Soviet output of grain after 1953 was accomplished almost entirely by the extension of the cultivated area into marginal lands where yields vary widely as a result of changes in the amount of rainfall. During the three years from 1955 to 1957, when the area under grain remained practically unchanged, the annual variations in output were equal to about 20 million tons. The rise in output in 1956 resulted in an increase in net exports from about 3.2 million tons in 1956 to 7.4 million tons in 1957.[2] No less important were the fluctuations in the trade of cereals of Bulgaria, Hungary and Romania, the other three exporting countries.

While the average net exports from these countries reached about 700,000 tons after the good harvest of 1955, their balance deteriorated sharply, showing an even larger deficit, after the poor harvest of 1956. In the three years from 1955 to 1957, the fluctuations in output of the exporting countries tended to be complementary; a year of good harvest in the Soviet Union—1956—was one of poor harvest in the other exporting countries, while two bad harvest years in the Soviet Union—1955 and 1957—were good harvest years in Bulgaria, Hungary and Romania. This has tended to reduce significantly the over-all fluctuations in the export-import balance of the centrally planned economies with the rest of the world. Even so, these fluctuations were not small in absolute amounts; while in 1955 net imports of eastern Europe and the Soviet Union amounted to only 290,000 tons of grain (excluding rice), the deficit had risen to 780,000 in 1956, which turned into a surplus of 830,000 tons in 1957.[3]

The pattern of changes in output, consumption and trade of livestock products differed in many respects from that of cereals. Output and consumption of meat and butter increased in the centrally planned economies much more than output and consumption of cereals. As in the case of cereals, consumption increased more than output in the Soviet Union

[1] Although, during the past three years, total imports of these three countries have been steadily increasing, it is difficult to ascertain to what extent these changes reflect a long-term trend.

[2]

	1955	1956	1957
	(Thousands of tons)		
Grain exports			
USSR			
Total exports	3,683	3,215	7,414
Exports to private enterprise economies	700	1,500	1,800
Grain imports			
Poland			
Total imports	1,160	1,000	1,806
Imports from private enterprise economies	551	692	673
Czechoslovakia			
Total imports	1,413	1,441	1,648
Imports from private enterprise economies	254	711	37
Eastern Germany			
Total imports	1,348	1,685	2,033
Imports from private enterprise economies	109	178	174

[3] See footnote 2 above.

and eastern Europe, which changed from net exporters of meat and butter in 1934–1938[4] to net importers in 1955–1957. If the trade of mainland China, which increased its net exports considerably, is added, the total net exports of meat to the rest of the world of 99,000 tons in 1934–1938 changed to net imports of about 1,000 tons in 1955–1957. This change was the result of a greater increase in imports than in exports between 1934–1938 and 1955–1957, although during the most recent period both imports and exports tended to decline.

It should be added that while the share of the outside world in the meat trade is low, it is by no means insignificant. Of the 340,000 tons of meat imported on the average in 1955–1957 into the Soviet Union, Eastern Germany and Czechoslovakia, about 75,000 tons came from the rest of the world.[5] Meat exports from Poland to western Europe, particularly to the United Kingdom, account for a major and increasing share of the total Polish exports of meat. Meat exports from Bulgaria, Hungary and Romania to countries outside the group are relatively less important; there is, none the less, a tendency for such exports, especially from Hungary, to increase.

Somewhat different changes occurred in the trade of butter; total imports of butter were much higher and exports lower, on the average, in 1955–1957 than in 1934–1938. In consequence, the net exports of 60,000 tons before the war were replaced by net imports of 18,000 tons during the recent years. However, between 1955 and 1957, net imports from the rest of the world declined from about 26,000 tons to 13,000 as a result of a greater increase in exports than in imports.[6]

In contrast to the position with respect to these two livestock products, the group continued to be a net exporter of eggs, despite the fact that imports increased and exports declined compared with the pre-war level.[7] From 1955 to 1957 net exports of eggs from the centrally planned economies contributed from 10 to 13 per cent to the imports of the rest of the world. The importance of the exports of eggs to the countries outside of the group can be seen from the fact that of the 700 million eggs exported, on the average, from Bulgaria, Hungary and Poland in 1956 and 1957, about 250 million alone went to the Federal Republic of Germany and the United Kingdom.

The expansion of output and consumption of livestock products in the centrally planned economies as a whole was not, however, evenly distributed among the individual countries. The substantial increases achieved between 1934–1938 and 1955–1957 were mainly the effect of very steep increases in the Soviet Union as well as in the less industrialized eastern European countries, the major producing and exporting countries, which before the war had a much lower per capita consumption of livestock products than more industrialized Czechoslovakia and Eastern Germany. The differences between changes in output and consumption in various countries were most pronounced for meat. While output of meat in Eastern Germany and Czechoslovakia remained unchanged between 1934–1938 and 1955–1957, and consumption increased by about 8 per cent, in the less industrialized countries output and consumption rose by 37 and 34 per cent, respectively, and in the Soviet Union by 171 and 179 per cent. Such differences between areas were no less important in the case of butter and eggs.[8]

The exceptionally steep increases in output of livestock products in the Soviet Union reflected largely the recovery from the very low level to which the output of livestock had fallen during collectivization. Even in 1937, despite a partial improvement beginning in 1933, the aggregate output of livestock products was 35 per cent below the level of 1928. Consequently, per capita consumption was, in 1955–1957, only about 15 per cent above 1928. This fact is obviously one of the reasons why, despite the very sharp increases in output, the Soviet Union turned from a net exporter into a net importer of livestock products, if the average of 1955–1957 is compared with that of 1934–1938 (within the present boundaries of the Soviet Union). This was the result either of a decline in exports or an increase in imports, or both, of all major products—meat, butter and eggs. Within the span of the past three years, however, a different trend appears to be emerging, whereby imports of livestock products are declining or exports increasing. Such a reversal took place in the case of meat and animals for slaughter, the combined net imports of which amounted to about 320,000 tons in 1955, but to only 110,000 tons in 1957.[9] A similar change took place in the case of butter, exports of which rose considerably in the three years while imports remained relatively low, with the effect that the Soviet Union became a net exporter in 1957 to the extent of 40,000 tons. Only with respect to eggs did the country's position as a net importer remain unchanged, average imports continuing to absorb a large part of the export surplus of the eastern European countries.

The position of the less industrialized eastern European countries as exporters of livestock products was but little changed in 1955–1957 compared with the pre-war period. Exports of meat were higher than in 1934–1938; this increase, however, was counterbalanced in value terms by a decline in exports of live animals for slaughter, as well as by some decline in exports of dairy products. Czechoslovakia and Eastern Germany, on the other hand, increased their imports of meat and dairy products very considerably. As a result of this, eastern European exports of meat exceeded imports in 1955–1957 by only about 16,000 tons, and net imports of butter were at a level of 38,000 tons. The area, however, continued to be a substantial exporter of animals for slaughter, and eggs, and the total value of exports of livestock products exceeded somewhat the value of imports in the recent period.

The change in output and consumption of livestock products in mainland China is more difficult to ascertain because of lack of data. There are, none the less, indirect indications that output of pork, by far the most important livestock product in China, increased significantly less than the output of grain, as compared with the pre-war level. This can be seen from the figures on the number of hogs (in millions) at mid-year:

1937	*1950*	*1953*	*1955–1957*
78.5	60.2	96.1	95.3

Despite the relatively poor performance of livestock production in mainland China, there was a substantial increase in exports of meat and eggs from this country, as compared with the pre-war level. A substantial proportion of the imports of these products by other centrally planned economies, par-

[4] Output and apparent consumption in the Soviet Union and eastern Europe increased between 1934–1938 and 1955–1957 in the following fashion: meat, 89 and 95 per cent; factory butter, 124 and 175 per cent; eggs, 83 and 90 per cent, respectively.

[5] The main suppliers of the Soviet Union among the countries outside the group were, in recent years, Yugoslavia, Argentina and New Zealand, and those of Eastern Germany and Czechoslovakia were western European countries.

[6] This includes however imports from the Mongolian People's Republic.

[7] Net exports fell from 1,148 million units to 808 million.

[8] Respective increases in output and consumption of factory nutter were: USSR, 150 and 240 per cent; less industrialized eastern Europe, 110 and 200 per cent; Czechoslovakia and Eastern Germany, 75 and 82 per cent; increases in output and consumption of eggs: USSR, 162 and 168 per cent; less industrialized eastern Europe, 22 and 30 per cent; Czechoslovakia and Eastern Germany, 31 and 27 per cent.

[9] Animals for slaughter given originally in live weight, converted into carcass weight.

ticularly the Soviet Union, was met from this source. The decline in Soviet meat imports from 1955 to 1957 had its counterpart in a corresponding decline of Chinese exports.

Agricultural raw materials

The increase in production of industrial raw materials chiefly reflected the expansion in output of cotton, which accounts for a very high share of total output. Production of wool and jute also increased substantially, but the rise in output of silk was moderate, and output of flax and hemp seems to have declined (see tables 50 and 51).

Table 49. Imports of Exotic Foods into the Soviet Union and Eastern Europe
(Thousands of tons)

Area	Coffee			Cocoa beans			Citrus fruit		
	1934–1938	1948–1952	1955–1957	1934–1938	1948–1952	1955–1957	1934–1938	1948–1952	1955–1957
Eastern Europe									
Less industrialized countries	12	1	5	13	3	8	69	4	27
More industrialized countries	53	5	14	31	3	13	114	17	45
TOTAL, EASTERN EUROPE	65	6	19	44	6	21	183	21	72
USSR	1	1	3	9	12	25	19	9	91
TOTAL, USSR AND EASTERN EUROPE	66	7	22	53	18	46	202	30	163

Source: See table 48.

Table 50. Apparel Fibres: Apparent Consumption and Net Exports or Imports as Percentage of Apparent Consumption
(Thousands of tons)

Commodity and area	Apparent consumption			Net trade			Net trade as percentage of apparent consumption		
	1934–1938	1948–1952	1955–1957	1934–1938	1948–1952	1955–1957	1934–1938	1948–1952	1955–1957
Cotton									
Eastern Europe									
Less industrialized countries	122	175	214	−115	−155	−189	−94.3	−88.6	−88.4
More industrialized countries	134	94	169	−134	−94	−169	−100.0	−100.0	−100.0
TOTAL, EASTERN EUROPE	256	269	383	−249	−249	−358	−97.3	−93.6	−93.4
USSR	635	1,051	1,170	−22	171	262	−3.5	16.3	22.4
TOTAL, USSR AND EASTERN EUROPE	891	1,320	1,553	−271	−78	−96	−30.4	−5.9	−6.2
China (mainland)	704	805	1,566	−24	−67	−32	−3.4	−8.3	−2.0
TOTAL, CENTRALLY PLANNED ECONOMIES	1,595	2,125	3,119	−295	−145	−128	−18.5	−6.8	−4.1
Wool									
Eastern Europe									
Less industrialized countries	44.5	41.5	52.2	−20.5	−19.3	−23.0	−46.1	−46.5	−44.0
More industrialized countries	40.5	18.9	31.4	−39.5	−17.0	−28.0	−97.5	−95.2	−89.2
TOTAL, EASTERN EUROPE	85.0	60.4	83.6	−60.0	−36.3	−51.3	−70.6	−60.1	−61.2
USSR	89.7	114.9	197.4	−29.7	−11.9	−37.0	−33.1	−10.4	−18.8
TOTAL, USSR AND EASTERN EUROPE	174.7	175.3	281.0	−89.7	−48.2	−88.3	−51.3	−27.5	−31.4
China (mainland)	13.3	16.6	14.8	14.7	8.4	17.2	107.5	50.6	116.3
TOTAL, CENTRALLY PLANNED ECONOMIES	188.0	191.9	295.8	−75.0	−39.8	−71.1	−39.9	−20.7	−23.9
Silk									
Eastern Europe									
Less industrialized countries	0.23	0.10	0.10	−0.02	...	...	−7.7	...	...
More industrialized countries	0.30	—	—	−0.30	—	—	−100.0	...	...
TOTAL, EASTERN EUROPE	0.53	0.10	0.10	−0.32	...	...	−59.2	...	...
USSR	1.71	2.46	4.16	−0.09	−0.60	−1.77	−5.0	−24.4	−42.6
TOTAL, USSR AND EASTERN EUROPE	2.24	2.56	4.26	−0.41	−0.60	−1.77	−17.9	−23.4	−41.7
China (mainland)	2.40	...	2.81	4.60	...	4.20	192.0	...	150.0
TOTAL, CENTRALLY PLANNED ECONOMIES	4.64	...	7.07	4.39	...	2.43	90.6	...	34.4

Source: See table 48.

Table 51. Net Trade in Non-Apparel Fibres and Natural Rubber

(Thousands of tons)

Area	Flax		Hemp		Jute		Natural rubber	
	1934–1938	1955–1957	1934–1938	1955–1957	1934–1938	1955–1957	1934–1938	1955–1957
Eastern Europe								
Less industrialized countries	14	−4	4	...	−29	−26	−10	−36
More industrialized countries	−21	−6	−14	−2	−57	−16	−29	−49
TOTAL, EASTERN EUROPE	−7	−10	−10	−2	−86	−42	−39	−85
USSR	84	22	...	−3	−20	−19	−37	−88
TOTAL, USSR AND EASTERN EUROPE	77	12	−10	−5	−106	−61	−76	−173
China (mainland)	—	—	4	10	−13	−13	−7	−63
TOTAL, CENTRALLY PLANNED ECONOMIES	77	12	−6	5	−119	−74	−83	−236

Source: See table 48.

The relationships between changes in output, apparent consumption and trade varied according to commodity, and were generally strongly correlated with the relative rates of growth in output. Among the major deficit commodities, output increased more than consumption. Thus, the rise in production of cotton by about 130 per cent resulted in a 50 per cent decline in net imports between 1934–1938 and 1955–1957. Output of wool increased during the same period by about 100 per cent,[10] but since the share of imports in total consumption was considerably greater than that of cotton, net imports of wool from the rest of the world fell by only some 5 per cent between 1934–1938 and 1955–1957.

Among the surplus commodities, such as silk and flax, consumption increased more than output and their net exports were substantially reduced. The fall in net exports of silk from 4.4 thousand tons in 1934–1938 to 2.4 in 1955–1957 was mainly the effect of a considerable increase in net imports of the Soviet Union, since net exports of mainland China declined only slightly. The only commodity which showed a decline in output and an even greater decline in consumption was hemp, the requirement for which was falling in the centrally planned economies.

It is notable that the dependence of the centrally planned economies on trade with the rest of the world declined, not only in relation to their apparent consumption but also in absolute terms. Among all major raw materials, only imports of natural rubber increased substantially between 1934–1938 and 1955–1957. This rise in imports from the rest of the world occurred despite a rapid expansion of output of synthetic rubber, and reflects an increase in demand to an extent not paralleled by any other agricultural raw material.

In contrast to these changes in the trade of the centrally planned economies with the rest of the world, the dependence of individual countries on trade with other centrally planned economies increased considerably. The bulk of the increment in imports of the less industrialized eastern European countries was accounted for by a rise in imports of cotton, mostly from the Soviet Union, while imports of wool, mostly from the rest of the world, remained approximately at the pre-war level. Similar changes occurred in the trade of Czechoslovakia and Eastern Germany, where imports of wool declined and imports of cotton increased. At the same time the steep increase in Soviet exports of cotton to these countries changed the position of the Soviet Union from that of a net importing to that of a net exporting country.[11] The reorientation of the trade of mainland China with the rest of the world to trade with the centrally planned economies had a similar effect. This took the form of a substantial increase in exports of silk, wool, hemp, jute, hides, bristles and other raw materials to eastern Europe and the Soviet Union, countries with which trade had been negligible before the war.

It is of interest that the increase in imports of cotton in relation to wool, associated with the reorientation of the trade of eastern Europe, was reflected in a shift from higher quality to lower quality products in the output of textile industries. Though consumption of wool expanded in the less industrialized eastern European countries as a result of increased production, the rise was lower than in the consumption of cotton, the latter being augmented by a rise in both output and imports. The fall in consumption of natural silk, caused mostly by a decline in raw silk production, reinforced the shift towards lower quality textiles. A similar development took place in the more industrialized countries of eastern Europe where the effect of a decline in consumption of wool and silk and an increase in cotton consumption was only partly offset by the expanded consumption of higher quality artificial fibres.

As in eastern Europe, the composition of consumption of apparel fibres deteriorated in mainland China where silk was partly displaced by cotton while the level of wool consumption remained unchanged. In contrast to the other areas, however, there was a considerable improvement in the quality of input of apparel fibres in the Soviet Union. The increase in consumption of wool and silk exceeded the substantial increase in consumption of cotton and, in addition, the growth of consumption of rayon and synthetic fabrics was steeper here than in the other areas.

Fuels

Expansion of output of petroleum and natural gas was generally steeper than that of solid fuels, and among the latter, output of lignite increased faster than that of coal. As in the case of other surplus commodities, consumption of all types of fuel increased at a higher rate than output (see table 52). The effect of these changes on trade with the rest of the world was different with respect to hard coal and to lignite and petroleum. In the case of the slowest growing, hard coal, the export surplus of the group declined considerably, both in

[10] Apparent consumption of cotton rose by 96 per cent and of wool by 57 per cent.

[11] Although imports of wool by the Soviet Union from the rest of the world increased, much of this increase was offset by a decline in imports by other centrally planned economies.

Table 52. Selected Minerals: Apparent Consumption and Net Exports or Imports as Percentage of Apparent Consumption

(Thousands of tons)

Commodity and area	Apparent consumption			Net trade			Net trade as percentage of apparent consumption		
	1937–1938	1950	1956–1957	1937–1938	1950	1957	1937–1938	1950	1956–1957
Hard coal									
Eastern Europe									
Less industrialized countries	44,242	53,596	82,952	24,870	26,198	14,571	56.2	48.9	17.6
More industrialized countries	20,455	27,973	34,434	−682	−6,712	−7,890	−3.3	−24.0	−22.9
TOTAL, EASTERN EUROPE	64,697	81,569	117,386	24,188	19,486	6,681	37.4	23.9	5.9
USSR	111,469	192,600	313,835	841	(−7,380)	2,315	0.7	−3.8	0.7
TOTAL, USSR AND EASTERN EUROPE	176,166	274,169	431,221	25,029	12,106	8,996	14.2	4.4	2.1
China (mainland)	23,075	41,000[a]	113,501	1,125	...	(660)	4.9	...	0.6
TOTAL	199,241	315,169	544,722	26,154	...	9,656	13.1	...	1.8
Soft coal									
Eastern Europe									
Less industrialized countries	12,079	22,286	38,005	240	3,845	4,171	2.0	17.0	11.0
More industrialized countries	113,200	165,922	256,693	4,870	−1,363	1,195	4.3	−0.8	0.4
TOTAL, EASTERN EUROPE	125,279	188,208	294,698	5,110	2,482	5,366	4.1	1.3	1.8
USSR	18,770	75,860	130,350	—	—	—	—	—	—
TOTAL, USSR AND EASTERN EUROPE	144,049	264,068	425,048	5,110	2,482	5,366	3.5	0.9	1.3
Crude petroleum									
Eastern Europe									
Less industrialized countries	2,337	3,883	10,019	4,765	1,838	2,417	203.8	47.3	24.1
More industrialized countries	579[b]	612[b]	2,399[b]	−560	−542	−2,291	−96.7	−89.7	−95.5
TOTAL, EASTERN EUROPE	2,916	4,495	12,418	4,205	1,296	126	144.2	28.7	1.0
USSR	28,042	39,378	83,987	1,538	−1,500	7,086	5.5	−3.8	8.4
TOTAL, USSR AND EASTERN EUROPE	30,958	43,873	96,405	5,743	−204	7,212	18.5	0.5	7.5
China (mainland)	1,493	...	3,075	−1,193	...	−1,768	−80.0	...	−57.5
TOTAL	32,451	...	99,480	4,550	...	5,444	14.0	...	5.5
Iron ore									
Eastern Europe									
Less industrialized countries	2,413	4,255	10,325	−1,031	−2,675	−7,077	−42.7	−62.3	−68.5
More industrialized countries	3,714	4,205	10,190	−1,682	−2,200	−5,896	−45.2	−52.3	−57.8
TOTAL, EASTERN EUROPE	6,127	8,460	20,515	−2,713	−4,875	−12,973	−44.2	−57.6	−63.2
USSR	27,000	36,424	71,174	180	3,227	9,949	0.7	8.9	14.0
TOTAL, USSR AND EASTERN EUROPE	33,127	44,884	91,689	−2,533	−1,648	−3,024	−7.7	−3.7	−3.3
China (mainland)	2,622	...	15,900	588	...	200	22.4	...	1.3
TOTAL	35,749	...	107,589	−1,945	...	−2,824	−5.4	...	−2.6
Manganese ore									
Eastern Europe									
Less industrialized countries	146.3	...	686.7	−64.8	...	−271.2	−44.2	...	−39.4
More industrialized countries	217.1	...	387.0	−110.8	...	−204.5	−51.0	...	−52.8
TOTAL, EASTERN EUROPE	363.4	...	1,073.7	−175.6	...	−475.7	−48.2	...	−44.3
USSR	1,788.8	3,100.0	4,181.1	723.7	277.0	861.9	40.4	8.9	20.6
TOTAL, USSR AND EASTERN EUROPE	2,152.2	...	5,254.8	548.1	...	386.2	25.4	...	7.3

Source: National statistical yearbooks and bulletins; United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D, No. 4, and United Kingdom Imperial Institute, *Mineral Industry of the British Empire and Foreign Countries.*

[a] Production.

[b] Excluding liquid fuel derived from coal and oil shales.

relation to domestic consumption and in absolute amounts. In the case of the two other major fuels, the export surplus of lignite in 1956–1957 was about as large in absolute amount as pre-war and that of crude petroleum was higher; relative to the group's own requirements, however, export surpluses were lower than before the war.

Output and consumption of hard coal increased much more steeply in the Soviet Union than in eastern Europe, whereas in both regions the higher increase in production and consumption of brown coal than of hard coal reflects the intensified pressure on resources caused by growing demand. However, while in the Soviet Union the shift from hard coal to brown coal appears to have been slowed down in recent years, in eastern Europe, the substitution of brown coal for hard coal is increasing. Such factors as the availability of rich resources of brown coal and lignite, their wide geographical distribution, and the improvement in the utilization of brown coal for various industrial uses account for the fact that soft coal tended to become the major source of energy in eastern Europe. Among the particularly noteworthy developments in the technology of utilization of brown coal was the successful derivation from it of metallurgical coke. In contrast to brown coal, the eastern European countries are very unequally endowed with hard coal, practically all of the production being concentrated in Poland and Czechoslovakia. However, even the latter country became a net importer in the post-war years in the face of growing requirements and lagging output. Poland, on the other hand, though continuing to be a major exporter, experienced a widening gap between demand and supply throughout the post-war period.[12] Because of the importance of coal exports as a source of foreign exchange earnings a major decline in the level of exports was prevented until 1955 by means of administrative restrictions on domestic consumption and relentless pressure on productive capacity. The long postponed readjustment between domestic demand and exports which took place in 1956 was reflected in a decline in coal exports to only 13 million tons in 1957 as compared with 24 million tons only two years earlier.

The effect of the changes in Polish trade, particularly of the abrupt fall in exports after 1955, on the importing countries was somewhat cushioned by the offsetting changes in Soviet trade. In the early nineteen fifties, the Soviet Union, a net exporter before the war, absorbed as much as 35 per cent of Polish exports and recorded an import surplus of more than 7 million tons of hard coal a year. The decline in Polish exports between 1950 and 1955 was paralleled by a much steeper decline in the net imports of the Soviet Union which were reduced by 1955 to only about 4.3 million tons. This trend was subsequently accelerated, and by 1957 the Soviet Union was a net exporter of 5.3 million tons. This shift was brought about both by a reduction of imports from Poland and by increases in exports: while Soviet imports from Poland declined between 1955 to 1957 by about 5 million tons, exports to other countries rose by almost the same amount.

It is notable that, notwithstanding this drastic change in the Soviet balance of trade, apparent consumption of hard coal in the Soviet Union increased between 1955 and 1957 by 15 per cent while production rose by 19 per cent.

In Poland, where output remained practically unchanged between 1955 and 1957, consumption increased at the same rate as in the Soviet Union, at the expense of exports. In Hungary, apparent consumption also increased during this period, although less than in Poland and the Soviet Union. The rise in consumption, which occurred despite a fall in output, involved a sharp increase in imports from the Soviet Union. In contrast, the rise in Soviet exports was not sufficient to fill the gap left by the decline in Polish exports to Czechoslovakia and Eastern Germany. Consequently, apparent consumption in these two countries remained at approximately the same level despite an 8.5 per cent increase in production from 1955 to 1957.

In contrast to hard coal, the increase in consumption of crude petroleum between 1934–1938 and 1955–1957 was steeper in eastern Europe than in the Soviet Union, despite the fact that production rose less. While successful prospecting brought into operation new oil wells which increased output substantially in a number of eastern European countries, output in Romania, which accounts for the major share of oil production of eastern Europe, expanded more slowly. In the Soviet Union, on the other hand, the development of new oil-producing regions was instrumental in maintaining a high rate of growth of oil production. This relationship between changes in production in the Soviet Union and eastern Europe was reversed in the case of demand for petroleum as the less industrialized countries began to develop truck hauling on a large scale, and the use of oil as fuel increased rapidly in fuel-importing countries. The increase in the eastern European demand for oil and oil products by far exceeded the increase of output, and the once substantial export surplus dwindled to an insignificant amount. This decline was fully compensated, however, by the increase in the Soviet export surplus, which was sufficiently large to cover in addition the increased import requirements of mainland China.

Metals[13]

Rates of expansion of production varied more widely within the metals group than within any other group of commodities (see table 53). The growth from 1937–1938 to 1956–1957 in output of specific metals ranged from a more than sixfold increase in aluminium to a 2.1 increase in manganese. The correlation between the rates of expansion of production and consumption, however, was much weaker for metals than for other groups. While production of copper rose four times, consumption increased by only 75 per cent. Output of lead expanded 3.4 times but consumption doubled. Similar differences were apparent between the relative rate of expansion of production and consumption of tin, and there would probably be many more instances of this type if data were available on output and consumption of rare metals.

These divergencies between rates of expansion of production and consumption were largely the result of strenuous efforts towards achieving a higher degree of self-sufficiency through diversification and extension of output of non-ferrous metals, on the one hand, and restrictions on consumption, on the other. Thus, almost one-half of the absolute increase in output of tin was used to improve foreign trade balances. As a result, exports of this commodity to the rest of the world were equal in 1955–1957 to about 15 per cent of the apparent consumption, whereas before the war the apparent consumption exceeded output by about 50 per cent. In absolute terms, the net imports of 7.5 thousand tons in 1934–1938 were replaced by net exports of 5.2 thousand tons. The changes in the relationship between output, consumption and trade were less pronounced for lead and copper, the two major metals imported in considerable quantities before the war. As indicated in table 53, the centrally planned economies remained net importers of these two commodities, although the share

[12] The lag in output of hard coal was larger in Poland than in any other country; the increase in domestic requirements was, at the same time, also the steepest. The difficulties in expanding coal output were largely caused by labour shortage, insufficient investment and obsolete mining methods.

[13] The discussion of changes in output and apparent consumption of non-ferrous metals is largely based on unofficial estimates for several centrally planned economies. In consequence, the data given in the text and in the tables should be considered as approximations indicating general tendencies rather than as exact magnitudes of change.

Table 53. Non-ferrous Metals: Apparent Consumption and Net Exports or Imports as Percentage of Apparent Consumption
(Thousands of tons)

Commodity and area	Apparent consumption		Net trade		Net trade as percentage of apparent consumption	
	1937–1938	1956–1957	1937–1938	1956–1957	1937–1938	1956–1957
Aluminium						
Eastern Europe						
Less industrialized countries	4.2	73.2	−2.9	−11.8	−69.0	−16.1
More industrialized countries	54.5	74.9	−5.7	−26.3	−10.5	−35.1
TOTAL, EASTERN EUROPE	58.7	148.1	−8.6	−38.1	−14.7	−25.8
USSR	51.2	412.2	−5.5	67.8	−10.7	16.4
TOTAL, USSR AND EASTERN EUROPE	109.9	560.3	−14.1	29.7	−12.8	5.3
China (mainland)	2.0	11.0	−2.0	0.7	−100.0	6.4
TOTAL, CENTRALLY PLANNED ECONOMIES	111.9	571.3	−16.1	30.4	−14.4	5.3
Copper						
Eastern Europe						
Less industrialized countries	42.6	69.9	−42.6	−38.9	−100.0	−55.6
More industrialized countries	101.7	62.4	−82.7	−27.4	−81.3	−43.9
TOTAL, EASTERN EUROPE	144.3	132.3	−125.3	−66.3	−86.8	−50.1
USSR	166.2	409.8	−65.8	−2.3	−39.5	−0.6
TOTAL, USSR AND EASTERN EUROPE	310.5	542.1	−191.1	−68.6	−61.5	−12.7
China (mainland)	...	...	−2.5	−4.0	...	...
TOTAL, CENTRALLY PLANNED ECONOMIES	...	...	−193.6	−72.6	...	...
Lead						
Eastern Europe						
Less industrialized countries	33.0	64.6	−8.0	−4.6	−24.2	−7.1
More industrialized countries	48.1	82.1	−30.1	−43.7	−62.6	−52.8
TOTAL, EASTERN EUROPE	81.1	147.3	−38.1	−48.3	−47.0	−32.8
USSR	112.3	247.0	−42.3	20.5	−37.7	8.3
TOTAL, USSR AND EASTERN EUROPE	193.4	394.3	−80.4	−27.8	−41.6	−7.1
China (mainland)	6.1	14.4	−4.6	5.6	−75.4	38.8
TOTAL, CENTRALLY PLANNED ECONOMIES	199.5	408.7	−85.0	−22.2	−42.6	−5.4
Zinc						
Eastern Europe						
Less industrialized countries	52.6	73.7	55.1	89.3	104.8	121.1
More industrialized countries	55.5	76.0	−47.4	−64.0	−85.4	−84.0
TOTAL, EASTERN EUROPE	108.1	149.7	7.7	25.3	7.1	16.9
USSR	82.7	336.2	−2.9	21.3	−3.5	6.3
TOTAL, USSR AND EASTERN EUROPE	190.8	485.9	4.8	46.6	−2.0	9.6
China (mainland)	1.4	...	−1.4	...	−100.0	...
TOTAL, CENTRALLY PLANNED ECONOMIES	192.2	...	3.4	...	1.8	...
Tin						
Eastern Europe						
Less industrialized countries	2.8	4.3	−2.8	−4.3	−100.0	−100.0
More industrialized countries	5.6	3.6	−4.3	−2.4	−76.8	−66.7
TOTAL, EASTERN EUROPE	8.4	7.9	−7.1	−6.7	−84.5	−84.8
USSR	13.0	25.9	−12.5	−8.1	−96.2	−31.3
TOTAL, USSR AND EASTERN EUROPE	21.4	33.8	−19.6	−14.8	−91.6	−43.6
China (mainland)	2.0	3.0	12.1	20.0	605.0	666.7
TOTAL, CENTRALLY PLANNED ECONOMIES	23.4	36.8	−7.5	5.2	−32.1	14.6

Source: See table 52, and Metallgesellschaft Aktiengesellschaft, *Metal Statistics, 1948–57* (Frankfurt am Main).

Note: Since most of the centrally planned economies do not publish absolute figures of production and trade of non-ferrous metals, the data given in this table are largely estimated. The degree of error involved is much larger in this table than in tables 48 to 52.

of net imports in their apparent consumption fell from 62 to 13 per cent for copper and from 43 to 5 per cent for lead.[14]

Although the differences in the rate of increase in output and consumption of aluminium were much smaller than for other commodities, they were sufficient to replace the net imports of about 16,000 tons in 1937–1938 by net exports of 30,000 tons in 1956–1957. The only commodity for which net imports from the rest of the world increased in absolute terms was iron ore, although the share of imports in total consumption declined from 5 per cent in 1937–1938 to 3 per cent in 1956–1957.

[14] In absolute terms, from 1937–1938 to 1956–1957, consumption of copper fell from 194,000 tons to 73,000 tons and that of lead from 85,000 tons to 22,000 tons. Net exports of manganese ore declined from 548,000 tons to 386,000 tons, and from 25 per cent of consumption to 7 per cent.

Of the two essential metals for which the centrally planned economies were net exporters before the war, output of zinc increased more than consumption and the net exports from the Soviet Union and eastern Europe to the rest of the world rose considerably, both in absolute amounts and in relation to consumption. The reverse was true with respect to manganese ore.

Output and trade of metals of individual centrally planned economies were influenced both by the availability of natural resources and by the strenuous efforts towards achieving a high degree of self-sufficiency, not only for the area as a whole but for each country of the group. This policy resulted in bringing into exploitation low-grade deposits which, under different conditions, would have remained unused, and was reflected in the considerable diversification of metal production of individual countries.

Although eastern European resources of iron ore are meagre and mostly of low ferrous content, their wide distribution over the area permitted a considerable expansion of output in each country. In effect, output of iron ore increased in eastern Europe 2.2 times between 1937–1938 and 1956–1957, as compared with a threefold increase in the Soviet Union, despite the fact that most of the output of the latter country still consists of high-quality ores and that even the lower-grade ores mined in the Soviet Union are usually superior to high-grade eastern European ores. In mainland China the almost untapped resources permitted an even larger increase of production—about five times. A somewhat similar development took place in the case of the two major ferro-alloys produced by the centrally planned economies—manganese and chromium ores—except that the rate of increase in output of these metals in the newly producing countries was considerably higher than in the traditionally large producer—the Soviet Union.[15]

Among the non-ferrous metals, the increase in output of aluminium was most spectacular in the less industrialized countries of eastern Europe where output before the war was negligible. Although disposing of over 15 per cent of known world reserves of bauxite, and being a substantial exporter of that ore, Hungary produced only 1.2 thousand tons of aluminium before the war. In 1956–1957 aluminium production attained a level of 30,000 tons despite the lack of cheap electric power. Romania seems to have started producing aluminium from domestic raw material, while in Poland bauxite imported from Hungary, combined with domestic fuel resources, provided a basis for the development of an aluminium industry. Aluminium production in mainland China, though still small in absolute terms, has developed rapidly in recent years. In the Soviet Union, where the level of output of aluminium was already fairly high before the war, output continued to advance rapidly although at a lower rate than in the countries mentioned above. On the other hand, in the more industrialized eastern European countries, output of aluminium hardly expanded from 1937–1938 to 1956–1957 despite the newly created aluminium industry in Czechoslovakia, based on imported ore. The recent growth of output in Czechoslovakia and Eastern Germany was not sufficient to offset the decline in Eastern German production which occurred during the immediate post-war period.

Output of lead expanded at a higher rate in new production areas than in older producing countries. The highest rates of increase were achieved by mainland China, where the pre-war output was insignificant. The rate of expansion of output of eastern Europe was smaller, but its total output was, both before and after the war, many times greater than in mainland China. In turn, mining of lead rose in eastern Europe at a higher rate than in the Soviet Union, although smelter production was still lagging, particularly in Bulgaria, for lack of smelting capacity.

In contrast, the increase in output of copper, tin and, except for mainland China, zinc appears to have been higher in the Soviet Union than in other areas. Although the development of copper mining progressed in some eastern European countries, particularly in Eastern Germany, Poland and Bulgaria, in recent years, copper reserves in this region are too meagre to support a great expansion of production. The situation was still less favourable in the case of tin, the only deposits of which are in Czechoslovakia and Eastern Germany, and even these are partly depleted. Similarly, despite the existence of sizable deposits of zinc, mainly in Poland, the growth of output was limited by the continuous deterioration of deposits.[16] On the other hand, in the Soviet Union, the opening of new mines in the central Asian republics and other less developed areas laid the basis for swift growth of output. In effect, zinc output in this country appears to have increased since pre-war years 4.5 times, and the output of copper 4.1 times. In the case of tin, output, which was quite negligible in the Soviet Union before the war, was estimated at around 18,000 tons in 1956–1957.

The changes in consumption in individual centrally planned economies were only loosely related to increases in output and, despite efforts to achieve a high degree of self-sufficiency, dependence on trade for specific metals increased considerably in most of them.

In eastern Europe consumption of iron ore rose at a considerably higher rate than output; in effect, the area became a heavy net importer with as much as 63 per cent of consumption covered by imports. In the other two areas, the relation between expansion of production and consumption was reversed. In consequence, the Soviet Union became a very considerable exporter of iron ore, with net exports amounting to as much as 14 per cent of its own consumption in 1956/57; however, this increase was insufficient to cover the rise in import requirements of eastern Europe. The increase in the dependence of eastern Europe on imports from the Soviet Union was only slightly less pronounced in the case of manganese ore, despite the fact that output expanded at a higher rate. Eastern Europe remained highly dependent on the Soviet Union for imports of ferro-alloy metals, except in the case of chromium ore, which was supplied to an increasing extent by Albania.

Consumption of all major non-ferrous metals rose in general at a lower rate than production, although the extent of the lag in consumption differed from country to country. Output of aluminium exceeded consumption in the less industrialized eastern European countries to a greater extent than in the Soviet Union. Since, however, the bulk of aluminium consumed in less industrialized eastern Europe, before the war, was imported, the decline in dependence on imports was only relative, while in absolute terms there was an increase in imports. Owing partly to war destruction in Eastern Germany, the more industrialized group of countries became more dependent on imports of aluminium. Again, however, the increase in the deficit of these two areas was covered by imports from the Soviet Union, which had expanded its net exports sufficiently to become, in addition, a substantial exporter to the rest of the world.

[15] Output of manganese ore was particularly fostered in Bulgaria, Hungary and Romania, that of chromium ore in Albania, which is generally not included in this study because of inadequate supply of statistical information. In all these countries the size of the deposits is invariably lower than in the Soviet Union, although Albania became a major producer of chromite.

[16] It should be noted that, although output of smelter zinc in Poland rose between 1937 and 1957 by 48 per cent, in the latter year it was still below the level of 1913, despite the increase in imports of zinc concentrates in the recent years.

Similar changes took place in the case of lead, apart from the fact that in 1956–1957 import surpluses of eastern Europe exceeded the combined net exports of the Soviet Union and mainland China. Net imports of copper declined in eastern Europe, both in absolute amounts and in relation to apparent consumption, although they still represented 50 per cent of requirements. In the Soviet Union, however, net imports fell from about 40 per cent in 1937–1938 to less than one per cent in 1955–1957. This change would be much smaller if imports of alloyed copper and copper wire were considered, which are only partially included in the data reproduced in table 53. The share of net imports of tin in apparent consumption also declined in eastern Europe, although this change was exclusively the result of increases in output of Czechoslovakia and Eastern Germany, while total consumption of the less industrialized countries of eastern Europe continued, as before the war, to be covered entirely from imports. In the Soviet Union the increase in output in relation to consumption was much greater, and its net imports declined both in absolute and relative terms. The considerable net imports of eastern Europe and the Soviet Union, which still amounted to about 15,000 tons in 1956–1957, was entirely covered by the considerable rise in export surpluses of mainland China.

It should be added that of all major non-ferrous metals, the only commodity available for export in both eastern Europe and the Soviet Union was zinc. Though exports from Poland of zinc slabs and sheet rose between 1937–1938 and 1956–1957 by only 36 per cent,[17] this increase was more than sufficient to cover the expanded import requirements of the other eastern European countries. During the same period the Soviet Union turned from a net importer into a net exporter of this commodity. Nevertheless, the Soviet Union continues to be a substantial importer of zinc from Poland, whose exports are mostly directed to eastern European countries. In contrast, most of the Soviet zinc exports are taken by the countries outside of the group of centrally planned economies.

[17] Including zinc produced from imported concentrates, part of which, however, is supplied by Bulgaria.

Part II

CURRENT ECONOMIC DEVELOPMENTS

Chapter 5

RECENT TRENDS IN INDUSTRIAL COUNTRIES

The year 1958 was characterized by economic decline and recovery for the industrial countries. The boom preceding the decline had begun in 1954 for the group of industrial countries as a whole, and had reached its peak before the close of 1957. The fall in production in the last quarter of 1957 and the first half of 1958 was largely the result of a sharp recession in North America, although lesser declines in economic activity were also recorded in some of the western European countries and in Japan. Notwithstanding a partial recovery in the second half of 1958, average production for the year was slightly lower than in 1957, as shown in table 54.

The economic upswing had been based primarily on large-scale investment in fixed assets and a rapid growth of private expenditure on automobiles and other durable goods. Unlike the Korean boom, no part was played in the process by rising government expenditure. On the contrary, it was the levelling off or decline in government expenditure as the Korean conflict ended that released resources for use in the private sector. In some countries, however, exports rather than domestic expenditure provided much of the impetus to higher activity.

Table 54. Industrial Countries: Gross National Product and its Major Components[a]

(At constant prices; as percentages of 1955 gross national product)

Year	Gross national product	Personal consumption	Government expenditure	Fixed investment			Change in inventories	Exports and imports of goods and services		
				Total	Residential construction	Machinery and equipment		Balance	Exports	Imports
1955.....	100.0	66.5	13.3	18.2	4.3	7.9	1.5	0.3	10.1	−9.8
1956.....	103.2	69.1	13.4	19.0	4.2	8.7	1.4	0.3	11.0	−10.7
1957.....	105.5	71.0	13.7	19.3	4.1	8.7	0.8	0.6	11.9	−11.3
1958.....	104.6	71.6	14.2	18.6	4.1	7.5	−0.1	0.2	11.6	−11.5

Source: United Nations Bureau of Economic Affairs, based on replies of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies; Organisation for European Economic Co-operation, *General Statistical Bulletin* (Paris), and national sources.

Figures for 1958 in this chapter are preliminary estimates of Governments or of the United Nations Bureau of Economic Affairs.

[a] Including Denmark, Federal Republic of Germany, France, Italy, Netherlands, Norway and the United Kingdom in western Europe; and Canada and the United States in North America. Calculated, except for Canada, on the basis of purchasing power parities, as established for the purposes of table 32 of Organisation for European Economic Co-operation, *Comparative National Products and Price Levels*, Milton Gilbert and Associates (Paris, 1958). Data for Canada included on the basis of the official exchange rate. Exports and imports of goods and services represent the sum of the figures for the individual countries.

The behaviour of private consumption of durable goods and of business fixed investment goes a long way towards explaining the strength and duration of the boom in the various industrial areas. In western Europe, where there was a relatively greater backlog of demand for durable consumer goods and for industrial equipment than in North America, the upward phase of the cycle lasted considerably longer—for about five years from the early months of 1953 until the end of 1957. During this period industrial production rose about 40 per cent, and the volume of imports and exports advanced in about the same proportion. In North America, on the other hand, the boom was of considerably shorter duration—from mid-1954 to mid-1957. The growth in industrial production during this period was less than 20 per cent, and between the production peaks of 1953 and 1957 only 6 per cent. Similarly the United States market for goods from abroad was less than 10 per cent larger in the first half of 1957 than in the corresponding period of 1953.

The boom was brought to an end largely as a result of a weakening in the two components of demand on which it had been mainly based, as shown in table 55. There were important differences between western Europe and North America in the timing and degree of slackening in demand, which throw some light on variations in the amplitude and duration of recession in the two areas. In North America consumer expenditure on durables declined steeply as early as 1956, chiefly because of a sharp drop in automobile sales following the exceptionally large number of cars sold in the previous year. The volume of consumption of durables remained unchanged in 1957 but underwent a further steep decline in 1958. In western Europe, on the other hand, except for a pause in 1956, con-

sumer expenditure on durable goods, especially motor-cars, continued to rise throughout this period. Similarly the slackening in business fixed investment, which was brought about principally as a result of a growing gap between productive capacity and demand, occurred earlier in North America and was considerably more severe than in western Europe. The difference between the behaviour of these two components of final demand largely explains the much heavier inventory liquidation in North America than in western Europe and Japan during 1958, with the adverse repercussions on industrial production shown in the following table:

Industrial production, 1955–1958

(Percentage change from preceding year)

	1955	1956	1957	1958
Total	11	4	3	−3
Western Europe[a]	9	5	5	2
North America	12	3	1	−7
Japan	8	22	18	—

Source: Statistical Office of the United Nations and Bureau of Economic Affairs; Organisation for European Economic Co-operation, *General Statistical Bulletin*.

[a] OEEC member countries.

Table 55. Western Europe and North America: Gross National Product, Gross Fixed Investment and Consumption

(At constant prices; percentage change compared with preceding year)

Region and item	1956	1957	1958
Western Europe[a]			
Gross national product	4	4	2
Gross fixed investment	7	5	2
Residential construction	3	4	−1
Machinery and equipment	8	5	1
Personal consumption	5	4	2
Durable consumption	4	7	7
North America[b]			
Gross national product	3	1	−2
Gross fixed investment	4	—	−7
Residential construction	−9	−6	5
Machinery and equipment	11	−3	−21
Personal consumption	3	2	—
Durable consumption	−4	—	−8

Source: See table 54.

[a] Data for Denmark, France, Federal Republic of Germany, Italy, Netherlands, Norway, Sweden and the United Kingdom combined on the basis of 1954 prices and exchange rates.

[b] Data for Canada and United States combined on the basis of 1954 prices and exchange rates.

Two features of the North American recession in 1958, which were not generally foreseen, have occasioned much comment. One was the shortness of the recession and the abruptness with which the curve of production changed direction during the second quarter of 1958. The other was the exceptional gold outflow which accompanied the recession in the United States, in sharp contrast to fears of adverse repercussions, based upon experience in some of the inter-war recessions and in 1949.

Both these developments will be the subject of more detailed consideration below. Here it may simply be noted that the rapid rebound from the recession was due mainly to the fact that the public sector provided considerably more support for the economy than had been anticipated. This was not only because of governmental action taken with the deliberate intention of arresting the downturn but also on account of increases in government expenditure for other reasons which nevertheless helped to reverse the decline. However, since the Government's deliberately anti-recessionary measures were taken in the knowledge of what other government expenditures would be, it is impossible to draw any conclusions as to the extent to which anti-recession policy as such was specifically responsible for the recovery.

Early in 1959, business activity continued to recover, and it was expected that production in 1959 would be above the level of 1958. Despite this, there appeared to be grounds for some concern about the vigour of the current phase of expansion, since available indications were that under-utilization not only of equipment but of labour as well was likely to persist for some time, especially if existing fears of price increases were to lead to new restrictions on demand.

The outflow of gold from the United States in 1958 was accompanied by growing discussion of "dollar weakness". There is no doubt that western Europe's productive capacity—and hence its ability to supply goods for export—has grown considerably in relation to that of North America in recent years; export capacity has expanded particularly during the past two years since the pressure of western Europe's internal boom has abated. Nevertheless the main developments in the United States balance of payments in 1958 can be explained without reference to any deterioration in the competitive power of the United States; still less is there any convincing evidence of a flight from the dollar. The main difference between the recession of 1958 and those of 1949 and 1954, in the present context, was the fact that in 1958 output and demand in western Europe slackened at the same time as the recession was developing in North America instead of continuing to rise as on previous occasions. The most important single factor in the balance of payments developments of 1958 was the very sharp drop in United States exports, reflecting not only the weakening of demand in Europe but also the return to more normal channels of trade at the end of the Suez crisis.

The strength of western Europe's balance of payments position in 1958 was therefore achieved at the cost of a slowing down in business activity. It also had serious implications for the under-developed countries since a decline in western Europe's import demand was superimposed upon the weakening in North American demand, with adverse repercussions on commodity prices; this situation contrasted with that in 1954 when

the rise in western Europe's output and demand for imports had served to offset the effects of the slowdown in the United States. While the rise in production expected throughout 1959 implied some degree of recovery in trade, fears were being expressed in a number of industrial countries—including even those in the strongest foreign exchange positions—about the possibility of unfavourable developments in the balance of payments if the pace of the upturn quickened. There consequently appeared to be some danger that balance of payments considerations, combined with the desire to avoid price increases, might give something of a deflationary bias to government policy during the current period of recovery.

Recession and recovery in North America

For North America the 1957/58 recession represented the third post-war economic setback, the preceding two downswings having taken place in 1948/49 and 1953/54. In Canada industrial production, on a seasonally adjusted basis, reached its peak in the last quarter of 1956; thereafter it declined at a relatively slow pace until the end of the year, when the index of production was about 7 per cent lower than in December 1956. There was no continuous recovery in aggregate demand in the course of 1958; a moderate revival in industrial production in the first five months was followed by a setback in the middle of the year and by a renewed recovery in the last quarter of 1958. For the year 1958 as a whole gross national product, in real terms, was slightly above the level of the preceding year, as shown in table 56. Even this increase took place exclusively in the farm sector; the volume of non-farm production remained unchanged from the previous year.

Table 56. North America: Gross National Product and its Major Components, by Country

(At constant prices; as percentages of 1957 gross national product)

Region and year	Gross national product	Personal consumption	Government consumption	Fixed investment	Change in inventories	Exports and imports of goods and services		
						Balance	Exports	Imports
North America[a]								
1956	98.8	64.1	15.9	17.2	1.5	0.2	6.4	−6.2
1957	100.0	65.6	16.3	17.2	0.3	0.6	6.9	−6.3
1958	97.5	65.6	17.0	15.9	−0.9	−0.1	6.2	−6.3
Canada								
1956	100.2	63.7	13.5	25.0	2.6	−4.5	20.3	−24.9
1957	100.0	64.5	13.2	26.2	0.3	−4.2	20.4	−24.6
1958	100.8	65.9	13.6	24.8	−1.1	−2.5	20.7	−23.1
United States								
1956	98.7	64.1	16.1	16.6	1.4	0.6	5.4	−4.8
1957	100.0	65.7	16.5	16.5	0.3	0.9	5.9	−5.0
1958	97.3	65.6	17.2	15.3	−0.9	—	5.1	−5.1

Source: See table 54. Figures have been adjusted to conform, as far as possible, to the OEEC system of national accounts.

[a]See footnote *b* to table 55.

In the United States the fall in industrial production did not start until September 1957, but it proceeded at a much faster pace until April 1958. During this period of eight months industrial production declined by about 13 per cent and total employment outside agriculture by about 2.5 million, after allowing for seasonal factors. The recovery in production after April 1958 was also fairly rapid and by the end of the year most of the ground lost in industrial production had been regained. The recovery was not, however, rapid enough to increase the demand for labour to the pre-recession level, and this, together with the normal growth in the labour force meant that unemployment remained relatively high. Gross national product rose after the first quarter of 1958 in line with the advance in industrial production, and by the fourth quarter of the year it reached a level less than one per cent lower than the pre-recession peak. For the year as a whole, however, total output was about 3 per cent lower in volume than in 1957 (see table 56). Production continued to rise in the early months of 1959 and by March the index of industrial production was slightly higher than the previous peak.

MAJOR FACTORS IN THE RECESSION

Although a number of factors combined to bring about the 1957/58 recession in North America, the primary one among them was a decline in fixed investment activity, and especially in business investment. It will be shown below that, whereas in Canada the business recession followed very closely upon a weak-

ening in fixed investment demand, in the United States there were special supporting factors which helped to maintain the volume of aggregate demand for some time. It was the existence of these special factors that was largely responsible for the fact that, although the boom in business investment was relatively short-lived in the United States, the contraction of total demand and production did not set in until some time after the recession had started in Canada.

Economic expansion in North America after the 1953/54 recession was based largely on a rapid growth in durable consumption and fixed investment. However, the phase of rapid expansion virtually came to an end in the United States as early as the latter part of 1955 when there was a fall in the consumption of durables and in residential construction. Car sales, as noted previously, reacted to the abnormally high level of sales earlier in the boom, while investment in housing was adversely affected by restrictive credit policy. There was only a very modest advance in aggregate demand in the last phase of the expansion, which lasted throughout 1956 and the first eight months of 1957.

Table 57. United States: Changes in Final Demand and its Components, 1956 and 1957

(Billions of dollars at 1954 prices, seasonally adjusted, at annual rates)

Item	1955	Change from preceding period			
		1956		1957	
	Second half	First half	Second half	First half	Second half
Personal consumption	260.8	2.0	1.8	4.3	2.7
Durable goods	40.7	−2.5	−0.6	0.6	−0.2
Non-durable goods	127.8	2.4	—	1.8	1.4
Services	92.3	2.1	2.4	2.0	1.4
Fixed investment	58.0	−0.6	0.4	−0.8	−1.3
Residential construction	17.9	−1.3	−0.4	−0.8	0.2
Other construction	16.0	0.4	0.2	0.3	−0.1
Producers' durable equipment	24.0	0.5	0.5	−0.2	−1.4
Government consumption	73.0	−0.8	1.4	1.8	−1.0
Net export balance	1.0	0.4	2.0	1.4	−2.0
Total final demand	392.8	1.0	5.6	6.8	−1.6

Source: United States Department of Commerce, Office of Business Economics, *United States Income and Output, A Supplement to the Survey of Current Business* (Washington, D. C.).

It can be seen from table 57 that from the beginning of 1956 the volume of fixed investment activity in the United States stagnated at a level slightly lower than that attained in the second half of 1955. Business investment lost most of its upward momentum in the course of 1956 and began to decline in the early months of 1957. Even in 1956 the increase in business fixed investment was not quite sufficient to offset the decline in residential construction. Thus total fixed investment demand played a neutral or mildly contractionist role in the economy throughout a relatively lengthy period prior to the recession.

At the same time, personal consumption, which like fixed investment had played an important part in the expansion of demand during the early phase of the boom, ceased to be a buoyant factor in the economy thereafter. Although consumption continued to grow, the rise throughout most of this period was proportionately less than the increase in personal disposable income because of the slackening in consumer expenditure on durables.

The two buoyant components of final demand[1] during the last phase of expansion were exports and government consumption. Exports were stimulated by a substantial increase in the disposal of surplus agricultural products, by an expansion of demand in western Europe, Canada and Japan, and by the interruption of the regular channel of supplies of petroleum to western Europe during the closing of the Suez Canal. The rise in public expenditure was brought about largely by an increase in defence procurements after the middle of 1956. In view of developments in fixed investment and personal consumption, it would appear quite probable that, but for these two special supporting factors—external demand and public expenditure—the recession in aggregate demand and production might have set in earlier than September 1957.

In the second half of 1957, however, these two components of demand also lost their expansive character. Following the clearing of the Suez Canal and a slowing down in the pace of expansion in the other industrial countries, there was an appreciable decline in the volume of exports and in the foreign balance after the middle of 1957. There was also a more moderate fall in the volume of government consumption since the reduction in the level of defence expenditure more than

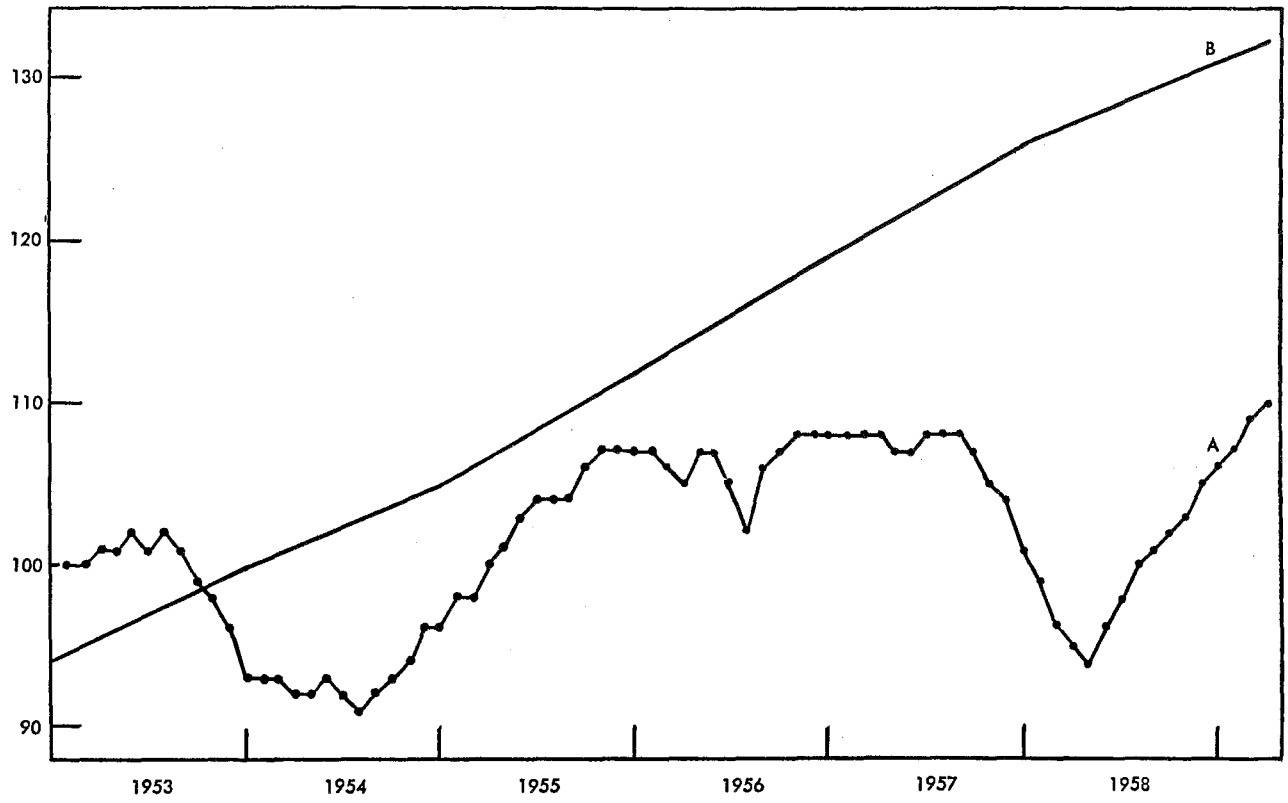
[1] For convenience, the term "final demand" is used to signify gross national expenditure less changes in inventories.

offset a continuing rise in State and local government consumption.

A more persistent and what proved later to be a considerably more serious factor in the decline of final demand, however, was the fall in business investment after the third quarter of 1957. Productive capacity in industry, which had not been fully utilized even during the peak of the boom in 1955, continued to expand rapidly in the latter stages of the expansion despite the slower increase in the volume of investment. This was partly the result of the completion of the many investment projects initiated earlier in the boom. At the same time there was, as noted earlier, only a very moderate increase in the volume of demand and production. As a result, the gap between the capacity of productive equipment and the actual level of production in industry continued to widen (see chart 15). In these circumstances the volume of business investment, which had risen relatively moderately in the course of 1956, levelled off in the early months of 1957 and turned downward in the last quarter of the year.[2] The decline in this component of demand accelerated during the first half of 1958 and continued until the third quarter of the year, at which time the total value of business expenditure on plant and equipment was running at a level more than 20 per cent below the peak attained in the third quarter of 1957, the comparable decline in the manufacturing sector being as high as 34 per cent.

Chart 15. Manufacturing Capacity[a] and Production[b] in the United States

(Indices, 1953 = 100)



A = Production
B = Capacity

Source: "Business Plans for New Plant and Equipment", *12th Annual McGraw-Hill Survey*, April, 1959; Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin* (Washington, D. C.).

[a] End of period.

[b] Seasonally adjusted.

The weakness in final demand during the first three quarters of 1957 was reflected in a decline in the volume of new orders and a diminishing backlog of unfilled orders in manufacturing industries, especially in the durable goods sector. The emergence of uncertainty about future sales and business prospects was accompanied by a considerable reduction in the rate of inventory accumulation during this period. The subsequent fall in the volume of manufacturers' inventories was caused largely by a worsening of business expectations which accompanied the decline in final demand and a decrease in defence orders after the middle of 1957. It

[2] For a detailed analysis of the factors underlying the development of excess capacity in industry, *see* United Nations, *World Economic Survey, 1957* (sales number: 58.II.C.1), pages 158 to 164.

can be seen from table 58 that liquidation of inventories was statistically the largest single factor in the fall in gross national product during the recession. The process of inventory liquidation assumed unusually large proportions in the first half of 1958 and continued, though at a progressively slower pace, until the last quarter of the year.

The faster rate of inventory liquidation, as compared with the 1953/54 recession, was due partly to the higher level of stocks held by manufacturers in relation to sales at the beginning of the recent recession. Equally important was the relatively greater uncertainty as to the future prospects for the sale of durable consumer goods and for business investment, the latter due largely to the extent of excess capacity prevailing in industry. Inventory liquidation was indeed closely related to the decline in the components of final demand noted earlier. The reduction in inventory holdings by the manufacturers of machinery, aircraft and automobiles, in fact, accounted for over one-half of the total decline in business inventories.

The decline in final demand ceased in the second quarter of 1958, since the continued fall in fixed investment was now more or less offset by a rise in public and private consumption, while the export balance remained unchanged. Final demand took a sharp upward turn in the second half of 1958 owing largely to a recovery in residential construction, and a further increase in public and private consumption. These developments, explained below, were accompanied by an improvement in business expectations and consequently by a slowing down, after April, in the rate at which stocks were being reduced and ultimately by a shift to some replenishment of inventories at the end of the year. Industrial production began to recover in May and continued to expand during the remainder of the year.

In Canada, where the boom in business investment was more vigorous and of longer duration, fixed investment continued to rise rapidly until the end of the first quarter of 1957. This relatively long period of expansion in fixed investment took place despite a steady fall in residential construction activity after 1955. The subsequent fall in business investment after the first quarter of 1957 continued until the end of 1958 and was the major depressing factor in the economy during most of 1957 and 1958. Total fixed investment declined until the end of 1957 but levelled off in 1958 as a result of a rapid rise in residential construction. The weakness in fixed investment activity was, as in the case of the United States, accompanied by an appreciable slowing down in the rate of accumulation of non-farm business inventories during the first three quarters of 1957 and subsequently by a liquidation of such stocks—a process which lasted until the middle of 1958.

The contraction of demand in Canada was, however, relatively moderate compared with that in the United States. This was largely owing to the slower fall in fixed investment. Residential construction recovered after the first quarter of 1957, and not only was the rate of decline in business investment on a smaller scale, but the main impact of the fall in demand for machinery and equipment was more upon imports than on domestic shipments. Similarly, part of the decline in consumer expenditure on durables and of the liquidation of inventories in the iron and steel industries was reflected in a fall in imports. Since exports were maintained at the level of the preceding year, there was an improvement in the foreign balance in 1957.

Despite a steep rise in government expenditure on goods and services in 1958 and a rapid increase in residential construction, which together more than offset the fall in fixed business investment after the first quarter of the year, there was only a very moderate recovery in aggregate demand in 1958. This was due only in part to the heavy reduction of stocks of domestically produced goods in the first half of the year. Equally important was the fact that the proportion of personal disposable income devoted to consumption, which had risen in 1957, declined sharply in the first three quarters of the year, thereby tending to slow down the expansion in demand and production. Exports were generally again maintained at the level of the preceding year and, since imports were lower than in 1957, there was a further improvement in the foreign balance.

DOMINANT ROLE OF THE PUBLIC SECTOR IN THE RECOVERY

The most important factor which helped to put a brake on the forces of contraction in both Canada and the United States during the recent recession was the expansive behaviour of the public sector. It will be shown below that in the United States the difference between the behaviour of the public sector in the 1953/54 and the 1957/58 recession provides much of the explanation for the relatively shorter duration of the latter downturn despite the fact that the contractionist forces in the private sector—in particular those represented by the decline in fixed investment demand—were of greater dimensions and possessed a more persistent character in 1957/58. The main reason for the difference in behaviour was the sharp decline in defence expenditures in 1953/54; this meant that even though substantial support to the economy was given by other governmental measures at that time, notably a reduction in taxes, the over-all effect of the public sector on the economy was deflationary. In 1957/58, on the other hand, the public sector was a focal point of strength in the economy and provided a considerable stimulus to demand.

In Canada residential construction was stimulated by the Government through the relaxation of minimum requirements for loans under the National Housing Act and expanded provision of mortgage funds.

Equally important was the stimulus provided by the public sector to personal income and consumption by increasing pensions, family allowances and veterans' payments, extending the period during which seasonal benefits could be collected under the Unemployment Insurance Act and reducing personal tax rates. Public expenditure rose throughout 1957 and 1958 as a result of higher wage and salary rates paid to government employees and an increase in outlays on educational facilities, highways and other capital projects.

The expansive role of the public sector during the 1957/58 recession and the first three quarters of recovery has been equally significant in the United States, despite the fact that personal tax rates were not reduced as in Canada. Measures initiated specifically to help reverse the decline in production and to stimulate the expansion of demand consisted largely of a progressive reduction in rates of interest, an easing in credit conditions and a number of important steps taken to encourage residential construction. The decision to accelerate federal construction projects already under way and to speed up projects supported by federal financial assistance may also be placed under this heading.[3]

A number of other measures which also gave buoyancy to the economy were not attributed by the Government primarily to considerations relating directly to the recession. The most important of these were an acceleration in defence procurements and a rise in federal defence orders in line with national security policy. Similarly, a rise in the pay of government employees, increased benefit payments under the old-age, survivors and disability system, and a temporary extension of the period of entitlement to unemployment benefits, designed primarily to mitigate special hardships experienced through loss of employment, fall in this category.

The public sector also exercised an important sustaining influence through the well known "built-in stabilizers"; unemployment compensation payments increased and personal tax obligations declined more than in proportion to personal incomes.[4] An important chance factor was the appreciable increase in government outlays for the support of agricultural prices, owing to the bumper crop of 1958. The elements of final demand directly affected by government operations were residential construction, public expenditure on goods and services and personal consumption, and these will now be reviewed in turn.

Residential construction

It has already been noted that the decline in residential construction after 1955 had been an important factor in weakening fixed investment demand during the last phase of the boom. Successive reductions took place in Federal Reserve discount rates after October 1957 and credit conditions[5] were generally eased. At the same time the Government took a number of direct measures to revive residential construction activity. These included the lowering of minimum down-payment requirements on loans insured by the Federal Housing Administration, releasing funds for the purchase of mortgages by the Federal National Mortgage Association, and the reduction of minimum down payments and adjustment of allowable discounts on Veterans' Administration guaranteed loans.[6]

These measures were important in reviving residential construction, after a lag of a few months. Housing starts which had already dropped to about one million units in 1957 and had declined a little further early in 1958, recovered in March and thereafter rose rapidly, so that by the end of the year starts were being made at an annual rate of over 1.4 million units on a seasonally adjusted basis. The increase in housing starts under the Federal Housing Administration programme accounted for about 80 per cent of the total rise in starts in 1958 as compared with the preceding year. This had a favourable influence on the inventory policies of producers and distributors of building materials and was, after May, reflected in a rapid increase in the volume of expenditure on residential construction (see table 58).

Table 58. United States: Gross National Product and Components, Third Quarter of 1957, and Changes During Recession and Recovery

(Billions of dollars at 1954 prices, seasonally adjusted, at annual rates)

Item	*Peak 1957 Third quarter*	*Trough 1958 First quarter (change from peak)*	*Recovery 1958 Fourth quarter (change from trough)*
Personal consumption.....	272.9	−6.2	7.6
Government consumption..	74.1	1.8	5.0
Fixed investment.....	56.1	−5.1	1.6
Residential construction..	15.2	0.2	2.5
Other construction.....	16.9	−0.7	−0.7
Producers' durable equipment.....	24.0	−4.6	−0.1
Net export balance.....	3.7	−3.3	−1.3
TOTAL FINAL DEMAND	406.8	−12.8	12.9
Changes in inventories.....	2.3	−8.8	7.3
GROSS NATIONAL PRODUCT	409.1	−21.6	20.2

Source: Economic Report of the President, January 1959, and United States Department of Commerce, *Survey of Current Business* (Washington, D. C.).

[3] Other measures with a similar purpose included increased lending by the Export-Import Bank and the Small Business Administration, and a speeding-up of payments of income tax refunds.

[4] Since personal incomes fell only slightly, the effect of declining personal tax obligations was very small.

[5] The Federal Reserve discount rate was first lowered from 3½ per cent to 3 per cent in mid-November 1957, and three further reductions brought the rate down to 1¾ per cent by May 1958. Moreover, the Federal Reserve authorities reduced reserve requirements on three successive occasions in February, March and April 1958, and provided additional funds for bank reserves through open market operations.

[6] For full details of these and other measures taken by the Government to encourage residential construction, see *Economic Report of the President* (Washington, D. C., January 1959), pages 37 to 39.

Public consumption

A paramount part in sustaining the level of final demand during the recession was played by the rise in government expenditure on goods and services, which preceded the recovery in housing investment. It can be seen from table 58 that this category of expenditure was the only major component of demand which expanded in the course of the recession. Equally important, however, was the expansive role of public consumption after the upturn in production during the last three quarters of 1958.

Federal expenditure, after a moderate decline in the last quarter of 1957, rose steadily throughout 1958. Purchases of non-defence goods and services rose at an annual rate of about $3 billion from the first to the fourth quarter of 1958, largely on account of a big increase in payments under agricultural price support programmes, owing to the bumper crop of 1958. Expenditure on national defence increased at an annual rate of about $1 billion during the same period. There was also an appreciable advance in State and local purchases of goods and services, continuing the long-run growth trend in this category of expenditure; a significant increase occurred in expenditure for education and for the construction of highways and other facilities, stimulated by the acceleration of grants-in-aid received from the Federal Government.

Over and above these increases in public expenditure on goods and services there was a sharp acceleration of defence orders in 1958—following the slowdown in orders prior to the recession—which also imparted considerable buoyancy to the economy through its impact on business expectations and inventory policies. New orders for defence goods rose from an annual rate of $12 billion in the second half of 1957 to an annual rate of $22 billion in the first half of 1958. The immediate effect of this rise was not so much to increase the level of government expenditure as to slow down and eventually halt the liquidation of inventories by defence contractors.

While complete data on the effect of changes in defence orders upon inventories are not available, it is noteworthy that in the transport sector excluding motor vehicles, the great bulk of the output of which consists of defence *materiel*, inventories were reduced by some $700 million from September 1957 to April 1958[7]—an amount which corresponds to nearly 20 per cent of the total fall in business inventories during that period. The liquidation in this sector ceased after April, thereby contributing to the slowing down in the rate of inventory decumulation in the economy as a whole. Since the changes in government defence orders also affected other sectors of the economy, and since the movements in inventories in defence plants must have had significant repercussions upon inventories held in other industries, it will be evident that government policy had a very considerable impact upon the inventory fluctuations of 1957 and 1958.

[7] On a seasonally adjusted basis.

Personal consumption

The third important component of final demand which was strongly influenced by government operations was personal consumption. Although personal income and expenditure fell during the recession, the extent of the decline was effectively cushioned by the Government. The resilience of personal consumption during the recession exercised an important influence in preventing the downturn from gaining momentum and in bringing it to a halt in the second quarter of 1958. Moreover, the growth in personal incomes and consumption after the recession, which helped in accelerating the pace of recovery during the rest of the year, was similarly stimulated by the public sector.

It is true that some of the factors responsible for the favourable behaviour of personal incomes and consumption during the recession and recovery period were not directly related to government operations. Particularly significant among these was a rise in wage rates and hourly earnings, accompanied by a fall in the share of profits in total private product; this helped to moderate the adverse effect of the decline in production and employment on consumption. Other favourable factors affecting personal incomes and consumption during the recession were the relative stability in dividend payments, despite the steep decline in profits, and the increase in the proportion of personal disposable income devoted to consumption.

Equally important in determining the trend of personal incomes and consumption, however, were the built-in stabilizers. It can be seen from table 59 that between the third quarter of 1957 and the first quarter of 1958 the increase in government transfer payments[8] and, to a much lesser extent, the fall in personal tax obligations together offset over 45 per cent of the decline in the private wage and salary bill. It was largely as a result of the operation of these two stabilizers—although the increase in government salary payments and in incomes of farm proprietors also contributed to it—that, despite a fall of $7.3 billion, at an annual rate, in the private wage and salary bill and $1.1 billion in business and professional income, personal disposable income dropped only $2.6 billion during this period.

Government transfer payments also helped to strengthen the recovery movement after the upturn in production. The value of these payments rose in the second and third quarters of 1958 and declined only moderately in the last quarter of the year. The growth in transfer payments after the recovery had started was due partly to legislation enacted in June 1958 tempo-

[8] Including an increase in benefits under the old-age, survivors and disability system.

rarily extending the period of entitlement to unemployment benefits. It can be seen from table 59 that the increase in transfer payments accounted for over one-fifth of the rise in personal disposable income between the first and fourth quarters of 1958.

Table 59. United States: Personal Disposable Income and Components, Third Quarter of 1957, and Changes During Recession and Recovery

(Billions of dollars, seasonally adjusted, at annual rates)

Item	*Peak 1957 Third quarter*	*Trough 1958 First quarter (change from peak)*	*Recovery 1958 Fourth quarter (change from trough)*
Private wage and salary disbursements[a]	209.0	−7.3	5.2
Business and professional income	31.7	−1.1	1.2
Government wage and salary disbursements	40.6	0.4	2.7
Farm income	11.8	1.9	—
Dividends	12.7	−0.2	−0.7
Rent and interest	31.0	0.4	0.4
Transfer payments	21.6	2.6	2.3
Less personal contributions for social security	6.7	—	0.1
PERSONAL INCOME	351.8	−3.5	11.2
Less personal tax	43.1	−0.8	1.4
PERSONAL DISPOSABLE INCOME	308.7	−2.6	9.7

Source: United States Department of Commerce, *Survey of Current Business.*

[a] Including the relatively small item, "Other labour income", which is not wholly of a private nature.

COMPARISON OF GOVERNMENT FISCAL OPERATIONS IN THE 1957/58 AND 1953/54 RECESSIONS

Additional light on the role of the public sector during the recent recession may be shed by a comparison with experience in 1953/54. A simple indicator of the over-all stimulus given to the economy by government fiscal operations is provided by changes in the balance of government revenue and expenditure as defined for national income purposes. The ratio of the government deficit to gross private income in any period represents statistically the contribution of government fiscal operations to gross private income.[9] It can be seen from the following table that during the 1953/54 recession, the average deficit exceeded the deficit in the peak quarter preceding the recession by one per cent of gross private income, while the corresponding figure for the 1957/58 recession was 2.5 per cent. Thus, despite the reduction in personal income tax and the relinquishing of excess profits tax during the 1953/54 recession, addition to gross private income from public fiscal operations was smaller than during the 1957/58 recession. This is largely explained by the steep decline

[9] A fall in the government surplus will have the same effect as an increase in government deficit.

United States Government deficit on income and product account, as a percentage of gross private income after tax[a]

(*Seasonally adjusted*)

	1953/54 Recession	*1957/58 Recession*
Peak quarter[b]	2.0	−0.8[c]
Average during recession[d]	3.0	1.7
Average, first three quarters of recovery	1.2	2.9

Source: United Nations Bureau of Economic Affairs, based on *Economic Report of the President*, January 1959, and United States Department of Commerce, *Survey of Current Business.*

[a] Gross private income after tax is defined as personal disposable income plus corporate retained profits plus depreciation.

[b] For 1953/54 recession, second quarter of 1953; for 1957/58 recession, third quarter of 1957.

[c] The minus sign denotes a budget surplus.

[d] For 1953/54 recession, average of second half of 1953 and first half of 1954; for 1957/58 recession, average of fourth quarter of 1957 and first quarter of 1958.

in federal defence expenditure during the 1953/54 recession. The table above also shows that in the first three quarters of recovery from the 1953/54 recession, the average budget deficit declined by about 2 per cent of gross private income, as compared with the recession period. During the corresponding period of recovery from the recent recession, however, the average deficit rose by over one per cent of gross private income. Thus a significantly greater part has been played by the public sector in stimulating the growth of demand during the current expansion than was the case after the 1953/54 recession.

The contrast between the role of the public sector in the two recessions appears even greater if changes in government purchases of goods and services and the primary influence of government fiscal operations on personal consumption are taken as a criterion of the stimulus provided to the economy.[10] As regards the latter, it may be assumed that the direct addition to personal consumption, due to the operation of built-in stabilizers in each period, is equal to the increase in government transfer payments plus the fall in personal tax receipts after allowance is made for savings at the rate prevailing in the personal sector during that period.[11] Though no account is taken of any secondary

[10] It is not possible to arrive at a quantitative estimate of the influence of the public sector on the other important component of domestic demand, namely, gross private investment. It is true that the abolition of excess profits tax during the 1953/54 recession helped in sustaining business liquid resources and that this probably had some favourable influence on business investment policies. (Dividend payments did not change significantly during the two recessions.) However, the conclusion derived from the following analysis regarding the contrast between the role of the public sector in the two recessions would not be changed even if the extreme assumption were made that the whole of the reduction in corporate tax liability, due to the abolition of excess profits tax, went into sustaining business investment during 1954, and no account were taken of the stimulus to business investment in 1958 by the rapid increase in federal defence orders.

[11] The proportion of savings out of income generated by the built-in stabilizers will generally be lower than the ratio applicable to the whole personal sector. In view of the very small ratio of saving in this sector, however, the method of computation used will not affect the conclusion drawn to any significant extent.

influence of fiscal operations on demand, this should not materially affect the conclusions drawn from the data examined here, since there is no reason to suppose that any secondary influences were significantly smaller in relation to the primary influence in the recent recession as compared with 1953/54.

Table 60. United States: Changes in Government Consumption and Primary Influence of Public Fiscal Operations, Selected Periods of Two Recessions

(Billions of dollars at 1954 prices, seasonally adjusted, at annual rates)

Item	1953/54 Recession and recovery		1957/58 Recession and recovery	
	Trough 1954 Second quarter (change from peak[a])	Third quarter of recovery (change from trough)	Trough 1958 First quarter (change from peak[b])	Third quarter of recovery (change from trough)
Changes in government consumption	−10.1	−1.8	1.8	5.0
Changes in personal consumption	4.8	−1.0	2.9	0.8
From transfer payments	1.9	0.7	2.1	2.0
From personal taxes	2.8	−1.7	0.7	−1.2
TOTAL CHANGES	−5.3	−2.8	4.7	5.8

Source: United States Department of Commerce, *Survey of Current Business.*

[a] Second quarter 1953.
[b] Third quarter 1957.

It can be seen from table 60 that personal consumption received a slightly greater stimulus from government fiscal operations during the 1953/54 recession. This was largely due to the reduction in personal taxes mentioned earlier. The contractionist effect of the fall in public consumption on demand was, however, considerably greater in magnitude than the increase in personal consumption that can be attributed to government fiscal operations. After the recovery started, public consumption levelled off, and the public sector ceased exerting a significant downward pressure on the economy.

During the 1957/58 recession, on the other hand, to the expansive influence of government fiscal operations on personal consumption was added the stimulus from the rise in public consumption. The increase in these two components of demand amounted to $4.7 billion at 1954 prices at an annual rate, or over one per cent of the gross national product, between the peak and the trough quarters. To obtain some idea of the significance of this stimulus to demand it is sufficient to note that the decline in fixed investment during the same period was only $5.1 billion, at an annual rate (see table 58). Thus the stimulus provided by the public sector to the economy through these two components of demand alone[12] was almost equal to the fall in fixed investment—the primary factor in the drop in final demand.

Equally significant has been the role of the public sector in stimulating the expansion of demand since the end of the recent recession. As a result of the increase in transfer payments and in public expenditure on goods and services, especially the latter, government continued to exert a powerful expansionary influence during the first three quarters of the recovery. The volume of final demand during the third quarter of recovery was about $13 billion above the first quarter of 1958 at an annual rate.[13] Of this increase $5 billion was accounted for by the rise in public consumption and about $1 billion can be attributed to the primary influence of the built-in stabilizers, as shown in table 60. This occurred despite an increase in personal tax payments during the recovery which partly offset the effect of the rise in transfer payments on personal incomes and consumption.[14]

It may thus be concluded that the public sector played a major part in slowing down the 1957/58 recession until it was finally halted soon after the first quarter of 1958. Moreover, the difference between the behaviour of the public sector in the 1953/54 and 1957/58 recessions provides a large part of the explanation for the relatively shorter duration of the recent downturn, despite the more persistent nature of the forces of contraction operating in it. A more significant conclusion from the point of view of the current economic situation and the outlook for the immediate future is that up to the beginning of 1959 the primary stimulus to the expansion of the final demand was pro-

[12] That is, without taking into account the effect of government measures on residential construction.

[13] See table 58.

[14] The role of the public sector in supporting the economy emerges as even more decisive if, instead of making the above quarter-to-quarter comparisons, the whole period of the recession and of the subsequent recovery is taken into account. Thus, during the period of the recession as a whole—the last quarter of 1957 and the first quarter of 1958—the primary expansion in demand attributable to government fiscal operations actually exceeded the whole of the decline in fixed investment, compared with the peak third quarter of 1957. Moreover, of the average rise of just over $6 billion in final demand during the last three quarters of 1958, compared with the trough in the first quarter, more than $4 billion reflected the primary influence of government operations. This consisted of a rise of $2.8 billion in government expenditure on goods and services and of $1.3 billion in government transfer payments net of personal taxes. All data seasonally adjusted at annual rates in 1954 prices.

vided by the public sector. If, therefore, government operations were, for some reason, less expansive in character during the coming months, it would be necessary for the economy to receive a more powerful stimulus from the private sector than it had up to the beginning of 1959 in order to maintain the rate of expansion of demand.

SLOWER RECOVERY IN EMPLOYMENT

The rate of increase in employment during the period of recovery has been considerably smaller than the growth in production. As a result the number of unemployed workers in both Canada and the United States remains appreciably higher than before the recession, a phenomenon which has given rise to widespread concern.

In Canada, where industrial production in 1958 generally stagnated at a level only slightly above the trough reached in December 1957, average civilian employment in 1958 was slightly lower than in the preceding year. In the manufacturing sector, in particular, employment declined by about 2 per cent between the end of 1957 and the end of 1958. The problem of unemployment was aggravated during 1957 and 1958 by the relatively large addition to the labour force in 1957, owing mainly to an unusually large volume of immigration into the country. The number of unemployed persons seeking work stood at 3.2 per cent of the total civilian labour force at the end of 1956, but the percentage rose to 6.5 at the end of 1957 and to 7.2 per cent in December 1958.

In the United States total employment has expanded since the end of the recent recession, but not at a sufficiently fast rate to absorb the new entries into the labour force together with the substantial increase in the ranks of the unemployed caused by the recession. After allowing for seasonal factors, employment in non-agricultural establishments, which accounts for about 80 per cent of total civilian workers, fell by about 2.5 million between August 1957 and April 1958, and the number of unemployed workers rose from 4.3 per cent of the civilian labour force to 7.5. By the end of 1958, although most of the ground lost in production had been regained, the increase in non-agricultural employment amounted to only about three-quarters of a million, and unemployment still stood at 6.1 per cent of the civilian labour force. This ratio of unemployment was about 1.5 per cent higher than that prevailing during the corresponding months of recovery from the preceding two downswings.

The higher ratio of unemployment during the present period of recovery cannot, as in the case of Canada, be attributed even in part to a relatively faster expansion in the civilian labour force. In fact, in the United States the growth in the labour force has been appreciably less during the 1957/58 recession and the current period of recovery than in the preceding two recessions and recoveries.

An important reason for the present high volume of unemployment is to be sought in the relatively small rise in employment during the last phase of the upswing preceding the recent recession, namely, from the end of 1955 until August 1957. The pronounced easing of demand during this period was reflected in a levelling off in industrial production and a fall in demand for labour in industry. Following a long-run trend there was also a decline in agricultural employment. The moderate growth in demand for labour in the rest of the economy was not sufficient both to absorb the addition to the civilian labour force and to offset the fall in industrial and agricultural employment. As a result, the seasonally adjusted ratio of unemployment to the civilian labour force rose from 3.7 per cent at the end of 1955 to 4.3 per cent in August 1957. This figure was one per cent higher than at the start of the 1948/49 recession and 2 per cent higher than at the corresponding month in the 1953/54 recession.

The relatively high level of unemployment prevailing at the beginning of 1959 seems also to be linked with the pace and pattern of the recovery. It can be seen from the following table that the rate of expansion in production during the first eight months of recovery has been appreciably lower than that attained after the 1948/49 downturn. In comparison with the economic revival that followed the 1953/54 recession, although industrial production has recently risen faster, aggregate demand and production have expanded slightly more slowly. This would indicate that the rate of increase in production outside the manufacturing sector during the present phase of recovery was slower than that attained in the corresponding period of the preceding upswing. In view of this fact it is not surprising to

Changes in manufacturing production and employment during first eight months of recovery following the three recessions

(Seasonally adjusted)

	Recovery after recession in		
	1948/49[a]	*1953/54*[b]	*1957/58*[c]
Index of manufacturing production (percentage changes)	22	10	12
Changes in employment (thousands of workers):			
Non-agricultural employment	2,200	1,092	682
Manufacturing	1,332	499	424
Non-manufacturing	868	593	258
Government	106	89	201
Private	762	504	57

Source: Board of Governors, Federal Reserve System of the United States, *Federal Reserve Bulletin* (Washington, D. C.); United States Department of Commerce, *Survey of Current Business*; United States Department of Labor, Bureau of Labor Statistics (Washington, D. C.).

[a] November 1949 to July 1950.
[b] July 1954 to March 1955.
[c] April 1958 to December 1958.

find that the growth in non-manufacturing employment, as indicated by the table above, has also been smaller. Particularly slow has been the rise of employment in the private non-manufacturing sector of the economy, owing largely to the relatively small increase in employment of service industries.

The table above shows that even in the manufacturing sector, where production has so far grown faster than after the 1953/54 recession, the increase in employment has been on a slightly lower scale. This can be explained, partly, by the pattern of manufacturing expansion and, partly, by changes in weekly hours worked by production workers. It can be seen from the following table that the present recovery in production has been relatively more pronounced in the durable goods sector than was the case after the 1953/54 recession. This has been reflected in a relatively faster increase in production per man-hour. Moreover, the number of hours worked per week, which had declined considerably more during the 1957/58 recession than in the preceding two downturns, has recovered more rapidly. Thus a relatively large proportion of the rise in manufacturing production, during the present period of recovery, has been accounted for by the rise in output per production worker rather than by an increase in employment.

Percentage changes in manufacturing production, employment and weekly hours worked during periods of recovery following the three recessions[a]

(Seasonally adjusted)

	Recovery after recession in		
	1948/49	*1953/54*	*1957/58*
Manufacturing production	22	10	12
Durable goods	35	10	16
Non-durable goods	10	9	8
Production per man-hour	6.2	2.7	3.4
Hours worked per week[b]	3.6	3.0	5.0
Employment (production workers)	11.0	3.8	3.7

Source: United States Department of Commerce, *Survey of Current Business.*

[a] For periods covered in each recession see footnotes *a*, *b* and *c* to the preceding text table.

[b] Not seasonally adjusted.

Economic stagnation in western Europe and Japan

There are important similarities between recent economic developments in the industrial countries of western Europe and Japan and those in North America, particularly as regards the basic slackening of fixed investment. All of these countries experienced a drop in production of greater or lesser magnitude at some point during the period 1957–1958. The fact that there had nevertheless been no general decline in economic activity in western Europe on a scale comparable with that in the United States up to the end of 1958 was due mainly to the greater stability of total final demand. Confidence did not weaken to the same extent as in North America, and inventory liquidation was much more limited, affecting only a few specific sectors. In Japan, however, a decline in fixed investment and a slackening in the rate of growth of exports was accompanied by a marked drop in the rate of inventory accumulation.

The rate of growth in the gross national product of western Europe, which had already slowed down in the period 1956–1957, declined further in 1958. For the area as a whole, total output rose slightly less than 2 per cent in 1958, as compared with a rate of about 4 per cent recorded in each of the preceding two years, and over 6 per cent in 1955. There was a pronounced slowing down in the rate of growth of production in some countries—Denmark, France, the Federal Republic of Germany, Italy, the Netherlands and Sweden—and a fall in production in the other western European countries, as shown in table 61. These developments in gross national product were accompanied by similar movements in industrial production, although the relatively poor cereal harvest due to bad weather in the third quarter of 1958 also had an adverse effect on the growth of total product. In Italy and Japan, on the other hand, there was a very good harvest; the rise in agricultural production in Italy accounted for a significant part of the increase in gross national product.

In western Europe, the levelling off in industrial production at the end of 1957 and during the early months of 1958 was followed by a decline of about 2 per cent in the second quarter of 1958. All countries listed in table 62 experienced the decline, except for the Netherlands and Norway, both of which had suffered a setback at an earlier date. There was, however, a moderate recovery in industrial activity in all countries except France in the course of the second half of 1958 which was sufficient to raise the aggregate index of industrial production, by the end of 1958, to the level it had attained at the beginning of the year. The sectors of the economy most affected by the recession were textiles, clothing, coal and steel. Unlike that of the United States, western Europe's production in the motor-car industry continued to expand rapidly throughout 1958 owing to growth both in domestic consumption and in foreign demand. In Japan industrial production dropped from mid-1957 to mid-1958. The subsequent recovery, however, raised the index of industrial production for the year 1958 as a whole to the same level as in the preceding year.

Certain of the western European countries had experienced a recession in demand and production in the course of 1957 and some as early as 1956. In Denmark industrial production declined in the course of 1956 and again in the second half of 1957. The Netherlands

Table 61. Gross National Product and its Major Components, by Country[a]

(At constant prices; as percentages of 1957 gross national product)

Country and year	Gross national product	Personal consumption	Government consumption	Fixed investment	Change in inventories	Exports and imports of goods and services		
						Balance	Exports	Imports
Western Europe[b]								
1956	96.0	62.6	13.8	18.0	1.4	0.2	21.0	−20.8
1957	100.0	65.0	14.1	18.8	1.7	0.4	22.8	−22.4
1958	101.7	66.3	14.3	19.2	1.0	0.7	23.4	−22.7
Denmark								
1956	95.0	65.3	12.4	16.4	1.6	−0.7	32.6	−33.2
1957	100.0	67.3	12.5	17.2	2.1	0.9	35.2	−34.3
1958	100.7	69.2	12.7	17.6	−0.6	1.7	38.0	−36.3
France								
1956	94.2	64.8	13.7	16.5	1.1	−1.8	13.0	−14.7
1957	100.0	68.6	14.5	17.9	1.1	−2.0	13.4	−15.5
1958	102.1	69.0	14.5	18.5	1.5	−1.4	13.9	−15.3
Germany (Federal Republic)								
1956	95.2	57.2	12.0	21.3	1.3	3.4	22.1	−18.7
1957	100.0	59.8	12.8	21.4	2.0	4.0	26.1	−22.2
1958	102.8	61.8	13.4	22.3	2.0	3.3	27.4	−24.1
Italy								
1956	94.5	64.3	10.4	20.0	0.7	−0.8	13.2	−14.0
1957	100.0	67.0	10.6	21.5	0.5	0.4	16.0	−15.5
1958	104.2	69.0	11.5	21.5	0.8	1.4	16.8	−15.5
Netherlands								
1956	97.7	62.7	13.4	22.8	1.6	−2.8	50.4	−53.2
1957	100.0	62.2	13.1	23.4	3.1	−1.8	53.6	−55.4
1958	101.2	63.5	13.0	21.5	−0.5	3.8	57.0	−53.2
Norway								
1956	97.2	53.7	9.8	34.2	2.0	−2.5	38.8	−41.3
1957	100.0	54.7	10.3	35.5	1.1	−1.7	40.2	−41.9
1958	99.1	54.2	10.5	37.7	−0.8	−2.5	41.3	−43.8
Sweden[c]								
1956	96.0	55.5	17.8	22.0	1.2	−0.5	21.0	−21.5
1957	100.0	56.8	18.8	22.5	2.1	−0.3	22.8	−23.0
1958	101.0	58.0	19.8	23.8	−0.3	−0.2	22.4	−22.6
United Kingdom								
1956	98.8	61.2	18.8	15.9	1.5	1.4	23.8	−22.4
1957	100.0	62.4	18.0	16.6	1.8	1.2	24.2	−23.0
1958	99.6	63.9	17.8	16.6	0.3	1.0	23.9	−22.9

Source: See table 54.

[a] Data conform as far as possible to the OEEC system of national accounts, except in the case of Norway and Sweden.

[b] See footnote *a* to table 55.

[c] Public civilian investment in corporations and enterprises is included in fixed investment; the rest of public investment is included in government expenditure.

had a similar experience in the second half of 1957. The United Kingdom economy was stagnant from the end of 1955 onwards, with minor ups and downs. Industrial production in that country fell during 1956 below the level attained in the latter months of 1955 and did not subsequently exceed that level even at the end of 1958.

Relatively greater declines in industrial activity occurred in Belgium and Norway during 1957–1958 than in other western European countries. In Belgium industrial production on a seasonally adjusted basis fell by about 10 per cent between the early months of 1957 and the middle of 1958, while in Norway there was a drop of about 7 per cent from the third quarter of 1957 to the first quarter of 1958. Both countries experienced the adverse effects of slackening investment and export demand, as discussed below. But in addition, in Norway, activity in the herring oil and canning industries was depressed in the early months of 1958 by a poor catch of herring which was the smallest recorded in the post-war period. In Belgium the contraction of demand in the private sector was accentuated by government action in the latter part of 1957. At a time when industrial production was already on the

Table 62. Western Europe and Japan: Changes in Indices of Industrial Production, 1956–1958

(Seasonally adjusted)

Country	1956		1957		1958			
	First half	Second half	First half	Second half	First quarter	Second quarter	Third quarter	Fourth quarter
	Percentage change from preceding half-year				Percentage change from preceding quarter			
Total, OEEC countries	2	3	2	2	1	−1.5	1	1
Belgium	3	2	—	−4	−4	−5	2	1
Denmark	−2	7	3	−3	3	−1	1	2
France	6	5	3	5	3	−1	−1	−1
Germany (Federal Republic)	3	3	4	1	1	−1	1	3
Italy	3	5	5	2	—	−1	1	4
Netherlands	3	1	3	−4	2	1	2	—
Norway	1	4	1	1	−6	4	−1	3
Sweden	2	3	2	1	1	−2	—	1
United Kingdom	−1	—	2	—	—	−1	−1	2
Japan	...	13	10	1	−1	—	5	4

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics* and Organisation for European Economic Co-operation, *General Statistical Bulletin* and national sources.

decline, the Government took steps to increase tax receipts and curtail expenditure on public works and dwellings with the object of reducing government debt to the Central Bank to the conventional ceiling, which the Treasury had found it necessary to exceed.[15]

THE SLACKENING OF DEMAND

The preponderant factors in recent economic developments in western Europe and Japan have been the weaknesses in fixed investment and in export demand. On the whole, changes in government expenditure had not contributed to the previous upswing and they did not influence developments in 1958 either. In Sweden, however, a continued rapid increase in public consumption helped to sustain aggregate demand, while in France a slackening in public expenditure played a significant role in reducing the pressure of demand.[16]

These weaknesses in final demand, combined with a worsening of business expectations in 1958, were in most countries accompanied first by a slowing down in the rate of inventory accumulation and later by moderate liquidation. This had an adverse effect both on imports of raw materials and on industrial production. However, production of coal was either maintained or allowed to decline only very moderately despite the fall in demand; as a result, substantial increases in coal stocks were registered in Belgium, the Federal Republic of Germany, Japan and the United Kingdom, which have tended to cloud production prospects in that industry in the near future.

The slackening in demand in 1958 was generally accompanied by a decline in industrial employment and in weekly hours worked. Total civilian employment either levelled off or declined, and unemployment increased in most countries, as shown in table 63. Largely as a result of this, real wage and salary bills and real personal disposable income in general rose more slowly than in 1957.[17]

Although personal consumption also rose more slowly in real terms, its rate of growth did not slacken as much as that of gross national product and real personal disposable income (see table 64). As in North America, consumers helped to sustain the level of aggregate demand by spending a larger proportion of their incomes. In the Federal Republic of Germany, however, there is some evidence that for the second year in succession there was a rise in the share of personal incomes devoted to savings and that private consumption advanced less than personal disposable income. In France, government anti-inflationary measures, discussed below, resulted in a moderate decline in real personal disposable income and an appreciable slowing down in the rate of growth of personal consumption.

The rise in the proportion of income allocated to consumption was associated particularly with a rapid increase in the purchases of motor-cars in the main producing countries. In the United Kingdom private consumption was stimulated in the last quarter of 1958 by the removal of hire-purchase restrictions and by the introduction of personal loan schemes by the commercial banks. Consumption of durables, which had already been increasing previously, accelerated further as consumer credit expanded and a smaller share of personal income was saved; this was important in the moderate revival of industrial activity towards the end of the year. Personal loan schemes were also introduced in

[15] *See* Organisation for European Economic Co-operation, *Benelux 1958* (Paris), November 1958, page 12.

[16] The growth of public expenditure had provided a major stimulus to the expansion of demand in France in 1956 and to a lesser extent in 1957.

[17] In France and Norway real wage rates may actually have fallen because of faster increases in consumer prices than in money wages.

Table 63. Changes in Employment and Unemployment, by Country

Country and year	Total civilian employment (Percentage change from preceding year)	Employment in manufacturing (Percentage change from preceding year)	Percentage of unemployment[a]
Belgium			
1956	...	3	3.6
1957	...	1	3.0
1958	...	−6	4.2
Denmark			
1956	...	−2	11.1
1957	...	2	10.2
1958	...	—	9.6
France[b]			
1956	1	1	1.1
1957	3	3	0.8
1958	1	1	0.9
Germany (Federal Republic)[c]			
1956	5	6	4.0
1957	3	3	3.4
1958	1	1	3.5
Italy			
1956	...	2	9.9
1957	...	2	9.0
1958	...	−1[d]	9.0
Netherlands			
1956	...	1	0.9
1957	...	—	1.3
1958	...	−5	2.4
Norway			
1956	—	1	1.4
1957	1	—	1.4
1958	—	−3	2.1
Sweden			
1956	1	1	1.5
1957	—	—	1.9
1958	—	−2	2.5
United Kingdom			
1956	1	1	1.3
1957	—	—	1.6
1958	−1	−1	2.2

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; and national sources.

[a] The percentage of unemployment relates to the ratio of unemployed either to the total civilian labour force or to the civilian labour force available for hire. Unemployment percentages are not, however, comparable between countries owing to differences in definition.

[b] Civilian employment refers to the over-all index of employment of the Ministry of Labour. Unemployment percentages represent the ratio of applicants for employment to the civilian labour force covered by the over-all index.

[c] Civilian employment refers to wage and salary earners only.

[d] First six months compared with the corresponding period of the preceding year.

the Netherlands and Sweden; and in France the Government relaxed hire-purchase restrictions, owing to a decline in demand for durable household goods.

Table 64. Changes in Gross National Product, Personal Disposable Income and Personal Consumption, by Country

(In real terms; percentage change from preceding year)

Country and year	Gross national product	Personal disposable income[a]	Personal consumption
Western Europe[b]			
1956	4.2	...	4.8
1957	4.2	...	3.7
1958	1.7	...	2.1
Denmark			
1956	2.0	...	2.2
1957	5.2	...	3.1
1958	0.7	...	2.8
France			
1956	5.3	5.5	6.4
1957	6.1	5.7	5.8
1958	2.1	−0.5	0.6
Germany (Federal Republic)			
1956	6.4	8.2	8.7
1957	5.0	7.4	4.6
1958	2.8	4.2	3.4
Italy			
1956	4.2	...	4.2
1957	5.8	...	4.2
1958	4.2	...	3.0
Netherlands			
1956	4.1	...	9.3
1957	2.4	...	−0.8
1958	1.2	...	2.0
Norway			
1956	4.4	...	2.3
1957	2.9	...	1.9
1958	−0.9	...	−0.8
Sweden			
1956	3.5	2.0	3.0
1957	4.2	2.9	2.5
1958	1.0	0.8	2.0
United Kingdom			
1956	1.9	3.1	0.9
1957	1.2	2.4	2.0
1958	−0.4	1.8	2.5

Source: See table 54.

[a] Personal disposable income deflated by implicit deflator for personal consumption.

[b] See footnote *a* to table 55.

Weakening in fixed investment activity

As in North America, a major factor in the slackening of demand in western Europe and Japan was a persistent weakening in fixed investment activity (see table 65). The rate of expansion of fixed investment had already begun to slow down in 1956 and 1957 and had contributed to an easing of demand in most western European countries during those two years. This tendency continued into 1958 and spread to France and Italy, where fixed investment had been rising at a rela-

tively high rate up to that time. There was also a pronounced decline in fixed investment activity in Japan in the second half of 1957 and throughout 1958.

Table 65. Changes in Total Gross Fixed Investment, Investment in Industry and in Housing, by Country

(At constant prices; percentage change from preceding year)

Country and item	*1956*	*1957*	*1958*
Western Europe[a]			
Total gross fixed investment...	6.6	4.5	2.1
Industry.....	8.0	4.6	0.7
Housing.....	2.5	4.2	−1.3
Denmark			
Total gross fixed investment.	1.4	4.5	2.3
Industry.....	1.8	1.6	1.9
Housing.....	−4.0	18.2	−8.6
France			
Total gross fixed investment.	7.8	8.5	3.6
Industry.....	10.8	11.0	5.0
Housing.....	−0.4	11.3	−3.0
Germany (Federal Republic)			
Total gross fixed investment.	7.4	0.3	4.3
Industry.....	7.0	−0.1	4.7
Housing.....	6.5	−2.2	4.0
Italy			
Total gross fixed investment.	8.2	7.6	0.1
Industry.....	8.7	10.0	−3.8
Housing.....	12.6	8.2	—
Netherlands			
Total gross fixed investment.	8.4	2.7	−8.2
Industry.....	12.8	4.1	...
Housing.....	13.4	10.2	...
Norway			
Total gross fixed investment.	2.0	3.8	6.1
Industry.....	5.9	8.9	−1.6
Housing.....	−27.3	3.3	−6.3
Sweden			
Total gross fixed investment.	3.9	2.2	5.4
Industry.....	2.0	—	10.0
Housing.....	3.0	4.0	5.0
United Kingdom			
Total gross fixed investment.	4.8	4.6	—
Industry.....	11.0	4.7	−3.8
Housing.....	−3.1	−3.7	−5.7

Source: See table 54. Industrial investment generally includes investment in manufacturing, mining and the construction industry. For the aggregate of western Europe, and for Denmark, Federal Republic of Germany and Netherlands, investment in machinery and equipment, and for France, total business fixed investment are taken as indicators of industrial investment. Apparent inconsistencies between movements of total and components for several countries and periods reflect offsetting changes in components not shown.

[a] See footnote *a* to table 55.

The stagnation of fixed investment demand in 1958—as in the two preceding years—was brought about largely by a levelling off or decline in industrial investment. There had been a marked slowing down in industrial investment in the Federal Republic of Germany and the United Kingdom in 1956 and 1957, and a number of other countries also had a similar experience. A gradual increase in excess capacity as a result of the failure of demand to keep pace with the growth of productive capacity was primarily responsible for this development. Some of the governmental measures adopted in 1955 and the following two years—notably, the imposition of investment levies in Norway and Sweden, and the withdrawal of investment incentives in Belgium, the Netherlands and the United Kingdom—also helped to slow down the pace of business investment in these countries. In France and Italy, where demand continued to expand vigorously throughout most of 1956 and 1957, a relatively high rate of increase in industrial investment was maintained in this period.

The gap between output and capacity in western Europe continued to widen during 1958; productive capacity went on expanding as investment projects initiated in previous years reached completion, while production was levelling off or declining. The growth in the volume of idle equipment, together with a gradual reduction in the backlog of domestic and export orders and the advent of a recession in North America, had an unfavourable influence on business expectations and hence upon the initiation of new investment projects.

Residential construction also contributed to the slackening in fixed investment activity in some western European countries. Housing was adversely affected at an early stage by restrictive credit policies and, in some instances, by a reduction in subsidies to housing and in public dwelling construction. Despite an easing in credit conditions in 1958 there was no significant recovery in residential construction, except in the Federal Republic of Germany and Sweden. In the United Kingdom an increase in private dwelling construction was not sufficient to offset a continued fall in public housing investment. There was also a pronounced slackening in residential construction in France and Italy, which had experienced a relatively high rate of growth in this category of investment in 1957. Residential construction was adversely affected in France by severe restrictions on credit towards the end of 1957 and in 1958, and in Italy by a gradual exhaustion of the backlog of demand for luxury housing.

It can be seen from table 65 that except for the Federal Republic of Germany, Norway and Sweden, all countries experienced a slackening in fixed investment in 1958. In Norway the rise in fixed investment was due wholly to increased deliveries of ships ordered in earlier years—which was largely reflected in a big increase in the volume of imports. In Sweden public investment rose and the expectation that the 12 per cent investment levy would be removed from the beginning of 1958 prompted businessmen to postpone some of their investment expenditure from 1957 to 1958.

Despite a fall in industrial and housing investment the total volume of fixed investment remained unchanged in the United Kingdom, owing to an increase in investment by nationalized public utilities and by distribution and other services. In France the easing of demand brought about by the levelling off in personal and government consumption and by a fall in residential construction had an adverse effect on business investment in the latter part of 1958. A marked slowing down in the growth of export demand and a levelling off in housing investment had a similar effect on demand and industrial investment in Italy.

Slowing down in export demand

An important proximate cause of the slackening in economic activity in western Europe and Japan in 1958 was the easing in external demand for the products of the region.

It can be seen from the following table that throughout the period since 1952 the volume of western Europe's exports to the rest of the world has been rising appreciably faster than gross national product. In 1957–1958, however, the rate of expansion in exports declined significantly owing to the recession in North America and the fall in the import capacity of primary producing countries.[18] While the latter decline was due partly to the North American recession and partly, in some instances, to the effect of rising supply upon commodity prices, a further contributing factor of considerable importance was the weakening in western Europe's own import demand.

Combined OEEC countries: Gross national product and merchandise exports to rest of world[a]

(*Percentage increase*)

	Gross national product[b]	*Exports to rest of world*
1952 to 1956, annual average....	6	8
1956 to 1957.....	4	6
1957 to 1958.....	2	4

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin* (Paris).

[a] Gross national product at 1954 prices and exchange rates. Exports at constant prices.

[b] See footnote *a* to table 55.

The slowing down in intra-European trade was even more pronounced than in exports to the rest of the world. This slackening, which was a result rather than a cause of the easing in demand in western Europe, affected some countries, notably, Belgium, Italy, Norway, Sweden and the United Kingdom, more than others, owing largely to a fall in demand for the steel, textiles, coal and forest products exported by these countries. In Denmark and the Netherlands, on the other hand, an increase in exports to other western European countries played a significant part in the growth of total exports and in sustaining aggregate demand.

It can be seen from table 66 that during 1957 in all western European countries except France exports contributed much more than their share in aggregate demand to the growth of total product.[19] In Denmark, Italy and the Netherlands the increase in the volume of exports of goods and services was equivalent to about 3 per cent and in the Federal Republic of Germany to well over 4 per cent of the gross national product in 1956.

During 1958, Japan and all the western European countries except Denmark and the Netherlands, experienced, in varying degree, a considerable weakening in foreign demand for their exports. There was a fall in the volume of exports of Belgium, Sweden and the United Kingdom and an appreciable reduction in the rate of growth of exports in the Federal Republic of Germany, Italy, Japan and Norway. This development played a predominant part in slowing down the expansion of aggregate demand in the Federal Republic of Germany, Italy, Japan and Sweden, and accounted for a large share of the decline in demand in Belgium and the United Kingdom. In Denmark and the Netherlands, on the other hand, the increase in the volume of exports more than offset the decline in domestic demand. Changes in foreign demand had no significant influence on the growth of total product in France, where the rate of expansion of production since the end of 1955 had been determined primarily by the rise in government consumption and fixed investment.

Changes in government policy

The development of slack in their economies led a number of governments to remove some of the restrictions on fixed investment and consumption and in some instances to take specific measures to stimulate the expansion of demand. All countries progressively reduced rates of interest and generally eased credit conditions in the course of 1958 and early in 1959.[20] In Belgium funds were provided for public works to relieve acute unemployment in some regions of the country and fiscal and financial incentives to productive investment, which had been progressively withdrawn in the course of 1956 and 1957, were reinstated after the middle of 1958. Although the Danish Government adopted stringent fiscal measures to prevent a rise in consumption, it took important steps to encourage fixed investment as early as the middle of 1957. These in-

[18] The increase of 4 per cent in the volume of exports in 1958 shown in the table was due largely to a sharp recovery in the last quarter of the year; the increase in the volume of exports from the first nine months of 1957 to the corresponding period of 1958 was under 2 per cent.

[19] In so far as imports enter into the production of exports the break-down of demand shown in table 66 overstates the influence of the rise in exports on domestic production and understates the influence of domestic demand. This qualification does not materially affect the conclusions drawn above.

[20] In the Scandinavian countries certain blocked savings accounts were also released.

Table 66. Western Europe: Changes in Gross National Product, Exports[a] and Domestic Demand[b]

(As percentage of gross national product in the preceding year, at constant prices)

Country and item	1955 Exports[a] as percentage of gross national product	1956	1957	1958
Belgium	34			
Gross national product		4.2	1.3	...
Exports		3.3	1.0	...
Domestic demand		0.9	0.3	...
Denmark	34			
Gross national product		2.0	5.2	0.7
Exports		0.9	2.8	2.8
Domestic demand		1.1	2.4	−2.2
France	16			
Gross national product		5.3	6.1	2.1
Exports		−1.3	0.5	0.5
Domestic demand		6.6	5.6	1.6
Germany (Federal Republic)	21			
Gross national product		6.4	5.0	2.8
Exports		3.3	4.2	1.3
Domestic demand		3.1	0.8	1.5
Italy	13			
Gross national product		4.2	5.8	4.2
Exports		1.6	2.9	0.9
Domestic demand		2.6	2.9	3.3
Netherlands	51			
Gross national product		4.1	2.4	1.2
Exports		2.4	3.4	3.3
Domestic demand		1.7	−1.0	−2.1
Norway	38			
Gross national product		4.4	2.9	−0.9
Exports		3.3	1.5	1.0
Domestic demand		1.1	1.5	−1.9
Sweden	20			
Gross national product		3.5	4.2	1.0
Exports[c]		2.2	1.9	−0.4
Domestic demand		1.3	2.3	1.4
United Kingdom	23			
Gross national product		1.9	1.2	−0.4
Exports		1.6	0.4	−0.3
Domestic demand		0.2	0.8	−0.1

Source: See table 54.

[a] Exports of goods and services.

[b] Domestic demand is defined as private and public consumption plus gross domestic investment less imports of goods and services.

[c] Merchandise exports, f.o.b., and net services.

cluded more liberal depreciation rules, provision for tax-free allocations to investment funds and guarantees of private loans for productive investment in certain areas.

Emergency public works aimed at providing employment opportunities during the 1958/59 winter season were initiated in Norway and as from the beginning of 1959, the tax rate on undistributed profits was reduced and personal tax relief was provided. Moreover, subsidies were provided for milk and cheese from the beginning of March 1959, as a measure aimed at stabilizing the cost of living index to which about two-thirds of privately earned incomes are tied. In Sweden the investment tax imposed in 1955 was removed from the beginning of 1958 and public investment was stepped up during that year. The 1959 budget envisages a continued expansion in investment by both central and local governments. Public contributions are given to certain investment projects to provide relief for local unemployment. In the Netherlands the investment allowance,[21] suspended in 1957, was restored in May 1958 and in February 1959 hire-purchase regulations were relaxed; the Government also decided to carry out a number of relief projects to combat unemployment.

[21] Under this allowance part of the outlays on new investments may be deducted from profits for tax purposes.

More important measures to stimulate fixed investment were taken in the United Kingdom during 1958. Initial depreciation allowances were increased in the 1958 budget and in July there was some relaxation of the control exercised by the Treasury through the Capital Issues Committee on the issue of shares and on the borrowing of money. This control was finally ended for United Kingdom companies in February 1959. More important as an expansive measure was the removal of the ceiling on investment by nationalized industries and the decision to increase public investment in 1959 by £125 million to £150 million, corresponding to about 4 per cent of gross domestic capital formation in 1958. At the same time local authorities were encouraged to raise their capital expenditure, especially on projects which could be begun and completed quickly. An even greater stimulus to the economy was given by the 1959 budget which made substantial cuts in personal and company income tax rates as well as in purchase tax, and which reintroduced investment allowances.

There was a moderate recovery in economic activity in Japan and in all western European countries except France in the second half of 1958, which has continued into the early months of 1959. This was partly a result of the government measures mentioned above and of a general improvement in the economic climate. The latter accompanied the recovery in economic activity in North America and an increase in export demand. A revival in the rate of stock accumulation after the middle of 1958 also contributed to the rise in industrial production in some countries. In France, however, where the Government did not relax the measures aimed at curbing the expansion of demand, industrial production continued to fall until the end of 1958, and no recovery in production is expected until the latter part of 1959.

Slower rise in wages and prices

The easing in demand pressures in the industrial group of countries during 1958 was accompanied in all countries except France by a slowing down in the rate of increase in wages and prices; in some instances prices declined. The relatively smaller rise in industrial wage rates and in hourly earnings largely reflected the weakening in demand for labour, although governmental action in some countries probably also had some influence in this development.[22] At the same time, average prices of imported raw materials were appreciably lower than in 1957. Wholesale prices of manufactured goods remained generally stable and in some countries even declined moderately in the course of 1958, as shown in table 67.

The stability of the wholesale prices of manufactured goods had an important influence in slowing down increases in retail prices and the cost of living during 1958. It can be seen from table 68 that in all countries except France and Norway the cost of living index rose less in the course of 1958 than it had done in the preceding two years. Such increases as took place were concentrated chiefly in the first half of 1958 and in some countries were accounted for by temporary shortages of certain food items. Although the price of services continued to rise throughout 1958, the cost of living index in most countries remained stable during the second half of the year and in some instances even declined moderately.

Government measures were mainly responsible for the relatively large increases in the cost of living in France and Norway during 1958. In Norway most of the increase in prices is attributed to a reduction in food subsidies. Subsidies were also reduced in France, but a number of other measures were taken by the Government in the second half of 1957 and in 1958 as part of its policy to curb the expansion of domestic demand, including the *de facto* devaluation of the franc, severe import restrictions, the raising of price ceilings and the increasing of indirect taxes on many types of consumer goods. These measures were instrumental in bringing about a rapid increase in prices which continued until the middle of 1958. The steep rise in prices was accompanied by an acceleration in the rate of increase in wage rates, which are partly linked to the cost of living index. Wage increases, however, lagged behind price increases and there was some decline in real wage rates during 1958 which, as mentioned earlier, had an adverse influence on the growth of real personal income and consumption.

Part of the increase in the cost of living in some of the other countries of western Europe, where prices rose more slowly in 1958, was also due to government measures. Particularly important was the effect of higher indirect taxes in Sweden, which accounted for about half of the rise in consumer prices between 1957 and 1958. In the United Kingdom the Rent Act, which permitted rent increases in privately owned houses and flats, and in the Federal Republic of Germany the abolition of flour subsidies early in 1958 and the raising

[22] Apart from general appeals for restraint in wage claims made by most Governments, in the Netherlands, where the Government takes a direct part in wage negotiations, no general wage increases took place in 1958. An extra allowance, however, was paid to workers to compensate for rent increases allowed by the Government, and there were some incidental wage increases. In the United Kingdom, both the Government and private business adopted a stiffer attitude to wage claims. The annual round of wage negotiations was more prolonged and average increases under wage settlements were smaller than in preceding years.

Table 67. Changes in Manufacturing Production, Hourly Earnings, Import Prices of Raw Materials, and Wholesale Prices of Manufactured Goods,[a] Selected Countries

(Percentage change from preceding year)

Country and year	Manufacturing production	Hourly earnings[b]	Import prices of raw materials[c]	Wholesale prices of manufactured goods[d]
Belgium				
1956	7	8	2	2
1957	—	10	−2	3
1958	−6	4	−11	−5
Canada				
1956	8	5	...	3
1957	−2	6	...	3
1958	−4	4	...	—
Denmark				
1956	1	8	1	4
1957	7	6	—	—
1958	1	4	−8	−2
France				
1956	12	8	3	4
1957	10	8	8	5
1958	7	13	−1	5
Germany (Federal Republic)				
1956	8	9	4	2
1957	6	10	4	2
1958	3	7	−11	1
Italy				
1956	8	7	1	...
1957	8	5	—	...
1958	2	4	−8	...
Netherlands				
1956	3	3	1	—
1957	2	11	—	3
1958	—	5	−8	−2
Norway				
1956	5	8	1	3
1957	4	6	—	4
1958	−3	4	−8	−3
Sweden[e]				
1956	4	8	1	4
1957	3	6	—	4
1958	—	5	−8	—
United Kingdom				
1956	—	8	2	5
1957	2	5	4	3
1958	−1	4	−12	1
United States				
1956	3	5	2	4
1957	1	5	3	3
1958	−6	3	−7	1

Source: Statistical Office of the United Nations and Bureau of Economic Affairs; Organisation for European Economic Co-operation, *General Statistical Bulletin*; and national sources.

[a] In some instances data for 1958 do not cover the whole year; in these cases percentage changes are from the corresponding period of 1957.

[b] For France and Netherlands, hourly wage rates.

[c] The coverage is not uniform between countries. For some western European countries the index shown is the index of import prices of raw materials for the combined member countries of Organisation for European Economic Co-operation.

[d] In Belgium, Denmark and Federal Republic of Germany, all industrial products; in the United Kingdom, excluding fuel, food and tobacco.

[e] Figures for manufacturing production include mining.

Table 68. Cost of Living Indices, 1956 to 1958, Selected Countries

(Percentage change[a])

Country	1956	1957	1958
Belgium[b]	3	3	—
Canada	3	3	2
Denmark[c]	5	2	2
France[d]	1	8	11
Germany (Federal Republic)	2	3	1
Italy	5	2	1
Netherlands	3	7	−1
Norway	5	3	6
Sweden	3	5	3
United Kingdom	3	4	2
United States	3	3	2

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics.*

[a] Fourth quarter of each year, compared with the corresponding quarter of the preceding year.

[b] Excluding rent.

[c] October of each year compared with October of the preceding year; including direct taxes.

[d] Index for Paris only.

of railway and tramway fares contributed to advances in the cost of living.

The fact that wage rates generally rose more slowly in 1958 than in the preceding year does not mean that a similar slow-down occurred in wage costs per unit of output—which play an important part in the determination of prices. It will be seen from table 69 that there was no significant change in the rate of increase of wage cost per unit of output in manufacturing in the Federal Republic of Germany and the United Kingdom during 1958. In both these countries, as in Italy, the decline in the rate of increase of hourly earnings appears to have been offset by a slower increase in output per man-hour.[23] This was probably due to such factors as the lesser spreading of overhead labour costs and the less efficient use of direct labour as output declined in a number of industries, and to some hoarding of labour by businessmen in anticipation of a future growth in production.[24] In Italy, although wage cost of production workers per unit of output did not change in 1958, there is some evidence that total wage and salary payments per unit of output in industry rose significantly in that year, whereas there had been scarcely any increase in the previous two years, when production was growing rapidly. In Canada, on the other hand, a slower increase in hourly earnings in 1958 was accompanied by an appreciable rise in output per man-hour, which arrested the upward movement of labour cost per unit of output.

There is some evidence of a decline in the rate of growth of labour productivity in a number of other

[23] This does not emerge from the data for the United Kingdom shown in table 69 because of rounding.

[24] An extensive discussion of post-war trends in wage cost per unit of output was contained in United Nations, *World Economic Survey, 1957*, pages 33 to 41.

Table 69. Changes in Wage Cost per Unit of Output in Manufacturing, Selected Countries

(Percentage change from preceding year)

Country and year	Average hourly earnings	Output per man-hour[a]	Wage cost per unit of output
Canada			
1956	5	2	3
1957	6	−1	7
1958	4	2	1
Germany (Federal Republic)			
1956	9	2	7
1957	10	5	4
1958	7	4	3
Italy			
1956	7	7	—
1957	5	6	−1
1958[b]	4	3	—
United Kingdom			
1956	8	1	8
1957	5	2	3
1958	4	2	3

Source: United Nations Bureau of Economic Affairs, based on official national publications.

[a] Figures of employment used for the computation of output per man-hour in the Federal Republic of Germany and the United Kingdom include salaried workers.

[b] January–September compared with corresponding period of preceding year.

western European countries which must have partly, if not wholly, offset the effect of slower increases in labour earnings during 1958. In the Netherlands, for example, labour productivity rose by just over one per cent in 1958, which was less than in the preceding years. In Sweden, too, production per man-hour in manufacturing rose by 3 to 4 per cent as compared with a rate of 5 per cent in 1957. In France there was a pronounced rise in the rate of increase of wage cost per unit of output in 1958; this, however, was brought about primarily by the steep rise in wages for the special reasons mentioned earlier.

Similar conclusions as regards the behaviour of wage cost per unit of output emerge in the case of the United States. It can be seen from table 70 that during the

Table 70. United States: Changes in Wage Cost per Unit of Output[a] in Manufacturing

(Percentage change from preceding period)

Period	Production	Average hourly earnings	Output per man-hour	Wage cost per unit of output
1957, January–August[b]	1	4	3	1
1957/58 recession, September 1957–April 1958	−7	2	3	−1
1958 recovery, May–December	2	2	5	−3

Source: United States Department of Commerce, *Survey of Current Business* (Washington, D.C.).

[a] Of production workers.

[b] Compared to year 1956.

eight months of the 1957/58 recession average earnings of production workers per unit of output in manufacturing declined moderately as compared with the preceding eight months.[25] Most, if not all, of this decline would, however, be eliminated if account were taken of salaried workers, since the number of these employees did not fall proportionately to that of production workers during the recession. This emerges from the following table which shows that during the 1953/54 and 1957/58 recessions total wage and salary disbursements per unit of output in manufacturing rose at about the same rate as or at a higher rate than in the period immediately preceding each recession. There appears to have been a reversal of this trend, however, in the periods of recovery from the two recessions, owing largely to a more rapid increase in productivity as surplus capacities were reduced.

[25] These results are not likely to be significantly affected by adjustment for seasonality of weekly hours worked used in the computation of output per man-hour and of average hourly earnings, as shown in table 70.

Percentage changes in total wage and salary disbursements in manufacturing per unit of manufacturing output compared with preceding period

(*Seasonally adjusted*)

	1953/1954	*1957/1958*
Prior to recession[a]	2	1
Recession[b]	2	3
Recovery[c]	−2	−2

Profits per unit of output generally declined in 1958. But there was no noticeable slowing down in the rate of increase of other property income, especially rents, and total property income per unit of output, like wage cost per unit of output, continued to rise in 1958, despite the easing of demand pressures.[26]

In general, it would seem that declines in prices of raw materials were a more important factor in the greater stability of the wholesale and retail prices of manufactured goods in 1958 than developments in wage cost and property income per unit of output. The raw material price declines which had begun in 1957 were still in process of working their way through the economy during the year 1958, and had probably not exhausted their effects by the end of the year.

[26] Estimates made by the National Institute of Economic and Social Research in its *Economic Review* for March 1959 suggest that in the first nine months of 1958 total property incomes per unit of gross domestic product in the United Kingdom rose a little more slowly than in 1957 while total income from employment per unit of gross domestic product rose, if anything, a little faster.

Source: United Nations Bureau of Economic Affairs, based on United States Department of Commerce, Office of Business Economics, *United States Income and Output, A Supplement to the Survey of Current Business* and *Survey of Current Business.*

[a] Two quarters preceding the recession compared with preceding half year.

[b] For 1953/54 recession, average of second half of 1953 and first half of 1954; for 1957/58 recession, average of fourth quarter of 1957 and first quarter of 1958.

[c] First three quarters of recovery.

Decline in trade

Developments in the international trade and payments of the industrial countries during 1958 seem—at least at first sight—to have been quite the opposite of what the world had come to expect in the wake of a recession in North America. United States imports did not fall significantly, but those of western Europe did. Western European exports fell much less in value than those of North America. And it was United States foreign exchange reserves that dropped, while those of the other industrial countries increased at a rate which was almost unprecedented. Falling primary product prices contributed substantially to the declining value of imports of the industrial countries, but they were not the only important factor; the major part of the decline was in trade among the industrial countries themselves. These developments call for consideration in the light of the particular conditions in which the 1957/58 recession occurred, and of the changes that have taken place in the interval since the previous postwar recessions.

CURRENT DEVELOPMENTS IN TRADE AND PAYMENTS

The expansion in the commodity trade of the industrial countries as a whole slowed down late in 1956, and in most countries the value of both imports and exports declined moderately during most of 1957. After a seasonal recovery in exports in the fourth quarter of 1957, the decline was renewed with greater speed in the early part of 1958. By the end of 1958, there were some signs of a renewal of expansion in some countries, particularly in imports, but the recovery was not securely based.

The earliest slackening appeared in the imports of the western European countries and Japan. The total decline in their value from the beginning of 1957 to the end of 1958, with some allowance for seasonal factors, was more than 10 per cent; the corresponding fall in volume was under 5 per cent. Imports of western European countries from one another reached an initial peak in the fourth quarter of 1956. Except for a spurt in the fourth quarter of 1957, they declined moderately thereafter, being on an average some 5 per cent lower in value in the early quarters of 1958 than in the preceding year. Western European imports from North America were sustained through the first quarter of 1957 by the abnormal demands which followed upon the Suez crisis, but declined steadily and sharply thereafter, not showing even the customary fourth quarter

seasonal rise; the total decrease in the value of this component of western European imports amounted to about one-third. Western European imports from primary producing countries did not start to fall until considerably later in 1957, and nearly all of the decline that did occur was due to falling prices, reflected in the import unit value indices for western Europe shown in table 71. Although the value of these imports fell more than 10 per cent from the second quarter of 1957 to the second quarter of 1958, the volume scarcely changed, as shown in table 72.

Table 71. Indices of Terms of Trade of Industrial Countries[a]

(1953 = 100)

Year and period	Export unit value		Import unit value		Terms of trade	
	Western Europe	United States	Western Europe	United States	Western Europe	United States
1954	97	99	98	103	99	96
1955	99	100	101	102	98	98
1956	102	103	103	104	99	99
1957	105	107	106	105	99	102
1958	103	106	95	100	109	106
1957						
First quarter	105	107	108	107	97	100
Second quarter	106	107	108	106	98	101
Third quarter	106	107	105	105	101	102
Fourth quarter	104	108	102	104	102	104
1958						
First quarter	105	107	97	102	108	105
Second quarter	104	105	95	100	109	105
Third quarter	104	105	95	100	109	105
Fourth quarter	103	106	94	99	110	107

Source: United Nations Bureau of Economic Affairs, based on Organisation for European Economic Co-operation, *General Statistical Bulletin;* and national sources.

[a] Data for western Europe relate to trade of the OEEC countries with the rest of the world; data for the United States relate to trade with all countries.

Much of the explanation for the sharpness of the drop in western European imports from 1957 to 1958 is to be found in the combination of special factors that had raised the level of imports—especially from North America—to exceptional levels in 1957. A large part of the decline was concentrated in mineral fuels, iron and steel, cotton and wheat, as shown below. For mineral fuels and cotton, however, the level of imports in 1958 was not particularly low; they were, for example, higher than they had been two years earlier in 1956. The fall in petroleum shipments from the United States in 1958 reflected mainly the reopening of the Suez Canal and the resumption of more usual trading patterns. The variations in cotton and wheat imports were in line with changes in United States surplus disposal policy; an additional factor in the case of wheat is found in the relatively poor harvests in western Europe in the two preceding growing seasons, which served to raise the level of imports in 1957. The drop in deliveries of iron and steel, on the other hand, reflected mainly the fall in economic activity in western Europe. It is interesting to note in this connexion that the contraction in total western European imports in the first nine months of 1958 was not greater, in value and volume alike, than that which occurred during the short 1952 western European recession.

Among the western European countries, the largest declines in the volume of imports in the first nine months of 1958 compared with the corresponding period of the preceding year—5 to 8 per cent—occurred in Belgium, Italy and the Netherlands. There were small declines in France, Sweden and the United Kingdom. In all these countries there was a slackening in internal demand and in France import controls were imposed in the middle of 1957. In the Federal Republic of Germany and Norway, the volume of imports actually rose during this period, although the decline in import prices was sufficient in both cases to prevent the value of imports from increasing.

The sharpest decline in imports in this period occurred in Japan, where it amounted to 17 per cent in volume and over 30 per cent in value. Japanese imports of all types of raw materials fell sharply from the high level of 1957, when the relaxation of import restrictions had facilitated rapid inventory accumulation. Declines in other imports were smaller and there were even increases of some significance in imports of foodstuffs and machinery and transport equipment.

North American imports fell very little, despite a more severe contraction in economic activity. This was due primarily to the behaviour of United States im-

ports, the decline in Canadian imports being considerably greater. In value, United States imports never fell much more than one per cent below the corresponding period of the preceding year, and the volume of imports was slightly higher at the lowest point in the recession than it had been a year earlier. Imports of manufactures, which had been growing more rapidly than total imports during most of the post-war period, continued

Table 72. Quantum of Trade of Industrial Countries, 1956–1958[a]

(1956 quarterly average = 100)

Area and period	Exports to					Imports from	
	Industrial countries			Primary producing countries	World[d]	Primary producing countries	World[d]
	North America	Western Europe[b]	Total[c]				
North America[c]							
1956							
First quarter	91	86	87	95	90	107	97
Second quarter	106	97	101	104	102	100	102
Third quarter	98	98	98	95	97	99	99
Fourth quarter	105	119	113	106	111	93	102
1957							
First quarter	94	119	108	110	109	104	98
Second quarter	105	106	108	116	111	97	101
Third quarter	98	98	99	105	101	99	99
Fourth quarter	94	101	98	114	104	105	101
1958							
First quarter	83	85	85	102	91	103	95
Second quarter	94	91	93	106	98	104	101
Third quarter	93	84	88	95	91	95	98
Fourth quarter	97	99	97	101	101	108	111
Western Europe[b]							
1956							
First quarter	90	91	91	97	93	99	94
Second quarter	100	100	100	102	101	104	101
Third quarter	97	96	96	94	96	97	98
Fourth quarter	111	110	111	105	108	98	106
1957							
First quarter	97	105	105	104	104	105	108
Second quarter	103	103	104	106	105	105	106
Third quarter	101	102	102	102	102	100	102
Fourth quarter	107	112	111	116	113	102	107
1958							
First quarter	98	101	101	109	104	104	104
Second quarter	105	101	102	105	103	103	103
Third quarter	109	101	102	105	103	101	102
Fourth quarter	131	...	...	...	115	...	110
All industrial countries[c] [e]							
1956							
First quarter	91	91	90	96	92	101	95
Second quarter	104	100	101	102	101	103	101
Third quarter	98	97	97	95	96	98	98
Fourth quarter	108	113	112	107	110	97	105
1957							
First quarter	94	109	106	106	106	105	106
Second quarter	104	104	106	110	107	104	106
Third quarter	101	102	102	104	103	100	102
Fourth quarter	100	109	106	115	110	102	105
1958							
First quarter	89	98	95	107	100	103	101
Second quarter	99	99	99	105	101	103	102
Third quarter	100	97	98	101	99	99	101
Fourth quarter	114	...	...	...	112	...	110

Source: United Nations Bureau of Economic Affairs.

[a] Estimated on the basis of the current volume of exports to or imports from each area, deflated by the over-all unit value indices for each area of origin or destination, respectively.

[b] Member countries of the Organisation for European Economic Co-operation.

[c] Including Japan.

[d] Including eastern Europe.

[e] Excluding United States special category exports.

to find new markets despite the decline in domestic activity. Imports of crude materials and semi-manufactures, on the other hand, fell substantially after the middle of 1957. The major impact of this decline was on Canada and Latin America; United States imports from Canada fell by some 15 per cent from the first quarter of 1957 to the first quarter of 1958, and those from Latin America by about 10 per cent. In the case of imports from Latin America, much of the decline was due to lower prices, but the volume of imports from Canada fell nearly as much as their value.

The non-military exports of the industrial countries, in the aggregate, declined relatively sharply during 1958; in the first three quarters of 1958 their volume was 5 per cent below that in the corresponding period of 1957. However, there was approximate stability in the exports of all industrial countries other than the United States as a group, while those of the United States fell by 16 per cent. In some countries—the Federal Republic of Germany, Italy and the Netherlands—the volume of exports rose; in others—Norway, Sweden and the United Kingdom—there were significant declines, but nowhere did the decline approach that experienced in the United States.

The exports of the industrial countries to one another reflect the developments in their demand for imports described above. There was a 2 to 3 per cent decline in western European and Japanese exports to the industrial countries as a whole in 1958, composed of a fall in intra-European trade and a small but significant gain in exports to the United States, as shown in table 72. North American exports to the industrial countries, on the other hand, declined precipitously owing largely, as noted above, to a combination of special circumstances as well as to the slackening of demand in western Europe and Japan; throughout this period they ranged from 10 to 20 per cent in volume and up to 35 per cent in value below the same quarter of the preceding year.

As might have been expected, the decline in the value of exports to industrial countries from primary producing areas was in time reflected in a decline in imports by these areas. The value of exports of the primary producing countries as a group has been declining since the beginning of 1957, as shown in table 73. The value of imports, however, continued to rise up to the end of 1957. As a consequence, the trade balances of these countries deteriorated rapidly during 1957. Early in 1958, however, their imports also began to decline, and in the aggregate there was some improvement in trade balances. Nevertheless, at the end of the third quarter both the exports and the imports of the primary producing countries were still declining.

The decline in shipments to primary producing countries was not distributed among the industrial countries entirely in accord with the decline in imports from them. North American exports suffered much more than those of western Europe, and Japan was able to increase its exports to some primary producing countries quite substantially. For each group of industrial countries, the greatest decrease in both imports and exports occurred in that group's natural trading area; for North America, the drop was greatest in trade with Latin America; for western Europe, with the sterling area; and for Japan, with south-eastern Asia. But the decline in western European and Japanese exports was in general substantially less than the decline in their imports had been, whereas for North America the decline in exports was generally greater than that in imports. Some of the factors entering into these developments will be explored below.

Table 73. Trade of Primary Producing Countries

(Billions of dollars)

Period	*Exports*	*Imports*	*Balance*	*Change in reserves*
1956	29.5	31.3	−1.8	0.4
1957	30.0	34.4	−4.4	−0.7
Annual rates				
1957				
First quarter	30.5	32.3	−1.8	0.6
Second quarter	29.7	34.5	−4.8	0.1
Third quarter	29.5	35.2	−5.7	−1.8
Fourth quarter	30.2	35.6	−5.4	−1.5
1958				
First quarter	29.3	33.1	−3.9	−2.1
Second quarter	28.2	32.5	−4.3	−1.3
Third quarter	27.8	31.6	−3.8	−1.4

Source: United Nations Bureau of Economic Affairs, based on International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

The consequences of these various changes in trade flows are revealed in the balances of payments of the industrial countries. The relative stability of United States imports combined with the fall in its exports resulted in a substantial decline in its current account balance. At the same time, the greater fall in western European and Japanese imports than in their exports led to a significant increase in the current balances of most of these countries. Improvements in the terms of trade were of major importance for most of these countries. The fall in import prices, for the industrial countries combined, amounted to about 8 per cent in 1958, whereas export prices fell less than 2 per cent. Consequently, as shown in table 74, trade balances generally improved considerably more in current prices than in constant prices. The greatest benefit from improving terms of trade accrued to the Federal Republic of Germany, Japan and the United Kingdom. Canada, Italy, and the Scandinavian countries were less affected by falling import prices, since a relatively smaller proportion of their imports consists of primary products. At the same time, while the export prices of finished manu-

factures did not change appreciably, those of other products generally fell, and this again tended to favour the Federal Republic of Germany and the United Kingdom rather than the other industrial countries, where manufactures are less important in total exports. In the case of France, the decline in primary product prices partly offset the effects of the devaluation in the latter part of 1957 upon prices; import prices rose substantially less than export prices, and the terms of trade improved. The volume of French imports fell slightly after the devaluation, while that of exports was approximately maintained, so that the improvement in the real balance of trade was somewhat greater than that in the current balance of trade.

Table 74. Changes in Trade and Foreign Exchange Reserves of Industrial Countries: January–September 1957 and 1958

(Millions of dollars)

Country and year	Change in reserves			Trade balance					
				In current prices			In 1957 prices		
	Gold	Foreign exchange	Total	Value of exports	Value of imports[a]	Balance	Value of exports	Value of imports[a]	Balance
Belgium-Luxembourg									
1957	−51	−55	−106	2,366	2,566	−200	2,366	2,566	−200
1958	313	−19	294	2,257	2,311	−54	2,347	2,428	−81
Percentage change				−4.6	−9.9		−0.8	−5.4	
France									
1957	−531	−50	−581	3,803	4,823	−1,020	3,803	4,823	−1,020
1958	15	175	190	3,652	4,288	−636	3,832	4,729	−897
Percentage change				−4.0	−11.1		0.8	−1.9	
Germany (Federal Republic)									
1957	905	563	1,468	6,264	5,526	738	6,264	5,526	738
1958	55	399	454	6,417	5,411	1,006	6,447	5,892	555
Percentage change				2.4	−2.1		2.9	6.6	
Italy									
1957	90	34	124	1,853	2,675	−822	1,853	2,675	−822
1958	395	118	513	1,875	2,363	−488	1,923	2,515	−592
Percentage change				1.2	−11.7		3.8	−6.0	
Netherlands									
1957	−144	−7	−151	2,263	3,078	−815	2,263	3,078	−815
1958	212	71	283	2,341	2,653	−312	2,468	2,841	−373
Percentage change				3.4	−13.8		9.1	−7.7	
Norway									
1957	−5	5	—	605	962	−357	605	962	−357
1958	−2	24	22	544	970	−426	580	987	−407
Percentage change				−10.1	0.8		−4.1	2.6	
Sweden									
1957	−31	−15	−46	1,591	1,813	−222	1,591	1,813	−222
1958	21	33	54	1,495	1,715	−220	1,522	1,775	−253
Percentage change				−6.0	−5.4		−4.3	−2.1	
United Kingdom									
1957	−100	−183[b]	−283	7,233	8,666	−1,433	7,233	8,666	−1,433
1958	1,175	−328[b]	847	6,982	7,813	−831	6,913	8,516	−1,603
Percentage change				−3.5	−9.8		−4.4	−1.7	
Canada									
1957	−1	−44	−45	3,809	4,499	−690	3,809	4,499	−690
1958	−22	83	61	3,725	3,927	−202	3,820	3,964	−144
Percentage change				−2.2	−12.7		0.3	−11.9	
United States									
1957	703	—	703	15,675	9,588	6,087	15,675	9,588	6,087
1958	−2,128	—	−2,128	13,045	9,364	3,681	13,225	9,815	3,410
Percentage change				−16.8	−2.3		−15.6	2.4	
Japan									
1957	—	−556	−556	2,095	3,415	−1,320	2,095	3,415	−1,320
1958	1	228	229	2,079	2,312	−233	2,132	2,676	−544
Percentage change				−1.0	−32.3	—	1.8	−21.6	

Source: Statistical Office of the United Nations and Bureau of Economic Affairs; Organisation for European Economic Co-operation, *General Statistical Bulletin;* International Monetary Fund, *International Financial Statistics,* and national sources.

[a] F.o.b. for Canada and the United States; c.i.f. for all other countries.

[b] Includes only United States and Canadian dollars.

These developments in trade balances were modified by the flow of capital, moving in response to changes in economic activity, speculative motives and differing internal capital market conditions. A decline in private capital outflow from the United States in 1958 reinforced the fall in imports, although most of the sharp drop in direct investment—associated in part with slackening business activity abroad—was offset by a rise in other outflows. Prominent among the latter were new issues of foreign securities which were facilitated by relatively favourable conditions in the United States capital market during the first half of 1958. Of special importance in western Europe was the return of speculative capital that had flowed into the Federal Republic of Germany from France and the United Kingdom in 1957. There was also, apparently, some increase in long-term capital outflow from the Federal Republic of Germany. These developments are reflected in the fact that the rate of growth of foreign exchange reserves in the Federal Republic dropped sharply in 1958 even though the trade balance increased, while the corresponding improvements in reserve positions in France and the United Kingdom likewise cannot be explained solely in terms of the reductions in their trade deficits, as shown in table 74.[27] The United Kingdom also benefited substantially from an inflow of funds from other areas, including the United States, as confidence in sterling recovered during the year and as short-term interest rates in the United States fell to unattractive levels.

Despite the improvement in France's balance of trade, a considerable speculative movement against the franc developed in the last quarter of 1958. In the month of December alone, up to the time of the devaluation, France incurred an over-all European Payments Union deficit of $167 million, although the trade component of the account was almost in balance. Immediately prior to the devaluation official French holdings of gold and dollars fell to a low of $600 million, compared with $800 million at the end of September and $2.1 billion at the end of 1955. Following upon the devaluation announced in December, the speculative movement was reversed; by the end of March 1959 reserves had recovered to $1.8 billion.

The net effect of the various movements on trade and capital accounts discussed above was a very substantial gold outflow during 1958 from the United States, most of it to western Europe. It reached a peak at the bottom of the United States recession in the second quarter of the year, but continued to the end of 1958, as shown in table 75. The improvement in the reserve positions of the western European countries and Japan, shown in table 74, was correspondingly marked—and contrasted strongly with the unfavourable developments that had led to a monetary crisis in the third quarter of 1957. The inflow of gold into the United States beginning in the fourth quarter of 1956 had led to widespread discussion of the re-emergence of a dollar gap, and the resumption of gold outflow from the United States was quite unexpected, especially in view of the recession. The significance of the movement, both for the United States and for the countries that have increased their reserves, will be examined in the sections that follow.

[27] In France the invisible items in the balance of payments also showed some improvement—mainly due to falling freight rates and increased receipts from tourist trade.

Table 75. United States Balance of Payments, 1957 and 1958, by Quarter

(Millions of dollars; seasonally adjusted)

Period	Imports of goods and services[a]	Unilateral transfers[b]	Net US capital movement	Total payments	Exports of goods and services[b]	Foreign long-term capital	Errors and omissions	Total receipts	Increase in foreign gold and dollar assets
1957									
First quarter	5,079	949	766	6,794	6,856	166	377	7,022	−605
Second quarter	5,188	883	1,065	7,136	6,709	127	197	6,836	103
Third quarter	5,235	779	567	6,581	6,592	18	310	6,610	−339
Fourth quarter	5,205	645	827	6,677	6,319	50	−8	6,369	316
1958									
First quarter	4,917	787	755	6,459	5,666	19	185	5,685	589
Second quarter	5,090	779	822	6,691	5,733	−5	8	5,728	955
Third quarter	5,216	779	810	6,805	5,818	−26	137	5,792	876
Fourth quarter	5,435	762	700	6,897	5,858	35	18	5,893	986

Source: United States Department of Commerce, *Survey of Current Business*, March 1959.
[a] Including government military expenditures abroad.
[b] Excluding military grant aid and exports of goods and services in connexion with such aid.

THE INFLUENCE OF THE UNITED STATES RECESSION ON TRADE AND PAYMENTS: A COMPARISON WITH PREVIOUS POST-WAR RECESSIONS

The behaviour of the United States balance of payments during the 1957/58 recession leads inevitably to the question whether there has been a basic change in the pattern of response of trade and payments from that which had been observed in the two previous United States recessions; or whether, instead, the explanation of such unexpected phenomena as the outflow of gold lies in circumstances which are not, perhaps, directly related to the United States recession, and may not, therefore, recur in a future recession.

At first sight, it would appear that there is much weight in the first of the above explanations. As will be shown below, the share of the recession-sensitive commodities—especially raw materials—in total United States imports has been declining, whereas that of recession-resistant finished manufactures has been increasing. On the export side, it has been suggested that the sharpness of the decline in United States exports in the 1957/58 recession may have been in some part attributable to a progressive loss of competitiveness of United States manufactures owing to a more rapid rise in production costs than in other industrial countries. To the extent that these factors are important, they would support the conclusion that the impact of United States recessions upon the trade and payments of other industrial countries is much less to be feared than in the past, and that the gold outflow is evidence of a growing weakness in the dollar.

Closer examination of the data suggests, however, that this interpretation of the changes that have taken place calls for important qualifications. Although there have been some changes in the structure of imports tending to reduce the impact of United States recessions upon imports, there have been other developments tending to produce the opposite result. The altered behaviour of exports seems to be due partly to special circumstances and partly to the fact that in 1958 the level of internal demand in the other industrial countries was declining, whereas in 1949 and 1954 expansion continued in these countries throughout the United States recessions; although loss of competitiveness may have played some part in some particular instances in 1958, this factor does not appear to be of great importance.

Commodity imports

It is true that the decline in commodity imports during the most recent recession was smaller than during either of the two preceding recessions. The value of commodity imports at the bottom of the latest recession was under one and a half per cent lower than a year earlier, whereas in 1953/54 the corresponding decline amounted to about two and a half per cent, and in 1948/49 to 5 per cent.

It is also true that the commodity composition of imports has changed, as has the reaction of individual commodities to declining demand. The shares in total imports of the most sensitive commodity groups—non-ferrous metals and other industrial materials except petroleum—have declined by eight percentage points since 1953, and the share of finished manufactures has risen by a similar amount, as shown in table 76.[28] Furthermore, imports of finished manufactures showed a greater resistance to the most recent recession than to the two earlier ones. These changes have indeed been in a direction that would reduce the

[28] The table shows commodity composition in the second quarters of 1948, 1953 and 1957. The changes in composition that appear would be approximately the same if based upon data for the entire years 1948, 1953 and 1957.

Table 76. United States Merchandise Imports in Three Recessions[a]

Item	Percentage composition of imports			Percentage change from peak to trough		
	Second quarter 1948	*Second quarter 1953*	*Second quarter 1957*	*Second quarter 1948 to second quarter 1949*	*Second quarter 1953 to second quarter 1954*	*Second quarter 1957 to second quarter 1958*
Foodstuffs	27.8	29.2	23.6	7.4	15.4	19.1
Coffee	9.5	11.6	8.9	2.5	26.0	10.3
Other foodstuffs	18.3	17.6	14.6	9.9	9.0	24.4
Crude materials and semi-manufactures	59.1	56.2	53.7	−9.9	−12.7	−14.8
Petroleum	5.8	6.4	12.1	15.6	9.3	1.1
Newsprint	6.1	5.4	5.3	8.3	−1.7	−6.3
Non-ferrous metals	9.4	13.6	11.2	35.1	−11.1	−20.1
Other	37.8	30.8	25.1	−27.8	−19.7	−21.7
Finished manufactures	13.1	14.5	22.7	−6.2	2.1	9.3
Automobiles	0.5	0.6	2.3	−73.8	−16.7	53.0
Other	12.7	13.9	20.4	−10.5	3.6	4.0
TOTAL MERCHANDISE IMPORTS	100.0	100.0	100.0	−5.5	−2.4	−1.3

Source: United Nations Bureau of Economic Affairs, based on United States Department of Commerce, *World Trade Information Service*, part 3, and predecessor publications.

[a] Because of the problems arising from seasonality of the trade data, the timing of peaks and troughs adopted here differs slightly from that employed in the discussion of the domestic economy above.

magnitude of any recession-induced decline in imports. But examination of table 76 also reveals a number of offsetting changes, together with some developments that cannot be ascribed to the United States recession.

The share of finished manufactures in total imports has nearly doubled since 1948, the major part of the advance having occurred since 1953. The growth trend of these imports is strong enough to make them remarkably recession-proof. Particularly striking is the case of automobiles, imports of which rose from a little over one per cent of United States production, in numbers of vehicles, in 1957 to nearly 8 per cent in 1958. It is, however, possible that the recent performance of automobile imports has been influenced in part by special factors which may be of a temporary character, such as the relative lack of competing domestic products thus far. Total imports of all goods other than automobiles declined by 2.5 per cent in 1958—approximately the same percentage decline as in 1954; the corresponding drop in 1949 was 5 per cent. The share of other finished manufactures in total imports has also continued to rise, and they too are highly resistant to declining demand.

With respect to raw materials, there appears to have been a change in the relationship between domestically produced and imported supplies of the non-ferrous metals, resulting partly from an expansion of the interest of United States companies in overseas production. There has been a tendency for the impact of declining demand to fall more heavily on domestic production than in the past, as shown in the following table. Price developments have been important in producing this result, especially for copper, lead, and zinc; the sharp decline in import prices from the middle of 1957 to the middle of 1958 greatly accentuated the fall in the value of imports. At the same time, the fall in prices also contributed to the substitution of imports for domestic production, so that the fall in volume was probably somewhat less than might otherwise have occurred.[29]

Copper, lead, zinc, and aluminium

(*Percentage change in volume*)

	Domestic production	*Imports*
Second quarter 1953 to second quarter 1954		
Copper, lead and zinc	−7	−21
Aluminium and bauxite	21	16
TOTAL	5	−17
Second quarter 1957 to second quarter 1958		
Copper, lead and zinc	−17	−12
Aluminium and bauxite	−13	48
TOTAL	−15	−9

Source: United Nations Bureau of Economic Affairs.

Despite this greater stability of imports in relation to domestic production, however, the decline in the value of imports of non-ferrous metals in 1958 was nearly double what it was in 1954, while in 1949 imports of non-ferrous metals were higher than a year earlier. Government stockpiling activities were a major factor in the rise in imports in 1949. In both 1954 and 1958, on the other hand, strategic stockpiles were being reduced, and their impact upon raw material imports was about the same. The share of non-ferrous metals in total imports, although it declined from 1953 to 1957, was still in 1957 considerably above the 1948 level.

There have also been substantial changes in imports of petroleum in a direction which might be expected to increase the drop in total imports in a recession. There has been a strong upward trend in imports of petroleum which has helped to moderate import declines during the post-war recessions. However, as the share of petroleum imports has risen—and the potential moderating effect with it—the impact of any slackening in demand upon domestic producers has grown likewise. In 1948, petroleum imports rose as the recession progressed; and in 1953 they also rose, but significantly less. In 1958 there was very little increase in petroleum imports, largely as a result of the operation of a voluntary import quota system—the introduction of which was in part a response to the state of domestic demand.

The share in imports of other raw materials and semi-manufactures—principally newsprint, rubber, wood and wood products, wool and iron and steel—has been declining rapidly. In the aggregate, this group continues to be one of the most sensitive, although the particular commodities responding most to declines in demand have changed from recession to recession. In 1948/49, the largest drop occurred in imports of wool and paper base stocks, and a substantial part of the decline was accounted for by falling prices. In 1957/58, however, these commodities fell very little, but there were large declines in imports of crude rubber and of iron ore and iron and steel mill products. In the case of crude rubber, the difference in behaviour reflects differences in government stockpiling activities; iron and steel mill products are a group in which imports have only in recent years become significant. The fall in price in these particular commodities was small. Thus more of the drop in the import value of this group in 1958 was due to declining quantities, and less to price.

The effects of changes in imports of foodstuffs are hard to classify. In all three recent recessions, imports of foodstuffs have increased despite the fall in over-all demand—by nearly one-fifth in 1958. But the effect of this pattern of behaviour of food imports has been reduced by a considerable drop in their share of total imports. The value of the increase in imports of foodstuffs in the course of the 1957/58 recession was twice as large as the value of the increase in finished manufactures. However, a rise in food imports during a recession can only be due to chance factors—such as

[29] In some cases there were tax advantages for the producing companies in maintaining imports rather than domestic production.

the temporary meat shortage in the United States in 1958—and therefore cannot be relied upon for future occasions; chance factors could, of course, just as well operate in the opposite direction.

It is thus extremely difficult to draw any clear conclusion about the nature of the changes that have taken place in the structure of merchandise imports. The share of the recession-sensitive industrial materials has declined, but at the same time some of them seem to have become more sensitive, especially since 1954. Of the apparently recession-proof group, those whose resistance has been greatest—foodstuffs—have a declining share, and some of those whose shares have risen most since 1953—such as petroleum—have shown less resistance to the current recession. Finished manufactures other than automobiles, the share of which also increased substantially, exhibited approximately the same behaviour in 1957/58 as in 1953/54. Only automobiles have, since 1953/54, increased both their share in total imports and their resistance to declining demand; but automobiles do not by themselves provide an adequate basis for drawing conclusions about structural shifts in imports in their relationship to future recessions, especially since special factors may have been involved in the spectacular rise in imports of cars in 1958.

Thus, to the extent that there has been a structural shift in United States imports that offers other countries reasonable ground for increased confidence in future recessions, it lies in the increasing share of finished manufactures in the total. It should be noted that while this is of considerable benefit to the other industrial countries, it involves no direct easement for the primary producing countries. Although some individual countries were hard hit, the impact of the 1958 recession on the primary producing countries as a whole was cushioned by the behaviour of foodstuffs, but this cannot be depended upon in the future. Moreover, in assessing the impact of the changes that have taken place in the structure of United States imports, it is important to bear in mind that finished manufactures, despite their increase, are still less than a quarter of the total, and automobiles account for little more than 2 per cent. Industrial materials amount to more than one-half. There is consequently no reason to suppose that a somewhat more serious recession would not result in a much more significant drop in imports; nor that the chance factors which happened to slow down the decline in 1958 might not operate perversely on another occasion.

Commodity exports

Changes in exports, although not entirely unrelated to the state of the domestic economy, depend to a much greater extent on what happens elsewhere. It is not surprising, therefore, that their behaviour has differed much more from recession to recession than has the behaviour of imports. The year 1958 provided the first occasion since the war on which a United States recession of significant proportions coincided fairly closely with a slackening in demand in the other industrial countries. This, combined with the disappearance of the abnormal demand for United States exports[30] that followed the Suez crisis, led to a fall of a little less than 20 per cent in the value of United States exports from the first half of 1957 to the corresponding period of 1958. In 1953, the pattern of developments was very different. The end of the Korean boom was felt much earlier in the rest of the world than in the United States, and by the time the post-Korean recession developed in the United States in the second half of 1953 demand was expanding once more in western Europe, and United States exports had begun to rise again. Similarly, in late 1948 and early 1949 exports were rising although mainly in connexion with aid under the European Recovery Programme.

Three-quarters of the decline in United States exports in 1958 occurred in a relatively concentrated group of commodities, which in 1957 accounted for approximately one-quarter of total exports. From the first nine months of 1957 to the first nine months of 1958, the declines were as follows, in millions of dollars:

Base metals and scrap	−596
Coal	−249
Raw cotton	−256
Petroleum and products	−374
Wheat	−175
Construction and mining machinery, trucks and tractors	−297
TOTAL	−1,947
Other exports	−626
TOTAL EXPORTS	−2,573

The drop in petroleum exports, almost all in shipments to western Europe, was due to the reopening of the Suez Canal. Exports of petroleum to western Europe were insignificant in 1956, and they fell again to very low levels after the middle of 1957. But in the first half of 1957 they amounted to $225 million. Raw cotton exports, similarly, rose to abnormal levels in 1957, primarily as a consequence of United States surplus disposal activities. Wheat exports in 1957 were affected not only by surplus disposal activities in the Far East, but also by the poor harvests in western Europe in 1955 and 1956.

In the remaining three categories, the most important factor was declining demand in the importing countries. More than half of the decline in exports of metals was in exports to Japan, where imports of metals were reduced to approximately 10 per cent of their level in the preceding year; this was true, however, not only of metals imported from the United States, but

[30] Both here and in the remainder of the chapter United States exports are considered exclusive of military aid shipments.

also of those obtained from other sources. Exports of metals from the United States to Canada likewise fell roughly in proportion to exports of metals from other countries to Canada. United States iron and steel exports to western European countries did, however, fall somewhat more than their own exports to one another. Here it is possible that United States exports constitute a marginal source of supply. It does not appear that these exports are more vulnerable to a decline in European demand than they used to be; in the western European recession of 1952/53, United States exports of base metals to western Europe declined by over 50 per cent, while in 1958 the decline was 22 per cent. Much the same is true of United States exports of coal to western Europe. The decline in United States exports was somewhat greater than that in intra-European trade in coal, but was far smaller than it had been in 1952/53. Of the remaining group—construction and mining machinery, trucks and tractors—three-quarters of the decline was in exports to Canada, reflecting primarily the end of the boom in that country. Since about 90 per cent of Canada's imports in these categories come from the United States, the other industrial countries were very little affected.

It will be clear from the foregoing that the significance of any decline in United States competitiveness in the drop in exports in 1958 cannot have been very great. It could not, in fact, have been of any appreciable importance in the export declines thus far considered, and could at best have been responsible only in part for the residual decline of $626 million shown in the above table; the most important factor even in this decline was almost certainly the fall in demand abroad.

Available data do suggest that United States export prices for finished manufactures may have risen relatively to those of the Federal Republic of Germany during the past two or three years—and the United States, like other industrial countries, has certainly lost ground relatively to the Federal Republic in export markets for these goods. There is also some evidence that United States prices for machinery and equipment, which have a large weight in exports, may have increased more than in certain of the other western European countries, although lack of comparability seriously limits the conclusions which can safely be drawn from this evidence. Possibly of more importance is the fact that the delivery schedules of certain European countries—which had been fairly tight during most of the boom period, especially for engineering products—may have improved in 1957 relatively to those of the United States, where the supply position had been easier all along. With the fall in demand in 1958, delivery dates have shortened further everywhere.

Capital movements

The role of capital movements has varied considerably during the three post-war United States recessions, depending primarily on the course of business confidence and to a lesser extent on the changes in economic activity abroad. In the course of the 1948/49 recession as a whole, capital movements exerted a depressing influence nearly as great as that of the change in the trade balance, because of a loss of confidence in the stability of European currencies. Net United States private capital exports fell just as much, in absolute magnitude, as did imports, so that the drop in total payments other than government grants and transfers was double the magnitude of the fall in imports. At the same time, there was a considerable inflow of speculative capital from other countries, which reached a peak during the payments crisis preceding the devaluations in the third quarter of 1949. In 1953/54, on the other hand, there was no loss of confidence; on the contrary, United States capital exports, like merchandise exports, rose in response to the expansion of activity elsewhere coupled with the general feeling that the European economies were now much more securely based than in 1949. Over the course of the United States recession the increase in capital outflow was greater than the fall in imports, so that total United States payments rose. In 1957/58, capital movements as a whole exerted less influence than in the two previous recessions; United States capital exports declined slightly, as noted above, but so did the inflow of foreign capital. These developments are in line with what might have been expected in view of the fact that the United States recession was accompanied by a slackening in business activity throughout most of the world.

In summary, therefore, it appears that, although there have been some changes in the structure of United States trade and payments that are likely to be of an enduring nature, these changes do not go very far towards explaining the apparently paradoxical behaviour of the United States balance of payments during 1958. Of much more importance in accounting for what happened in 1958 was the economic setback in Canada and Japan and the coming to an end of the boom in western Europe, and the effect which these developments had on the demand for imports from the United States. The western European slackening reinforced the effect of the North American recession upon the export earnings of primary producing countries, which therefore also reduced their imports from the United States. These factors, together with the removal of the abnormal demand for United States exports that followed the Suez crisis as the more usual channels of trade were restored, are sufficient to explain most of the developments. They do not, in themselves, offer any important guidance for the future, since they suggest that western Europe avoided balance of payments problems in 1958 partly by holding back its own business activity, and partly by transferring the problem to the primary producing countries in the form of falling commodity prices. To the extent that measures restrict.

ing economic activity in western Europe and Japan were prompted by balance of payments considerations, this does not necessarily represent an improvement In economic health, especially since it is impossible for all balance of payments positions to improve simultaneously.

Outlook[31]

Economic activity in the industrial countries was rising at the beginning of 1959, and the upturn is expected to continue. Available indications are that the rate of economic expansion during the next year or so will be limited only by the level of demand. On the supply side, although the three main factors determining the scope for expansion—namely, productive capacity, labour supply and the foreign exchange reserve position—vary in their relative importance for individual industrial countries, these countries are in a position to support rates of expansion at least comparable to those achieved during the last boom. It is, however, too early as yet to judge whether the current recovery will be as powerful or as prolonged as those which followed the 1952 setback in western Europe and the 1953/54 recession in North America.

Productive capacity had been expanding more rapidly than total output for several years prior to the recent recession, and the economic decline in 1958 added further to the excess capacity which had been gradually accumulating. While estimates of excess capacity have to be treated with caution, it seems reasonably safe to conclude on the basis of the available information that in most of the major industrial countries productive capacity is adequate for an expansion of output at well above the average rate of the last few years. In the United States it has been estimated that the degree of utilization of capacity in manufacturing was little more than 70 per cent in April 1958 and was still not much above 80 per cent in March 1959.[32] Considerable excess capacity also existed in basic materials. A similar situation prevails in Canada, especially in the raw material processing industries. In the United Kingdom it has been estimated that capacity utilization in several major industries is of the order of 80 per cent or less.[33] In other industrial countries in western Europe, where the rate of growth of output over the last few years has been much faster, on the whole, than in the United Kingdom, the degree of overall excess capacity is probably less. But it is still apparently substantial, even in the Federal Republic of Germany, where in spite of a very high rate of growth for several years, the degree of utilization of capacity is estimated to be about 10 per cent below the 1955 level.[34]

In particular sectors of European industry, of course, spare capacity may be relatively limited so that much will depend on the pattern of growth of demand that can be expected. Even in steel and engineering, however, bottlenecks are less likely to occur than in the previous boom because of the considerable additions to capacity in these industries during the last few years,[35] and the heavy involuntary accumulation of stocks of coal during the past year has provided a large reserve against any future expansion of demand. If specific shortages nevertheless develop, western Europe is in an even stronger position than in the past, from a balance of payments point of view, to purchase the necessary supplies overseas, as will be shown below.

The labour supply is likewise generally adequate to permit rates of growth in 1959–1960 at least equal to, if not above, the high rates achieved during the last boom. In Belgium, Canada, Norway, the United Kingdom and the United States the proportion of the labour force that is unemployed is significantly higher—and in Japan and Sweden is no lower—than at the beginning of the last period of expansion. Only in Denmark, the Federal Republic of Germany, France, Italy and the Netherlands are unemployment ratios lower than at the beginning of 1953, and in all these cases except possibly the Netherlands, the absolute level of unemployment is sufficiently high, or the scope for expansion of the industrial labour force sufficiently great, to make it unlikely that the supply of labour would impose any constraint upon the growth of output for some considerable time to come. These considerations are reinforced by the fact that in most countries average hours worked in manufacturing at the beginning of 1959 were lower than at the corresponding period of the previous upswing.

Productive capacity and the labour supply are therefore both entirely adequate to permit rates of growth in the industrial countries at least as high as those which were recorded during the last upturn. This means that the average annual increase of over 8 per cent in western Europe's industrial production from 1952 to 1955 (over 7 per cent, excluding the Federal Republic of Germany) represents a fully attainable and rather conservative target for western Europe at the present time. Although a similar rate of increase was not re-

[31] Based in part upon replies of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies.

[32] *See* "Business Plans for New Plant and Equipment", *12th Annual McGraw-Hill Survey*, April 1959.

[33] National Institute of Economic and Social Research, *Economic Review* (London), January 1959.

[34] Based on data supplied by the IFO—Institut für Wirtschaftsforschung (Munich).

[35] It has been estimated that in the countries of the European Coal and Steel Community steel production in 1958 was at about 80 per cent of capacity, and that in the United Kingdom it was at about 75 per cent of capacity. Even in France, the only major steel producer to show an increase in steel output in 1958, steel production in the early months of 1959 was well below the corresponding months of 1958.

corded in North America during those years owing to the 1953/54 recession, the extremely rapid tempo of expansion recorded in that area at other times, as for example in 1955, suggests that a comparable target as for western Europe is physically attainable during the period ahead.

Nor should balance of payments considerations create any serious obstacles to the realization of these objectives, provided that all countries move in step. It is true that in some countries the recent increase in foreign exchange reserves has represented largely a reversal of preceding outflows. Moreover, much of the improvement in western Europe's trade balance in 1958 was due to the fact that while the terms of trade improved as a result of lower import prices, the adverse effect on exports resulting from the consequential slackening in import demand of primary producing countries is subject to a time lag. There is, therefore, a possibility that as recovery proceeds in North America and western Europe the terms of trade will deteriorate and the volume of imports will rise just as the volume of exports is beginning to decline. Nevertheless, there is no doubt that western Europe's foreign exchange reserves and external balance as a whole are much more capable of permitting increases in imports than they were at the outset of the last boom, when reserves were barely more than half of their present level and when the current balance of the European Payments Union area was heavily in deficit.

Even if allowance is made for the secular growth in imports that has taken place over the past few years, the foreign exchange position of western Europe as a whole is still better than during the 1953 recovery. It should, however, be borne in mind that the growth in total western European exchange reserves has been very unevenly distributed among countries, the Federal Republic of Germany alone accounting for about half of the approximately $10 billion increase between the end of 1952 and the end of 1958. In relation to the value of average annual imports the reserve position of France and the Scandinavian countries appears to have deteriorated slightly over this period. In the case of France this was due largely to a speculative outflow of funds in 1958 which has since been reversed. At the same time the Scandinavian countries, which have generally had the narrowest foreign exchange margin to work with, have recently expressed confidence that the reserve position will not be an obstacle to expansion.

How far the potential for expansion suggested by the available supply of resources of all kinds is, in fact, realized will depend on the state of demand. Here the evidence suggests some advance in 1959, but in most countries at a rather more leisurely pace than might appear to be warranted on the side of supply.

Business investment expectations seem, on the whole, to be somewhat more favourable in North America than in western Europe. Recent surveys of business intentions in Canada regarding expenditure on plant and equipment suggest a slight decline in 1959, but in the United States such expenditure is expected to rise by about 5 to 6 per cent in 1959. It is reported that much of the contemplated outlays are for purposes of modernization, where the emphasis is on cost reduction rather than on expansion of capacity, so that the current relatively high level of excess capacity exerts less restraining influence. It is also likely that the recent increase in corporate profits in the United States will have a favourable influence on investment decisions by improving expectations as to future business prospects and providing internal funds for investment purposes.

In western Europe, on the other hand, even though surplus capacity is apparently less extensive than in the United States, there is less prospect that business fixed investment will show any significant increase in 1959; and such increase as takes place will be concentrated in public investment. In the United Kingdom, the latest surveys of business investment intentions prior to the recent budget indicate that an expected rise in investment in distribution and services in 1959 will be offset by a 10 per cent fall in investment in manufacturing; however, the 1959 budget concessions should improve the general climate of expectations and should provide some direct stimulus to investment through the reintroduction of investment allowances on a temporary basis. Investment in those sectors of manufacturing industry which are experiencing excess capacity is expected to fall in several other countries, such as France, the Netherlands and Sweden; this will probably be offset only in part by the expansion that may develop in other sectors, such as chemicals, automobiles and steel production in France, and transport equipment and distribution in Sweden. In very few countries—chiefly Denmark and the Federal Republic of Germany—is it expected that business fixed investment as a whole will expand to any significant extent, and in the Federal Republic this expectation is based largely on the improved situation in the capital market and the influence of the developing European Economic Community—stimuli which might be insufficient in the absence of a generally expansive environment.

Any lag in private business fixed investment in western Europe is, however, likely to be made up by public investment, which is more important than in the United States, since it includes not only public or subsidized housing, road expenditures and so forth, but also the capital expenditures of nationalized industries. In most western European countries, public investment is likely to form the bulk of the increase in total fixed investment in 1959. In the United Kingdom, higher capital outlays are envisaged in coal, electricity, railways and roads and there may also be a rise in public housing expenditure. Total public investment in the fiscal year 1959/60 is expected to be almost 10 per cent greater than in the previous year. In France, a basic feature of the economic policy measures recently

adopted has been the attempt to raise investment, particularly in nationalized industries or in industries partly dependent on government funds for expansion of capacity. Increased public investment will also occur in most other countries, particularly in Sweden, where it is expected to be about 8 per cent above the 1958 level.

One sector of fixed investment which may increase in the United States and in western Europe alike is residential construction. In the United States, however, concern has been voiced in the building industry over rising interest rates and the growing difficulty of obtaining mortgage financing. Expectations are nevertheless for a higher level of housing expenditure in 1959 than in 1958, though some fall in such expenditure may occur in the second half of the year, especially if credit conditions do not ease.

Private expenditure on housing will probably rise in most western European countries, the chief exception being France. In the United Kingdom, the increase in housing starts towards the end of 1958 should bring a rise in housing expenditure in 1959 which is likely to be maintained as a result of the improved liquidity position of building societies and anticipated government loans to the societies later in the year. In the Federal Republic of Germany, a favourable order book situation and improved financing possibilities should also lead to an increase in housing construction in 1959. Similar increases in private housing are expected in Denmark, the Netherlands, Norway and Sweden.

Most western European countries do not, however, expect the rise in public investment and in private residential construction to do much more than offset the decline in fixed investment in other sectors of the economy. For example, total real fixed investment is expected to remain more or less unchanged in 1959 in the Netherlands, to rise very slightly in the United Kingdom, and to show increases of about 2 to 3 per cent in France, Norway and Sweden. It should be noted, however, that while in some countries the probable rates of increase of total fixed capital formation are even lower than last year, in others, such as the United Kingdom, where there was no increase, or in the Netherlands, where fixed investment fell substantially last year, the changes envisaged for 1959 constitute some improvement. Nevertheless, in the absence of a marked revival in activity leading to a substantial absorption of existing spare capacity, or of special government measures to stimulate private investment, it seems unlikely that total fixed investment in western Europe will give a major impetus to expansion in 1959.

The shift which has taken place in business expectations both in North America and in western Europe should lead to some reconstitution of stocks in 1959. In the United States, inventory liquidation, which had continued at a rapid pace through the third quarter of 1958, came to a halt in the fourth quarter, and in the first quarter of 1959 inventory accumulation reached an annual rate of $6 billion. Some of this was concentrated in the steel-using industries, in anticipation of a steel strike, and to this extent was likely to be followed by some reaction later in the year. In western Europe there was a marked slowing down in the rate of stock accumulation in 1958 as a whole, especially if coal stocks are excluded, and a reversal of this process would provide some stimulus to the economy in 1959. However, the inventory swing is not likely to be as great in western Europe as in the United States in 1959—if only because of the much more pronounced inventory shift in the United States in the previous year. And even under the best conditions changes in stocks are unlikely to provide more than a temporary stimulus either in western Europe or in North America.

For western Europe an important factor in business prospects is the outlook for exports. As noted above, the import capacity of the primary producing areas, which account for by far the bulk of European exports overseas, has been reduced by the fall in commodity prices in spite of greater exports of capital to some of these areas; and the rate of growth of western Europe's exports to the rest of the world, which had been rapid up till 1957, slowed down considerably in the early months of 1958. But towards the end of 1958 these exports seemed to have revived somewhat. A sustained recovery in North America would be likely to bring about, sooner or later, an improvement in western Europe's exports, both directly through the expansion in North America's own import demand and indirectly through its effect on the capacity to import of primary producing areas. The immediate short-term outlook is, however, uncertain because, as indicated above, the possibility remains that the 1958 recession will produce a delayed impact on the import demand of primary producing countries just at the time when renewed expansion in the industrial countries is raising their import demand and turning back the terms of trade. Nevertheless, even if this stage passes quickly, or is submerged by the general recovery, it should not be expected that the export sector will play the role in western European expansion in 1959 that it did in the earlier years of the last boom.

In the absence of any major stimulus from investment or exports, either in western Europe or in North America, the prospects for an over-all rate of expansion equivalent to that of earlier years would depend on a faster growth rate in government current expenditure or in private consumption, or both. Taking into account the latest United States budget, it appears that total government expenditure on goods and services will increase about as much in 1959 as in 1958. However, the budget also implies a slight decline in expenditure from the first to the second half of the calendar year 1959. Together with any slackening in residential construction and inventory accumulation—if these were to ma-

terialize for the reasons cited above—this could lead to a significant slowing down in the pace of recovery.

In western Europe, higher government expenditures in 1959 are expected to result chiefly from the increases in public investment already mentioned. Government civil consumption is likely to rise in most countries, but not by substantial amounts. In the United Kingdom some increased expenditures are envisaged under the National Health Service and other miscellaneous items, and moderate increases in government civil consumption are expected in France, Sweden and the Netherlands. But, in general, these increases are too small to have more than a very limited impact on the business outlook. Defence expenditures are expected to rise by a significant amount only in the Federal Republic of Germany, but even here the stimulus to domestic activity will be small since most of the additional spending will be allocated to military goods imported from abroad.[36]

There remains the possibility that private consumption might provide the stimulus to expansion which, in most countries, seems to be lacking in other sectors. However, in the absence of specific government measures to raise personal disposable income through, say, reductions in taxes or increases in transfers, such a stimulus would depend entirely on how far consumers were prepared to reduce their rate of saving. There are at present no indications that such a development can be counted upon.

It is unlikely that personal disposable income will rise as much as total output in the United States in 1959, if only because the recovery in corporate profits will almost certainly be more rapid than in output. If, therefore, consumers were to spend the same proportion of their incomes as in 1958, or less, no additional impetus to a higher level of economic activity would be generated by consumer expenditure. The rate of personal saving fell during the recession, as consumers failed to adjust their expenditures fully in line with the decline in personal disposable income. Sooner or later it is to be expected that the rate of saving will rise again,[37] but it may not do so in the initial stages of a recovery if consumers seek to effect in 1959 the purchases of durable goods which some of them postponed in 1958.[38]

In the light of past experience, however, it seems unlikely that any stimulus from reductions in personal savings would persist for any length of time, especially since consumer credit is not being relaxed further, not having been curtailed during the recession; in the latter respect, the situation contrasts with 1955 when a substantial easing in consumer credit occurred.

In western Europe, where personal consumption rose faster than gross national product in 1958, the same is not likely to happen again in 1959, except possibly in the United Kingdom. In the Federal Republic of Germany the Government expects consumption to advance less than total output in 1959 because of the continued strong tendency to save and a slightly reduced rate of increase in income—the latter being due, in part, to a slower upward trend in government transfer payments, especially pensions. Consumption is also expected to rise more slowly than total output in Norway, despite the personal tax relief introduced at the beginning of 1959. An actual decline in the volume of consumption is planned in France, where real disposable income is expected to fall as a result of higher taxes, both direct and indirect, and reduced transfer payments. These declines appear to be related more to the desire to curtail the government deficit and to curb the expansion of demand than to limitations on the resources available. For the expected increase in total output is very small, in relation to spare capacity both in equipment and in labour supply. In the United Kingdom, however, the tax concessions and abolition of hire-purchase restrictions mentioned earlier are expected to lead to a rapid increase in consumption, which is likely to be the primary factor in the expansion of production.

It therefore appears, on the basis of the foregoing discussion, that although the recovery is likely to continue in the near future, it is doubtful whether the rate of expansion for the industrial group of countries will be as great in 1959 as that experienced in the early phase of the last upswing, and it is likely to be well below the level which the available resources would permit. While government policies in several countries, particularly Belgium, the Netherlands, the Scandinavian countries and the United Kingdom, have provided some stimulus to the economy, caution remains the keynote even in most of these countries. Elsewhere government policy is at best neutral with respect to a higher rate of growth. In the United States, credit began to be tightened from August 1958, when industrial production was still 6 per cent below the previous peak.

One of the major elements in governmental hesitation is the fear of price increases if the recovery accelerates. What is frequently left out of account, however, is that while a higher rate of growth would tend to increase the pressure of demand in the raw material and labour markets, it would also permit a more rapid advance in productivity.[39] Moreover, productive capacity in raw materials has increased much faster than demand for some years, so that the raw material supply position is likely to be easier during the period ahead than at the corresponding stage of the last boom.

[36] Exports of the supplying countries will, of course, rise accordingly.

[37] Preliminary data suggest a rise in the ratio of personal saving to personal disposable income in the third quarter of 1958, followed by a renewed decline in the fourth quarter.

[38] On the other hand, there may be a tendency for some consumers to postpone purchases of automobiles until late in 1959 or 1960, in anticipation of the small 1960 model cars announced by the major producers.

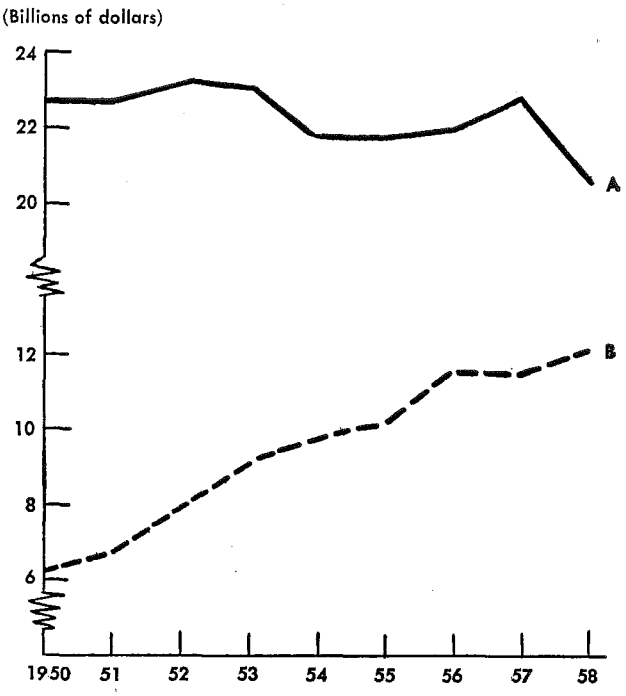
[39] For an extensive consideration of this point, *see* United Nations, *World Economic Survey, 1957*, chapter 1.

Balance of payments considerations also continue to play an important part in the policies of western European countries towards economic growth. It is true that in many cases the introduction of convertibility at the end of 1958 simply gave legal sanction to a situation that had been reached *de facto* some time earlier. Nevertheless Governments must be expected to take into account the fact that what was formerly only a customary practice—which could be set aside if the occasion warranted—has now become a formal commitment. Moreover, the liberalization of trade and payments of recent years has prompted Governments to guard not only against excessive deficits on current account but also against actions which might prompt a decline in confidence and hence large-scale speculative capital transfers. The run on sterling in 1957 at a time when the strength of the current balance of payments of the sterling area seemed beyond doubt was perhaps an outstanding case in point, and it has undoubtedly influenced subsequent thinking.

Of potentially even greater significance is the increasing preoccupation with balance of payments considerations of countries which had not in the past devoted any attention to such considerations in the context of growth policy. The occasion for such concern in the United States is the large outflow of gold during the past eighteen months, although the ratio of gold reserves to short-term dollar claims held abroad has been declining continuously for many years. Indeed, as shown in chart 16, net United States reserves—gold holdings less net outstanding dollar liabilities—have fallen from about $16 billion in 1950 to about $8 billion at the present time.

Viewed on any objective basis, however, the prospect of any danger to the United States economy from a continuation of this trend seems rather remote. The United States reserve position is still stronger by far than that of any other major trading country—and the United States still holds more than half of the world's monetary gold outside the Soviet Union. By way of comparison, it is instructive to look at the position of the other major international currency. The United Kingdom's gold and convertible currency holdings are actually more than £2 billion ($6 billion) smaller than its outstanding sterling liabilities, as shown in chart 17. Confidence in sterling was, nevertheless, considered strong enough for external convertibility to be reintroduced at the end of 1958. The importance of gold sales in the financing of recent United States balance of payments deficits seems to be largely due to the fact that the deficits have been incurred mainly with the western European countries, which traditionally have been more inclined than other countries to take payment in the form of gold rather than of dollars. There has not been any evidence of a flight from the dollar; in fact, in the course of 1958, when United States gold sales amounted to nearly $2.3 billion, holdings of short-term dollar assets by other countries also increased by over $1.1 billion, more than half of which was absorbed by the same countries in western Europe which were buying the gold.

Chart 16. United States: Net Dollar Liabilities[a] and Gold Stock[b]



A = Gold stock

B = Dollar liabilities

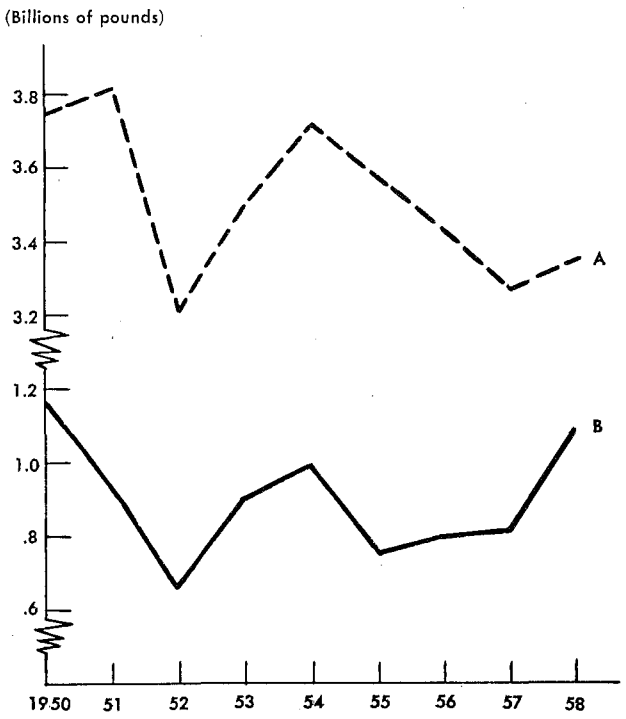
Source: Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin* (Washington, D.C.).

[a] Official and private short-term liabilities to foreigners less short-term claims on foreigners outstanding at end of year.

[b] Treasury gold stock at end of year.

The events of the past eighteen months, although they do not constitute evidence of a loss of confidence in the dollar, may possibly indicate an increasing reluctance on the part of Governments generally to hold reserves in the form of foreign exchange, although it is too early to be sure of this. If such reluctance should increase, preoccupation with international liquidity problems might assume serious proportions, and Governments might be tempted to compete for scarce sup-

Chart 17. United Kingdom: Gold and Dollar Reserves and Overseas Sterling Liabilities[a]



A = Gold and dollar reserves

B = Overseas sterling liabilities

Source: United Kingdom Balance of Payments (London).

[a] End-of-year data for both series; overseas sterling liabilities exclude non-territorial organizations.

plies of gold by still greater restraints on economic activity than in the past. There is little to be said for allowing the rate of production of new gold to impose a limit on world economic expansion.[40] Nevertheless, under the kind of régime of international trade and payments which has developed in recent years, the rate of expansion everywhere is bound to be influenced profoundly by the pace set by the countries in a strong position on external account. Unless these countries are among the leaders in world economic expansion, the general environment may well become universally unfavourable to high rates of growth. No national policy can avoid taking these international considerations into account.

[40] Outside the Soviet Union during the past ten years, annual new gold production has averaged 2.5 per cent of the total monetary gold stock.

Chapter 6

RECENT TRENDS IN PRIMARY EXPORTING COUNTRIES

Changes in international trade

The course of exports

In 1958, for the first time since 1952, the volume of exports from the primary exporting countries failed to expand. The immediate cause of this was the sharp recession in many branches of manufacturing in North America, a decline in building activity and a slowing down in the growth of several other industries in western Europe and an almost universal cutback in the output of textiles.[1] But the fact that exports were practically the same in volume in 1958 as in 1957 represents not a sudden change so much as the culmination of a trend towards diminishing increments under way since 1955: an increase of 9 per cent between 1954 and 1955 was followed by increases of 6 per cent and 3 per cent. Exports to the industrial countries, indeed, reached a peak in volume in 1956; the aggregate was raised in 1957 only by increases in exports to the centrally planned countries and among the primary exporting countries themselves. This expansion brought the total quantum to about 22 per cent above the 1953 figure, and this is the level that exports from the primary exporting countries again reached in 1958.

The chief dynamic element in the growth of these countries' exports was petroleum. Notwithstanding the slackening in the rate of expansion in 1956 and 1957—caused by the Suez crisis—the volume shipped in 1958 was well over 50 per cent above the 1953 level. In contrast to this, the quantum of other products shipped from the primary exporting countries increased by little more than an eighth between 1953 and 1957, and between 1957 and 1958 the slow upward movement gave way to a decline, a small rise in food exports being insufficient to offset a sharp reduction in exports of raw materials.

Over the period 1953-1958, as a whole, rather more than a third of the export earnings of the primary exporting countries has been derived from foodstuffs (notably the beverage crops, cereals, fruit, meat and dairy products as well as tobacco) and rather less than a third from industrial raw materials (notably vegetable oils and oil-seeds, fibres, rubber and ores). Manufactured goods—chiefly textiles and refined nonferrous metals—have provided a steady one-seventh of the total. Mineral fuels—yielding about a fifth of total proceeds over the whole period—have increased their contribution from a sixth to a fourth of the total, while the share of both foodstuffs and raw materials has slowly declined.

During this period of diminishing rates of increase in aggregate export volume, the average unit value of exports of the primary exporting countries remained remarkably steady. It rose slightly during the supply-induced boom in beverage crop prices in 1954, began to weaken in 1956, but was raised again by the repercussions of the Suez crisis, and in mid-1957 again stood at the 1953 level. Thereafter, however, there was a rapid decline which reduced the index by 7 per cent in the course of a year. For 1958 as a whole, the combination of a static volume and a lower unit value resulted in an average level of export earnings about 6 per cent below the 1957 figure.

This average decline of 6 per cent conceals a considerable range of movement: on the one hand, countries accounting for almost one-third of the total trade of the primary exporting group earned more from their exports in 1958 than in 1957; on the other hand, there were reductions of 10 per cent or more in export earnings of countries accounting for almost another third of aggregate trade (see table 77). The countries registering a significant decline in export earnings—over 3 per cent between successive years—accounted for about 52 per cent of aggregate trade in 1958, double the corresponding proportion between 1956 and 1957 and almost four times the 1955 to 1956 figure.

In the first three quarters of 1958 export earnings were below the corresponding 1957 level in all regions except the Middle East, which was the only region to show a major increase in the volume of exports—about 12 per cent above the depressed 1957 figure but only 9 per cent above the more normal 1956 figure. There was also a rise—of about 3 per cent—in the volume of exports from Africa but this was more than offset by a decline in average price. In southern and south-eastern Asia a decline of about 5 per cent in unit value was accompanied by a reduction of about 8 per cent in quantum. In Latin America the volume of exports was just about maintained, but average unit value was about 8 per cent lower. The sharpest decline in price—over one-fifth—occurred in Oceania where

[1] The decline in the demand for raw materials associated with the recession is discussed in chapter 5 and in United Nations, *Commodity Survey, 1958* (sales number: 59.II.D.1).

Table 77. Primary Exporting Countries: Distribution of Changes in Export Proceeds[a]

Ratio (preceding year = 100)	1956		1957		1958[b]	
	Number of countries	Export proceeds	Number of countries	Export proceeds	Number of countries	Export proceeds
Less than 90	11	1,125	13	3,469	23	9,327
90 to 96.9	7	2,903	11	4,196	16	5,319
97 to 102.9	16	7,173	12	4,760	17	9,235
103 to 109.9	20	9,338	16	8,676	16	2,647
110 to 116.9	15	6,664	11	5,681	5	1,021
117 and over	13	2,042	19	3,274	5	784
TOTAL[c]	82	29,245	82	30,056	82	28,333

Source: International Monetary Fund, *International Financial Statistics* (Washington, D. C.).

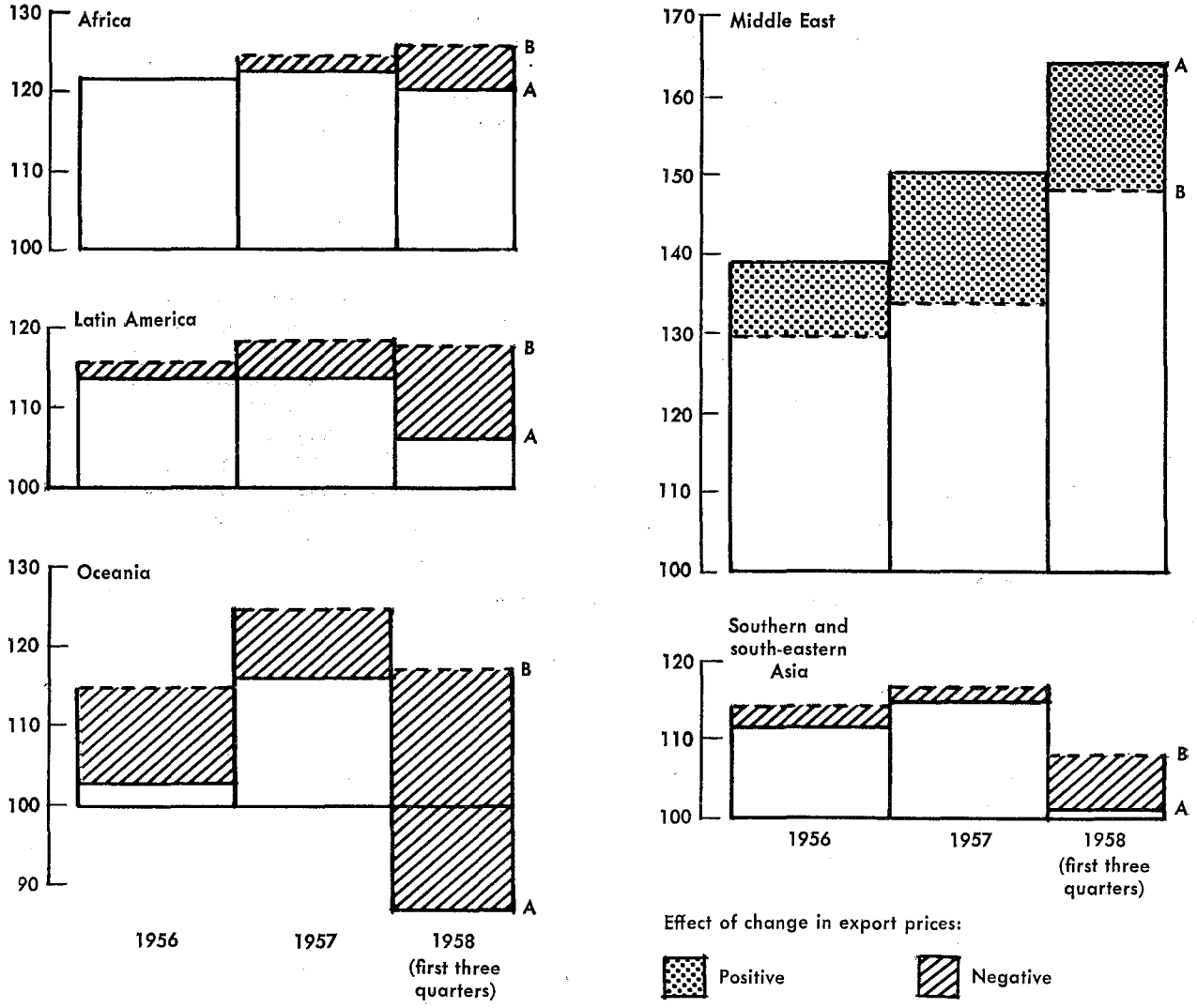
[a] Millions of dollars f.o.b.

[b] Calendar year in most instances, but year ending in September for six smaller countries for which fourth quarter data were not yet available for 1958.

[c] The countries included are those listed in footnotes to table 80; they account for over 96 per cent of the exports covered in chart 21.

Chart 18. Indices of Change in Value and Quantum of Exports from Selected Regions

(1953 = 100)



A = Index of value
B = Index of quantum

Source: Statistical Office of the United Nations and Bureau of Economic Affairs.

there was a 5 per cent reduction in quantum, and export earnings dropped below the 1953 rate. They fell almost to this rate in south-eastern Asia (see chart 18).

As usual the principal reason for differences among countries in the movement in export proceeds lay in the difference in price behaviour among commodities and the concentration of specific commodities in the exports of specific countries, though the impact of changes in commodity prices was modified in some cases by changes in the volume of exports of the major commodity and in others by changes in the volume and price of subsidiary exports.

Among the few commodities whose average price in international markets was higher in 1958 than in 1957 were cocoa, copra and palm kernels, rice, meat, fruit, sisal and—at least on an f.o.b. basis—petroleum. And it is among the countries in whose exports these products are prominent that increases in export earnings were recorded: in descending order, Iraq, Mozambique, the French Cameroons, the Philippines, Costa Rica, Ghana, Honduras, Cambodia, Tanganyika, Kenya, Nigeria and China (Taiwan) all improved their export earnings by more than 5 per cent largely as a result of such price movements. In Iraq and in the oil-seed and fruit exporting groups, the gain reflects quantum increases also. There was an increase in quantum from the meat group, too, and in this case the price rise was moderated by reductions in the unit value of other exports, especially butter, maize and wool.

Among the remaining groups of countries, export earnings were all lower in 1958 than in 1957—substantially so in the countries whose major export was rubber, wool, sugar or metals and ores. Relatively smaller reductions occurred in the receipts of countries exporting mainly coffee, tea, sugar and cotton. The price effect was strongest in the case of exports of wool, sugar, non-ferrous metals, rubber, cotton and coffee. In the case of the cotton exporters, earnings were prevented from following the sharp decline in the price of the longer-staple cottons by an expansion in volume not only of cotton exports—chiefly from Mexico but later in the year from Egypt (United Arab Republic)—but also of other commodities, notably rice from Egypt. In the countries exporting rice, tobacco and non-apparel fibres, proceeds also declined but this was almost entirely the result of quantum changes, while, in the case of tea exporters, it was largely a reflection of movements in the price and volume of trade in subsidiary commodities such as burlap and rubber.

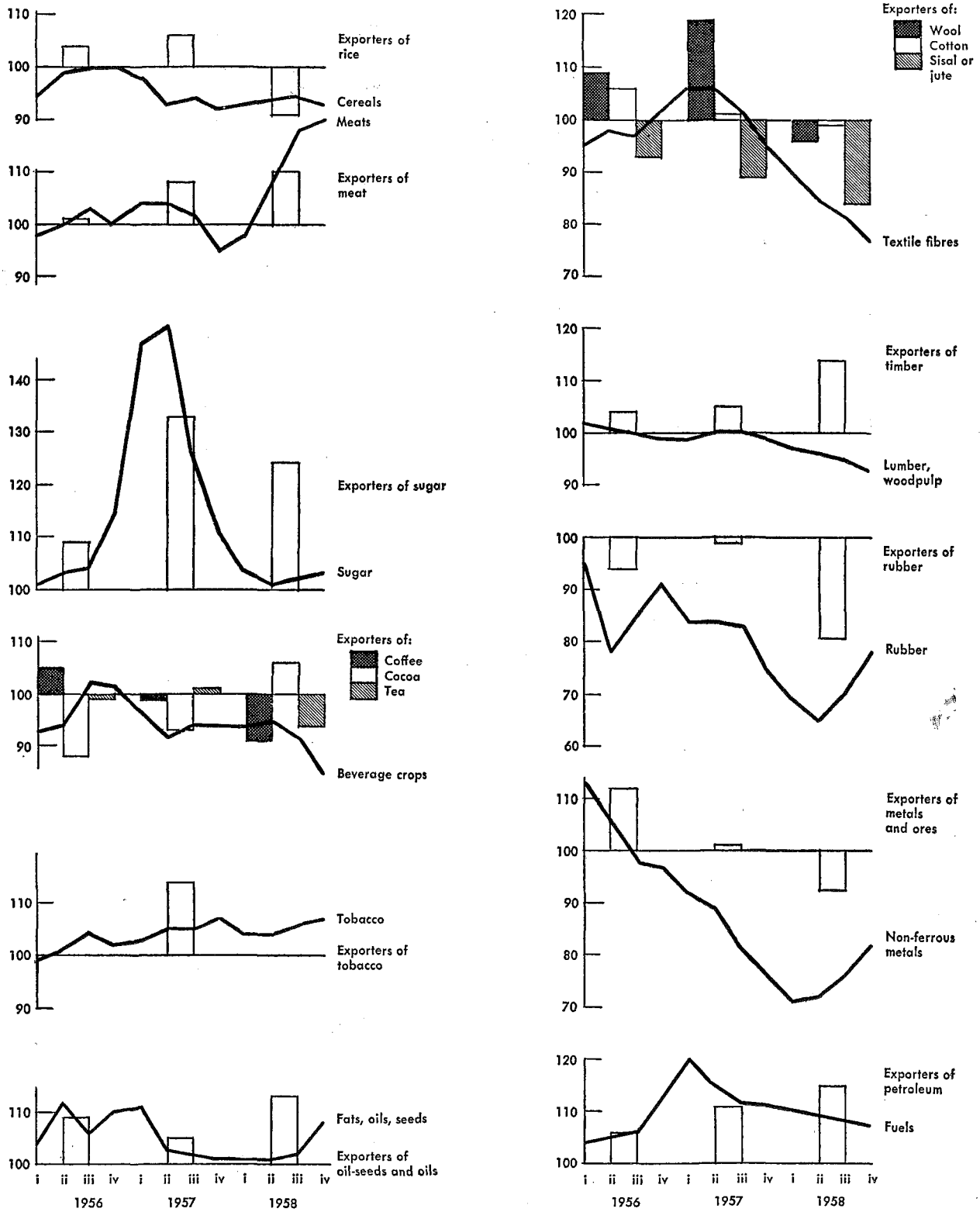
In many cases the movement of export earnings between 1957 and 1958 was a continuation of the movement in the preceding interval. Thus there were three successive increases in the earnings of the groups exporting chiefly meat, citrus, bananas, timber and petroleum, and three successive reductions in those of the non-apparel fibre group. The coffee, cotton and metals and ores groups experienced their second successive decline. The major reductions in 1958, however—in the earnings of exporters of wool, rubber, rice and tobacco—followed increases between 1956 and 1957. In these instances, as well as in the case of countries exporting mainly coffee, tea, cotton, non-apparel fibres and metals and ores, export proceeds in 1958 were not only below the 1957 level but also below the level of 1956 and 1955 (see chart 19). In these groups were most of the countries whose earnings dropped by 10 per cent or more between 1957 and 1958—Australia and South Africa in the wool group, for example, Viet-Nam, Indonesia and Malaya (rubber), the Republic of Korea, Bolivia, the Belgian Congo, Rhodesia and Peru (metals and ores), and El Salvador, Colombia and Brazil (coffee). In these cases the decline in earnings reflects the decline in commodity prices. In the case of Turkey (tobacco), Burma and Thailand (rice) and Pakistan (non-apparel fibres), on the other hand, quantum changes were largely responsible for reducing earnings. Reductions in export proceeds of over 10 per cent were also registered by some of the countries in the sugar group—Barbados, Cuba, Réunion and Mauritius, for example—but in this case the decline was from the exceptionally high level of 1957.

TERMS OF TRADE AND IMPORT CAPACITY

In the aggregate, the price index of primary commodities in international trade declined by more than 10 per cent between the first quarter of 1957 and the second quarter of 1958. Since the average export unit value of manufactures continued to rise during this period, there was a sharp deterioration in the terms of exchange between primary products and manufactured goods (see chart 20): by mid-1958 this price ratio was at its lowest post-war level and for 1958 as a whole it was 8 per cent below the 1957 figure and 24 per cent below the 1950 figure. The slight recovery in primary commodity prices that took place in the second half of 1958 was accompanied by a slight reduction in the average price of manufactures; the result was a 2 per cent improvement in the terms of exchange compared with the first half of the year.

These price movements are reflected in the terms of trade of the primary exporting countries. This ratio, computed as a weighted average, moved against the primary exporting countries both in 1957 and in 1958, but while between 1956 and 1957 the cause lay in the rise in import prices, between 1957 and 1958 it lay in the decline in export prices. Comparing 1958 averages with those of 1957, there was a reduction of from 6 to7 per cent in export unit values and a reduction of from 2 to 3 per cent in import unit values. Thus for the primary exporting region as a whole the deterioration in the terms of trade was again about 4 per cent (see table 78).

Chart 19. Indices of Prices of Selected Groups of Primary Commodities in International Trade and of Export Proceeds[a] of Selected Groups of Primary Exporting Countries[b]
(1955 = 100)



Source: Statistical Office of the United Nations and Bureau of Economic Affairs; International Monetary Fund, *International Financial Statistics*.

[a] Measured in millions of dollars f.o.b.

[b] For composition of groups see table 80.

Table 78. Primary Exporting Countries: Indices of Export and Import Value, Unit Value and Quantum, Capacity to Import and Terms of Trade, 1958

(Corresponding period in 1957 = 100)

Country group[a] exporting mainly	Exports			Imports			Capacity to import	Terms of trade
	Total value[b]	Quantum	Unit value	Total value[b]	Quantum	Unit value		
Wool[c]	81	99	82	102	102	100	81	82
Metals and ores[d]	86	102	84	87	86	101	85	83
Sugar[e]	89	107	83	96	97	99	90	84
Rubber[f]	81	95	85	89	92	97	84	88
Cotton[g]	99	113	88	117	122	96	103	92
Coffee[h]	93	100	93	84	90	93	100	100
Tea[i]	92	95	97	80	82	97	95	100
Tobacco[j]	88	91	97	90	93	97	91	100
Oil-seeds[k]	108	104	104	100	100	100	108	104
Fruit[l]	102	101	101	99	102	97	105	104
Petroleum[m]	102	98	104	91	92	99	103	105
Meat[n]	102	101	101	97	105	92	111	110
Rice[o]	85	79	107	85	89	96	89	111
Cocoa[p]	114	80	142	81	83	98	116	145
AVERAGE, THIRTY-EIGHT COUNTRIES[q]	92	99	93	94	97	97	95	96

Source: Statistical Office of the United Nations and Bureau of Economic Affairs; International Monetary Fund, *International Financial Statistics*.

[a] Comparisons are between calendar year data except as noted below. Group indices are derived from country indices weighted by the dollar value of 1957 exports.

[b] Because of smaller coverage in respect of time and country, some of these indices differ slightly from those represented in table 80.

[c] Australia, 9 months; New Zealand; South Africa; Uruguay, 9 months.

[d] Belgian Congo, 11 months; Bolivia; Peru, 11 months; Rhodesia and Nyasaland, 9 months.

[e] China (Taiwan); Cuba; Dominican Republic, 8 months.

[f] Malaya, 9 months; Viet-Nam.

[g] Egypt (UAR), 9 months; Mexico, 9 months.

[h] Brazil, 7 months; Colombia; Costa Rica, 11 months; El Salvador; Guatemala, 9 months; Nicaragua.

[i] Ceylon; India, 11 months.

[j] Greece, 11 months; Turkey.

[k] Nigeria, 9 months; Philippines.

[l] Ecuador; Honduras, 9 months; Israel; Panama.

[m] Iraq; Venezuela, 9 months.

[n] Argentina; Ireland.

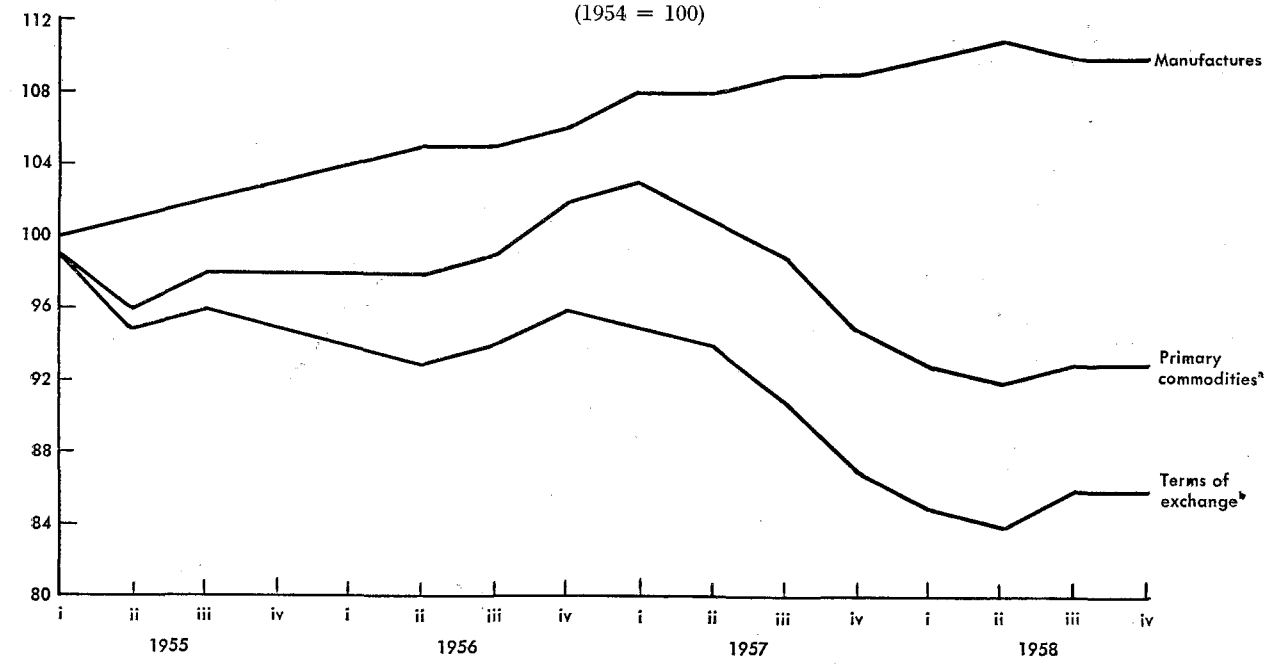
[o] Burma, 10 months; Thailand, 10 months.

[p] Ghana, 9 months.

[q] In 1957 these countries accounted for about two-thirds of the trade of all primary exporting countries.

Chart 20. Price Indices of Commodities in International Trade

(1954 = 100)



Source: United Nations Bureau of Economic Affairs; Statistical Office of the United Nations, *Monthly Bulletin of Statistics*.

[a] Including non-ferrous base metals.

[b] Relative purchasing power of primary commodities in terms of manufactured goods.

Among the groups of countries showing the sharpest worsening in terms of trade between 1957 and 1958, those exporting mainly wool and sugar were the ones whose export prices had benefited most from the upsurge in prices at the turn of 1956/57. Conversely, the substantial gains of the cocoa, rice and meat groups between 1957 and 1958 as well as the smaller gains of the oil-seeds and fruit groups, followed a worsening in their terms of trade in the earlier interval. There was also a reversal in the petroleum group, but this was due chiefly to changes in the composition of exports from Venezuela: unit value declined somewhat during the upsurge in exports occasioned by the Suez crisis and recovered again in 1958. For several other groups, however—notably those exporting mainly rubber, metals and ores and cotton—the deterioration that occurred between 1957 and 1958 repeated the movement of the previous interval; it was a slightly smaller loss in the case of the metals group, but a greater loss in the case of the rubber and cotton groups.

In the wool group, the deterioration in the terms of trade between 1957 and 1958 was sharpest in Australia and Uruguay; it was moderated to some extent in New Zealand by gains in the meat trade and in South Africa by the stabilizing effect of exports of gold, uranium oxide, fruit and manufactured goods. In the sugar group, price movements were largest in China (Taiwan): on the export side this reflects the high proportion of sugar sold on the free market, but this was offset to some extent by the fact that imports from Japan dropped somewhat more in price than imports from other industrial sources. In the metal group, Rhodesia recorded the greatest loss: though the unit value of exports rose in the course of the year, at the outset it was about a fourth below the corresponding level of the preceding year, while import prices remained somewhat above the 1957 level.

In most primary exporting countries import prices were lower in 1958 than in 1957. Indeed, in one or two countries, the decline in import prices was sufficient to cause an improvement in the terms of trade. This was most markedly so in the case of Argentina and Brazil where the lower c.i.f. cost of petroleum and various primary commodity imports helped to improve the terms of trade in spite of lower average export prices. In the tea group the decline in import prices in Ceylon and India just about counterbalanced a decline in export unit value. Apart from Rhodesia, the major exceptions to the tendency for the average cost of imports to fall were in Australia and the Philippines. In the former, higher import prices accentuated the effect of lower wool prices, while in the latter the rise in import prices—reflecting, for the most part, increased rice prices—offset the rise in export unit value flowing chiefly from higher copra prices.

In the aggregate, the unit value of imports into the primary exporting countries in 1958 was 2 to 3 per cent below the 1957 level. Thus, although export proceeds declined by 6 to 7 per cent, their command over imports was not much more than 4 per cent lower than in 1957. Increases in this export-generated capacity to import occurred in the groups exporting mainly cocoa, meat, oil-seeds, fruit, cotton and petroleum (despite a reduction in Venezuela). At the other end of the scale, however, this capacity was over 10 per cent less than in 1957 in the groups exporting mainly wool, rubber, metals, rice and sugar (though in China (Taiwan) there was an expansion, generated chiefly by a rise in the volume of exports), as well as in several countries in other groups—Colombia and Turkey, for example, where a decline in export volume was partly or chiefly responsible.

While the import capacity generated by exports was thus about 4 per cent lower in 1958 than in 1957, actual expenditure on imports declined by about 7 per cent. This was the first reduction since 1953 and it followed the extraordinary expansion of 12 per cent that had taken place between 1956 and 1957. Almost

Table 79. Primary Exporting Countries: Distribution of Changes in Import Expenditure[a]

Ratio (preceding year = 100)	*1956*		*1957*		*1958[b]*	
	Number of countries	*Import expenditure*	*Number of countries*	*Import expenditure*	*Number of countries*	*Import expenditure*
Less than 90	7	1,747	2	574	26	9,348
90 to 96.9	14	7,715	6	1,628	21	10,497
97 to 102.9	11	5,114	9	4,290	15	5,311
103 to 109.9	14	3,279	22	8,572	9	5,631
110 to 116.9	17	5,615	21	10,048	4	496
117 and over	17	7,680	20	9,715	5	1,139
TOTAL[c]	80	31,150	80	34,827	80	32,422

Source: International Monetary Fund, *International Financial Statistics*.

[a] Millions of dollars c.i.f.

[b] Calendar year in most instances, but year ending in September for six smaller countries for which fourth quarter data were not yet available for 1958.

[c] The countries included are those listed in the footnotes to table 80; they account for about 98 per cent of the imports covered in chart 21.

three-fourths of the primary exporting countries—accounting for over 71 per cent of the trade of the region—registered a reduction in imports between 1957 and 1958: this was nearly five times the comparable proportion in the preceding interval. At the other end of the scale, the proportion of countries increasing their imports by 10 per cent or more, which had risen from about 42 per cent between 1955 and 1956 to over 51 per cent between 1956 and 1957, dropped to about 11 per cent between 1957 and 1958 when these countries accounted for only 5 per cent of the trade of the primary exporting region (see table 79).

There was a decline in imports into the petroleum, cocoa—and to a smaller extent—the fruit, meat and oil-seeds groups, even though the capacity to import generated by the 1958 exports of these countries was above that of the preceding year, while in the rice, coffee and tea groups—which were among those whose balance of trade had deteriorated most markedly between 1956 and 1957—actual imports in 1958 were cut back by a proportion significantly greater than that by which export-created capacity had been reduced. In the sugar and wool groups, on the other hand, where export earnings had risen substantially between 1956 and 1957, the decline in imports between 1957 and 1958 did not match the decline in import capacity, while in the cotton group imports recorded an expansion appreciably greater than that of capacity. The group exporting mainly cotton, indeed, was the only one to import significantly more in 1958 than in 1957 and this reflects changes in the United Arab Republic where, partly because of the Suez crisis, imports of a number of items were abnormally low in 1957. Among the other countries in the minority whose imports in 1958 were above the 1957 level were those whose export receipts had been high in 1957, notably Australia in the wool group and China (Taiwan) and some of the smaller producers in the sugar group (see table 80).

Table 80. Primary Exporting Countries: Indices of Change in the Value of Exports and Imports[a]

(Preceding year = 100)

Country group exporting mainly	*Exports*		*Imports*	
	1957	*1958[b]*	*1957*	*1958[b]*
Rice[c]	102	84	125	83
Meat[d]	108	101	111	98
Sugar[e]	122	91	118	98
Citrus[f]	112	101	113	97
Bananas[g]	106	105	107	97
Cocoa[h]	106	118	108	92
Coffee[i]	95	92	106	89
Tea[j]	102	93	123	79
Wine[k]	104	102	112	105
Tobacco[l]	114	88	106	95
Oil-seeds[m]	97	109	112	100
Wool[n]	109	82	106	100
Cotton[o]	95	98	106	109
Non-apparel fibres[p]	96	93	106	89
Wood[q]	101	109	121	101
Rubber[r]	106	81	102	78
Metals and ores[s]	93	91	109	86
Petroleum[t]	105	105	124	89
Imported goods[u]	99	93	107	91
TOTAL	103	94	112	93

Source: International Monetary Fund, *International Financial Statistics*.

[a] Measured in millions of dollars, exports f.o.b., imports c.i.f.

[b] Calendar year in most instances, but year ending in September in the case of six smaller countries for which fourth quarter data were not yet available.

[c] Burma and Thailand.

[d] Argentina and Ireland.

[e] Barbados, British Guiana, China (Taiwan), Cuba, Dominican Republic, Fiji, Guadeloupe, Jamaica, Martinique, Mauritius and Reunion.

[f] Israel, Lebanon and Spain.

[g] Ecuador, Honduras and Panama.

[h] French Cameroons and Ghana.

[i] Angola, Brazil, Colombia, Costa Rica, El Salvador, Guatemala, Kenya, Madagascar and Nicaragua.

[j] Ceylon and India.

[k] Algeria and Portugal.

[l] Greece and Turkey.

[m] French West Africa, Nigeria and the Philippines.

[n] Australia, New Zealand, South Africa and Uruguay.

[o] Egypt (UAR), Mexico, Mozambique, Sudan, Syria (UAR) and Uganda.

[p] Pakistan and Tanganyika.

[q] French Equatorial Africa and Paraguay.

[r] Cambodia, Indonesia, Malaya, North Borneo and Viet-Nam.

[s] Belgian Congo, Bolivia, Chile, Cyprus, Republic of Korea, Morocco, Peru, Rhodesia, Sierra Leone, Surinam and Tunisia.

[t] Aden, Brunei, Iraq, Netherlands Antilles, Sarawak, Trinidad and Venezuela; for exports, plus Kuwait and Saudi Arabia.

[u] Hong Kong and Singapore.

CHANGES IN THE DIRECTION OF TRADE

The decline in the export proceeds of the primary exporting countries between 1957 and 1958 was not the result of a large falling off in shipments to North America where the recession in industrial demand was most marked. Exports to North America, indeed, were better maintained than those to other regions: in terms of value they declined by only 3 per cent compared with a decline of 5 per cent in exports to western Europe, 7 per cent in trade among the primary exporting countries themselves and 14 per cent in exports to Japan. Exports to the centrally planned countries were 8 per cent higher in 1958 than in 1957.

The main impact of the reduction in demand in the industrial countries was felt not by the primary exporting countries but by North America. Of the $2.3 billion decline in world exports to western Europe between 1957 and 1958, over half was accounted for by North America and not much more than a fourth by the primary exporting countries. Similarly, North America absorbed 60 per cent of the $0.7 billion decline in exports to Japan and the primary exporting countries only about 30 per cent. Exports of the primary exporting countries to North America in 1958 were about $0.2 billion below the 1957 level, whereas trade between Canada and the United States declined by almost $0.6 billion.

There was a tendency in 1957 and 1958 for the distribution of exports from the primary exporting countries to diverge slightly from the pattern of the years of cyclic upswing immediately before. Whereas in 1956 the quantum of exports to western Europe was about 14 per cent above the 1953 level and to North America only about 5 per cent above the 1953 level, the former tended to recede in 1957 and 1958 while the latter edged upward. The difference lies in the movement of petroleum and foodstuffs; exports of raw materials declined to both destinations, mildly in 1957, sharply in 1958 (see table 81).

Petroleum shipments to North America have expanded at a rate which has diminished steadily from 15 per cent between 1954 and 1955 to about 4 per cent between 1957 and 1958. Petroleum shipments to western Europe, on the other hand, their expansion interrupted in 1956 and 1957 by the Suez crisis, rose by over 15 per cent between 1957 and 1958. These patterns were reversed in the case of food exports. Expansion in exports to western Europe, fairly rapid between 1953 and 1956, more or less ceased in 1957 and 1958. Shipments to North America, however—no greater in 1957 than in 1953—increased significantly in 1958.

Throughout this period the industrial countries have continued to absorb about 70 per cent—by value—of all exports from the primary exporting countries. The proportion has been sustained by the rising trend in petroleum shipments in the face of a tendency for an increasing share of raw material exports to go to the centrally planned countries and to other primary exporting countries.

Table 81. Primary Exporting Countries: Indices of Volume [a] of Exports to North America and Western Europe

(1953 = 100)

Region and year	*Total*[b]	*Food, beverages and tobacco*[c]	*Crude materials*[d]	*Mineral fuels*[e]
North America				
1954	88	80	89	113
1955	99	93	93	130
1956	105	101	91	144
1957	105	99	88	152
1958[f]	106	104	80	158
Western Europe				
1954	104	107	98	119
1955	110	108	104	134
1956	114	117	105	134
1957	113	116	103	136
1958[f]	113	118	92	156

Source: United Nations, *Monthly Bulletin of Statistics*, February 1959, and Bureau of Economic Affairs.

[a] Based on dollar value f.o.b. deflated by price indices of primary commodities entering international trade weighted in accordance with the composition of imports of each region in 1956.

[b] SITC, sections 0 to 4.

[c] SITC, sections 0 and 1.

[d] SITC, sections 2 and 4.

[e] SITC, section 3.

[f] Preliminary estimate.

Of the exports to North America from the primary exporting countries, petroleum comprised less than 15 per cent by value in 1953 but over 23 per cent by 1957. Except in the case of fuels, North America has been taking a declining proportion of the exports of primary exporting countries: in the case of foodstuffs, the decline was from over 30 per cent of total value in 1953 to 27 per cent in 1957, in raw materials from 20 per cent to 17 per cent and in manufactures and metals from 24 per cent to 21 per cent. Nevertheless, foodstuffs still constituted about 40 per cent by value of all shipments to North America (see table 82).

As in the case of North America, the main expansion in exports to western Europe has been in shipments of minerals, especially petroleum, which constituted an eighth of the value of all exports from the primary exporting countries to this region in 1953 and over a fifth of the much larger total in 1958. Western Europe is the major destination of exports from the primary exporting countries, taking well over half of their shipments of raw materials, almost half of their shipments of foodstuffs and more than a third of their shipments of manufactured goods. Foodstuffs have continued to constitute about 35 per cent of the value of total exports to western Europe; the rising share of fuels and manufactures has been at the ex-

Table 82. Primary Exporting Countries: Composition and Destination of Exports
(Millions of dollars)

Destination and year	Food, beverages and tobacco[a]	Crude materials[b]	Mineral fuels[c]	Manufactures and semi-manufactures[d]
North America				
1953	2,740	1,590	900	802
1954	2,640	1,380	1,020	719
1955	2,550	1,630	1,190	833
1956	2,730	1,590	1,410	927
1957	2,650	1,520	1,560	923
Western Europe				
1953	3,920	4,470	1,290	1,075
1954	4,440	4,340	1,540	1,285
1955	4,130	4,650	1,770	1,555
1956	4,460	4,730	1,880	1,674
1957	4,450	4,700	2,000	1,551
Centrally planned countries				
1953	59	293	—	225
1954	133	388	4	215
1955	218	462	1	195
1956	182	502	2	225
1957	230	708	1	269
Primary exporting countries				
1953	1,900	900	1,960	1,209
1954	1,860	1,040	2,300	1,235
1955	1,880	1,210	2,550	1,345
1956	1,840	1,070	2,720	1,455
1957	2,010	1,200	2,920	1,490

Source: United Nations, *Monthly Bulletin of Statistics*, February 1959.
[a] SITC, sections 0 and 1.
[b] SITC, sections 2 and 4.
[c] SITC, section 3.
[d] SITC, sections 5 to 8.

pense of raw materials which accounted for over 40 per cent in 1953 but less than a third in 1958.

Exports among the primary exporting countries have expanded more rapidly than those to the industrial countries, but they still constitute less than a fourth of the total by value, even including shipments of petroleum to and from such refineries as those of Aden, Aruba and Bahrain whose products go largely to the industrial countries.[2] Partly as a result of the changing position of southern and south-eastern Asia, exports of foodstuffs have tended to decline, relatively—from a third to a fourth of the total by value—with trade in fuels showing a corresponding increase. Trade in raw materials has fluctuated between a seventh and a sixth, and trade in manufactured and semi-manufactured goods has remained fairly constant at about a fifth of the total. Of all the exports of manufactured goods from primary exporting countries, about a third, by value, go to other primary exporting countries; the corresponding proportions in the case of foodstuffs and raw materials are a fifth and an eighth respectively. Between 1953 and 1957, these proportions showed little disposition to change: the expansion in exports of textiles and refined metals from a number of countries and of other manufactures from such countries as Australia, India and South Africa has not yet made much impression on the total trade of the group.

Over half the exports of the primary exporting countries to the centrally planned countries during the five years under review consisted of raw materials, notably fibres and rubber. Food exports to the centrally planned countries in 1957, though four times the 1953 value, were still no more than a fifth of the total—much the same proportion as manufactured goods, exports of which increased relatively little between 1953 and 1957. Though the importance of the centrally planned countries as a market for the primary exporting countries has increased notably in this period, they still absorb less than 8 per cent of raw material exports—by value, about 6 per cent of exports of manufactures and 2 per cent of exports of foodstuffs.

Changes in the geographical distribution of exports between 1957 and 1958 are examined in greater detail in table 83,[3] in which the primary exporting region is

[2] During the period 1953-1957 over a third of the value of the trade in fuels among the primary exporting countries consisted of exports of crude petroleum to refineries within the Caribbean or Persian Gulf regions. This movement of crude was a declining proportion of total fuel exports, however, and on the basis of net trade, the volume of these exports increased by about 50 per cent between 1953 and 1957.

[3] This table is based on incomplete data in terms of both country and time coverage. The conclusions based on it should therefore be regarded as no more than tentative. The groups most seriously affected by the lack of data are those exporting rice and petroleum: the former is vitiated by the absence of Burma and the latter by the absence of most of the Middle East producers. Another weakness arises from the trade whose destination could not be determined from published statistics. Though the unallocated proportion was much the same in 1958 as in 1957, its incidence falls mainly on the smaller primary exporting countries. Similar though slightly less serious shortcomings characterize table 84 as well.

Table 83. Primary Exporting Countries: Indices of Exports to Selected Regions in 1958
(Corresponding period in 1957 = 100)

Country group exporting mainly	*Total*[a]	*North America*	*Western Europe*	*Japan*	*USSR and eastern Europe*	*China (mainland)*	*Latin America*	*Africa*	*Middle East*	*Southern and south-eastern Asia*	*Oceania*
Rice[b]	86	80	141	79	(+)	94	400	86	75	79	113
Meat[c]	98	115	96	236	106	—	88	73	225	82	125
Sugar[d]	89	104	75	103	35	(+)	65	45	89	96	100
Citrus fruit[e]	103	98	106	615	185	—	65	106	109	179	323
Bananas[f]	93	91	117	200	7	—	77	(−)	(−)	83	—
Cocoa[g]	120	135	125	—	4	—	33	108	167	(+)	149
Coffee[h]	92	84	95	91	100	(+)	108	131	107	150	121
Tea[i]	91	79	100	97	119	52	80	81	62	86	97
Wine[j]	102	95	104	108	106	—	79	99	94	86	84
Tobacco[k]	87	71	87	92	109	(+)	180	64	90	24	133
Oils and oil-seeds[l]	105	114	100	120	44	—	79	97	53	79	71
Wool[m]	81	96	77	64	69	118	82	87	78	67	85
Cotton[n]	97	97	98	107	105	76	98	80	74	120	117
Non-apparel fibres[o]	93	84	109	67	157	79	59	109	104	61	86
Wood[p]	109	95	110	—	—	—	112	111	121	—	—
Rubber[q]	86	75	76	77	164	321	70	83	78	94	85
Metals and ores[r]	90	84	90	45	114	—	79	96	70	86	99
Petroleum[s]	101	100	100	105	(−)	—	99	10	100	60	15
TOTAL[t]	92	92	91	83	98	126	93	89	78	86	96

Source: United Nations, *Direction of International Trade*, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development.

Note: (−) 1957 zero, (+) 1958 zero, and — 1957 and 1958 zero.

[a] Comparisons are between calendar year data except as noted below. The total includes a small proportion of exports whose destination could not be determined. Because of differences in time and country coverage, these indices do not always conform to those presented in tables 78 and 80.

[b] Thailand, 11 months.

[c] Argentina, 9 months; Ireland.

[d] British Guiana, 11 months; China (Taiwan), 11 months; Cuba, 7 months; Dominican Republic, 8 months; Jamaica, 11 months; Mauritius, 9 months.

[e] Israel; Lebanon, 9 months; Spain, 10 months.

[f] Ecuador, 9 months; Honduras, 6 months; Panama.

[g] French Cameroons, 10 months; Ghana, 11 months.

[h] Angola, 11 months; Brazil; Colombia; Costa Rica, 11 months; El Salvador, 9 months; Kenya, 11 months; Madagascar; Nicaragua.

[i] Ceylon; India, 11 months.

[j] Algeria; Portugal.

[k] Greece; Turkey.

[l] French West Africa, 8 months; Nigeria, 9 months; Philippines, 11 months.

[m] Australia; New Zealand, 9 months; South Africa; Uruguay, 9 months.

[n] Egypt (UAR), 7 months; Mexico; Mozambique, 6 months; Sudan; Syria (UAR), 9 months; Uganda, 11 months.

[o] Pakistan, 9 months; Tanganyika, 11 months.

[p] French Equatorial Africa, 10 months; Paraguay.

[q] Cambodia, 9 months; Indonesia, 11 months; Malaya and Singapore, 11 months; Viet-Nam.

[r] Belgian Congo, 10 months; Bolivia, 9 months; Cyprus; Republic of Korea, 7 months; Morocco, 11 months; Peru, 11 months; Rhodesia; Sierra Leone, 9 months; Tunisia, 9 months.

[s] Iraq, 6 months; Trinidad, 11 months; Venezuela, 11 months.

[t] Sixty-four countries, accounting for about 70 per cent of the exports covered in chart 21.

broken down into the eighteen groups used for the purpose of analysis in the preceding section.

Of the decline in the value of exports from primary exporting countries to North America, the heaviest incidence in absolute terms was on the groups of countries exporting mainly coffee, rubber, tea, metals and ores and tobacco (notably Turkey). The only groups to record an increase were those exporting mainly oil-seeds and oils (notably the Philippines), sugar, meat, cocoa and petroleum. The reductions recorded by the other groups were all small in terms of dollars though they were large proportionately for the groups exporting mainly rice, non-apparel fibres and bananas.

The principal reduction in the value of exports to western Europe was from countries exporting mainly wool: this accounted for over 60 per cent of the total net decline. Other groups registering significant reductions were those exporting mainly rubber, metals and ores, sugar—the commodities whose prices had declined most sharply—and, less markedly, coffee, tobacco and meat. The groups with higher proceeds from their exports to western Europe were chiefly those exporting petroleum, cocoa, wine and citrus, though there were also small increases in the earnings of the groups exporting mainly non-apparel fibres, rice, wood and bananas. The oil-seeds and tea groups earned almost as much from their exports to western Europe in 1958 as they did in 1957.

The wool and rubber groups were also those recording the largest reduction in exports to Japan; this followed a major expansion between 1956 and 1957, particularly in the case of exports from the wool group. In dollar terms the smaller reductions—in the earnings of the groups exporting metals, non-apparel fibres, rice, coffee and tea—just about offset the few increases, made by the groups exporting oil-seeds, meat, citrus, cotton and sugar.

Table 84. Primary Exporting Countries: Indices of Imports from Selected Regions in 1958

(Corresponding period in 1957 = 100)

Importing countries classified by major export	*Total*[a]	*North America*	*Western Europe*	*Japan*	*USSR and eastern Europe*	*China (mainland)*	*Latin America*	*Africa*	*Middle East*	*Southern and south-eastern Asia*	*Oceania*
Rice[b]	94	100	80	105	104	(+)	87	100	36	100	81
Meat[c]	99	74	114	182	146	175	95	143	81	62	69
Sugar[d]	100	92	104	128	110	—	121	106	70	98	129
Citrus fruit[e]	97	93	96	68	130	—	98	101	104	99	375
Bananas[f]	96	90	102	118	75	—	99	—	—	132	71
Cocoa[g]	87	91	90	63	95	—	99	84	256	73	82
Coffee[h]	90	86	88	124	76	100	103	85	93	89	81
Tea[i]	79	83	72	79	86	161	38	105	64	93	74
Wine[j]	105	67	110	86	155	92	71	104	84	78	102
Tobacco[k]	95	81	100	145	97	(+)	122	140	85	94	84
Oils and oil-seeds[l]	97	81	105	106	88	—	93	104	48	101	102
Wool[m]	101	92	105	115	90	167	83	104	101	115	71
Cotton[n]	108	97	127	98	150	118	108	103	93	101	65
Non-apparel fibres[o]	91	101	90	100	313	34	24	86	96	93	31
Wood[p]	101	90	101	83	75	150	86	112	171	100	—
Rubber[q]	84	73	78	85	70	175	173	117	86	84	81
Metals and ores[r]	86	82	89	91	88	—	66	84	137	89	112
Petroleum[s]	98	87	108	108	109	25	97	107	92	96	147
TOTAL[t]	94	87	98	99	108	155	96	98	88	92	79

Source: United Nations, *Direction of International Trade*, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development..

Note: (−) 1957 zero, (+) 1958 zero, and — 1957 and 1958 zero.

[a] Comparisons are between calendar year data except as noted below. The total includes a small proportion of imports whose origin could not be determined. Because of differences in time and country coverage, these indices do not always conform to those presented in tables 78 and 80.

[b] Thailand, 11 months.

[c] Argentina, 9 months; Ireland.

[d] British Guiana, 11 months; China (Taiwan), 11 months; Cuba, 7 months; Dominican Republic, 6 months; Jamaica, 11 months; Mauritius, 9 months.

[e] Israel, 11 months; Lebanon, 9 months; Spain, 10 months.

[f] Ecuador, 9 months; Honduras, 6 months; Panama.

[g] French Cameroons, 10 months; Ghana, 11 months.

[h] Angola, 11 months, Brazil; Colombia; Costa Rica, 11 months; El Salvador, 9 months; Kenya, 11 months; Madagascar; Nicaragua.

[i] Ceylon; India, 11 months.

[j] Algeria; Portugal.

[k] Greece; Turkey.

[l] French West Africa, 8 months; Nigeria, 9 months; Philippines, 11 months.

[m] Australia; New Zealand, 9 months; South Africa; Uruguay, 9 months.

[n] Egypt (UAR), 7 months; Mexico; Mozambique, 6 months; Sudan, 11 months; Syria (UAR), 9 months; Uganda, 11 months.

[o] Pakistan, 9 months; Tanganyika, 11 months.

[p] French Equatorial Africa, 10 months; Paraguay.

[q] Cambodia, 9 months; Indonesia, 11 months; Malaya and Singapore, 11 months; Viet-Nam.

[r] Belgian Congo, 11 months; Cyprus; Republic of Korea, 7 months; Morocco, 11 months; Peru, 11 months; Rhodesia, Sierra Leone, 9 months; Tunisia, 9 months.

[s] Aden, 11 months; Iran, 9 months; Iraq; Trinidad, 11 months; Venezuela, 9 months.

[t] Sixty-five countries, accounting for about 75 per cent of the imports covered in chart 21.

Reductions in the value of exports to the centrally planned countries were concentrated largely on the sugar, wool, cocoa and tea groups—the last in exports to mainland China, the others in exports to eastern Europe and the Soviet Union. These reductions were offset in large measure by a notable expansion in exports from the rubber group to all three centrally planned regions. There was also a further increase in the exports of the cotton group to eastern Europe and the Soviet Union: in the case of the United Arab Republic, this trade constituted about 37 per cent of total exports.

There were relatively few increases in exports to other primary exporting regions. The coffee group shipped somewhat more to each of the regions, and the cocoa and citrus groups to all the regions except Latin America. There were small gains in exports from the wood, rice and tobacco groups to Latin America, from the non-apparel fibre group to Africa and—one of the few sizable increases in dollar terms—from the cotton group to southern and south-eastern Asia. For the rest, exports were generally lower in value in 1958 than in 1957. The decline was concentrated largely in exports to Latin America in the case of the meat, fruit and cocoa groups, and to southern and south-eastern Asia in the case of the rice and non-apparel fibre groups, while the sugar, tea, wine, oil-seeds, wool, rubber and metals groups exported less to all the primary exporting regions.

The petroleum exporting group was subject to special influences during this period. Because of the closing of the Suez Canal there was a considerable diversion of trade in the first half of 1957, the effects of which were accentuated by the severing of the pipeline carrying much of the output of Iraq. The earlier pattern of trade was re-established in the course of

the second half of the year, but for the year as a whole the distribution of exports differed markedly from that of 1956 and 1958. Between 1957 and 1958 the principal contrast lay between recovery in Iraq—and the expansion of exports to all regions except southern and south-eastern Asia—and a slowing down in Venezuela, with reduced exports to most destinations, especially western Europe as the latter's trade with the Middle East was restored.

In the aggregate, exports from the primary exporting countries were lower in 1958 than in 1957 to each of the regions, except the centrally planned countries. Western Europe accounted for about 40 per cent of the net decline in value, North America and Japan for about 15 per cent each, southern and south-eastern Asia for a tenth and the Middle East, Latin America and Africa for about 5 per cent each.

While North America accounted for only a fifth of the net reduction in export earnings of the primary exporting countries between 1957 and 1958, it bore the brunt of their cut in imports—almost 60 per cent of the net reduction, compared with 17 per cent for western Europe and about 10 per cent for southern and south-eastern Asia and the Middle East. This reversed the change that occurred between 1956 and 1957 when North America was the principal source of the increment in imports. In 1958, Oceania and Latin America also exported appreciably less to the primary exporting regions than in 1957; on the other hand, there was an increase in their aggregate imports from the centrally planned countries (see table 84).

The only groups to import more from North America in 1958 than in 1957 were those exporting mainly non-apparel fibres and rice, and in neither of these cases was the increase significant. The largest reductions were in the groups exporting coffee, petroleum, metals and ores, meat (notably Argentina), oil-seeds, rubber and tea (notably India), but there were also sizable cuts in the imports of the groups exporting mainly wool (particularly Uruguay), wine, tobacco (particularly Turkey), sugar, cotton (chiefly Mexico) and citrus (chiefly Spain).

The cut in imports from western Europe was the heaviest in the case of groups exporting mainly tea (especially India), rubber, coffee and metals and ores. The only other groups importing less from western Europe in 1958 were those whose principal exports were rice (Thailand), cocoa (Ghana), citrus and non-apparel fibres. There were substantial increases in the imports from western Europe of the groups exporting wine (Algeria), cotton (especially the United Arab Republic), meat, wool (except Uruguay), petroleum and oil-seeds (except the Philippines), all of which registered substantial reductions in their imports from North America.

The principal component in the decline in exports from southern and south-eastern Asia to primary exporting countries was the reduction in imports into the rubber exporting countries—reflecting in part the lower level of tin and rice trade. But there were also sizable reductions in the imports of the groups exporting mainly meat and tea (Ceylon), as well as a number of smaller declines, against which the only significant increase was in imports into the wool group (Australia).

The group chiefly responsible for the decline in imports from the Middle East was that exporting tea. But on a much smaller scale most other groups imported less from this region in 1958, including, in particular, those exporting rubber, petroleum and meat (Argentina). Against these reductions the only groups to record significant increases in dollar terms were those exporting metals and citrus (particularly Spain).

The drop in imports from Oceania was largely a reflection of a lower level of trade between New Zealand and Australia, but the tea and rubber groups also imported less from this region in 1958, partly because of the poor wheat crop harvested in Australia. The rubber and tea groups—particularly Indonesia and India—also accounted for the bulk of the reduction in imports from Japan, though this was offset in large measure by an expansion in the imports of the groups exporting sugar—chiefly China (Taiwan)—wool (chiefly Australia, under a new trade agreement with Japan) and coffee (chiefly Brazil).

The expansion in imports from eastern Europe and the Soviet Union reflects very largely the result of trade with the cotton group, especially Egypt. The expansion in imports from mainland China reflects trade with the rubber group and the tea group (notably Ceylon) and represents a major diversion in the movement of rice following the poor 1957/58 crops in Burma and Thailand.

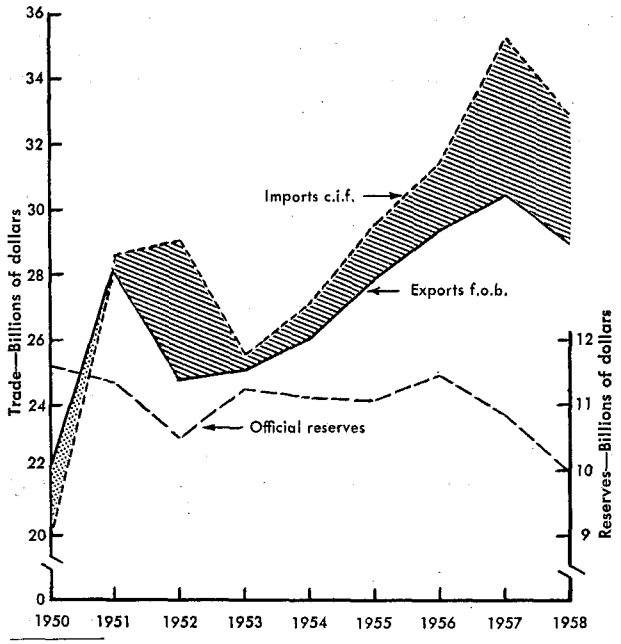
Among the other notable shifts in trade between 1957 and 1958 were reductions in imports from eastern Europe and the Soviet Union by the groups exporting coffee (notably Brazil) and tea (chiefly India). The principal component of the decline in imports from Latin America was a reduction in trade within the region: the declines were largest in the case of the groups exporting metals and ores (particularly Peru), meat (Argentina) and wool (Uruguay). Partly offsetting this, however, were increases in the Latin American imports of the groups exporting sugar (chiefly Cuba) and coffee (chiefly Brazil). Most of the groups imported somewhat more from Africa in 1958 than in 1957, but these increases were more than counterbalanced by a decline in intra-trade concentrated on the metal and ore exporting group, particularly the Belgian Congo and Rhodesia, whose imports from South Africa were substantially lower.

External balance

CHANGES IN THE BALANCE OF TRADE

Between 1957 and 1958 the f.o.b. value of exports from the primary exporting countries declined by approximately 6 per cent, while imports, valued on a c.i.f. basis, were reduced by about 7 per cent, thus bringing to a halt the increase in the trade deficit which had been under way since 1953. The deficit, however, remained greater than at any time since the war, except in 1952—the year of the post-Korean slump in commodity prices—and in 1957, the year of import boom (see chart 21). Moreover, because of the reduction in the over-all value of trade, the relative size of the deficit was actually slightly above the 1957 figure.

Chart 21. Primary Exporting Countries: Changes in Balance of Trade and Official Reserves



Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; International Monetary Fund, *International Financial Statistics*.

The reduction of the over-all deficit between 1957 and 1958 was not the result of the achievement of a trade surplus by more countries; indeed the proportion of countries with active balances was appreciably lower in 1958, and the proportion of total trade accounted for by them dropped from 26 per cent to 19 per cent. Quantitatively, the principal component of the change was an improvement in the balance of some of the countries whose trade deficit had been particularly large in 1957—Argentina and India, for example—and an increase in the proportion of countries registering a less passive balance of trade from a fifth (accounting for only 9 per cent of total trade) to a third (accounting for almost 33 per cent of total trade).

Among the minority of countries with relatively substantial active balances in both years were most of the petroleum and rubber exporters, as well as Colombia and Ecuador, the Belgian Congo, Tanganyika and Uganda. At the other end of the scale were the countries with deficits of more than a third of total trade in both years: the Republic of Korea and Viet-Nam, Greece, Israel and Lebanon, Algeria, Kenya and Panama, countries whose external accounts are greatly influenced by receipts other than from commodity trade. Some of the major trading countries in which "invisible" receipts or gold sales also constitute an important credit item in external accounts—China (Taiwan), Egypt, and South Africa, for example—were among those with large and increased trade deficits in 1958. As indicated above, however, a number of the leading traders, including not only Argentina and India, but also such countries as Burma, Ceylon, Mexico, Peru and the Philippines, recorded smaller deficits. As a corollary to this, the proportion of countries in which the balance of trade became more passive or less active was significantly smaller between 1957 and 1958 than between 1956 and 1957: in the earlier interval it involved over half the countries and the trade, whereas between 1957 and 1958 it involved about 42 per cent of the countries and the trade.

The only groups to increase their trade deficit between 1957 and 1958 were those exporting mainly wool, cotton, sugar, wine and tobacco. In the wool, sugar and tobacco groups the change was due to the reduction in export receipts; though Australia, South Africa, China (Taiwan) and Greece all increased their imports, this was offset by decreases in other members of these groups. In the wine group the increase in the deficit was due entirely, and in the cotton group very largely, to a further expansion in imports, notably into the United Arab Republic and Algeria.

In all the other groups of primary exporting countries, the balance of trade in 1958 was less passive or more active than in 1957 (see table 85). The largest changes were registered by the groups exporting mainly the beverage crops: in the case of the tea and coffee groups the trade deficit was reduced by major cuts in imports in the face of smaller export earnings; in the case of the cocoa group, however, a rise in exports was the prime factor and the balance was transformed from passive to active. Trade deficits were also reduced or surpluses increased by cuts in imports by practically all the countries in the groups exporting mainly rice, non-apparel fibres, rubber and metals and ores. The entrepot trading group also reduced its imports by appreciably more than its ex-

Table 85. Primary Exporting Countries: Changes in the Balance of Trade of Major Groups

Country group[a] exporting mainly	Change between 1957 and 1958 (millions of dollars)			Balance of trade as a percentage of total trade		Number of countries in which, in comparison with 1957, the balance of trade in 1958					
	Exports f.o.b.	Imports c.i.f.	Balance of trade	1957	1958	Was relatively more active[b]	Moved from passive to active	Was relatively less passive[b]	Was relatively less active[b]	Moved from active to passive	Was relatively more passive[b]
Petroleum	55	−430	485	4	10	3	—	1	1	1	1
Rubber	−345	−384	39	2	4	2	—	—	1	—	2
Cocoa	55	−31	86	−8	4	—	2	—	—	—	—
Coffee	−209	−312	103	−6	−5	1	2	4	—	—	2
Non-apparel fibres	−31	−61	30	−9	−6	1	—	—	—	—	1
Rice	−96	−119	23	−8	−8	—	—	1	—	—	1
Bananas	11	−7	18	−11	−8	—	—	2	1	—	—
Sugar	−152	−36	−116	−6	−10	—	—	2	—	2	7
Oils and oil-seeds	103	−3	106	−17	−12	—	—	2	—	—	1
Tea	−128	−529	401	−20	−12	—	—	2	—	—	—
Imported goods	−117	−202	85	−14	−13	—	—	1	—	—	1
Wool	−807	6	−813	−3	−13	—	1	—	—	1	2
Metals and ores	−221	−449	228	−16	−13	1	—	4	—	1	5
Meat	18	−38	56	−15	−14	—	—	1	—	—	1
Wood	11	2	9	−20	−16	—	—	1	—	1	—
Cotton	−39	205	−244	−12	−18	1	—	2	—	—	3
Tobacco	−69	−41	−28	−24	−28	—	—	—	—	—	2
Wine	17	75	−58	−35	−36	—	—	1	—	—	1
Citrus	6	−48	54	−40	−39	—	—	2	—	—	1
TOTAL, EIGHTY COUNTRIES	−1,938	−2,402	464	−10	−11	9	5	26	3	6	31

Source: International Monetary Fund, *International Financial Statistics*.

[a] The composition of the group is as given in table 80, Kuwait and Saudi Arabia being o itted from the petroleum group because of lack of data on imports.

[b] Determined on the basis of movements in the ratio of balance of trade to total trade.

ports. In the case of the petroleum, meat and citrus exporting groups, the effect of a reduction in imports was enhanced by an increase in export earnings, while in the wood, oil-seeds and banana groups, an increase in exports was the principal factor in the improvement of the trade balance.

FINANCING THE BALANCE

As rising import bills and declining export earnings began to increase the strain on the external balance in 1957,[4] a growing number of countries turned to remedial action. On the one hand efforts were made to expand exports; on the other, restrictions were placed—or reintroduced or reinforced—on the nature and volume of imports. Because of the composition of their exports, the short-run trend of demand for most of these products in the industrial countries and the low sensitivity of this demand to changes in price, the scope for a rapid recovery in export proceeds was generally very limited. Quicker and more certain results came from restraint on imports: where a decline did not follow closely enough on the reduction in export receipts, it was hastened by government action. The result was the widespread cutback in imports examined above, the exceptions to which were confined very largely to the relatively few countries that were able to countenance an unhampered drawing down of their foreign exchange reserves, either because of the magnitude of these reserves in relation to the potential trade deficit or because of their expected reinforcement by inflowing capital.

In the aggregate, notwithstanding the cutback in imports, the inflow of capital was not sufficient to offset the deficit on current account and there was a further reduction in the official gold and foreign exchange holdings of the primary exporting countries. Indeed, in total, the loss of reserves was substantially greater in 1958 than it had been in 1957, reducing them to the lowest level of the decade. Much of this loss, however, was concentrated in countries which had gained reserves in 1957—the petroleum, wool, sugar and tobacco groups, in particular—while there was some recovery in countries which had lost reserves in 1957, notably in the rice, banana, wine, oil-seeds, rubber and metals and ores groups. On the other hand, there were losses for the second year in succession in the groups exporting cotton (largely Mexico and the United Arab Republic), non-apparel fibres (Pakistan), and coffee (Guatemala), though these losses were on a smaller scale, especially in the coffee group (notably Brazil). In India, reserves were drawn down for the fourth successive year and in Argentina for the fifth.

If Australia and Venezuela are excluded from the forty-two countries for which data are available, it is seen that the net reduction in official gold and foreign exchange holdings, which exceeded $1.5 billion in 1957, fell to about $0.3 billion in 1958. Since this decline was significantly greater than the decline in the over-all trade deficit—which for the countries being considered in this calculation fell from $4.1 billion to about $3.4 billion—there was a corresponding adjustment in the net total of other transactions on current and capital account. Among these transactions an increase in the inflow of capital was a major item, but there was also an appreciable rise in gold production—in Australia, Colombia, Ghana, the Republic of Korea, Nicaragua, the Philippines, Rhodesia and South Africa—and a substantial decline in the outflow of dividends as a result of a reduction in the profit earned by many foreign-owned mining and plantation concerns. Direct investment income received by the United States, for example, declined by about 14 per cent between 1957 and 1958, largely because of a reduction of about $242 million in remittances from Latin America.

The outflow of capital from the United States to the primary exporting countries in 1958 was a little—about $0.3 billion—below the high 1957 figure, but the reduction was confined almost entirely to private direct investment in Latin America, particularly Venezuela, which had received some $0.4 billion of these funds in 1957 in connexion with the development of new petroleum concessions. Aside from Venezuela, there was an expansion in capital receipts from the United States, a rise of about $0.4 billion in long-term government lending more than offsetting the decline in private investment. The net increase in the outflow of government capital was concentrated largely in Latin America, compensating in some measure for the reduction in private direct investment in this region, especially as in a number of cases official lending—from the Treasury, the Development Loan Fund or the Export-Import Bank—was associated with additional private lending from consortia of commercial banks. In the aggregate, private capital movement to the sterling area was about $0.2 billion higher than in 1957, direct investment, portfolio investment and other long-term lending all having expanded. New issues on the United States market were at peak levels in the first half of the year when the availability of funds and the rate of interest tended to make this source of capital relatively more attractive to oversea borrowers than it was in the second half of the year. At about $1.6 billion, government unilateral transfers, exclusive of military aid, were at much the same level as in 1957.

The outflow of capital from other industrial countries seems to have continued at a fairly high level in 1958. Commonwealth borrowing on the London market—at about £50 million—was more than three times the 1957 figure, but sterling balances were drawn down at a much slower rate than in 1957 and other long-term lending was at a somewhat lower level. Along with the United States and the United

[4] *Cf.* United Nations, *World Economic Survey, 1957* (sales number: 58.II.C.1), page 197.

Kingdom, Canada, France, the Federal Republic of Germany and Japan participated in loans to India. The Federal Republic of Germany was also a source of funds for South Africa. The Belgian Congo raised several loans on the Belgian capital market. There were sizable reparation payments from the Federal Republic of Germany to Israel and from Japan to Burma and Indonesia.

Quantitatively more important than long-term lending in many instances was the extension of short-term accommodation, associated most frequently with the actual movement of goods from the industrial countries to the primary exporting countries. Much of this represents the lengthening of the normal private credit terms of exporters, but an increasing proportion of it came under some form of official arrangement, either through a government-operated insurance scheme—whereby private traders might cover the risks of financing shipments abroad for periods ranging from a few months to three or four years or even longer in the case of special transactions—or through a more formal advance of specific credits to the importing country. The offer of such specific credits was the chief method for Soviet and eastern European lending to the less developed countries. Though the amounts involved were greater in 1958 than in 1957 and credits were made available to some Latin American countries as well as India, Indonesia, the United Arab Republic and other earlier recipients, it is not yet possible to measure the extent to which they were actually used.

Compared with 1957, borrowing by the primary exporting countries from the International Monetary Fund was on a greatly reduced scale in 1958. New advances amounted to less than $200 million as against $437 million in 1957, and since repayments were on an increased scale, net borrowing was under one-third of the 1957 figure. The only countries to draw more from the Fund in 1958 than in 1957 were Bolivia, Colombia, Haiti, Peru, South Africa, the Sudan and Turkey. Against this, however, there were net repayments from Ecuador, Honduras, Iran and Nicaragua. The drawings of Bolivia and Colombia were made against stand-by credits arranged in 1956 and 1957 respectively, those of Haiti, Peru and South Africa against stand-by credits arranged—increased in the case of Peru—in 1958. Other stand-by arrangements made during the year included substantial amounts for Argentina, Brazil and Pakistan. At the end of 1958 the undrawn total of these stand-by credits stood at about $193 million compared with $63 million a year earlier. The largest advance of the year was against the stand-by to Brazil, one of the countries that at the end of 1958 had borrowed more than its first tranche of credit, leaving the Fund holding its currency to an extent of more than 125 per cent of its quota. Other countries in this position were Argentina (133 per cent), Colombia (135 per cent), India (144 per cent), the Sudan (146 per cent), Burma (155 per cent), Chile (158 per cent), Bolivia (160 per cent), Turkey (164 per cent) and the Philippines (175 per cent).

Loans from the International Bank for Reconstruction and Development to the primary exporting countries increased again in 1958 to a record total of about $492 million. Net disbursements at $330 million were almost one-fourth above the 1957 figure and at the end of 1958 the amount waiting to be drawn stood at $810 million. The new loans negotiated in 1958 were distributed over southern Asia (India, Malaya, Pakistan and Ceylon), Latin America (Brazil, Mexico, Peru, Ecuador, Honduras and Colombia) and Africa (the Sudan, Nigeria, South Africa and Rhodesia). Disbursements were made to all these countries except Brazil and Malaya and to many other countries as well, notably Iran, the Belgian Congo and Australia.

There was a much sharper rise in the new credits authorized by the United States Export-Import Bank—from $236 million in 1957 to $885 in 1958, measured net of cancellations. Net disbursements were between three and four times the 1957 figure and the amount outstanding at the end of the year exceeded $1 billion, one-fourth more than at the end of 1957. Almost two-thirds of the new authorizations went to Latin America—notably Brazil, Argentina, Colombia, Peru and Mexico—but large sums were also allocated to India, the Philippines, Turkey, Israel and Thailand, relatively little of which was actually disbursed during the year.

Another source of capital came into effective operation on a small scale during 1958. This is the International Finance Corporation, which paid out between $3 and $4 million in 1957/58 and made commitments during 1958 for the investment of a further $7.5 million in various industrial enterprises in Brazil, Pakistan, Mexico and Guatemala.

In many countries movements of capital—along with changes in "invisible" items in the current account—caused official holdings of gold and foreign exchange to move independently of changes in the balance of trade. In most cases, however, trade changes played a preponderant role in the balance of payments (see table 86). Thus an increased trade deficit was reflected in a larger loss of reserves in Cuba while a reduction in the trade deficit was reflected in a smaller loss of reserves in Argentina, Ceylon, India, Pakistan and Peru, as well as in Rhodesia, where there was also a much smaller outflow of dividends from the copper mines. In Indonesia the decline in reserves was slowed down by an increase in the trade surplus and in Uruguay by a major swing in the trade balance from passive to active. In all these countries official reserves declined for the second successive year in 1958. Among some of the other countries in this category, however, the movement in reserves did not conform to that in trade: a smaller decline in reserves was associated with a larger trade deficit in Brazil, Egypt and the Sudan, countries in which there was a marked increase in the

Table 86. Primary Exporting Countries: Selected Elements in the Balance of Payments

(Millions of dollars)

Country[a]	Trade balance[b]		Net transactions[c] with						Other transactions, net balance		Change in Official reserves	
			IBRD		IMF		Export-Import Bank					
	1957	1958	1957	1958	1957	1958	1957	1958	1957	1958	1957	1958
Honduras	−14	−2	2	1	4	−4	1	1	5	−4	−2	−8
Syria (UAR)	−11	−71	—	—	—	—	—	—	22	52	11	−19
Guatemala	−39	−44	6	4	—	—	—	—	37	14	4	−26
Nicaragua	−17	−14	5	2	2	−2	—	—	14	11	4	−3
Sudan	−44	−47	—	—	—	5	—	—	23	25	−21	−17
Venezuela	498	740	—	—	—	—	−4	3	10	−1,085	504	−342
India	−804	−428	98	149	200	—	—	3	67	56	−439	−220
Argentina	−335	−239	—	—	75	—	−3	50	156	129	−107[d]	−60[d]
Mexico	−428	−398	9	17	—	—	21	52	340	245	−58	−84
Cuba	−49	−93	—	—	13	—	9	11	−11	14	−38	−68
Australia	258	−421	15	17	—	—	−1	−1	96	204	368	−201
Ethiopia	8	−3	—	2	—	—	3	4	−5	−11	6	−8
Pakistan	−103	−98	1	12	—	—	—	3	20	50	−82	−33
Ecuador	36	37	3	4	5	−5	−1	−1	−36	−39	7	−4
Peru	−80	−55	9	5	—	10	36	46	2	−9	−33	−3
Egypt (UAR)	−31	−238	—	—	15	15	−2	—	−83	187	−101	−36
Ceylon	−26	−1	5	3	—	—	—	—	−17	−13	−38	−11
Turkey	−52	−51	4	—	7	17	−1	1	127	15	85	−18
El Salvador	23	9	4	2	−3	—	—	—	−23	−13	1	−2
Dominican Republic	25	−13	—	—	—	—	—	—	−16	12	9	−1
Brazil	−96	−110	−3	−5	38	38	−27	111	−50	−43	−138	−9
Indonesia	172	238	—	—	—	—	−5	10	−200	−252	−33	−4
Uruguay	−98	13	6	6	—	—	−1	−1	70	−21	−23	−3
Rhodesia	−123	−117	10	31	—	—	—	—	−14	83	−127	−3
Thailand	−41	−74	7	3	—	—	—	—	51	70	17	−1
Bolivia	−18	−33	—	—	1	2	—	—	17	31	...[e]	...[e]
Haiti	−7	−19	—	—	1	3	—	1	6	15	...[e]	...[e]
Malaya	123	76	—	—	—	—	—	—	−119	−74	4	2
China (Taiwan)	−64	−70	—	—	—	—	—	−2	93	75	29	3
Iran	...	...	56	19	—	−8	6	13	−47	−16	15	8
Lebanon	−209	−187	—	2	—	—	—	—	220	193	11	8
South Africa	−398	−604	9	14	—	36	−5	−14	310	597	−84	29
Colombia	43	86	11	1	—	5	49	41	−89	−118	14	15
Iraq	17	260	—	—	—	—	—	—	−110	−233	−93	27
Israel	−296	−286	—	—	4	—	−11	−7	303	304	—	11

Table 86. Primary Exporting Countries: Selected Elements in the Balance of Payments (continued)

(Millions of dollars)

Country[a]	Trade balance[b]		Net transactions[c] with						Other transactions, net balance		Change in Official reserves	
			IBRD		IMF		Export-Import Bank					
	1957	1958	1957	1958	1957	1958	1957	1958	1957	1958	1957	1958
Viet-Nam	−208	−177	—	—	—	—	—	—	214	198	6	21
Belgian Congo	36	44	−2	18	—	—	—	—	−193	−32	−159	30
Paraguay	1	−4	1	—	4	1	6	2	−13	2	−1	1
Korea (Republic of)	−410	−347	—	—	—	—	—	—	427	377	17	30
Burma	−66	−10	3	5	—	—	—	—	35	31	−28	26
Chile	−72	−16	6	8	19	11	12	24	5	−14	−30	13
Philippines	−293	−169	—	8	—	—	−1	8	204	174	−90	21
New Zealand	−58	−97	—	—	—	—	−1	−1	2	147	−57	49
Panama	−81	−76	2	−4	—	—	—	1	66	98	−13	19
Costa Rica	−20	−5	2	1	—	—	2	1	16	11	—	8
TOTAL, FORTY-FIVE COUNTRIES	−3,351	−3,114	269[f]	325[f]	385	124	82[g]	359[g]	1,932	1,443	−683	−863

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*; reply of the Government of the Sudan to the United Nations questionnaire of November 1958 on economic trends, problems and policies; International Monetary Fund, *International Financial Statistics*; Board of Governors, Federal Reserve System, *Federal Reserve Bulletin* (Washington, D.C.); United States Export-Import Bank, *Semi-Annual Report to Congress* (Washington, D.C.); Rhodesia and Nyasaland: Central African Statistical Office, *Monthly Digest of Statistics* (Salisbury).

[a] Countries are arrayed roughly in increasing order of relative improvement in official reserves.

[b] Exports f.o.b. minus imports c.i.f.; partly estimated in some countries.

[c] For each institution, disbursements minus repayments.

[d] Change in gold and dollar holdings.

[e] Change in reserves is included in the balancing figure.

[f] Including net disbursements in Algeria, British East Africa, French West Africa and Nigeria.

[g] Including net disbursements in Afghanistan, Liberia, Portuguese Africa, Saudi Arabia and certain Latin American countries.

inflow of capital. This situation was reversed in Mexico, where changes in other receipts offset a reduction in the deficit in the balance of trade, and in Honduras, where the trade deficit was greatly reduced but the repayment of an International Monetary Fund credit was effected partly at the expense of reserves.[5]

In most of the countries in which reserves were gained in 1957 and lost in 1958, there was a corresponding deterioration in the balance of trade: in Australia, the Dominican Republic and Ethiopia, the trade balance moved from active to passive; in El Salvador it became less active and in Guatemala, Syria and Thailand, more passive. In Ecuador and Nicaragua, on the other hand, the reduction in official reserves in 1958 was largely the result of the repayment of International Monetary Fund drawings made in 1957. In Venezuela the running down of reserves in 1958, like their building up in 1956 and 1957, was almost entirely the result of the movement of capital and profit connected with the petroleum industry. In Turkey reserves had also been expanded in 1957 but this was achieved only by virtue of the accumulation of a large volume of short-term liabilities; there was a good deal of consolidation and liquidation of these in 1958, especially at the time of the exchange reform and devaluation in the third quarter when new credits were arranged with several countries; hence, though for the year as a whole there was little change in the balance of trade, there was a sharp decline in reserves.

Among the countries that gained in official reserves in 1958—rather less than half the total—were a few whose reserves had risen in 1957 also. Active trade balances were the chief determinants of such movements in Iran and Malaya. Smaller deficits helped to improve the reserve position in Israel, the Republic of Korea and Viet-Nam, though non-commercial receipts continued to dominate the balance of payments in these countries. To a less degree this was also true in China (Taiwan) and Lebanon where reserves registered a much smaller increment than in 1957; in the former the lower rate of increase reflects a deterioration in the trade balance, but in Lebanon, where the trade deficit was smaller in 1958, the reserves were affected by the outflow of capital during the civil disturbances of the summer. In Colombia, the net influx of capital was smaller in 1958 than in 1957 and despite a doubling of the active trade balance, achieved through a cutback in imports, the gain in official reserves was on much the same small scale as in 1957.

Most of the countries that lost reserves in 1957 and recouped them, at least in part, in 1958 did so largely by reducing imports, as in the Belgian Congo, Burma, Chile, Costa Rica, the Philippines and to a less extent Panama. In the Belgian Congo and Chile there was also a larger influx of capital and—as in Rhodesia—a smaller outflow of dividends from the copper mines. In the case of Iraq, the reversal in the movement of reserves was the result of a recovery in exports from the low level of 1957. In New Zealand, Paraguay and South Africa, on the other hand, there was a further deterioration in the balance of trade, and the recovery in reserves was entirely the result of capital movements in which government oversea borrowing played a major part.

[5] Another stand-by credit was negotiated with the International Monetary Fund early in 1959.

BALANCE OF PAYMENTS POLICIES

The difficulties standing in the way of expanding exports did not prevent efforts from being made to that end by many of the primary exporting countries, through price incentives, opening up new markets and encouraging new firms or new products in the export trade. As these efforts did no more than maintain the over-all volume of exports, however, the main burden of bringing the external accounts into balance fell upon the import side. In a number of cases, action affecting imports was taken in the second half of 1957 and, though the result of this was seen in outlay in the first half of 1958, supplementary action was necessary later in the year. In a few instances, on the other hand, it became possible to relax measures taken earlier, while in others favourable developments on capital account reduced the need for import restraint.

Action to promote exports usually took the form of lowering the price to foreign purchasers or raising the local currency returns to domestic producers. Illustrative of the first course was the reduction in the price of cotton in the Sudan where too high a reserve at 1957 auctions had discouraged sales, and exports in 1957 had dropped 28 per cent below the 1956 level. Though the 1957/58 crop was little more than a third of the preceding one, export proceeds in 1958 were almost up to the 1957 level. As an example of the second course the case of Uruguayan wool trade may be cited: the official *aforo* price was adjusted early in 1958, thereby raising the proportion of foreign currency receipts that the exporters could convert at the free rate rather than at the less favourable official rate of exchange. This succeeded in overcoming some of the reluctance farmers had shown in marketing their wool in 1957; total export earnings which, despite favourable prices, had declined by almost 40 per cent between 1956 and 1957 were maintained at their 1957 level in 1958 in the face of substantially lower wool prices.

Much of the currency devaluation and many of the modifications in exchange taxes and surcharges that took place in 1958 were carried out on a selective basis, designed to promote the exports of products that were proving difficult to sell on world markets. In most instances, however, the object of adjustment to the effective rate of exchange was less the improvement of the competitive position of the commodity in

question in the world market than the compensation of domestic producers by offsetting in varying degree the decline in foreign currency price through an increase in its local currency equivalent.

Among the major coffee producers, for example, the policy designed to affect the world market involved a withholding of supplies rather than the promotion of exports. Because of the great increase in its 1957/58 crop, however, the burden implicit in such a policy was borne largely by Brazil. Except in El Salvador and Mexico, coffee exports were generally higher in 1958 than in 1957, but shipments from Brazil were about 10 per cent below the 1957 level despite the increase in exportable supplies. Domestic producers, selling their output to the Brazilian Coffee Institute through which the retention stocks were financed, were protected to a considerable extent from the decline in world prices by adjustments in the local currency equivalent. At the beginning of 1958, the effective rates for exports ranged from about 37 cruzeiros per dollar for coffee and 43 for cocoa to 55 for such products as manganese and carnauba wax, 67 for sugar, cotton, tobacco and iron ore and the free rate (about 90) for other items. Modification of the bonus system increased all these rates during the year—notably in June and October—and in January 1959 the range extended from 60 cruzeiros per dollar for coffee and 70 for cocoa to 100 for the other major products and the free rate (about 140) for the minor items.

Similar adjustments in exchange rates that took place in several of the coffee countries were, in large measure, in the nature of compensatory actions aimed at lessening the impact of the declining world price on domestic incomes. In Colombia, adjustments were made to the rate of exchange applicable to coffee by a lowering of the minimum "surrender" price from $100 per 70-kilogramme bag to $85 in March, $81 in July, $78 in September and $75 in December. Since an exporter had to buy exchange on the free market to make up the difference between net realized price and this "surrender" price, reduction of the latter tended to compensate for the decline in dollar price; as a result the effective rate of exchange was 4.84 pesos per dollar at the end of 1958 compared with 4.28 at the beginning. Though export volume registered an appreciable increase, in 1958 coffee export proceeds in dollar terms were about 9 per cent below the 1957 level. Exports of products other than coffee, bananas and precious metals was favoured by the fact that while these major items were subject to an exchange tax of 15 per cent, other items—except petroleum—were subject to a tax of only 2 per cent. This advantage was enhanced in January 1959 when the relevant exchange rate was related to the free market rate which at that time was about 70 per cent above the effective coffee rate.

In Nicaragua, the exchange rate applicable to coffee was raised in September from 6.60 cordobas per dollar —the rate that had been in operation since 1950—to 7.00, the rate at which the proceeds from other exports were being converted. As in Colombia, more coffee was shipped in 1958 than in 1957, but dollar earnings from these exports were 15 per cent lower.

Among the fibre producers the desire to increase exports was more prominent. Thus in 1957 Egypt instituted a system of variable premiums to stimulate shipments of cotton to different currency areas. This was replaced early in 1958 by the creation of an "export pound" which was offered to buyers of cotton and other products, except rice, at a discount on the official rate, starting at about 23 per cent and reduced to 21 per cent in March, 20 per cent in June and 15 per cent in September. Cotton exports from the large 1957/58 crop were 6 per cent higher in 1958 than in 1957, but the yield of foreign exchange was about 11 per cent lower.

In Uruguay, there was some simplification of the export system by a reduction in the range of relevant rates of exchange—from 11 to 6 in June and 4 in September. The effective rate of exchange applicable to each group of exports is determined by the relative proportions of proceeds convertible at the official rate of 1.52 pesos per dollar and at the certificate rate of 4.10. These proportions depend on an *aforo* valuation, and during 1958 changes in *aforos* resulted in increased peso rates for most products, particularly favourable rates being granted to exports of manufactured goods. The effective rate for greasy wool, the major export, was increased late in 1957 and again in September 1958, bringing it to 3.46 pesos per dollar, as against 1.90 a year earlier. Wool exports in 1958 were about a third greater in volume than in 1957 but, as in the case of Egyptian cotton, they yielded less in foreign currency.

A similar technique of stimulating exports by altering valuations was used in Argentina which adjusted its wool *aforos* in January and again in September, and subsequently extended the adjustments to maize and other grains. At the end of the year it abandoned the official rate of exchange, inaugurating a system based on the free market rate modified by a two-tier export tax—20 per cent on grains, hides and oil-seeds and 10 per cent on meat and wool. At this stage the free peso was quoted at about 70 per dollar, compared with 37 a year earlier. The higher internal price for wool did not increase the volume of exports, however; the fact that in the aggregate the export quantum was slightly higher than in 1957 was the result of increased shipments of maize—from the large 1957/58 crop—meat and linseed oil, the last two at higher average world prices.

Turkey met its deteriorating external balance by an overhaul and simplification of its exchange system in August. In place of a single export rate of 2.80 liras

per dollar modified by a complex of subsidies—dependent on product, grade, price and currency—three basic rates were established: 4.90 for tobacco, opium, chromite and copper, 5.60 for raisins, figs and hazelnuts and 9.00 for other exports, including cotton and wheat. Except for a licensing of exports to countries with which Turkey kept bilateral accounts, and a general check on invoiced prices, export trade was freed from control. Though cotton exports were higher in the last quarter of the year than in the last quarter of 1957, most other exports continued below the 1957 rate, and for the year as a whole, aggregate export volume and earnings were substantially lower than in 1957.

Among the other commodities the decline in whose prices in the course of 1957 and 1958 had repercussions on the exchange rates of exporting countries were sugar and the non-ferrous metals. In China (Taiwan), where sugar provided over 60 per cent of export earnings in 1957, the effective rate of exchange for major exports—sugar, rice and salt—was altered in April from about 20 to about 24 New Taiwan dollars per United States dollar, and that applicable to other exports from 26 to 36 New Taiwan dollars per United States dollar. In November the major export rate was brought into line with the other: a devaluation of about 57 per cent in the course of the year. Sugar exports were about 8 per cent above the 1957 level in volume but 14 per cent lower in value; rice exports, which were relatively large in the first half of the year—partly as a result of the smallness of the south-eastern Asian crop—ceased in the third quarter, but were resumed later, helping to raise total export receipts 6 per cent above the 1957 figure.

In Peru, where exporters are required to surrender foreign currency earnings for exchange certificates at a free and fluctuating rate of exchange, there was a fairly steady depreciation of the sol throughout 1958. Though, with the help of foreign loans, it was stabilized in the last quarter, at the end of the year the sol was quoted at about 30 per cent more per dollar than at the end of 1957 and there was a further depreciation in the opening months of 1959. In Bolivia and Chile, currency depreciation had been in train much longer but 1958 brought a significant acceleration to the process. In the former there was a trebling of the rate of depreciation of the boliviano—from about 10 per cent during 1957 to about 30 per cent during 1958—while in Chile the value of the peso used in merchandise trade declined by about 20 per cent in the course of 1957 and by about 30 per cent in the course of 1958. In both countries, as in the Belgian Congo and Rhodesia, exports declined in volume and even more in value, compared with 1957; in Peru, however, as a result of an expansion in shipments of cotton—and to a less extent copper, lead and silver—a small gain in quantum offset to some extent the reduction in unit value.

In many countries with unitary exchange regimes, whether free or rigid, the decline in the prices of commodity exports induced adjustments that were more narrowly fiscal in nature. Thus, export duties were reduced from time to time in a number of countries as difficulties were encountered in selling particular commodities or as the price received by domestic producers declined. The Belgian Congo, for example, cut duties on non-ferrous metals on several occasions in the course of 1957 and 1958; in March 1958 Chile removed export taxes from many items other than minerals, and the Sudan reduced its export duty on long staple cotton by a third; Egypt followed suit with a similar cut and a second and larger one in September; in April, duties were reduced on many items exported by Mexico; in August, Costa Rica abolished the export tax on coffee; in September, Thailand ceased to license and tax many of its subsidiary exports; in November, Bolivia made a similar adjustment of export taxes, designed to stimulate the sale of a number of minor products; and early in 1959 there was a substantial reduction in the tax on export proceeds in Paraguay.

In the interest of export industries the government-owned railways in British East Africa reduced freight rates on sisal, sugar and copper. In Ghana, additional relief was afforded to marginal gold mines, while, in order to maximize export proceeds, a monopoly was set up to handle sales of diamonds. In Argentina, local meat consumption was curbed so that more might be exported. In the Sudan, efforts were made to sell cotton on an *ad hoc* basis, outside the normal system of auctions, and in a number of other countries bilateral arrangements were negotiated in order to expand total exports. Australia and New Zealand stepped up their effort to diversify their pattern of trade and reduce its concentration on the United Kingdom; new markets were sought both in the western hemisphere and in Japan and other Asian countries. Apart from reducing various export duties, India freed a large number of products from export control and set export quotas for several commodities previously preempted for the domestic market as an anti-inflationary measure.

Parallel to measures aimed at increasing exports, and in most cases far more effective in the short run, were measures aimed at curbing imports. In many cases action was confined to changes in the customs tariff, but physical controls were much more in evidence than in preceding years; financial deterrents such as advance payments and credit restriction were used more widely and more frequently, and where multiple exchange rates were operated, adjustments were made from time to time to regulate the volume and composition of imports.

Of the various actions taken to control imports in 1958, changes in duties were the most frequent but the least directly connected with the balance of payments situation. The trend toward a standard pattern

of duties continued and many revisions were in this direction: a lowering of the tariff on raw materials and capital goods and a raising of the tariff on manufactures, especially on those competing with the output of local industry. In general, changes in duties in Australia, the Belgian Congo, Cuba, Libya, Rhodesia, South Africa, Syria, Thailand, Tunisia and Venezuela all conformed to this tendency, especially in regard to increasing rates for purposes of protection. In August, Iraq also increased a number of protective duties, but some weeks earlier, duties on tea and sugar had been reduced in order to help stabilize the cost of living.

Revenue considerations also played a part—as in Israel where a liberalizing of licensing for raw materials was accompanied by an increase in duties and surcharges, Kenya where the duties on petroleum products were raised, and Mexico where some increases were intended to be protective and others revenue-producing. In Brazil, adjustments were made periodically in all *ad valorem* duties, to take account of depreciation in the cruzeiro: the auction rate used for purposes of these duties moved from 84 per dollar in March 1958 to 156 in January 1959. In Egypt, surcharges on import duties were raised from 7 to 9 per cent in October but, as before, raw materials and various goods essential to economic development were exempt.

Tariff changes made in Bolivia and Honduras were part of a tax rationalization programme: in Honduras, in March, a 12 per cent surcharge was levied on all import duties to compensate for the abolition of certain taxes levied by local authorities on the goods in question, while in Bolivia duties on motor-cars were lowered but there was a compensating increase in internal taxes on all vehicles.

One of the cases in which tariff changes were used more specifically in defence of a deteriorating payments situation is that of Peru where in May and June, to support other measures, extremely high duties were levied on imports of motor-cars and various luxury goods, while the duties on most categories—including many necessities—were trebled. Balance of payments difficulties were also a significant consideration in a general increase in import duties in Pakistan and the Sudan in the second quarter of the year.

In a country operating a system of differential exchange rates some of the functions of tariffs are performed by the allocation of appropriate rates to various classes of imports. In general, the more favoured items —whose cost it is considered desirable to hold down— are imported at rates approximating to the official level; other goods may be allocated rates approaching the higher, free market rates as their assessed essentiality diminishes. Widespread among the primary exporting countries in the post-war period, import control through a multiple exchange system has tended to give way in recent years—in such countries as Bolivia, Chile, Colombia, the Republic of Korea, Paraguay, Peru and Thailand—to freer exchange markets. In 1958, while there were no major modifications in this type of import regime in such countries as Costa Rica, Ecuador, Indonesia and Uruguay,[6] the trend towards either a more freely fluctuating rate or a single fixed rate continued in several other countries.

In Argentina, for example—under pressure of growing external imbalance—the existing multiple-rate import system was modified in August by the setting up of two lists of goods: the less essential to be imported at the free rate (plus surcharges in the case of motor-cars and certain other items), and raw materials, fuels and other necessities at a rate half-way between the free and the official rates. Though the system was made more restrictive in September—by the transfer of items from the more to the less favoured list—import expenditure in 1958 was only 6 per cent below that of 1957 and the trade deficit remained very large. Another move toward correcting the balance was made at the end of the year, when the free fluctuating rate of exchange was made applicable to all imports, while surtaxes were levied on specified groups at percentages ranging up to 300 for the least essential items.

In Brazil, there was a similar progression in the local cost of foreign exchange. The preferential rate—for government imports and certain specified essentials such as petroleum products and various capital goods —was raised in June, again in October and again at the turn of the year when (at 100 cruzeiros per dollar) it was about double the figure obtaining at the end of 1957. The effective rate for other imports is the official rate of 18.82 plus the cost of a certificate purchased at auction, the adjustment being made by variation in the amount of foreign exchange sold by the authorities for defined categories of imports. Since September 1957, when the number of categories was reduced from five to two, the effective rate for the bulk of imports has risen erratically: at the beginning of 1959 it was well over 200 cruzeiros per dollar as against 90 or less a year earlier. After rising by a fifth between 1956 and 1957, import expenditure—in dollar terms—was reduced by about 11 per cent between 1957 and 1958.

There was also a combination of simplification and devaluation in the foreign exchange regimes of China (Taiwan) and Turkey. In the former, it was brought about in two stages: in April 1958 the price of exchange certificates was adjusted so as to alter the effective rate—basic plus tax plus certificate—for imports other than machinery, petroleum and certain foodstuffs from 32.28 to 36.38 New Taiwan dollars per United States dollar, and in November the rate for the priority imports—previously 24.78—was brought into line with the new figure. This increase in the cost of foreign

[6] In Uruguay the chief adjustment to the import rate system in 1958 was a further shortening of the list of essential items which qualified for the most favourable "basic" rate of 2.10 pesos per dollar.

currency did not halt the rise in commercial imports: an increase of about an eighth between 1956 and 1957 was followed by an increase of a fourth between 1957 and 1958.

In Turkey, the complicated system of taxes and surcharges that had been in operation since March 1957 was replaced in August 1958 by a single import rate: the principal rate had been 3.96 liras per dollar and, along with a number of subsidiary rates resulting from varying surcharges, it was absorbed in a new rate of 9.00 liras per dollar—par plus a uniform 6.20 lira surcharge. In contrast to the course of trade in China (Taiwan), devaluation in Turkey—supplemented by quantitative controls—brought a sharp cut in imports: while in the first half of the year imports had been running at the corresponding 1957 rate, in the second half they were about 38 per cent below the 1957 level.

Among the countries in which imports were affected by a devaluation of the currency, Morocco constitutes a special case. The Moroccan franc followed the French franc in the adjustment made late in 1957, but the impact of this on importers was lessened, at least temporarily, by means of payments made from a fund subscribed to by France. Though remaining in the franc zone, Morocco did not follow France in the devaluation that occurred at the end of 1958.

In a number of the countries in which exchange rates have been allowed to move freely—Bolivia, Chile, Colombia and Peru, for example—restraint on imports came from a rapid depreciation of the currency in 1958. This restraint was supplemented from time to time by various curbs on the credit available to importers. In all these countries banks were requested to reduce advances to importers, and this request was reinforced by increases in the relative volume of reserves the commercial banks were required to hold. Importers' funds were also tied up to a greater extent in deposits they were required to make before licence or exchange was granted. In Colombia such prior deposits were increased by 20 per cent in March and blocked for sixty days. In Chile prior deposits were raised on several occasions—in some cases to prohibitive levels—and blocked for ninety days. In December, Bolivia increased such deposits to 60 per cent and blocked them for a year. In all these countries there was a sharp reduction in registered imports, ranging from about a sixth in Peru to a fifth in Bolivia and Colombia.

Similar action was taken in many other countries: credit restrictions aimed specifically at the import trade were enforced in Argentina, the Belgian Congo, New Zealand, Nicaragua, Rhodesia, South Africa and the Sudan, while importers' deposits were introduced in Syria in April and in the Republic of Korea in May, increased from 20 per cent to 100 per cent in Indonesia in February and from 33 per cent to 40 per cent in the Sudan in May; in Paraguay they were doubled in April and frozen for 120 days in July.

Though the predominant tendency was toward tightening credit conditions in the import sector, there were some instances of relaxation when the state of external balance or the need for specific imports seemed to justify such a course. Credit was loosened somewhat in the last quarter of the year in South Africa, for example, while in Colombia, where prior deposits had been raised in April, reductions were made in November in the case of specified raw materials and capital goods, shortage of which was handicapping production. There was also a selective reduction in prior deposits in Ecuador in February and again in December. The deposits that had been called for in Syria in April ceased to be required in October; somewhat earlier—in mid-year—Philippine importers were also relieved of the obligation to lodge such deposits.

The spread of this technique of credit control is not necessarily a measure of its efficacy. It has, in fact, proved an awkward instrument, especially where the balance of payments difficulties are associated with internal inflationary conditions of a long-standing nature, since once it has been used, its effect can be increased only by continuing to raise the proportion of the cost of the import against which a deposit is required or to lengthen the period for which the deposit is sterilized. And even if both these means are employed—as they were in many countries in 1958—their effectiveness depends on the over-all liquidity of the economy and the extent to which the means of meeting the deposit requirement are available from other sources of credit.

Most of the primary exporting countries continue to operate a system of quantitative import control and, even though in some cases it is of a residual or skeletal nature, it played a more significant part in meeting balance of payments difficulties in 1958 than in the years of rising export earnings immediately preceding. A number of specific controls were imposed during the year: the importation of motor-cars, for example, was prohibited for six months in Saudi Arabia, reduced by a quota cut in Peru and limited by an f.o.b. price ceiling in South Africa. In Argentina and Bolivia all imports came under a temporary ban prior to the introduction of new exchange regulations. In April, the Sudan made all save "basic" imports subject to specific licensing; in May, Peru prohibited the importation of all "luxury" items and Iraq did the same in August, setting up a system of quotas for "semi-luxuries". Many imports—capital goods as well as consumer goods—came under a ban in Somalia. Quotas based on 1955-1957 averages were established in Saudi Arabia in June, and in August the exchange reform in Turkey was reinforced by a system of import quotas. In New Zealand a comprehensive licensing arrangement had been brought into operation at the beginning of the year, with severe cuts in quotas for motor-cars and many consumer goods. In Colombia in the middle of the year there was a re-assignment of goods among the

free, restricted and prohibited lists, the over-all effect of which was a considerable tightening up of import control.

Only among countries in which imports had been severely curtailed in the wake of a considerable increase in 1957 was there any tendency to relax controls later in 1958. Such was the case in Burma, and in India and the Philippines, where the relaxation was limited in nature and purpose: in the Philippines priority was accorded to rice imports, in India an increase was permitted in the imports of agricultural tractors and of supplies for the textile, chemical and printing industries. After an expansion of a fifth or more between 1956 and 1957, import expenditure in these three countries was reduced more or less to the 1956 level in 1958.

Internal balance

THE IMPACT OF CHANGES IN THE EXTERNAL SECTOR

On the whole the impact of the foreign trade sector on the domestic economy of the primary exporting countries in 1958 tended to be deflationary. In some countries this was the direct result of the decline in export prices and its repercussions on domestic incomes. In others it reflected the reduced liquidity of the import sector and of traders in general in the wake of the upsurge in imports in 1957. In others again it was more a consequence of a deliberate curtailment of credit designed to curb the demand for imports. And in some countries it stemmed chiefly from a cutback in government expenditure, induced in some cases by a falling off in the revenue derived from the export sector and in others by a disinflationary fiscal policy designed to help defend the balance of payments. In a majority of countries, however, fiscal policy did not supplement the deflationary impulse from abroad: in a few instances, indeed, it was specifically intended to offset the effect on incomes and employment of the decline in export prices, while in others it was reflected in budget deficits arising from purely domestic developments either in investment plans or increased current costs.

Production

The effect of the general weakness of world commodity markets on production in the primary exporting countries was in most instances an indirect one, flowing from changes in income rather than from deliberate adjustment of the output of export products. Where reductions did occur they were mostly fortuitous—as in the case of rice, cocoa and copra production, the decline in which caused export prices to rise, against the general trend. Even the reduction in rubber output—of 3 per cent between 1957 and 1958—was less the result of a lower world price than of internal disturbances in Indonesia: production increased in most of the other exporting countries. Though world production of petroleum—outside the centrally planned countries—was one per cent lower in 1958 than in 1957, in the primary exporting countries output was 9 per cent higher. This expansion took place in spite of a 6 per cent decline in Venezuela where output was readjusted after the 13 per cent rise that the Suez crisis had occasioned in the previous year.

The one category of commodities in which there was a direct connexion between lower rates of consumption in the industrial countries, lower prices on world markets and a cutback in production in the primary exporting countries was that of non-ferrous metals: compared with 1957, there was a reduction of 30 per cent in the case of tin, 8 per cent in copper and 3 per cent in zinc. Lead production was just about maintained, though there was a sizable decline in Peru and Mexico. With the steel industry operating at a fourth below the 1957 rate in North America and lagging appreciably in western Europe, production of the additive metals was also down substantially in the primary exporting countries: cobalt output was 10 per cent lower, chromite output was down by proportions ranging from 5 per cent in Rhodesia to around 30 per cent in South Africa and Turkey and 50 per cent in the Philippines, while exports of manganese ore declined to a similar extent—from about an eighth in the Belgian Congo and Ghana to about a third in Brazil and India.

World production in the metal-using industries—outside the centrally planned countries—was about 5 per cent lower in 1958 than in 1957. There was a comparable decline in the output of the textile industry, but in contrast to the cutback in non-ferrous metal production in the primary exporting countries, cotton production continued to increase: the 1957/58 crop was about 6 per cent greater than that of 1956/57 and there was a comparable increase in the 1958/59 crop. The few reductions that did occur in 1957/58 were concentrated in eastern and central Africa—the Belgian Congo, Mozambique, the Sudan and Uganda—though there was also a smaller harvest in Iran and Turkey. The 1957/58 wool clip was slightly (3 per cent) below the 1956/57 level, but this—the first decline in a decade—was the result of drought in Australia, and the expansion in production was resumed in 1958/59.

There were marked fluctuations in grain crops, but these were more the result of climatic conditions than

of movements on international markets. In the case of barley there was a 7 per cent reduction in output between 1956/57 and 1957/58—concentrated chiefly in the southern hemisphere and North Africa—and a 5 per cent gain in the succeeding interval, when poorer crops in India and the Middle East were outweighed by recovery in Argentina and Australia (see table 87). This was also the pattern of change in the case of wheat production in the primary exporting countries, while in the case of rice a 9 per cent decline between 1956/1957 and 1957/58 was followed by a 9 per cent increase between 1957/58 and 1958/59. This sequence affected both importing countries such as India and the Philippines and exporting countries such as Burma and Thailand. In the United Arab Republic the sequence was reversed: in Egypt the 1957/58 rice crop was of record dimensions, the 1958/59 crop was about 40 per cent smaller; while in Syria a record cereal harvest in 1957/58 was followed by poor crops in 1958/59.

Table 87. Primary Exporting Countries: Indices of Production of Selected Agricultural Commodities
(1956/57 = 100)

Country	Wheat		Rice		Maize		Barley		Sugar	
	1957/58	1958/59	1957/58	1958/59	1957/58	1958/59	1957/58	1958/59	1957/58	1958/59
Algeria	83	81	...	...	...	...	56	75	...	...
Argentina	81	90	105	...	207	226	74	80	90	118
Australia	72	156	130	120	76	111	62	123	114	109
Belgian Congo	...	...	97	...	103	101	...	...	...	...
Brazil	82	56	96	...	98	...	97	97	118	129
Burma	86	...	91	98	...	...	...	...	124	...
Ceylon	...	...	117	125	...	...	...	...	...	...
Chile	123	102	110	...	132	...	100	100	...	...
China (Taiwan)	...	...	104	96	...	...	...	...	107	104
Cambodia	...	...	79	79	...	...	...	...	...	...
Colombia	...	...	116	133	96	...	...	...	94	97
Cuba	...	...	94	80	103	97	...	...	102	106
Dominican Republic	...	...	94	...	105	...	...	...	100	106
Ecuador	...	...	90	...	...	...	97	...	...	...
Egypt (UAR)	95	91	109	65	90	94	102	105	123	120
El Salvador	...	...	181	200	95	...	...	...	...	...
Ghana	...	...	100	130	...	...	...	...	...	...
Guatemala	...	71	...	...	94	100	...	...	...	105
India	108	93	88	104	102	104	102	78	97	98
Indonesia	...	...	102	108	92	103	...	...	105	97
Iran	124	120	109	103	...	...	125	119	117	118
Iraq	144	97	140	...	...	...	123	89	...	...
Israel	115	85	...	...	83	...	87	62	168	...
Korea (Republic of)	102	96	123	130	...	...	91	...	...	...
Lebanon	104	74	...	...	...	...	...	...	...	...
Malaya	...	...	102	102	...	...	...	...	...	...
Mexico	111	100	102	108	94	113	87	104	111	122
Morocco	61	95	...	...	77	86	30	82	...	...
New Zealand	100	250	...	...	...	...	103	...	...	...
Pakistan	116	114	94	83	98	99	90	114	145	137
Peru	113	122	92	...	102	102	104	119	103	114
Philippines	...	...	96	104	94	107	...	...	120	113
Rhodesia	...	...	...	...	92	...	...	...	...	...
South Africa	88	75	...	...	87	...	94	...	113	121
Sudan	142	128	103[a]	130[a]	55	228	70[b]	141[b]	...	...
Syria (UAR)	114	63	...	...	...	...	156	39	...	...
Thailand	...	...	67	84	...	...	...	...	...	...
Tunisia	24	26	...	...	...	...	100	152	...	...
Turkey	129	133	...	...	88	103	126	124	116	118
Uruguay	102	89	...	...	81	...	67	114	...	...
Venezuela	...	...	...	...	87	...	...	...	83	93
TOTAL	102	105	91	99	102	112	93	101	108	110

Source: Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics* (Rome); United Nations, *Economic Survey of Latin America, 1958* (sales number: 1959.II.G.1); United Kingdom, Commonwealth Economic Committee, *Grain Bulletin* and *Rice Supplement to the Grain Bulletin* (London); national publications.

[a] Grain sorghum (*dura*).

[b] Millet (*dukhn*).

In contrast to this alternation of increase and decrease, some other important crops showed two successive advances in the primary exporting countries. Largely because of expansion in Argentina, maize production was about 2 per cent higher in 1957/58 than in 1956/57; further gains in Argentina, recovery in Mexico and increases in the Asian region resulted in a 10 per cent advance in 1958/59. Widespread increases in sugar production raised aggregate output in the primary exporting countries by 8 per cent between 1956/57 and 1957/58 but the expansion was cut to 2 per cent in the following interval by poorer crops in south-eastern Asia and Australia.

Aside from these major changes in commodity production, output continued to rise in most countries: in the aggregate, electricity production was about 8 per cent greater in 1958 than in 1957 and cement production about 7 per cent greater, while steel production increased by about 2 per cent. Significantly, these increases, though greater than those registered in the industrial countries, were less than those achieved in the preceding interval.

The unusually wide swings in agricultural output played an important part in determining changes in real gross domestic product. As a result of the poor 1957/58 rice crop, for example, there was a decline in the gross product in Burma and Thailand. Smaller crops, not only of rice but of other cereals also, had a similar effect on gross product in several other countries in southern and south-eastern Asia, including India and Pakistan and to a less extent Ceylon, as well as Indonesia where the smaller local food supply aggravated the economic effects of the civil disturbances that disrupted many productive activities in the first half of the year. In Syria, too, the excellent harvest reaped in 1957 was followed by a poor harvest in 1958, with similar effects on gross domestic product. In Ghana the cocoa crop in 1957/58 was 25 per cent below the 1956/57 level and in the Sudan the 1957/58 cotton crop was only about one-third of the preceding one. These violent movements in major items also caused a sharp drop in the gross product (see table 88).

In all these cases, with the exception of Pakistan, the decline in agricultural output which affected the 1958 domestic product was followed by a considerable improvement in the 1958/59 harvest which regained or surpassed the 1956/57 level. In none of these cases, moreover, was the reduction in the domestic product between 1957 and 1958 the result of the deterioration of world commodity markets. Indeed, in the case of Burma, Ghana and Thailand, the impact of decline in agricultural production was lessened in varying degree by compensating movements in the price received for rice and cocoa exports. Only in the case of Indonesia and the Sudan were the effects of the decline in output—of rubber and cotton—accentuated by adverse price movements in external markets.

More directly affected by changes in the export sector were the Belgian Congo, Chile and Rhodesia where the cutback in mine output was accompanied by a major decline in export prices which aggravated its deflationary consequences; the result was a reduction in the gross domestic product. Similar forces, though milder in their net impact, were operating in several other countries, including Malaya, where the effect of the cutback in tin mining was aggravated by lower prices for tin and rubber exports, and South Africa where a slight decline in wool production was accompanied by a major reduction in the export price. In Cuba and Venezuela, also, gross domestic production was adversely affected by external factors: in Cuba, increased production was offset by lower sugar prices, while in Venezuela a reduction in petroleum output offset a favourable movement in prices. In these cases, however, the decline was from a somewhat abnormal 1957 level which reflected the repercussions of the Suez crisis.

Incomes

Though there were thus a number of countries in which external developments affected the gross domestic product directly through their influence on primary commodity production and others in which such an impact was intensified and spread by a decline in export price, most of the primary exporting countries that were affected adversely by relative price movements in 1958 fell into a third category: those in which the domestic product continued to increase but at a rate which was held back—in some cases reduced below that of the preceding interval—by the generally deflationary effects on incomes exercised by price movements on international markets. Countries in this category include Australia, Brazil, Colombia, Egypt and New Zealand—in which the rate of growth of production between 1957 and 1958 was actually greater, in real terms, than between 1956 and 1957—as well as China (Taiwan), Guatemala and Mexico.

As pointed out above, however, not all countries were affected adversely by price changes. Quite a number registered an improvement in the terms of trade, while in a few cases the relationship between external markets and domestic production just discussed was reversed: higher world prices for rice, cocoa and copra were largely the result of reduced production in some of the principal exporting countries.

In a year in which price movements were particularly wide, their effect on incomes in the exporting countries was correspondingly great. In Ghana, for example, the gain from changes in the unit value of exports and imports was equivalent to more than one-eighth of the country's gross national product. At the other extreme, the loss sustained by Cuba from changes between 1957 and 1958 in export and import prices was equivalent to about 4 per cent of the gross na-

Table 88. Primary Exporting Countries: Indicated Change between 1957 and 1958 in Gross Domestic Product and its Use[a]

Country[b]	Gross domestic product	Total consumption	Gross capital formation		Gross domestic expenditure	External account	
			Total fixed investment	Change in stock accumulation		Exports	Imports
Burma[c]	−B	−B	C	−	A	−F	−D
Pakistan	−C	−B	−B	−	−C	−C	−B
Malaya	A	A	−C	−	−B	B	−B
Egypt (UAR)	B	B	C	+	C	E	F
Syria (UAR)	−C	B	F	−	−C	F	F
Belgian Congo	−B	B	−D	−	−B	−B	−E
Ceylon	−B	A	−F	+	−B	B	B
China (Taiwan)	B	B	B	+	B	F	C
Ghana	−B	−B	B	−	−B	−D	−D
Guatemala	B	B	−C	+	B	C	A
Philippines	B	A	B	+	B	C	−D
Australia[d]	B	B	C	−	B	−B	C
Puerto Rico	B	B	B	−	B	B	B
Rhodesia	−B	−B	−C	−	−B	−B	−C
South Africa	A	A	A	−	A	−B	A
Cuba	A	A	−B	+	A	C	−B
Venezuela	A	B	−B	−	A	−C	−C
Israel	D	D	B	+	D	C	C
El Salvador	C	C	−C	+	C	−C	−C
Thailand	−C	−B	−B	−	−C	−E	−B
India	−B	A	A	−	A	−C	−E
Sudan	−C	A	F	−	−D	D	A
New Zealand[e]	B	B	C	+	C	C	C
Mexico	B	B	B	+	B	C	A
Colombia	B	A	−B	+	A	C	−D
Brazil	B	A	−B	+	B	−B	−B
Turkey	B	B	B	...	B	−F	−F
Chile	A	B	−F	...	−B	−C	−E
Indonesia	−C	−C	−F	−	−D	−D	−F
Argentina	B	A	C	+	B	B	C

Source: United Nations Bureau of Economic Affairs; Australia, Brazil, Burma, China (Taiwan), India, Indonesia and the Philippines: replies to the United Nations questionnaire of November 1958 on economic trends, problems and policies; for other countries: based on "indicators" derived from official statistics of trade, production and public finance.

Where "indicators" were used, changes in gross domestic product reflect changes in the output of as many items—both agricultural and industrial—as were available in official statistics, combined roughly in accordance with weights derived from national accounts of the most recent available year. Agricultural production was measured by the crops harvested entirely or principally in 1958, except in some countries—Ghana, India, Pakistan and Thailand, for example—where it seemed more appropriate to take agricultural production for the 1957/58 season, even though much of the harvest was reaped before the beginning of 1958. Changes in expenditure reflect "apparent disappearance" (production minus exports plus imports, with due allowance for inventory changes whenever possible) of major food items, major textile items and major consumer durables—to give a measure of the change in consumption—and of cement, steel, machinery and major producer durables—to give a measure of the change in investment. In some countries an index of construction activity was also used in assessing investment changes. Changes in external accounts were based on balance of payments statements wherever possible, otherwise on merchandise exports and imports adjusted for other current items in the light of 1957 figures, as well as for price changes between 1957 and 1958. In most cases the "indicators" were computed in real (physical) terms; where values were used, they were reduced to a constant price basis (usually the 1957 level) by means of the most appropriate available deflator. Where official estimates were used, they were preliminary figures. In general, the "indicators" were based on a comparison of figures for at least the first three quarters of 1958 with those for the corresponding period in 1957.

[a] The symbols indicate a percentage range of increase or decrease (—): A = —1 to 1; B = 2 to 5; C = 6 to 10; D = 11 to 15; E = 16 to 20; F = 21 and over.

[b] The countries are arrayed in ascending order of increase in cost of living index, averaging the change between 1957 and 1958 and the change during 1958.

[c] Fiscal year ending in September 1958.

[d] Fiscal year ending in June 1958.

[e] Fiscal year ending in March 1958.

tional product. The rate of economic growth in these two countries in recent years has averaged around 5 per cent *per annum*. Gains in excess of recent rates of growth were also registered by Burma and Ceylon, and smaller gains were enjoyed by Thailand, Venezuela, Israel and Argentina. With most commodity prices averaging substantially less in 1958 than in 1957, however, the majority of primary exporting

countries sustained losses in real income from movements in the terms of trade in this interval. Losses amounting to between 2 and 4 per cent of the gross national product were borne by a number of countries, including the Belgian Congo and Rhodesia, Guatemala, the Dominican Republic and China (Taiwan), and Australia and New Zealand, and losses of a somewhat smaller relative magnitude by such countries as South Africa, Egypt and Mexico, Costa Rica and Colombia and Ecuador and Honduras.

No simple relationship exists between changes in income induced by such price movements and actual changes in gross domestic expenditure. The extent and intensity with which the impact of lower commodity prices is transmitted to other sectors of the economy tend to vary with the organization of the export sector, its relative importance as a source of employment and government revenue, and the nature and magnitude of the official response to a deteriorating balance of payments on the one hand and to its distributive effects on the other. The repercussions tend to be least where the export sector is most loosely connected with the rest of the economy, as in some of the subsistence areas of Africa, and where—as in the Belgian Congo, Chile, Malaya, Rhodesia and Venezuela—the impact is absorbed to the greatest extent by foreign-owned companies whose net income takes the first shock of fluctuations in export prices. In Burma and Thailand—where, as indicated above, the gain in the terms of trade was itself largely induced by shortfalls in production—the decline in export incomes was appreciably less than the decline in rice shipments, which amounted to a fifth in Burma and a third in Thailand. In Ghana, on the other hand, the shortfall in production of cocoa induced a more than proportionate rise in export price; farmers' prices being fixed, the increment in income accrued to the public sector. Conversely, in Australia and New Zealand the impact of unfavourable price movements was borne in the first instance largely by farmers, although as gross domestic expenditure continued to increase much of the effect was transmitted to the external capital account. This was also the case in Guatemala and Mexico where there was a considerable drawing down of reserves. In a similar way, domestic expenditure recovered in Egypt from the 1956/57 setback, despite an appreciable decline in income occasioned by price movements. China (Taiwan) also continued to increase domestic expenditure, even though the decline in export unit values from the high levels of 1957 caused a significant reduction in income. In the Belgian Congo and Rhodesia, however, there was a direct link between the decline in metal prices, a cutback in mining production and a reduction in gross domestic expenditure.

More sensitive to significant shifts in the terms of trade in many of the primary exporting countries is the rate of investment. In some cases this is because of the relative importance in gross fixed capital formation of investment in the export sector itself; in other cases it reflects the importance of public investment and the dependence of the government on revenue derived from foreign trade in general and export industries in particular; in others again the proximate connexion between the movement of external prices and changes in investment lies in government action in the fiscal and monetary fields prompted by balance of payments considerations. In most under-developed countries, however, the need and the desire to increase the rate of investment are powerful, and changes in that rate do not always follow immediately upon movements in import or export prices or in the balance of trade. Thus, although countries in which the terms of trade improved between 1957 and 1958 were outnumbered almost two to one by those whose terms of trade had deteriorated, the number in which fixed capital formation increased seems to have been more or less equal to the number in which it was reduced.

This itself is an indication that the effects on the domestic economy of the decline in export earnings between 1957 and 1958 were modified in most countries by government action. In general, such action was designed primarily to moderate the incidence of the decline in export prices upon local incomes, though in some cases the scope for doing this was circumscribed by the precariousness of the external balance. Thus, in countries in which there was a marked worsening in the terms of trade, support for the most seriously affected export industries—usually involving action with potentially inflationary consequences—was commonly combined with measures intended to be anti-inflationary. This dichotomy illustrates the dilemma posed for many primary exporting countries by the 1957–1958 downswing in commodity prices. As falling export earnings replaced rising import expenditure as the main threat to the balance of payments, anti-inflationary policies aimed at protecting the external balance by restraining the demand for imports became less appropriate—in terms of domestic impact—in 1958 than in the years immediately before.

THE USE OF RESOURCES

The supply of goods available to the primary exporting countries registered a much smaller expansion between 1957 and 1958 than in the years immediately before. This reflects not only the widespread tendency for production to grow less rapidly in the recent period but also the even more general tendency for imports to be reduced from the high levels of 1957. And given the reduction in disposable supplies, there was a cutback in consumption in a number of countries and a decline in fixed capital formation in appreciably more.

Among the countries in which per capita consumption seems to have been lower in real terms in 1958 than in 1957, the greatest concentration was in south-

ern and south-eastern Asia. This reflects the unfavourable climatic conditions that were experienced in the region in the second half of 1957 and the relatively poor harvest that resulted. This was aggravated in Indonesia by internal conflict and in Pakistan by floods. In these two countries, as well as in Burma and Thailand—where the severe drop in rice production had particularly widespread repercussions in other sectors of the economy—the absolute level of consumption was probably lower than in 1957. In Malaya, the sharp decline in rubber prices between mid-1957 and mid-1958 and the low level of output and employment in tin mining also had similar effects on incomes, imports and consumption. Except in Ceylon and Indonesia, where the real volume of resources at the disposal of the Government also appears to have declined—notwithstanding a considerable expansion in the budget deficit in Indonesia—the reduction in consumption was borne by the private sector. This was also the case in India and the Philippines, where the reduction in consumption was smaller.

Though it was fairly general in southern and south-eastern Asia, the tendency for consumption to fall was also apparent in the other regions. In Africa, for example, consumption seems to have declined—at least on a per capita basis—in Rhodesia, Ghana and South Africa. Except in Ghana, the cutback was again confined to the private sector: current government expenditure increased in both Rhodesia and South Africa, where the reduction in private consumption was partly the result of smaller copper and wool incomes and partly induced by official disinflationary fiscal and monetary policies.

In the Middle East consumption was barely maintained in per capita terms in Syria and Turkey and was reduced in the Sudan. In the Sudan the disastrous decline in cotton production and incomes was chiefly responsible; in Syria the limitation on expansion was largely a result of a reduction in cereal crops; in Turkey the Government's austerity programme was the major factor holding down private consumption, particularly in so far as it resulted in a further large cutback in imports. In Syria there was some increase in public outlays, but not in the Sudan or Turkey.

In absolute terms, consumption appears to have been at least maintained in most Latin American countries, with the probable exception of Cuba where it was inflated somewhat in 1957 by abnormally high sugar prices. But consumption failed to keep pace with population growth in several countries, including Argentina, Brazil and Colombia, where the persistent state of imbalance both on internal and on external account kept official policy geared to restraint designed to curtail import demand and release resources for investment or export. Though production rose appreciably in Brazil and Colombia, this was chiefly the result of a larger coffee crop which not only remained unconverted into export earnings but, as indicated above, also magnified the task of controlling the supply of credit, the government account already being in substantial deficit. In Argentina, and in Mexico where the level of per capita consumption was just about maintained, the moderate gain that was achieved in total production was used in large measure to sustain exports and permit a comparable gain to be made in fixed capital formation with its generally high import content.

Increases in consumption in excess of the rate of population growth were registered by Israel and Australia, where immigration continued at a high level; by Chile and El Salvador, where it was partly at the expense of a cutback in fixed investment; and by New Zealand where, in the face of deteriorating terms of trade, it involved a considerable strain on the balance of payments. In Australia and New Zealand the expansion of consumption—at least in the fiscal year 1957/58—was largely in the private sector, though in New Zealand this was reversed in the course of 1958 as the tax increases of a disinflationary 1958/59 budget took hold and the government account moved into surplus. In Israel the high rate of increase was shared by both public and private sectors. This was the case in Puerto Rico too where there was a more moderate rate of expansion.

In Egypt there was a great upsurge in imports after the difficulties of the first half of 1957 and this helped to raise the level of private consumption in 1958; in the public sector consumption remained more or less at the 1957 level. This was also the case in Guatemala where government outlay actually contracted in 1958, while private consumption continued to expand. This contrasts with the Belgian Congo where the rise in consumption was due almost entirely to increased government expenditure, part of it incurred as a result of the slackening in the pace of investment in 1957 and 1958. Small per capita increases in consumption were recorded in China (Taiwan), one of the Asian countries in which there was a sizable gain in agricultural output in 1958, part of which went into expanding exports. This was also true of Venezuela where the great contrast between 1957 and 1958 in the petroleum situation was reflected in changes in investment rather than consumption.

The decline in investment in Venezuela was of small dimensions compared to that which occurred in a number of other primary exporting countries; it was remarkable only because it came after several years of rapid expansion. The upward movement in investment was reversed in a number of other countries too and there was also a tendency for the slackening that had commenced in 1957 to continue. In the aggregate, fixed investment appears to have declined between 1957 and 1958 in as many countries as it increased.

Among the larger reductions in fixed capital formation between 1957 and 1958 were those recorded in Indonesia, Ceylon and Chile. The decline in Indonesia followed an appreciable increase between 1956 and 1957 and was confined very largely to the private sector; it reflects not only the lower output and incomes that characterized 1958 but also the effect of the rebellion in Sumatra and Celebes upon investment in plantations and mines, as well as the reaction of foreign-owned capital to official measures affecting Dutch concerns. In Ceylon the decline in investment occurred in the public as well as the private sectors and it followed a phase of slackening activity in 1957, reflecting in part the Government's abandonment of its six-year development programme, in part changes in the organization of port and transport facilities and in part some uncertainty about official intentions in regard to foreign-owned estates. The reduction in investment in Chile also followed a period of slackening, but this was in large measure a consequence of the Government's efforts to slow down the rate of inflation. These efforts were greatly hampered by the fact that the stabilization programme was put into effect just as the price of copper began its precipitous decline; the drop in capital formation in 1958 reflects both the difficulties of the copper industry and the precarious state of external balance which necessitated a considerable cut in imports.

The weakness in non-ferrous metal markets also lay behind the substantial reductions that occurred in fixed investment in the Belgian Congo, Rhodesia and Malaya. The reductions were chiefly in the private sector but, except in Rhodesia, where there was a further increase in government capital formation, public investment was also affected—if only by declining revenue. In the Belgian Congo, investment had tailed off in 1957 at the end of the ten-year programme that had been inaugurated in 1948; it began to pick up late in 1958 as new public works expenditure was authorized to meet the rising level of urban unemployment. In Malaya, on the other hand, government investment which had expanded in 1957 was cut back in 1958 and the budget deficit reduced, thus tending to reinforce the deflationary impact of tin control and—until the middle of the year—lower rubber prices.

El Salvador and Guatemala were also among the countries in which fixed capital formation dropped sharply in 1958. Total investment, however, showed no such decline: inventories increased, and the budget moved into cash deficit as revenue declined with the fall in coffee price and expenditure rose with the purchase of coffee retention stocks. This process was much more marked in Brazil and Colombia where, though fixed capital formation was lower than in 1957, total investment was higher. In Brazil the accumulation of coffee was on a scale sufficient to increase the level of gross domestic expenditure even though consumption remained more or less at 1957 rates. Here the reduction in fixed investment followed a sharp rise in 1957. In Colombia, however, efforts to balance the external account had restricted investment to a greater extent in 1957 than in 1958.

As suggested above, the decline in capital formation in Venezuela in 1958 was associated largely with movements in the petroleum industry, as was the large increase which had taken place in 1957. The fluctuations in Cuba also tended to follow movements in the major export industry: there was a considerable expansion in 1957—when incomes from sugar were high—and a reduction in 1958. The latter was also affected by the revolution which disrupted the economy in the last quarter of the year, accentuating the cutback in public investment.

After a sizable increase in 1957, investment also appears to have declined in Pakistan and Thailand in the wake of the reduction in output, incomes and imports. As far as fixed capital formation is concerned, the decline appears to have been limited to the private sector; government capital expenditure continued to increase, though at a lower rate than in 1957. The inventory situation is less clear: in contrast to developments in many of the coffee producing countries, stocks were almost certainly drawn down after the poor 1957/58 harvest, but the rate of depletion was reduced in Thailand by a sharp curtailment of rice exports and in Pakistan by an increase in grain imports. The prospect of another poor harvest in Pakistan, however, is reported to have induced a good deal of private hoarding so that current consumption probably bore more of the incidence of the reduction in supplies than it did in Thailand where per capita food production is much greater and the 1958/59 rice crop was substantially above that of 1957/58.

There was relatively little change in the level of capital formation in India and South Africa: in both countries limitations were imposed by shortages of foreign exchange and technical skills, while government fiscal and monetary policy tended to shift resources to the public sector. As a result private investment declined and public investment increased. In India, however, the gain was smaller than in 1957, the critical balance of payments situation having forced a reappraisal of the development programme, some elements of which were deferred. The combination of a substantial reduction in imports and in 1957/58 agricultural production resulted in a running down of inventories in India. On a much smaller scale this was true in South Africa, too: the 1957/58 harvest was below that of 1956/57, some exports—notably maize—were made from earlier accumulation, imports ceased to rise and the large inventory increase of 1957 was drawn into consumption.

Small increases in investment were registered by Israel and Puerto Rico—somewhat less than in 1957—and by Ghana and Turkey, at a slightly greater rate

than in 1957. In Ghana the expansion was confined to the public sector, private disposable income being generally below the 1957 level largely as a result of the poor 1957/58 cocoa crop, sold to the marketing board at a fixed price. In Israel and Puerto Rico the increase in investment was also mainly the result of government outlays. In Turkey, on the other hand, private capital formation, which had lagged in 1957, showed a somewhat larger gain. With imports substantially lower in Ghana and Turkey, there was some drawing down of inventories.

Among the countries in which fixed capital formation rose moderately in 1958, the increase was less than in 1957 in the Philippines, of the same order in Argentina, China (Taiwan) and Mexico and—in comparison with the preceding fiscal year—appreciably greater in Australia and New Zealand. In New Zealand and the Philippines the expansion was largely in the private sector, in China (Taiwan) largely in the public sector; in Australia in both sectors. In the Philippines much of the increase was in residential and other construction, although industrial investment—stimulated by more stringent controls on imports of some competing products—also appears to have risen, with the installation of equipment imported in 1957. The cutback in imports, in combination with the poorer 1957/58 rice crop, induced some inventory decumulation, as did the lower agricultural outturn in Australia. In New Zealand, inventories were expanded in 1957 and contracted in 1958 with the reduction in imports; in 1958, indeed, gross capital formation was probably no greater than in 1957. In Argentina and Mexico there was probably an increase in inventories in 1958 but this arose less from changes in foreign trade than from the harvesting of larger crops.

Some of the most marked increases in fixed investment in 1958 occurred in Burma, the Sudan and the United Arab Republic, but this expansion was in part a reflection of the relatively low level of capital formation in 1957, resulting from the Government's "consolidation" policy in the case of Burma and the Suez crisis and its repercussions in the United Arab Republic. In Burma and Syria the public sector participated in the expansion in 1958, but in Egypt the rise in investment—though assisted in various ways by the official Economic Organization—was very largely in private hands. In the United Arab Republic it was sustained by a considerable expansion in imports, part of which went to replenish inventories drawn down in 1957. The predominant influence on inventories in Syria,

Table 89. Primary Exporting Countries: Distribution According to Movement in the Cost of Living[a]

Index (corresponding figure in preceding year = 100)	*Number of countries*	*Rate of change in relation to preceding year*		
		Lower	*Much the same*	*Higher*
98 or less				
1957	3	3	0	0
1958	6	6	0	0
99 to 101				
1957	12	8	1	3
1958	15	8	4	3
102 to 105				
1957	32	8	11	13
1958	29	8	8	13
106 to 110				
1957	11	3	2	6
1958	7	0	4	3
111 to 120				
1957	8	2	0	6
1958	10	3	1	6
121 and over				
1957	4	2	0	2
1958	3	0	2	1
Total				
1957	70	26	14	30
1958	70	25	19	26

Source: Statistical Office of the United Nations, *Monthly Bulletin of Statistics*.

[b] Based on an index reflecting the average between the change during the year and the change in annual average.

however, was the radical change in the agricultural situation, as a result of which cereal stocks accumulated in 1957 were used to make good the shortfall in the 1957/58 harvest. A similar movement occurred in Burma and the Sudan where the drawing down of stocks in the wake of poor rice and cotton crops was not offset by any increase of supplies of imported goods. In the Sudan, indeed, the movement in cotton stocks was large enough to result in net disinvestment despite the expansion in fixed capital formation.

Cost of living

An analysis of price movements among the primary exporting countries in 1958 shows two fairly distinct phenomena. On the one hand was a group of countries in which inflationary pressures have been powerful and of long standing and on the other a group in which such pressures have been intermittent and more sensitive to short-run changes in external prices, in the flow of imported goods and in the rate of domestic investment. In the first group, external developments in 1957 and 1958, with their deflationary implications, made little apparent difference to the intensity of internal pressures. In the other group, by contrast, there was some perceptible slackening and in a few countries—Malaya, for example, and for rather different reasons, Burma—some clear evidence of deflation.

Thus, on the one hand, the proportion of countries in which retail prices rose by more than 10 per cent remained between a sixth and a fifth of the total, and in this group there was little disposition for the rate of price increase to diminish (see table 89). Among the other primary exporting countries, however, there were signs of diminishing pressure on prices: there were more countries in which the cost of living index declined in 1958 than there were in 1957, more in which it remained more or less stable, and fewer—52 per cent of the total as against 62 per cent— in which it rose between 2 and 10 per cent. In this group the proportion of countries registering an acceleration in price increase declined from 38 per cent in 1957 to 33 per cent in 1958, and the proportion in which the rate of increase remained much the same rose correspondingly —from 21 per cent to 28 per cent of the total. In 1957 there were as many countries with a rising rate of increase as with a declining rate; in 1958 there were fewer.

Thus, if the countries in which inflationary forces have been particularly powerful and persistent—notably Argentina, Indonesia, Chile, Brazil, Uruguay and Turkey—are left out of account, a general tendency may be discerned for the pressure on prices to ease in 1958. This reflects in some measure the decline in the prices of most goods moving in international trade which, as indicated above, brought about a significant reduction in the unit value of imports in some countries—Ceylon, for example. In other countries a good harvest was a major factor, operating early in the year in the case of China (Taiwan) and Egypt, for example, and late in the year in the case of Burma, India and several other countries in southern and south-eastern Asia. In some of these countries—notably the Belgian Congo, Burma, Ceylon and Malaya—a lower level of domestic expenditure also contributed a deflationary impulse.

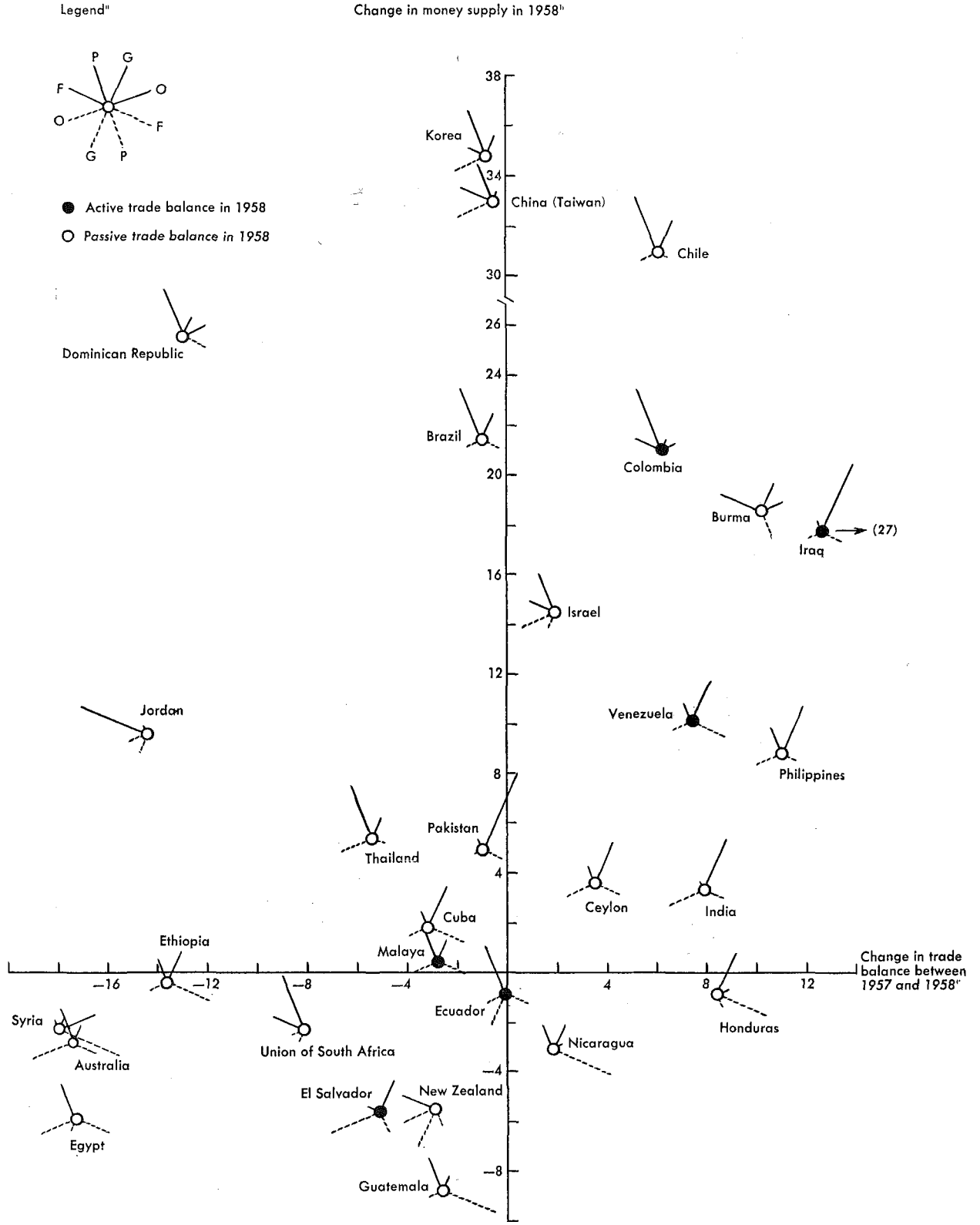
Money supply

An examination of changes in the supply of money leads to a similar grouping of countries. On the one hand are those in which changes in the foreign trade sector exercised relatively little influence, on the other hand are the countries in which such changes were a major determinant of monetary movements. This distinction lies behind the fact that though, in comparison with 1957, there was an increase in the number of countries in which the volume of money rose rapidly—by over one-fifth in the course of the year—there was a comparable increase in the number showing a reduction in money supply. In general, the countries with a rapidly rising money supply were those in the group in which internal inflationary forces have been strong and persistent, and sufficient in 1958 to nullify any contraction emanating from the external sector. Most of the countries experiencing a reduction in money supply, on the other hand, fall in the group in which the domestic economy tends to be much more responsive to impulses from abroad. In this group there tended to be a close relationship between changes in the balance of trade and changes in money supply.

Thus, between 1957 and 1958, changes in the movements of foreign assets—induced, in large measure, by changes in the balance of trade—played a major role in determining changes in the supply of money in countries in which there was a contraction, as in Australia, Ecuador, Ethiopia, Guatemala and Syria. Changes in foreign assets were also a restraining element in Honduras and Nicaragua, where, though slightly improved, the balance of trade continued in substantial deficit, reserves were greatly reduced and there was a reduction of credit both in 1957 and in 1958.

A contraction of the money supply in countries such as New Zealand and South Africa, though effected through other means—budgeting for a surplus in New Zealand and reducing credit to the private sector in South Africa—was also a reflection of efforts to improve the external balance. In all these countries—with the exception of Honduras and Nicaragua—the balance of trade worsened between 1957 and 1958 as a result of a decline in export receipts, aggravated in the case of Australia and the United Arab Republic by an increase in imports. Unlike the expansion of credit in a number of countries, the contractions

Chart 22. Primary Exporting Countries: Changes in Balance of Trade and Money Supply[a]



Source: United Nations Bureau of Economic Affairs; International Monetary Fund, *International Financial Statistics*.

[a] Holdings of notes and coin outside the monetary system and demand deposits of the private sector in commercial and central banks. Change in the money supply is equal to the aggregate net change in the indicated components:

F=Foreign assets minus liabilities, representing as far as

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tended to be relatively mild—less than 6 per cent over the year in all countries except Guatemala where it was about 9 per cent (see chart 22).

Where there was an expansion in money supply in the course of 1958, the change in foreign assets played a much smaller part in it, and in the few cases where such a change was a predominant factor—as in Burma and Jordan—they were as much the result of special capital movements, including aid and reparations, as of developments in foreign trade. This is true of China (Taiwan) and Israel, too, where changes in foreign assets played an important, if subsidiary, role in a rapid increase in the volume of money.

In most of the countries in which there was a major rise in the money supply during 1958—not only China (Taiwan) and Israel, but also Chile, the Dominican Republic and the Republic of Korea—the expansion of private credit was the main cause. This was also the case in Brazil and Colombia, though a large part of the credit extended to the private sector in these countries went to bodies charged by the Government with carrying out the stock retention scheme for supporting world coffee prices. Among these countries, changes in foreign assets were also an expansionary element in Colombia, where the balance of trade became more active, and in the Republic of Korea where items other than trade preponderated. In Brazil, Chile and the Dominican Republic, however, the expansion was entirely the result of an increase in internal credit, against which the contraction arising from a trade deficit was relatively insignificant.

Increases of more than 10 per cent also occurred during the year in the money supply of Iraq and Venezuela, in both instances mainly through an expansion in government borrowing and in the face of a reduction in foreign assets occasioned by non-trade transactions. Changes in the movement in foreign assets, however, were chiefly responsible for the fact that, compared with 1957, the monetary expansion was much greater in Iraq but much smaller in Venezuela.

In Ceylon, where the credit base had shrunk in 1957 under the influence of a passive trade balance, there was an increase in 1958, largely because of government borrowing. An expansion of credit in the public sector was also the principal element in a moderate rise—smaller than during 1957—in the money supply in Cuba, India, Pakistan and the Philippines. In all these countries, a deficit on the trade account—somewhat smaller than in 1957, except in Cuba and Pakistan—was an important restraining force. This was also the situation in Malaya and Thailand, though in these countries the principal expansionary element in 1958 was the private sector.

In most of the countries in which the money supply rose during 1958, the external sector thus played a negative part. This was true not only among countries whose balance of trade was more passive than in 1957 because of a decline in export earnings—as in Brazil, Cuba, Pakistan and Thailand, for example—but even among those where a cutback in imports made the balance less passive, as in Ceylon, Chile and India. During 1958 movements in foreign assets were also a restraining influence in the Philippines, where there was an expansion in exports that reduced the trade deficit, and in Iraq and Venezuela, where the trade account became more active. In these countries other items in the balance of payments evidently entered into the internal monetary system to an extent sufficient to offset in varying degree the effects of changes in trade.

Among the countries in which the supply of money was reduced in 1958, the government account was chiefly responsible only in Ecuador, where the budget was again in cash surplus, and New Zealand, where there was a major switch in the budgetary position, though it played a supporting role in Egypt and South Africa where the budget also moved into surplus. A similar move in Israel was not sufficient to offset the expansion of credit in the private sector. Among the countries in which government borrowing was the main source of monetary expansion in 1958, there was a transformation from surplus to deficit—in cash terms—in the budgetary position in Venezuela, a small increase in deficit in Cuba, a small reduction in deficit in Ceylon, India and Pakistan and a slightly larger reduction in deficit in Iraq and the Philippines. In Indonesia and on a smaller scale in Peru and Uruguay, increased government shortfalls were a major inflationary force. An increased deficit made the public sector an important subsidiary cause for credit expansion in Chile and Thailand and to a less extent Burma, as did a slightly smaller deficit in Brazil, and to a less extent in China

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possible the domestic monetary effects of foreign transactions.

P= Credit to the private sector, representing claims of banking system on individuals and businesses.

G= Credit to the government sector as measured by net change—indebtedness minus deposits—in the government's dealings with the banking system.

O= Other sources of money, measured by the net change in unclassified assets and liabilities minus the change in quasi-money.

Changes in these components are represented in a standard set of radial lines as indicated in the legend. For each country, length of the line representing each component is equal to the change in that component expressed as a ratio of the absolute sum of all components; a solid line (upward) indicates a positive change, a dotted line (downward) a negative change.

[b] Change during calendar year—except in a few cases in which the year ending September, October or November was used—expressed as a percentage of money supply at beginning of year.

[c] Measured by the difference between the 1958 and 1957 values of the ratio of exports minus imports to exports plus imports.

(Taiwan), the Dominican Republic and the Republic of Korea.

There were a few countries in which an expansion of government borrowing was intended to offset, at least in part, the deflationary impulse from other sectors. This was the case in Australia and Ethiopia where the budget deficit was increased, and in El Salvador, Guatemala and Honduras where there was a switch from surplus to deficit. In Syria there was a significant reduction in the deficit, despite the deflationary effect of changes in the external sector.

In the aggregate only a small proportion—perhaps a sixth—of the primary exporting countries were in budgetary surplus, in cash terms, in 1958. For each country in surplus there were two which registered a smaller cash deficit than in 1957, though in most cases the reduction was very small. There were almost as many countries with government accounts moving into deficit as there were those moving into surplus. And there were almost as many running a larger deficit as there were running a smaller one (see table 90).

Table 90. Primary Exporting Countries: Distribution of Changes in Government Budgetary Position[a]

Change	*Ratio of change in the government balance[a] between 1957 and 1958 to total government expenditure in 1957 (percentage)*				
	5 and under	*6 to 10*	*11 to 20*	*21 and over*	*Total*
Larger surplus	1	—	—	—	1
Moved from deficit to surplus	1	2	2	—	5
Smaller deficit	8	2	1	1	12
Smaller surplus	1	—	—	—	1
Moved from surplus to deficit	—	1	1	2	4
Larger deficit	9	1	1	—	11
TOTAL	20	6	5	3	34

Source: United Nations, *Statistical Yearbook, 1958* (sales number: 58.XVII.1); *Economic Survey of Latin America, 1958*; International Monetary Fund, *International Financial Statistics*; national sources.

[a] As measured by the net change—indebtedness minus deposits—in the government's dealings with the banking system; calendar year in most cases, year ending in September, October or November in the remainder.

FISCAL AND MONETARY POLICIES

In the primary exporting countries internal economic policy is invariably influenced and often determined by the state of external balance, contemporary and prospective. Changes in the production and prices of commodities being as great as they were, the period 1957-1958 offers a good deal of evidence of this. But it also offers evidence of the possibility as well as the difficulty of insulating the domestic economy from the forces emanating from world markets. Two broad types of situation may be distinguished: one which gave rise to an internal economic policy geared to neutralizing the distributive consequences of external price changes, whether favourable or unfavourable; the other tending to subordinate internal policy to considerations of external balance. In many countries these situations coexisted in 1958. In some—especially among those that experienced a significant deterioration in their terms of trade—the state of external disequilibrium was such that efforts to correct it tended to shape most domestic measures: growth was sacrificed to stability. In others growth was maintained through public investment financed, in effect, by restraints on private consumption.

In some countries the impact of external changes on domestic incomes was lessened by existing market stabilizing machinery. In Ghana, for example, the price paid to cocoa producers in 1958 was held at the 1957 level, notwithstanding the notable rise in price that occurred on the world market. A similar policy was followed in Nigeria: through the operation of marketing boards, cocoa farmers were prevented from enjoying the higher world price, while at the same time producers of ground-nuts and palm oil were shielded from the effects of a decline in price. In Uganda, the price paid to cotton producers was maintained in the 1957/58 season in the face of declining prices outside, but for the 1958/59 crop a cut of about 3 per cent was effected. In New Zealand, the precipitous decline in butter prices between mid-1957 and mid-1958 exhausted the resources of the dairy industry's stabilization fund, and it was enabled to maintain minimum payments to farmers only by a £5 million loan from the Government. Here, as well as in South Africa, sheep farmers' incomes were protected to some extent from the full impact of the decline in wool prices by the introduction into the public auctions of a floor price at which the producers' organization used its reserves to buy up

supplies. A similar scheme sustained a minimum tin price,[7] but this was operated internationally and since it was accompanied by severe restriction of exports it did not sustain producers' incomes. Indeed, the need for producers to make further cash contributions to keep the buffer stock operations going actually imposed an additional strain on incomes.

Similar problems arose out of the international agreement to support the world price of coffee by withholding supplies from the market. In this case, however, there was no curtailment of production; indeed the problem was itself a result of the magnitude of the increase in crops in 1957/58 and again in 1958/59. The cost of buying up substantial proportions of these large crops—in the case of Brazil 20 per cent of exportable supplies in the first season and 40 per cent in the second—was a major item of public or semi-public expenditure, adding appreciably to the inflationary forces already at work in most of the coffee exporting countries.

Paralleling the cutback in tin production was a less formal arrangement for reducing copper production in order to support the world price. The incidence of this was greatest in the United States, but it also affected a number of primary exporting countries including the Belgian Congo, Rhodesia and Chile. Support operations were also carried out on the cotton markets in Egypt and the Sudan. In Egypt they were accompanied by barter deals and other sales which sustained exports; in the Sudan, however, coinciding with the widespread recession in the textile industry, they resulted in the accumulation of large stocks in 1957 which had to be liquidated at much lower prices in 1958.

In some countries the impact on domestic producers of changes in the prices of export products on world markets was lessened by contrary changes in the rates at which foreign exchange earnings were converted into local currency. As indicated in the previous section, this was brought about by a rapid depreciation in the case of Bolivia, Chile and Peru or by deliberate devaluation, selective or general, in China (Taiwan), Turkey and Uruguay. These were among the countries with the highest rates of increase both of money supply and of retail prices. They were also among the countries in which a government deficit—on a reduced scale in the case of China (Taiwan), on an increased scale in the case of Chile, Peru and Uruguay—was a major source of inflationary pressure. This pressure was enhanced by the changes in the exchange rate, which were in part responsible for the reduction in imports that occurred in all these countries save China (Taiwan).

The repercussions on domestic economic policy of the measures dictated by developments affecting the export sector naturally differed from country to country. In many instances they hampered efforts being made to restore internal equilibrium, especially where these efforts were designed to adjust domestic demand to available resources while the new measures involved the maintenance of money incomes in the face of a reduced supply of imported goods. In other instances, however, these measures were of relatively minor significance, either exercising only a slight influence on the distribution of incomes or serving merely to reinforce current domestic policies.

In Ghana—one of the few countries whose external balance was improved by price movements in 1958—fiscal policy in 1957 and 1958 reflects the fact that these were transitional years between the completion of one development plan and the formulation of another. A cautious 1957/58 budget, which had increased indirect taxes, reduced current expenditure and postponed the inauguration of the new development programme, complemented the policy of insulating farmers from the rise in cocoa prices abroad. The result, however, was the emergence of some slack in the economy, and this in turn induced a more expansionary budget for 1958/59 which made provision for an increase in the amount of public construction.

Compared with the profound distributive effects of the cocoa stabilization policy in Ghana, the wool support schemes in South Africa and New Zealand had very limited consequences. In South Africa, the Wool Commission's support purchases in its first year of operation entailed an outlay of about £6 million, not much more than an eighth of the proceeds of wool exports in 1958 and less than 2 per cent of total export proceeds. Since a reduction of over a third in wool earnings, coming in the wake of a substantial rise in imports in 1957, caused a serious decline in reserves, however, stemming this loss became a prime object of domestic economic policy. Rather than reintroduce quantitative controls over imports, the Government chose to borrow abroad and disinflate at home: interest rates were raised, hire-purchase terms stiffened, local authority borrowing restrained and the reserve requirements of the commercial banks increased. This policy was complemented by fiscal action and, although public investment was substantially higher, the Government cash account moved into surplus. In the second half of the year, with some recovery in foreign exchange reserves, monetary policy was reversed, the discount rate lowered and commercial bank liquidity increased.

Faced with an even sharper decline in exchange reserves, New Zealand, on the other hand, resorted to direct controls over imports as well as to foreign borrowing. Domestic consumption and investment continued to increase, though at a diminishing rate, stimulated in the year ending in March 1958 by a budget deficit, but curbed in the following year by higher taxa-

[7] Except for a brief period in September when the manager of the buffer stock ran out of funds. For details of this and other stabilization measures, *see* United Nations, *Commodity Survey, 1958*.

tion—which carried the government account into cash surplus—higher interest rates and a reduction in the volume of available supplies.

The cutback in production associated with the price stabilizing schemes for tin and copper was a powerful deflationary factor in several countries, adding to the impact that stemmed from lower world prices for these and other metals. One of the early results was a decline in government revenue, and in countries in which the budget deficit was the principal cause of internal inflation and an important contributor to external imbalance, this made it more difficult for income-supporting counter-measures to be introduced. There was a sharp cut in public investment in the Belgian Congo, and in Rhodesia the development plan was revised downward; in the private sector credit conditions were restrained. In Rhodesia, maize subsidies were reduced and the rate of immigration lowered; in the Belgian Congo a number of indirect taxes were increased. There was some reversal of policy later in the year, however, under the influence of a partial recovery in the copper price on the one hand, and a rise in unemployment on the other. In October, hire-purchase controls were relaxed in Rhodesia, while in the Belgian Congo private credit was liberalized and the rate of government spending raised, especially in connexion with peri-urban agriculture and construction.

In Bolivia and Chile, where, as in the two African countries, the decline in mining revenue caused a serious reduction in government income, additional strain was placed on the stabilization programme, for, despite a widening of the tax base and an increase in many tax rates, the budget deficit continued to mount. In Chile the Government increased its borrowing from the banks, thus offsetting the effects of new curbs that had been laid on private lending by the commercial banks. Wage rates were frozen after an increase in January, but with production down slightly, imports substantially lower and the money supply greatly expanded, prices continued to rise. The cost of living was also affected by reductions in the subsidization of various public utilities, and it became impossible to prevent further wage increases. In Bolivia there were wage increases averaging about a fourth in September, but the labour situation was aggravated by the low export quotas for tin and the consequent closing of marginal mines. Toward the end of the year the Government decreed a partial moratorium on the repayment of bank loans.

In Malaya, government revenue was hit not only by the reduction in tin mining but also by the decline in rubber prices from the middle of 1957 to the middle of 1958. Though the Government was better placed than in many other primary exporting countries to take compensatory action, the small budgetary deficit was actually reduced in cash terms in 1958. Despite renewed efforts to attract foreign investors, there was also a decrease in private capital formation; unemployment increased considerably, especially in the tin industry, and the price level declined during the year. In Indonesia, facing very similar external circumstances, the internal economic problem was magnified by political conflict as well as by action taken against Dutch concerns; the former greatly accelerated the rate of growth in government borrowing from the central bank, the latter hampered a number of activities, notably the operation of coast-wise shipping, and both contributed to a major decline in total production. Since, in addition, imports were cut back very substantially for balance of payments reasons, both consumption and investment were reduced. The price level, however, continued its rapid upward movement.

The deteriorating external balance also aggravated the state of internal balance in Peru, exports, imports and government revenue all being substantially lower than in 1957. By requiring the commercial banks to maintain greater reserves, the Government sought to restrain the volume of credit advanced to the private sector but, despite new and increased taxes, the deficit in the public sector increased to twice the 1957 figure. In the wake of rising prices, labour disputes were frequent in the first half of the year but, after a general wage increase in June, a freeze was imposed in an effort to break the upward spiral.

In the coffee group the decline in export earnings and the burden of the price support scheme were heaviest in the case of Colombia and Brazil. In both countries the financing of stocks under the coffee withholding agreement became a major problem in 1958. In Colombia, where the ordinary budget deficit was reduced to manageable proportions, the value of the official coffee stocks rose tenfold to 576 million pesos between June 1957 and June 1958, all paid for by means of advances from the Central Bank. As a result of this inventory accumulation, total investment rose slightly over the 1957 level even though there was a reduction in fixed capital formation. The burden of financing stocks added considerably to the strain on the Government's anti-inflationary policy under which credit to the private sector was curtailed on two occasions during the year: in March when a rise in commercial bank cash reserve ratios was accompanied by a reduction in the rediscounting facilities offered by the Central Bank, and again in May when there was a further increase in reserve requirements and a doubling of many rates of interest. In November, support was given to the official policy by a voluntary price freeze announced by a number of industrialists, but during the year the supply of money increased by more than a fifth and retail prices in 1958 were about 15 per cent above the 1957 level.

Brazil was in a similar position: by the end of the 1957/58 season the burden of buying up excess coffee supplies became so heavy that the official agency

ceased concurrent purchases, deferring the transfer of the surplus to the end of the 1958/59 season.[8] Partly as a result of the coffee purchases and a marked rise in the government deficit, the supply of money rose by about a fourth during 1958. Toward the end of the year an "austerity programme" was introduced with the object of reducing inflationary pressures by means of a better balancing of public accounts: in October there was a widespread increase in taxes and in the following month many public works were temporarily suspended. There was no curtailment of credit to the private sector, however, and although the rediscount rate was raised from 6 to 8 per cent in April, this was of relatively little consequence in the face of a price increase which at the retail level amounted to 23 per cent in the course of the year. A freeze was imposed on the prices of staple commodities in November, but the new year opened with a 30 per cent rise in minimum wage rates.

In the Sudan, internal economic policy was affected not only by the rapid decline in world prices of long staple cottons but also by the wide variation in the local harvest, the 1957/58 cotton crop being not much more than a third of those of 1956/57 and 1958/59. The tendency for excessive reserve prices to inhibit sales in 1957, in combination with the subsequent decline in world price and the reduction in domestic output, occasioned considerable financial stringency in 1958. Largely with the object of restricting imports, bank credit was cut back to about three-fourths of the 1955 level. The reduction in imports contributed to a marked rise in retail prices, while the decline in foreign trade resulted in a considerable drop in revenue, which unbalanced the budget (for the first time since 1932) and caused public investment to be limited to the most urgent needs. It was not until late in the year, when foreign funds became available, that the development programme was fully resumed. By this time cotton sales were being stimulated by barter arrangements, while the system of reserve bids at auctions, first made more flexible by adjustments of the floor price, was later abandoned.

A decline in export earnings also exercised an important influence on the situation in India. Indeed, coming after two years of deterioration in the external balance, and a poor 1957/58 grain harvest, it was a major determinant of economic policy. There being little scope for further cuts in imports of consumer goods, relief was sought chiefly in foreign loans. There was a marked slowing down in the rate of increase in investment, however, even in the public sector: part of this was in the nature of the arithmetic of the five-year plan, part reflects deferment of certain projects. Though some taxes were increased in February, the budget remained substantially in deficit and, notwithstanding the Government's "fair price" policy with regard to food sales and a reduction in excise duties on cloth and tea, the cost of living index continued to rise.

With inflationary forces much more deeply entrenched, Argentina, Turkey and Uruguay also tended to shape their domestic economic policies in the light of changes in the external situation. In Turkey, the effect of lower commodity prices was accentuated by a reduction in the output of several export products—particularly tobacco, copper, lead and chromite—as well as by a tendency for a higher proportion of output to be consumed internally. The mid-year adjustment of currency values, referred to in the previous section, was part of a wider stabilization programme which also involved price controls and the rationing of various essential goods and later a rise in indirect taxes, aimed at curbing consumption as well as reducing the government deficit. The severe curtailment of imports tended to hamper production in some industries and it added to the pressure on prices which had raised the cost of living by about a fourth in the course of the year.

In Uruguay, the curtailment of imports was even more severe and in 1958 there was some acceleration in the rate of increase in domestic prices. Part of the difficulty, however, lay in the price policy in respect of export products: after the adjustments discussed in the previous section, first in regard to wool and later meat, employment and incomes in the export industries improved, along with the exchange earning capacity of these industries. The domestic economy remained out of balance, however, for apart from the shortage of imported goods—including raw materials and components for local factories—and notwithstanding widespread tax increases, the public sector remained in substantial deficit, and the retail price level rose by a fifth during the year.

In Argentina, efforts to improve the state of internal equilibrium also continued to be hampered by a large trade deficit, though a decline in import prices between 1957 and 1958 compensated in some measure for the slow growth in export earnings. Several steps were taken in the course of the year to enlist a greater amount of foreign capital in the development process: concessions were made in the fiscal treatment of interest and dividends, depreciation allowances were increased and certain capital expenditure treated as current in the field of forestry and mineral development, and later in the year *ad hoc* arrangements were negotiated with foreign concerns for accelerating the rate of petroleum exploration and mining. In March, efforts were made to increase building construction: rent increases were authorized and a new form of

[8] The cost of buying up the 4 million bags of coffee that Brazil had agreed to withhold from the 1957/58 crop, even at the relatively low average price of 1958, would have involved an outlay equivalent to between a fifth and a fourth of total 1958 export earnings, an amount of the same order as the current account deficit on the balance of payments.

housing loan initiated. In mid-year, credit conditions were liberalized by a lowering of commercial bank marginal reserve requirements, while encouragement was given to agricultural production by a general increase in support prices. Though there was a modest rise in total output, powerful inflationary forces—including the public deficit—were still at work, and with a continuing rise in retail prices—about 50 per cent in the course of the year—strikes alternated with wage increases in different sectors of the economy. The policy of seeking to hold down prices and wages that was followed in the first part of 1958 gave way to one of letting price increases restrain consumption. Postage and utility rates were raised in October and the higher peso cost of imports was passed on to the rest of the economy. Late in the year, however, there was some renewed restraint on credit, a general increase in taxes and an attempt to reduce current expenditure by removing redundant workers from the public payroll.

The effects of lower world prices on the domestic economy of primary exporting countries was also apparent among the sugar exporters. The largest reductions in receipts were registered by the smaller producers in the Caribbean and Indian Ocean areas; Cuba also earned less than in 1957 but China (Taiwan) increased its total earnings by means of a substantial expansion in volume. In Cuba, the depressing effect of the reduction in earnings was accentuated by internal strife, and development was retarded: both the per capita level of consumption and the rate of capital formation were lower than in 1957 when sugar incomes were exceptionally high. A contributory factor was the restraint placed on credit conditions in January—and again in May—when interest rates were raised and the cash reserve requirements of the commercial banks increased. Minimum wage rates were raised by 30 per cent in March, but in August, and again in October, disposable income was reduced by a wide range of tax increases. In China (Taiwan), by contrast, external pressures tended to be somewhat less than in 1957. There was an easing of credit—especially in the second half of the year when special facilities were created for industrial borrowers—bank reserve limits were lowered and interest rates reduced. Investment was maintained more or less at 1957 rates, even though rice and sugar crops in 1958/59 were somewhat lower than in the previous season.

Where, because of their size, or because of trends in trade or capital movements, foreign exchange reserves were judged adequate to meet immediately foreseeable movements in the external balance, the deflationary influence of the decline in export proceeds could in various ways be deliberately counteracted by internal policy. In Australia, for example, the liquidity, and hence the lending capacity, of the commercial banks was increased by the release of part of the special reserves they are required to hold in the Central Bank, while the budget introduced in mid-1958 was geared mainly to the domestic situation: by widening the deficit, it was designed to help in the maintenance of employment and aggregate income in the face of a major reduction in agricultural earnings.

Such a course of action was also possible in Venezuela, which found itself in the unusual position of registering a decline in a number of economic variables between 1957 and 1958. These declines, however, reflected the exceptional conditions of 1957 rather than a reversal in underlying economic trends: not only did the Suez crisis result in a considerable upswing in petroleum production and exports in 1957, but there was also a major influx of capital consequent on the disposition of new petroleum concessions. In 1958, trade in petroleum was lower, total production was barely maintained, there was a reduction in capital formation, and per capita consumption was sustained only by drawing down foreign exchange reserves. In order to encourage building, certain tax concessions were enacted in July, but the effect of these on revenue was offset later in the year by an increase in income taxes. This increase was the result of a tax reform designed to give the Government a greater share of petroleum profits and thus to step up its redistributive function in support of the less developed sectors of the economy, notably agriculture.

Outlook[9]

With recovery beginning to get under way in the industrial countries, the demand for some of the products of the primary exporting countries began to pick up slightly in the second half of 1958 and this process continued in the first quarter of 1959. Where production rates had been adjusted to the lower level of consumption—as in the case of tin, copper and rubber, for example—prices began to rise, as they did in the case of commodities such as sisal, abaca, jute and zinc which benefited from an expansion in demand originating in increased motor-car production or in larger grain harvests. The rise in the prices of butter, cheese, beef, copra and palm kernels, which had begun earlier, continued in the second half of 1958, and in the first quarter of 1959 their averages were all above those of both the first and the last quarters of 1958. It was mainly as a result of these movements that the downswing in the price index of primary commodities in international trade was brought to a halt. Even the textile industry—the most generally and in some countries the most seriously depressed industry in

[9] This section is based in part on replies received from Governments to the United Nations questionaire of November 1958 on economic trends, problems and policies.

1958—began to show signs of recovery, at least in the United States; in the early months of 1959 the steep decline in wool prices was halted and, in the case of coarser staples, even reversed.

The extent to which these upward price trends are likely to persist and be reflected in the export earnings of the primary exporting countries depends not only on the maintenance of higher rates of consumption in the industrial countries but also on demand from the centrally planned countries as well as the primary exporting countries themselves. It is also a function of supply both in the aggregate and from particular exporters. The prospects for movements in these variables are far from uniform.

In the case of rubber, the price rise that began in mid-1958 has continued fairly strongly, with some acceleration evident towards the end of the first quarter of 1959 and futures being quoted somewhat above spot prices. At the beginning of May, London quotations were almost 50 per cent above the low point of a year earlier, reflecting both increased rates of consumption in the industrial countries and larger purchases by the centrally planned countries. These developments bear out the expectations of such countries as Thailand that 1959 would bring a higher unit value for rubber exports. There are restraining influences on the supply side, however, originating on the one hand in the possibility of increased output from recently planted high-yield trees in Malaya and western Africa and from smallholders in Indonesia, who have in the past responded to the incentive of higher prices, and on the other hand in the availability of greater capacity for producing synthetic varieties. The most notable expansion of this capacity has been in western Europe; and though it has been assumed that the initial effect of these new facilities would be to reduce imports from North America rather than reduce consumption of natural rubber, the wider the gap between the two prices the greater the probability of substitution.

The rise in the prices of copper, zinc and tin had its origin in 1958 in restrictions on supply; later in the year, however, increasing rates of consumption began to sustain the market, enabling some stocks to be liquidated. In the first quarter of 1959, London prices were above the corresponding 1958 figure by 42 per cent for copper, 18 per cent for zinc and 5 per cent for tin. For copper and tin—but not for zinc—futures were quoted at a premium over spot prices. As in the case of rubber, however, available capacity seems adequate to meet any immediately foreseeable increase in demand. In the case of tin, indeed, idle facilities are unlikely to be fully recommissioned until stocks in the buffer pool are reduced and some of the buying power of its manager restored. Though the International Tin Council has raised quotas for the second quarter of 1959, 15 per cent above the minimum level of the preceding six months, they are still at little more than 60 per cent of the average rate of production in 1957.

In the case of copper, mine capacity that had been taken out of production early in 1958 began to be reabsorbed later in the year when stocks were run down by prolonged strikes in Chile and Rhodesia. The industry is in a position to meet a considerable expansion of demand, however, by virtue of the prospective opening of the El Salvador mine in Chile (with a potential output of 100,000 tons a year) and the Toquepala mine in Peru (100,000 tons) and the reopening of the Bancroft mine in Northern Rhodesia (40,000 tons). Several countries are expecting to export less zinc in 1959 than in 1958, but this reflects changes on the demand side—notably the quota restrictions imposed late in 1958 on imports into the United States—rather than any shortfall in supply. For similar reasons, lead exports are also expected to be lower; since lead has not participated in the recovery of non-ferrous metal prices, moreover, earnings from these exports may register a greater decline. This possibility was one of the factors leading in May 1959 to the setting up of an International Lead and Zinc Study Group to examine the industry's problems. At the conference which led to the establishment of the Study Group, several countries—including the major exporters Australia, Mexico and Peru—undertook to reduce their lead and zinc output for the remainder of the year.

The pastoral products—butter and cheese, beef, and, more recently, wool and hides and skins—are also among those showing a rising price trend. Except in the case of beef, however, this represents no more than a recovery—still partial in the case of wool—from the low levels to which these prices had fallen in 1957 and 1958. Though, among the exporters, New Zealand does not expect average unit value to be higher in 1959 than in 1958, the price trend in the early months of 1959 reflects the increase that was taking place in consumption—in the case of wool, for example, a return to 1957 rates in several countries. Though still averaging well below the 1958 level, wool prices rose by a fourth or more in the first four months of 1959, reflecting increased demand from the centrally planned countries as well as the industrial countries. Butter prices in the first quarter of 1959 averaged about a fourth more than in the corresponding portion of 1958, while cheese prices had doubled.

Beef, the exception in the previous group, was one of the commodities enjoying a firm market in 1958, and indications are that it is likely to maintain its position: the average price in international trade in 1958 was a post-war record and in the first quarter of 1959 prices were well above the corresponding figures a year earlier. Demand in the United States continues strong,

while supplies may tend to fall off—in Argentina because of the high rates of slaughter in recent years and the difficulty of cutting domestic consumption and in Australia as a result of the 1957 drought. Much, however, depends on production in the principal importing countries of Europe, not only of beef but also of pork and lamb.

The prospects for copra and palm kernels are less clear. Their prices rose steadily during 1958 in the wake of supply difficulties caused chiefly by drought in the Philippines and a substantial reduction in Indonesian shipments: in the first quarter of 1959 prices for both commodities were at a post-Korean high and well above the 1958 average. Though supplies may improve in 1959, the effects of Philippine drought are likely to persist. However, at the higher price level these products are subject to increased competition from the softer oils—from ground-nuts, for example —production of which is substantially greater in 1958/59 than in 1957/58. Though ground-nut prices have risen fairly steadily since mid-1958, the price ratio of ground-nut oil to coconut oil was reversed—from 5:4 in the last quarter of 1957 to 4:5 in the last quarter of 1958.

The hard fibres are also among the products showing a firmer price trend in the second half of 1958; and in the first quarter of 1959 sisal averaged about a sixth higher than in the corresponding portion of 1958 and abaca about an eighth higher. In the case of sisal the gain reflects increased demand flowing partly from the larger cereal crops in many countries and partly from a higher level of industrial consumption, especially in the motor-car industry. In the case of abaca, lower output—caused by drought and disease in the Philippines—was largely responsible.

Against these signs of probable improvement in the terms of trade of the primary exporting countries, however, are a number of negative factors. Chief among them is the problem of longer-term maladjustment between demand and supply, evidenced by a price decline in 1957 and 1958 coincident but not directly connected with the industrial recession. The commodity falling most clearly in this category is coffee, the supply of which—boosted by large successive crop increases in 1957/58 and 1958/59—has far outrun immediate consumption needs at foreseeable price levels. But a number of other commodities are in a basically similar market situation, distinguished only by the fact that most of the excess supply is held not in the primary exporting countries but in the United States. It is for this reason that the world price of such commodities as maize, wheat and cotton (other than extra-long staple varieties) depends very largely on the export policy of the United States. None of these products in chronic surplus participated in the firming of market prices in the latter part of 1958 or early in 1959.

Coffee prices in the first quarter of 1959 were all substantially below the corresponding 1958 figures: by a fourth in the case of Brazilian hard, a fifth in the case of Angolan robusta and a sixth in the case of Colombian mild. Futures, moreover, were quoted at considerable discounts on spot prices. Most coffee producers—many of them carrying very large stocks—expect to maintain the volume of exports but, as prices are expected to continue their downward drift, coffee earnings are likely to be lower than in 1958. On this basis, countries such as El Salvador and Guatemala predict a further deterioration in their balance of trade. The extent to which prices do in fact fall will be determined in large measure by the efficacy of the export quota system being introduced among participants in the Coffee Agreement to replace the stock retention scheme that operated in 1958.

Maize prices were about the same in the first quarter of 1959 as a year before, but wheat and cotton prices were much lower. Subsequently, the decline in the latter appears to have been halted, in the case of wheat by the stabilizing effect of a new International Wheat Agreement, in the case of cotton by an increase in rates of consumption. The recovery in demand for cotton has begun to raise prices not only of American types—whose prices had dipped in anticipation of the increase in United States export subsidy from 6.5 to 8 cents a pound due to take effect in August—but also of extra-long staples which had fallen precipitously almost to parity with the medium staples. The Wheat Agreement coming into force in August 1959 appears likely to be more effective than the one it replaces, if only by virtue of the participation of the United Kingdom, the largest importer. It has reduced slightly the upper limit of the range of prices for transactions, fixed ratios of total imports that each importing participant is to acquire from exporting participants, set out guiding principles for surplus disposals and arranged for the Wheat Council to review regularly the state of international balance in the wheat market.

Another commodity whose market reflects the existence of surpluses is sugar, the price of which has fallen steadily since the shortfall in European production at the time of the Suez crisis. Though the guaranteed market in the United Kingdom will yield a higher return in 1959 than in 1958 to the exporters participating in the Commonwealth Agreement, prices on the free market are likely to reflect the fact that the 1958/59 European beet crop is of record dimensions, about 8 per cent above the 1957/58 level. Output in many of the exporting countries—notably Cuba—is also high. After dropping back to the 1956 level in 1958, these free prices weakened appreciably in the first quarter of 1959—averaging about an eighth below the corresponding 1958 figure. Though substantially above this free level, prices on the United States market have also weakened and, despite an increase

in import quotas, countries selling sugar to the United States may not raise their 1959 export earnings above the 1958 level.

The outlook for tea is similarly mixed. On the one hand, the demand for the better grades of high-grown tea has continued firm, but on the other hand, supplies of poorer grade, low-grown varieties have been increasing more rapidly. In the first quarter of 1959, prices of the former were fractionally higher than in the corresponding period in 1958 whereas prices of the latter were appreciably lower. The result has been a widening price spread, with Ceylon showing an increase in the unit value of its tea exports and India a decrease.

Among the commodities that are likely to yield an appreciably lower unit value to exporters in 1959 are some whose prices in 1958 reflected particularly poor 1957/58 crops. The cocoa crop, for example, which was about 14 per cent below the 1956/57 level in 1957/58 is back to within 3 per cent of the earlier level in 1958/59. Spot prices in the first quarter of 1959 averaged 13 per cent below the corresponding 1958 figure and 9 per cent below that of the last quarter of 1958, while futures were quoted at a substantial discount.

Similarly the rice crop, after an 8 per cent decline in 1957/58, is back at the 1956/57 figure in 1958/59, and prices in the first quarter of 1959 also averaged appreciably less than in the first or last quarters of 1958. Burma and Thailand, with much larger rice crops at their disposal, are likely to expand their exports very considerably, the limiting factor being not the supply, as it was in 1958, but the demand from net importing countries which—with the exception of Pakistan—have all enjoyed better harvests. Thailand expects the export price of rice to "drop slightly" compared with 1958, but much depends on the extent to which mainland China—whose exports played a major role in the market in 1958—participates in the region's rice trade. China's 1958/59 paddy crop is reported to be substantially above the level of the previous year.

In the light of recent developments, petroleum is also likely to yield a lower unit value in 1959 than in 1958. This reflects both the slackening in the rate of growth in demand that accompanied the industrial recession and an expansion in supplies as the investment made in recent years has begun to yield results. In February 1959 cuts were made in the posted price of crude oil—first in the Caribbean and shortly afterward in the Persian Gulf—the effect of which was to widen the gap between Middle East and Venezuelan prices and to reduce the former below its pre-Suez level. Several countries expect to export a greater volume of crude petroleum in 1959 than in 1958. Iraq, for example, looks forward to a doubling of production in the course of the next three years, though in 1959 the decline in price may offset the expansion in the volume of exports. It is possible that Iran, too, may derive little if any financial gain from the increase in output expected in 1959. The same is likely to be true in Venezuela where an 8 per cent expansion in export quantum is forecast. Unless the rapid growth in consumption is resumed in 1959, such expansion in the exports of these major producers may make it difficult for other exporters to increase their shipments or maintain their earnings, especially in the face of the rise in output in some of the newer areas in northern and western Africa and Canada and the quota restrictions placed on imports into the United States.

It is against this background of commodity trends that the outlook of the primary exporting countries has to be assessed. There are relatively few countries in which export earnings are likely to suffer to any great extent as a result of a shortfall in available supplies. Compared with 1958, less cotton may be available from the current harvest in Brazil, Nigeria, Pakistan and Syria, less rice in Egypt and China (Taiwan), less wheat in Uruguay, less sugar in Australia, China (Taiwan) and the Philippines, less ground-nuts from Nigeria, less beef from Argentina and Uruguay. But some of these reductions are from abnormally large 1957/58 crops, some can be made good from accumulated stocks, and, in the case of the beef exporters, price movements are likely to compensate for the reduction in volume. Apart from these instances of adverse crop change, the general picture is one of ample exportable supplies from all the main sources of agricultural produce. And, as indicated above, capacity should pose no problems in the way of expanding the supply of non-agricultural commodities.

Among the special factors that are likely to influence the nature and distribution of the export trade of the primary exporting countries are the opening of the St. Lawrence Seaway and the inauguration of the European Common Market. The full effects of these innovations are not likely to make themselves felt immediately but certain repercussions are already being allowed for by some countries. The Seaway is likely on the one hand to increase the competitiveness of some United States agricultural products—cereals and oil-seeds in particular—on world markets and on the other to make the North American hinterland more accessible to some of the products of the primary exporting countries. This applies especially to commodities with a low value to bulk ratio—iron ore, for example, exports of which are expected to rise in several South American and western African countries.

Some of the territories that are associated with the European Common Market are expecting to derive some early benefits not only in the shape of investment funds but also by way of new export opportunities. The Belgian Congo, for example, hopes to expand its shipments of coffee and rubber to members of the European Community as a result of the new tariff arrangements.

Since, in the short run, expansion of this nature is more likely to involve the displacement of exports from other sources than a net gain in total shipments from the primary exporting group as a whole, there may be some consequential changes in the pattern of trade, but these will hardly be of much significance in 1959.

On the whole it seems likely that, whatever gains are made in export proceeds in 1959, they will be of a moderate order in the aggregate, their magnitude determined by the degree to which demand has recovered in the industrial countries rather than by output or potential output in the primary exporting countries. Changes in export-generated capacity to import are therefore unlikely to be such as to lead to any immediate new upsurge in imports into the primary exporting group.

Almost all the countries that achieved a better balance of their external accounts did so by fairly drastic cuts in imports. Such cuts are not likely to be repeated but, reserves having been drawn down in many cases to a relatively low level, there is little scope for any great rise in import expenditure. In the few countries where an increase is contemplated or expected—Argentina, El Salvador, Thailand, Turkey, Uruguay, Viet-Nam, for example—it has been made possible by or is contingent upon the receipt of foreign capital or commercial credits. Venezuela expects that if imports do expand, the increase will be less than that of exports. Income changes in Australia, Rhodesia and South Africa and other countries in which there was a sharp deterioration in the terms of trade in 1958 have not been such as might be conducive to greater imports. In India, Indonesia and New Zealand, strict controls are still in force: in general, increases are to be limited to essential raw materials and components required to sustain domestic industry. In New Zealand, indeed, total allocations for private imports—despite certain relaxations made early in 1959—are appreciably below the 1958 level. In India and Indonesia—as in the case of the Philippines and other countries of south-eastern Asia—the improved harvest of 1958/59 has reduced the need to import food. No significant change is expected in Ceylon, but in Burma imports are to decline slightly, in China (Taiwan) they are expected to decline rather more than exports, and in the Republic of Korea they will follow the downward course of foreign aid. Guatemala is contemplating a 10 per cent cut in imports for balance of payments reasons and in Brazil the expectation that "the foreign exchange problem will not become less serious" seems to rule out any large expansion in import expenditure.

One of the consequences of the probable course of imports in 1959 may be to bring to a halt the loss of foreign exchange reserves that has proceeded for the past three years. Though the state of external equilibrium of the primary exporting countries as a group may thus be improved, it is likely to be at well below the pre-recession level of trade. And in many cases, a lower level of imports may also mean a lower rate of growth. This situation has already arisen in countries in which restriction, having been enforced to the point of more or less eliminating all but the most essential consumer goods from imports, has had to fall on producer goods as well. Industrial production—to say nothing of construction and investment—has been handicapped by supply difficulties caused in this fashion in many instances and in countries as divergent in other respects as Argentina, Colombia, India, the Philippines, Turkey and Uruguay.

In general, however, the restraints on imports may well have somewhat less of an inhibitive effect on internal growth in 1959 than they had in 1958. Domestic production promises to be appreciably higher and this should relieve the foreign trade budget of part of the burden it bore in 1958. The recovery in agriculture—particularly marked in south-eastern Asia, but also significant in Brazil and a number of other food-deficit countries—should greatly reduce the need to import foodstuffs, a need which, notwithstanding large-scale aid from United States surpluses, imposed an additional strain on foreign exchange resources in 1958. Increasing fuel production in a number of countries should operate in the same direction. The proportion of petroleum requirements produced from local fields has risen measurably in a number of fuel-deficit countries, including Argentina (where it accounts for about a third), Brazil (a fifth) and Egypt (two-thirds) and developments now under way in these countries as well as in Israel, Pakistan and Syria should raise these proportions further in 1959. The fuel import bill is also being reduced by the changing composition of imports consequent upon the establishment of local refineries not only in the countries with domestic production of crude petroleum, but also in such countries as Australia and South Africa which still depend almost entirely on imports.

Funds released from the importation of food and fuel will be available to maintain or increase imports of producer goods necessary to raise the rate of fixed capital formation. And indications are that the rate of investment will in fact be raised in many of the primary exporting countries. Much of the increase will flow from declared or budgeted intentions of government. In Ceylon a large increase in capital expenditure will affect many activities in the public sector. In Burma and Indonesia an increase in public investment is expected to offset a reduction in private fixed capital formation. In Viet-Nam, where private investment is expected "to grow at a slow rate", the government capital account is 7 per cent greater than in 1958.

In Argentina the rate of capital formation will be raised by renovations and improvements to the publicly-owned railway system. Railway investment con-

tinues to be a major component of expanding investment in South Africa where private capital formation may also pick up in 1959 in the wake of the relaxation of credit that took place towards the end of 1958. Transport investment is also one of the principal items in the planned expansion of public capital formation in the Sudan and, along with other elements of infrastructure, in the development programme of Ethiopia.

Another major increase in investment is expected in Israel, largely in construction and partly a consequence of the continued high rate of immigration. Immigration continues to be an expansionary force in Australia, too, where the rising trend in investment that got under way in the second half of 1958—under the stimulus of an increased inflow of foreign funds as well as a high level of public capital expenditure—is expected to continue into 1959.

A further expansion is in train in the United Arab Republic where a new industrialization programme is commencing, supplemented in Egypt by investment in the first stage of the Aswan dam project and in Syria by the development of newly discovered petroleum resources. In Ghana the second development plan is to be inaugurated in the middle of 1959 and private investment is also expected to increase. A new ten-year plan is due to be undertaken in the Belgian Congo and some elements of this are being anticipated in a public works and agricultural development programme devised late in 1958 in order to combat unemployment. The mining sector is participating in this stepping up of the rate of investment and a rise in the price of copper would stimulate the process as it would in Rhodesia where, following the loosening of credit restraints late in 1958, private investment is also expected to expand. In Venezuela where a renewed inflow of capital is expected, new steel and chemical industries should broaden domestic investment resources, even though the tendency of the present fiscal system to redistribute incomes in favour of the rural community is expected to encourage consumption at the expense of capital formation.

Some expansion is also possible in New Zealand, partly in the industrial sector, which is being indirectly stimulated by the control imposed on competing imports, and partly in the field of housing under the stimulus of increased government lending. In El Salvador, investment in housing and in the export sector is expected to decline, but the effect of this is to be offset by expansion in the public sector which the Government hopes to finance with the aid of foreign credits. An inflow of capital is also regarded as an essential prerequisite for any increase in investment in a number of other countries, including Brazil, Somaliland and Thailand, all of which expect to have more foreign capital at their disposal. In the Republic of Korea the level of construction is expected to "decrease slightly" as foreign aid is reduced, bringing gross fixed capital formation down by one or 2 per cent.

Present indications suggest that the actual flow of capital into the primary exporting countries in 1959 should be at least as great as in 1958. Both the number of international agencies and their capacity to lend are increasing and although such new bodies as the Inter-American Development Bank or the Arab Financial Institution for Economic Development are unlikely to play an important role in the immediate future, the International Finance Corporation and the United Nations Special Fund are stepping up their activities, and the Overseas Countries Development Fund organized by the European Economic Community is embarking on a large-scale lending programme in the dependencies of its members—of which about $58 million is to be provided in the year ending in October 1959. The International Bank for Reconstruction and Development continues to be a major source of funds and apart from loans that may be negotiated in 1959, the amount outstanding on earlier loans to the primary exporting countries—in excess of $800 million at the end of 1958—was $100 million greater than a year before. The increase in the resources of both the International Bank for Reconstruction and Development and the International Monetary Fund, at present under way, should also serve to expand their operations.

Bilateral arrangements also indicate an increase in the outflow of capital from the industrial countries. The United States Export-Import Bank is to receive $240 million in new funds in 1959, while the amount outstanding on lines of credit previously negotiated with the primary exporting countries exceeded $1 billion at the end of 1958—$200 million more than that a year earlier. The United States Development Loan Fund, for which the Administration is seeking substantially greater obligational authority, has inaugurated a system of guaranteeing credits extended privately to foreign borrowers. Arrangements made by the Soviet Union with a number of primary exporting countries in 1958 should also increase the volume of external credit available to them in 1959. The United Kingdom is pledged to facilitate borrowing by Commonwealth countries and dependencies, including the possibility of Treasury credits when market loans are not available. The Belgian Congo is to receive a grant of about $20 million from the metropolitan country, while the completion of new institutional arrangements within the French Community should be followed by a resumption of capital exports from France to its former dependencies.

Though the United States capital market has become much tighter than it was in the first half of 1958, opportunities for private borrowing have improved greatly in western Europe—notably in Switzerland and the Federal Republic of Germany—where interest

rates have declined and liquidity increased. The lifting of controls over domestic issues on the London capital market may also stimulate private capital exports—through the financial arrangements made by concerns with oversea subsidiaries. At the same time, the availability of short-term credit seems more likely to increase than to diminish: this reflects not only easier conditions on European capital markets which may be expected to facilitate the financing of exports but also the extension of various systems of official guarantee under which the exporter can insure against most of the risks of lending of this nature, as well as the intensification of competition among industrial suppliers in the face of the 1958 reduction in the import expenditure of the primary exporting countries.

Though the availability of capital should make for some expansion in the outflow to the primary exporting countries in 1959, the incentive to invest in the export industries in those countries is likely to be much smaller than it has been during most of the post-war period. Nevertheless, it is private foreign capital that is involved in an expansion in rubber and iron ore capacity in the export sector in Liberia, in the Konkoure bauxite and power project in Guinea, and in production and transport facilities for petroleum in Iraq. This projected increase in investment in Iraq, however, is likely to be offset by some contraction in domestic capital formation: in order to reduce the deficit on the ordinary budget a larger proportion of oil royalties is being diverted from the development fund. A similar diversion is contemplated in Iran where a ceiling, equivalent to about $130 million—about 80 per cent of total oil receipts in 1958—has been imposed on the amount of oil royalties allocated to the Plan Organization in 1959/60.

Guatemala and India also expect to see some cutting back of investment in 1959, only fractional in the case of the latter but relatively large in Guatemala. Both reductions reflect the inhibiting effects of foreign exchange stringency which, in combination with measures designed to combat fiscally-induced inflation, is also likely to restrain investment, if not to reduce it, in a number of other countries including Bolivia, Colombia, Pakistan, Peru and Turkey. In these and several other countries an increase in the availability of foreign credits or aid would probably induce an expansion. Chile may attempt to raise its level of capital formation even without a greater inflow of capital, the deflationary stabilization programme—its effects accentuated by the decline in copper prices—having caused an appreciable increase during 1957 and 1958 in the volume of idle resources. Fear of increasing the level of unemployment also stands in the way of stabilization plans in Argentina where any significant reduction in the budgetary deficit would involve a cutback in the civil service. Unemployment continues to increase in India and on a smaller scale in Ceylon, too. In these countries, however, it seems less the result of relatively short-term disequilibrium in production, consumption and investment than evidence of more deep-seated maladjustment in the propor tions in which labour, skill and capital are available in these low-income economies as they begin periods of more intensive industrialization.

In general, 1959 is thus unlikely to see any great improvement in the state of internal imbalance in those countries in which inflationary forces have been particularly persistent or in which structural maladjustment has been a marked feature. Internally, accretions of resources and gains in productivity are not likely to be large enough to correct the imbalance between demand and supply and between savings and investment. And externally, the balance of trade and payments is too precarious, reserves are too low, and probable movements in the terms of trade either unfavourable or too small to provide the means for bringing the domestic accounts much nearer to equilibrium.

For the rest—the great majority of the primary exporting countries—the year may well bring some reduction in the degree of external disequilibrium. If 1957 was a year of major external imbalance, and 1958 a year of downward adjustment, 1959 could be a year of levelling out, leading in due course to a resumption of growth in their international trade. How long it will be before expansion gets under way again depends very largely on the rate of recovery in the industrial countries.

Chapter 7

RECENT TRENDS IN CENTRALLY PLANNED ECONOMIES

Current economic trends

Agricultural production

During 1958, the outstanding development in agriculture was the striking increase in output of over 60 per cent recorded in mainland China. In the Soviet Union there was an increase of about 12 per cent. On the other hand, in other eastern European countries the levels of output attained in 1958 were only moderately higher than in the preceding year, the increases ranging from 1.3 per cent in Bulgaria to 6.7 per cent in Eastern Germany[1] (see table 91).

The expansion in mainland China primarily reflected an increase in crops, though the output of animal husbandry, which accounts for a minor share of the total, also rose considerably. In the Soviet Union, good crops similarly accounted for most of the increase, the rise in output of animal husbandry being relatively modest. In most eastern European countries, by contrast, the performance in animal husbandry was better than that in crops, especially in Bulgaria and Hungary, where expansion of livestock production was sufficiently large to outweigh a reduction in crops.[2] Czechoslovakia and Eastern Germany were exceptions, however, livestock production in the former remaining nearly unchanged while crops rose by 5.8 per cent after two successive years of decline.

Table 91. Indices of Agricultural Production
(Preceding year = 100)

Country	*1955*	*1956*	*1957*	*1958*
China (mainland)	108	105	104	164
USSR	(113)	(115)	(95)	(112)
Other eastern European countries, total	108	97	109	...
Bulgaria	110	93	116	101
Czechoslovakia	111	102	99	103
Eastern Germany	101	101	111	107
Hungary	112	88	113	105
Poland	102	108	104	103
Romania	119	80	121	...

Source: Reports on fulfilment of plans; national statistical yearbooks of Bulgaria, Czechoslovakia, Eastern Germany, Hungary, Poland and Romania; reply of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies; *Hsin-Hua Semi-monthly* (Peking). Group index and the index for the Soviet Union estimated by the method described in source to table 38.

In mainland China, bumper harvests of all the major food crops were reflected in such unparalleled increases in output as 74 per cent reported for grain,[3] 334 per cent for potatoes and 42 per cent for sugar-beets and sugar-cane (see table 92). No less impressive were the increases in output of industrial crops; cotton and tobacco, which are two of the major crops, recorded increases of 102 and 115 per cent respectively. These changes were the more remarkable since, in 1957, output of all major crops had already reached peak levels after years of continued expansion.

It is noteworthy that the rise in output of crops in mainland China was attained without any appreciable increase in the sown area. Although in general the weather was favourable, 6 million hectares were affected by drought and 25 million hectares were endangered by dry weather and saved only by the extension of irrigation works. If account is taken of the fact that fluctuations in output owing to changes in weather conditions have, as a rule, not exceeded 10 per cent in either direction, it appears that the steep increase in 1958 yields was mostly the result of technological improvements and more intensive methods of cultivation. One of the factors contributing to this increase was the extension of the irrigated area, the share of which registered a rise from 31 per cent of cultivated land in 1957 to 60 per cent in 1958.[4] This extension was the result of a drive launched in the autumn of 1957, whereby local manpower was mobilized for construction of a great number of local irrigation and flood-control projects, such as small reservoirs, embankments and ditches. A second factor was the increased use of manure, silt and other types of natural fertilizer, the amount of which was reported to have increased ten times.[5] A third factor was the application of the deep ploughing method to about 8 million hectares in the winter of 1957 and spring of 1958.[6] Not less important was the extension of close planting which, together with intensive use of fertilizers, made it possible, at least in some areas, to double,

[1] Romania did not report data on total agricultural production, but it seems likely that the aggregate level of agricultural output was lower than in the preceding year, since output of crops seems to have declined very considerably.

[2] In Bulgaria plant production declined by 6.5 per cent while the output of animal husbandry rose by 17.2 per cent. In Hungary the former declined by 2 per cent while the latter increased by 16 per cent.

[3] The percentage increases for particular grains were: wheat—67, rice—73, maize—110, and miscellaneous grains—75.

[4] *Peking Review* (Peking), 28 October 1958.

[5] *Peking Review*, 28 October 1958.

[6] It is planned to deep plough all the arable land once every three years.

Table 92. Output of Major Crops, by Country
(Millions of tons)

Country	Grain[a]			Sugar-beets			Potatoes		
	Average 1954-56	1957	1958	Average 1954-56	1957	1958	Average 1954-56	1957	1958
Bulgaria	3.6	4.7	3.9[b]	0.7	1.4	...	0.3	0.3	...
China (mainland)	153.5	164.7	286.9	8.2[c]	10.0[c]	14.2[c]	19.2	20.3	88.1
Czechoslovakia	4.9	5.2	4.9	5.4	6.8	6.9	8.6	8.8	7.1
Eastern Germany	5.5	5.4	5.8	5.7	6.4	6.3	10.1	14.5	12.4
Hungary	5.7	6.9	5.6[b]	2.0	1.9	2.1[b]	2.2	2.7	2.6[d]
Poland	11.9	13.2	13.5	6.9	7.6	7.4	33.6	35.1	35.8
Romania	8.3	11.0	7.3	1.6	2.0	...	2.6	3.1	...
USSR	106.4	104.7	139.2	27.6	39.7	54.1	96.0[e]	87.2	86.1

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins.

[a] Wheat, rye, barley, oats, maize for grain; in China (mainland) and probably in the Soviet Union, also paddy and millet. Because of the inclusion of millet, the figures given in this table for China (mainland) differ from those used in table 48.

[b] Partly estimated.

[c] Including sugar-cane converted into beet equivalent by applying approximate rates of sugar extraction from beets and from cane.

[d] Estimated on basis of reported acreage and yield.

[e] 1956.

or more than double, the numbers of plants per unit of land. Further, the more effective control of plant diseases through a substantial increase in the use of pesticides and by other means, together with more widespread planting of better strains of seeds and the increased use of superior tools and implements played a significant part in the expansion of output.[7]

An important element in the rise in agricultural production in 1958 was a considerable increase in the man-hours expended both on irrigation works and on the cultivation of land. This was achieved through the mobilization of millions of peasants into brigades and other working units. The new form of organization permitted not only a more extensive division of labour within each collective farm, but also the continued utilization of labour on various projects during the slack agricultural seasons. In this way, the effective number of days worked per man throughout the year was considerably increased.

It is significant that the very steep increases in the productivity of land which took place in 1958 brought the average yield per hectare of rice in mainland China up to the level attained by Japan in recent years. The average wheat yield in 1958 was, however, still considerably below that of Japan or Italy, while the yield of cotton, though greater than in Japan, remained substantially below the levels attained in other high yield countries, including the Soviet Union.[8] Agricultural plans in mainland China call for the continuing extension of agricultural projects, such as irrigation schemes, and of improved methods of cultivation, together with large-scale regional specialization, so as to achieve both further substantial increases in yields per hectare[9] and reductions in the amount of manpower engaged in agricultural activities.

The record crops reaped in the Soviet Union were mostly the result of generally favourable weather conditions which, though deteriorating in some areas at harvest time, brought forth excellent crops in both the old and the new producing regions.[10] The barn crop of grain exceeded the peak level of 1956 by 9 per cent; in absolute terms, it amounted to 139 million tons, of which 75 million tons was wheat. Even better results were obtained in sugar-beets and sunflower seeds, the output of which exceeded the previous peaks by 36 and 15 per cent respectively; the same was true of fruit output, which has continuously increased in recent years. In contrast, output of potatoes and vegetables was lower and that of cotton almost equal to the previous peak level.

The relatively poor performance of crop production in eastern Europe, especially in Bulgaria, Hungary and Romania, was due partly to adverse weather conditions which affected the grain harvest. In Czechoslovakia,

[7] About 10 per cent of the standing crop was reported to have been lost in the past through plant-diseases and destruction by insects, birds and the like. In 1958, about one-third of the country was free from such diseases or pests as wheat-rust and the caterpillars which attack rice, while a concerted effort was made to reduce other losses. Selected strains were reported to have been used on 69 per cent of the sown area. And some 350 million new and improved farm tools were reported to have been in use in rural areas along with quantities of large drainage and irrigation equipment (*Hsin-Hua Semi-Monthly*, 20 March 1959).

[8] The average yield per hectare of some of the major crops was as follows (in hundreds of kilogrammes):

	China (mainland)		Japan	Italy
	1957	1958	1957	1957
Rice	27	46	44.3	47.4
Wheat	8.6	14.3	21.6	17.2
Cotton	2.7	5.3	1.3[a]	2.1

[a] 1955.

[9] The geographical reallocation of crops brought about by concentrating production of given crops in areas of highest yields is expected, together with other measures, to raise substantially the average yields in the next few years, making it possible to reduce very considerably the area under crops.

[10] The situation thus differed from the three preceding years. In 1955 and 1957 good harvests in the old producing regions coincided with poor harvests in the newly cultivated areas of Kazakhstan, the southern Urals and the Volga region, while in 1956 the situation was reversed.

where grain output—though not total output of crops—was also lower than in the preceding year, the decline mainly reflected a shift in the distribution of arable land in favour of fodder crops other than grain, particularly maize for green fodder and silage.[11] This shift represented a continuation of a marked trend towards displacement of grains, particularly bread grains, for fodder crops. On the other hand, in Poland and Eastern Germany grain output exceeded the peaks attained in previous years. In the former country this was the result of some increase in sown area and of better cultivation which more than offset the effects of a cold spring, rain and floods. In the latter country, a more important factor appears to have been good weather throughout the growing season. Among the other major crops, output of sugar-beets was slightly higher than in the previous year in Czechoslovakia and Hungary but lower in all the other eastern European countries. The results were even less favourable for potatoes, output of which declined everywhere, except in Poland.[12]

In mainland China the increase in output of fodder grains and other feeds had some effect on livestock numbers even in 1958; this applied particularly to pigs, the stock of which registered a rise of 23 per cent (see table 93). Its effect on meat output, however, appears to have been insignificant so far, though quantitative information on this point is lacking. In the Soviet Union, where expansion of animal husbandry was held back by the relatively poor crop of 1957, the increase in livestock numbers in 1958 was somewhat lower than in the preceding year, and the advance in output of all major livestock products—meat, milk and eggs—was only about one-half of that in 1957. On the other hand, in Bulgaria and Hungary, the preceding year's bumper harvest of fodder crops made possible a substantial increase in livestock and in output of meat and milk; during the preceding year these had either declined or increased only slightly. Whereas, in Poland, the continued expansion of fodder crops permitted an increase in output of meat and milk at almost the same rate as in 1957,[13] in Czechoslovakia output of meat declined; in Eastern Germany, meat output advanced only moderately as compared with the substantial rise of 1957. The number of pigs declined in Eastern Germany while the number of cattle rose both in that country and in Czechoslovakia.

Government procurement of grain appears to have declined in absolute terms in all eastern European countries, except Poland. Although in general changes in procurement in 1958 were directly related to changes in output, this was not the case in Eastern Germany where the amount of grain sold to government agencies declined by about 5 per cent despite a 7 per cent increase in output. In Hungary, procurement of grain continued to decline for the third consecutive year; however, in percentage terms, the decline in 1958 was smaller than the fall in production. In Poland, the increase in government procurement somewhat exceeded the advance in production; this was associated with increased State purchases at free prices and with larger deliveries from State farms, for the level of compulsory deliveries remained unchanged (see table 94).

[11] Maize for green fodder and silage is harvested before the cobs are mature; the whole plant, including the stalk, is used for fodder or silage; in this use, maize is not strictly a grain crop. The area sown under maize increased by 71,000 hectares of which only 11,000 represented maize for grain. The area sown under wheat, rye, oats and barley declined by 55,000 hectares.

[12] In contrast, the fruit and grape harvests were excellent throughout eastern Europe, except for fruit in Hungary. In Bulgaria, where the long-term plan calls for intensified development of horticulture, output of grapes exceeded the post-war peak by 38 per cent and output of tomatoes by 24 per cent.

[13] The number of pigs declined, however, in Poland. This was the result of a reduction in numbers held by State farms, having high costs of production, and of a shift in the time distribution of procurements towards the earlier months of the year. Since the livestock census is taken in June, this shift has tended to reduce the 1958 count.

Table 93. Indices of Livestock Numbers and Production of Animal Husbandry, 1958, by Country

(Preceding year = 100)

Country	Number of[a]			Production		
	Cattle[b]	Pigs	Sheep	Meat	Milk	Eggs
Bulgaria	...	...	...	125	110.0	106.8
China (mainland)	106.1	123.3	110.4[c]	...	...	...
Czechoslovakia	102.2	97.1	92.2	98.8	100.6	102.7
Eastern Germany	107.9[d]	93.5	107.7	100.4	105.8	
Hungary	104.2	109.9	...	...	116.1	...
Poland	99.4	97.3	96.1	108.1	105.4	...
USSR	106.0	109.5	107.9	106.7	105.6	105.4

Source: Reports on fulfilment of plans; national statistical yearbooks; *Statistische Praxis* No. 2, 1959 (Berlin); *Statisztikai Havi Közlemenyek*, No. 2, 1959 (Budapest).

[a] Livestock data based on livestock counts during the following months: China (mainland), presumably the end of the year; Eastern Germany, September; Hungary, October; Poland, June; USSR and Czechoslovakia, January.

[b] The comparable figures for cows are: for Czechoslovakia and Eastern Germany, 100.6; Hungary, 94.7; Poland, 102.9, and USSR, 106.1.

[c] Including goats.

[d] 110.7 from 3 December 1957 to 3 December 1958.

Table 94. Procurement of Major Agricultural Products, by Country
(Thousands of tons)

Country	Grain			Meat			Milk			Eggs[a]		
	1956	1957	1958	1956	1957	1958	1956	1957	1958	1956	1957	1958
Bulgaria	...	...	...	204	211	234[b]	283	329	401[b]	473	447	505[b]
Eastern Germany	...	1,975	1,865	866	926	959	3,302	3,586	4,240	1,172	1,491	1,668
Hungary	1,506	1,373	1,128	417	430	478	529	511	674	431	366	422
Poland	2,353	2,143	2,243	1,094	1,237	1,520	2,514	3,046	3,464	1,646	1,659	1,818
USSR	54,100	35,400	57,200	4,449	5,000	5,600	17,337	20,500	22,100	3,272	4,250	4,500

Source: Reports on fulfilment of plans; *Statisticheski Izvestia*, No. 4, 1958 (Sofia); *Statistische Praxis*, No. 2, 1959; *Statisztikai Havi Közlemenyek*, No. 3, 1959; *Biuletyn Statystyczny*, No. 2, 1959 (Warsaw).

[a] Millions of units.
[b] Estimated on basis of nine months.

In the Soviet Union, where procurement of grain fell in 1957 by about 35 per cent, it increased by more than 60 per cent in 1958; it thus reached a new peak, exceeding that of 1956 by over 3 million tons. In absolute terms the increase in procurement between 1956 and 1958 represented less than a third of the increment in output and consequently, the amount of grain left at the disposal of the farms rose to a new level; this exceeded the 1955-1957 average by more than 11 million tons, as shown by the following figures (in millions of tons):

	1955	1956	1957	1958
Output	106	128	105	139
Procurement	38	54	35	57
Other	68	74	70	82

Source: Tables 92 and 94.

Government procurement of livestock products rose in all eastern European countries, except Czechoslovakia, and in some countries the increase was much above the planned amounts. In Poland and Eastern Germany, the increase in meat procurement very substantially exceeded the gain in production. The same was true for milk in all eastern European countries. These increases resulted mostly from the expansion of free sales to Governments, which had been made more attractive by the price reforms of preceding years. In Czechoslovakia, the decline in meat procurement appears to have been greater than the fall in output.

In the Soviet Union, the enlargement in procurement of meat, milk and eggs exceeded the increase in production. There were, however, notable changes in the share of output sold to the State by the collective and State farms on the one hand and by the collective farm members out of their private produce on the other. These changes, at least in part, were influenced by the modifications in the procurement system and in prices described later. In the case of meat, the share of output made available to the State increased in both the private and the State and co-operative sectors, but the rise was relatively greater in the private than in the State and co-operative sectors. By contrast, in milk and eggs, the share of State procurement increased in the State and co-operative sector while it declined in the private sector.[14] This was a decline not only relative to the output of the private sector but also in absolute terms, as shown by the following indices for 1958 (1957 = 100):

	Meat		Milk		Eggs	
	Output	Procurement	Output	Procurement	Output	Procurement
Total	106	110	106	108	105	106
State and collective farms	108	109	109	113	110	115
Private holdings	104	Over 110	103	78	Over 100	90

Source: Data on procurement and output of State and collective farms and on total output and procurement from the report on fulfilment of the plan for 1958. Other data obtained as residuals or derived from estimates published in United Nations, *Economic Survey of Europe, 1958* (sales number: 59.II.E.1.).

During 1958, the institutional structure of the agricultural sector was profoundly changed in mainland China, while far-reaching reforms were introduced in the Soviet Union. These changes, which generally had little impact on output in 1958, may assume major importance in the future development of agriculture in these countries. In eastern Europe, government policies towards agriculture remained largely unchanged in 1958, except that in some countries efforts to foster collectivization were somewhat intensified.[15]

In mainland China, the movement for the country-wide formation of "communes" gathered momentum in August 1958,[16] and by mid-December 740,000 collective farms, embracing 99 per cent of all peasant households, were reorganized into 26,000 communes.

[14] In 1958 deliveries of the State and collective farms accounted for 89 per cent of all State procurement of meat, 89 per cent of milk and 57 per cent of eggs.

[15] However, changes similar to those in the Soviet Union were planned for 1959 in Czechoslovakia, while Bulgaria appears to be on the way towards adopting some of the changes of both mainland China and the Soviet Union.

[16] The first commune is reported to have appeared in Honan province in April 1958. A resolution to form communes throughout the country was adopted on 29 August, and it was only thereafter that the movement became widespread.

Apart from differences in size,[17] communes differ from collective farms in many significant respects. In the first place, communal activities are not restricted to agriculture. They also include industry, trade and services and, at the same time, embrace many government activities, not excluding military training. Public ownership of means of production is far more extensive in the communes than it was in the collective farms, but the distinction between State and communal property is retained. In most communes, a wage system has been substituted for the system of work-day payment,[18] part of the wages being paid in kind. The payments in kind range from the distribution of limited supplies of food to the provision of most of the essential consumer goods and services. However, official policy, at the present stage, is not to replace money payments by direct distribution of goods but rather to favour an increase in the share of income paid in money.

The new form of organization apparently grew out of experience in the construction of large irrigation works in 1957 and 1958, the scale of which often required the co-ordinated action of many collective farms. Thus, though the long-term objectives of the reorganization of collective farms into communes are of a far-reaching social character, the timing of the reorganization may have been largely influenced by considerations relating to the technical organization of production. The creation of communes has made possible the management and deployment of labour on a far larger scale than was feasible under the system of collective farms. The total day's activity of each member of the commune has been organized so as to produce a considerable increase in the amount of work actually performed by the peasants. In addition the labour force has been increased by the transfer of women from household work and auxiliary activities to agricultural and industrial work.[19] This reorganization has been employed to develop industry in the rural areas, as witnessed by the establishment of tens of thousands of small factories since the adoption of the new system. This has also permitted the utilization of agricultural manpower in industrial activities during seasonally slack periods, and has reduced the high overhead costs of urbanization. In addition, it is expected, according to official statements, that the communes, being large administrative and economic units, will not only permit decentralization in planning and management of the economy, but will also facilitate supervision by the central authorities.

In the Soviet Union, the series of reforms introduced in 1958 were aimed at further decentralization in planning and management of agriculture, improved utilization of resources and increased incentives for greater production. As from 1 January 1958, collective farmers and wage earners were released from their obligation to make compulsory deliveries of produce from the output of their private plots or of their privately-owned livestock. In March, a new decree ordered the sale of the operating equipment of machine and tractor stations to collective farms. This decision amounted to the abolition of the network of machine and tractor stations; and, by the end of the year, these stations had transferred 79 per cent of their tractors and 67 per cent of their combines to collective farms.[20] In June a new procurement system was introduced merging compulsory deliveries, payments in kind to machine and tractor stations and free State purchases into a single quota to be sold to the State at a uniform price. This measure eliminated the multiple system of quotas and prices, the complexity of which had, in the past, hindered the operation of rational cost accounting and planning methods on the collective farms. The new unified prices were established at a level sufficiently high to enable the co-operative farms to accumulate funds for investment in machinery and equipment, a process which had previously been financed by the Government.

The introduction of unified prices and the elimination of bonuses and other premiums paid for contractual deliveries have contributed to a more equal distribution of income between richer and poorer farms. Under the old system highly productive farms had been able to sell a greater share of their output at prices above the quota levels than had the less productive farms, since the delivery quotas had been based on the acreage of arable land. The unification of prices has eliminated this element of differentiation in income. Another factor acting in the same direction has been the introduction of a regional differentiation in prices tending to eliminate the effect of differentiation in rent. Further, the new pricing system has brought the changes in income into a more proportionate relationship with the changes in output. Under the old system the quotas of compulsory deliveries were fixed and an increase in output and sales thus resulted in a more than proportionate rise in sales at higher prices, causing total farm income to increase more than output or State procurement; in the case of a decline in output the reverse was true. The introduction of unified prices has eliminated this accentuation of fluctuation in incomes of agricultural producers. Moreover, the effect of changes in output on incomes

[17] According to the original resolution, one commune was to be established to a township comprising about 2,000 households; the actual average size appears to be about 4,600 households.

[18] Under the work-day system, each member shares in the total produce according to the number of contributed working days.

[19] This has been facilitated by the establishment of canteens, restaurants, nurseries and homes for the aged.

[20] After the sale of their equipment, machine and tractor stations were reorganized into repair technical stations (RTS). In addition to performing repair service on a money fee basis, these are to serve as selling outlets for agricultural machinery, spare parts, motor fuel, fertilizers, insecticides and so forth. They are also to perform, by contract, specialized work for collective farms as well as to assist in, and supervise, the maintenance of machinery.

are now to be moderated by the annual adjustment of prices based on the harvest prospects.[21]

The abolition of the machine and tractor stations which in the past exerted a great deal of State control over the collective farms was in line with the policy of decentralization and of raising the responsibility and initiative of local authorities. A major shortcoming of the old system was the duality of management whereby control over machinery and the organization of capital-intensive work remained the task of machine and tractor stations while the labour-intensive work was under the direct supervision of the collective farms. Under the new system the collective farm becomes an integral producing unit with all authority concentrated in the hands of its manager. This concentration of authority and responsibility is expected to reduce waste and to foster improvements in production methods. The introduction of such changes was, in the past, hampered by the restraints on the authority and, therefore, on the initiative of directors of collective farms.

INDUSTRIAL PRODUCTION

In the Soviet Union and eastern Europe, industrial production continued to expand in 1958 at about the same rate as in the preceding year.[22] Mainland China, however, reported an unusually high rate of increase; and because of this latter development, the increase in aggregate output of the centrally planned economies as a whole was far above that achieved in 1957 (see table 95).

Although the insufficiency of information prevents an adequate analysis of the changes in mainland China, the data released thus far indicate that the unusual expansion of industrial production resulted both from the maturation of a large number of investment projects initiated during the five-year plan for 1952–1957 and from the very great expansion of small-scale production that was made possible through the employment of great numbers of people in productive activities involving little capital outlay. In the course of the year, the number of large-scale projects completed and put into full or partial operation was reported to have exceeded by 30 per cent the total number of similar undertakings completed during the entire five-year plan of 1952–1957.[23] In addition, 7.5 million small plants were constructed during the first nine months of 1958, and of these, about 1.5 million were apparently classified as local industry, their output being included in the index of gross industrial production.[24] The extension of local small-scale mining and smelting activity was made possible by the existence of easily accessible deposits of iron ore and coal throughout large parts of mainland China; these deposits may be readily extracted either by open-cast mining or by the construction of relatively small and inexpensive shafts. The growth of small-scale projects frequently using primitive methods of production has been so extensive that they have begun to account for a major proportion of total output in several branches of industry.[25] According to partial information, the newly constructed small-scale plants included more than 11,000 iron smelting furnaces, 900 small blast furnaces, 10,000 small electric stations and 8,000 small coal mines. Small-scale plants as a whole have employed tens of millions of persons.[26]

Table 95. Indices of Industrial Production, by Country

(Preceding year = 100)

Country	*1956*	*1957*	*1958*
Centrally planned economies, total	111.9	109.6	116.9
China (mainland)	131.0	107.1	166[a]
USSR	111.0	110	110
Other eastern European countries, total	106.7	109.9	110.6
Bulgaria	114.9	115.9	113.4
Czechoslovakia	109.4	110.2	111.3
Eastern Germany	106.2	107.7	110.9
Hungary	89	117	112
Poland	109.0	109.9	109.5
Romania	110.7	108.4	109.7

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins; replies of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies; *Hsin Hua Semi-Monthly*. Group indices are weighted averages of country indices. The weights used were the averages of the ratios of output of electric energy and of industrial employment in each country to the totals of the group. These indices should be considered only as broad approximations of the changes in aggregate output.

[a] Including handicrafts.

[21] It is not intended that the fluctuations of income be entirely eliminated, for the range of adjustment in prices is to be lower than the range of changes in output.

[22] In two eastern European countries, however, Eastern Germany and Hungary, the rates of expansion underwent considerable change. An acceleration of industrial production in Eastern Germany reflected in part the maturation of the large investment outlays of 1956. But it was also facilitated by an expansion in imports of raw materials over the level of 1957; for example, hard coal and steel rose by 26 per cent each, aluminium and wool imports rose by 63 and 50 per cent, respectively. A slowdown in Hungary reflected the end of the recovery from the decline of 1956 and, possibly also, the effort to eliminate the deficit in foreign trade, which entailed some deceleration in the rate of expansion of consumer goods industries producing for the domestic market.

[23] Industrial production increased in 1958 at half the rate of the total increase from 1951 to 1957 and investment outlays during 1958 were half as high as the total amount invested in the preceding five years.

[24] The output of the remaining plants, classified as auxiliary industries, is not included in the data on industrial production.

[25] In October 1958, 91 per cent of the total output of pig-iron, 73 per cent of coal and 49 per cent of steel were reported to have been produced by small-scale plants. For the year as a whole, however, the share of output of small-scale plants in total output was reported as accounting for 20 per cent of steel and 25 per cent of coal. The share of small-scale plants in total output of pig-iron was presumably much higher.

[26] As many as 60 million persons were reported to have participated in pig-iron and steel production, 20 million in coal mining.

The expansion of output in the Soviet Union and in other eastern European countries appears to have been fostered by the further elimination of bottlenecks and by more careful planning. The planned targets, which were easily exceeded, had been set at relatively low levels for 1958 in order to reduce strains and to permit some further accumulation of industrial inventories. It is not unlikely that the greater flexibility introduced into the system of planning and management by the decentralization reform of 1957 had some influence, especially in the Soviet Union, in halting the retardation in the rate of increase of preceding years. A factor which presumably contributed to the improvement in the supply of raw materials and semi-manufactures was the greater degree of overfulfilment of plans in the producer goods as compared with the consumer goods sector. In some countries, the improvement in the supply of raw materials was also due to an expansion of imports which was partly facilitated by a shift in the terms of trade in favour of manufactured goods in trade with the rest of the world. This factor was apparently of some significance for Eastern Germany, Czechoslovakia and Hungary, but for Poland, the change in the terms of trade was unfavourable and imports of raw materials remained at the level of the preceding year.

Table 96. Indices of Output of Producer and Consumer Goods, by Country
(Preceding year = 100)

Country and item	1956	1957	1958
Bulgaria			
Producer goods	116.7	112.3	116.0
Consumer goods	113.3	119.0	111.3
China (mainland)			
Producer goods	142	112	203
Consumer goods	122	102	134
Czechoslovakia			
Producer goods	110.9	109.9	111.8
Consumer goods	108.1	110.7	110.6
Eastern Germany			
Producer goods[a]	108.5	107.5	112[b]
Consumer goods[c]	103.2	107.8	110[b]
Hungary[d]			
Producer goods[a]	93	109	118
Consumer goods[c]	89	115	107
Poland			
Producer goods	110.6	107.8	108.8
Consumer goods	107.2	112.2	110.2
Romania			
Producer goods	114.3	109.4	110.1
Consumer goods	106.3	106.7	109.1
USSR			
Producer goods	111.9	111	111
Consumer goods	109.4	108	107

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins; *Vierteljahreshefte zur Statistik*, No. 4, 1958 (Berlin).

[a] Heavy industry.
[b] Estimated on basis of nine months.
[c] Light industry and food industries.
[d] Industry under jurisdiction of central ministries only.

In contrast to developments in 1957—when output of consumer goods had risen in most countries at a faster rate than that of producer goods—in 1958, all but one of the centrally planned countries registered a larger increase in the producer goods sector (see table 96). The difference between the relative rates of growth in the two sectors was greatest in mainland China. It was also considerable in Hungary where it reflected a shift in the allocation of resources towards both fixed investments and exports.[27] In Poland, output of consumer goods continued to increase at a higher rate than that of producer goods, though the margin between the rates achieved by these two sectors was smaller in 1958 than it had been in the previous year.

Within the producer goods sector, there were considerable differences between the rates of increase achieved in different industries. In mainland China, the increase in output of basic materials appears to have been higher than in output of machinery, though within the latter industry, output of particular types of machinery rose at very high rates. Among the major basic materials the largest increases were achieved in coal and steel; the output of each more than doubled. Unusually high rates of expansion were also reached in production of crude oil, cement and electric power (see table 97).

In the Soviet Union, output of fuel inclusive of electric power increased at a lower rate than the average achieved by producer goods industries as a whole. This lag was due to a relatively small increase in output of coal which was only partly compensated by a higher than average increase achieved in crude oil and natural gas; power output increased at the same rate as the average advance in producer goods. Similarly, output of metals increased less than the average because of a lower rate achieved by production of ferrous metals; output of non-ferrous metals, however, rose much faster than the average. In contrast, production of construction materials, engineering and chemicals expanded more than the average for all producer goods. It is of interest that output of mineral fertilizers which, according to the new seven-year plan, was to increase almost threefold between 1958 and 1965, rose by only 5 per cent in 1958. As compared with 1957, total output of producer goods in the Soviet Union increased in 1958 at an unchanged rate, with output of metals accelerating, but fuel production slowing down. This deceleration in production of aggregate fuel has apparently not resulted in any intensification of scarcities, owing to a more efficient

[27] Exports of machinery and equipment rose by about 30 per cent and investment by about 9 per cent. This compares with a 25 per cent increase in exports of machinery and a 15 per cent decline in investment in 1957.

Table 97. Indices of Output of Fuel, Power and Selected Basic Materials
(Preceding year = 100)

Item	USSR		Other eastern European countries		China (mainland)	
	1957	1958	1957	1958	1957	1958
Coal[a]	108	107	103	104	123	207
Crude oil	117	115	98	103	125	154
Electric energy	109	111	107	111	117	142
Pig-iron	103	107	108	107	124	230
Rolled steel	106	107	108	108	120[b]	207[b]
Cement	116	115	110	111	107	136
Mineral fertilizers	108	105	109	114	...	129

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins.

[a] Hard coal, brown coal and lignite on ton-per-ton basis. For other eastern European countries, indices for hard coal were: 1957, 100; 1958, 104; those for brown coal and lignite, 105 and 104, respectively.

[b] Raw steel.

utilization of fuels, associated in part with shifts towards liquid fuels.

In eastern Europe as a whole the changes in the composition of output of producer goods in 1958 were broadly similar to those which occurred in the Soviet Union. The output of fuels, however, increased much less in relation to total output of producer goods than in the Soviet Union, even though it rose somewhat faster than in 1957. In Czechoslovakia, output of coal registered one of the largest increases in the post-war period, and this raised the fuel index by a percentage equal to that of all producer goods. There was also a steep increase in fuel output in Hungary. In Poland, a slight decline in coal output in 1957 gave way to a 2 per cent increase in 1958; this permitted an increase in exports of about 3 million tons. And though in the other three countries—Bulgaria, Eastern Germany and Romania—the increase in fuel output was lower than, or at best, equal to output in the preceding year, there appears to have been a further improvement in the supply situation owing to higher imports or reduced exports.[28]

The increase in output of ferrous metals, in contrast to that of fuel, was slightly lower than in the preceding year. The slackening in the rate of growth of output of rolled steel, however, was entirely due to a decline in the rate of expansion in Poland. In the other countries, the increase in output of rolled steel was greater than in the preceding year, except in Eastern Germany where it was unchanged. An even more important factor in the improvement of steel supplies appears to have been the increase in output of special steels which had been in short supply in the preceding year.

[28] This statement is partly based on qualitative information concerning the supply situation rather than on data on foreign trade which are not yet available. The improvement of supply may also have been due to a decumulation of stocks, or to an improvement in efficiency of utilization or to other factors. It is notable that in these countries the increase in the output of electric power also exceeded that of the previous year.

As in the Soviet Union, in other eastern European countries, engineering, chemical and construction material industries were generally among the faster growing branches of the producer goods sector. Particularly notable was the acceleration in the rate of growth of machine-building in Czechoslovakia, Eastern Germany and Hungary, which reflected a rise in both domestic investment and exports. In Poland, where the rate of increase in the machinery and metal-working industries in 1957 had been higher than in the above countries, the acceleration in 1958 was only slight, while in Bulgaria and Romania the rate of increase was actually lower than in the preceding year (see table 98). The output of construction materials increased less than during the preceding year in most eastern European countries, excepting Bulgaria and Hungary. The chemical industry expanded at a higher rate than in 1957 in the industrially less developed countries whereas in Czechoslovakia and Eastern Germany the rate of expansion slackened. In contrast to the Soviet Union, other eastern European countries showed a very substantial advance in output of mineral fertilizers which exceeded that of the previous year. In Bulgaria, Hungary and Romania the increases were as high as 46, 48 and 59 per cent, respectively; these reflected advances from low levels of production in 1957 as well as the emphasis placed in the long-term plans of these countries upon agricultural production. But even in Czechoslovakia, where output of mineral fertilizers had already reached a comparatively high level in 1957, the increase in 1958 was as much as 22 per cent.

Within the sector producing consumer goods, the only feature common to all the centrally planned economies in 1958 was the acceleration of output of cotton fabrics, which occurred in all countries excepting Hungary. In mainland China, a 34 per cent increase in output of consumer goods was largely accounted for by steep increases in metal wares and other household goods and goods for personal care,

Table 98. Indices of Output of Some Major Branches of Producer Goods, by Country
(Preceding year = 100)

Country	Engineering industry		Chemicals		Construction materials	
	1957	1958	1957	1958	1957	1958
Bulgaria	128[a]	124[a]	119	122	108	118
Czechoslovakia	111	(115)	114	111	128	120
Eastern Germany	110	114	107	110	111	...
Hungary	108	114	126	118	108	115
Poland	115[a]	115[a b]	114	120[b]	108	106
Romania	118	112	118	(117)	106	(100)
USSR	114[a]	114[a]	111[c]	113[c]	123	125

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins.
[a] Including other metal-processing industries.
[b] Eleven months.
[c] Including rubber goods.

while output of cotton fabrics, sugar and vegetable oils increased by only 13, 14 and 4 per cent, respectively. These rates of increase, exceedingly small as compared with the unusually high rates of increase in the supply of raw cotton, sugar-cane and beets and oil-seeds from the 1958 harvest, seem to indicate that the expansion of agricultural supplies by far exceeded the extension of manufacturing capacity in the sector producing consumer goods.[29]

[29] By comparison, output of raw cotton rose by 102 per cent, that of sugar-beets and sugar-cane by 42 per cent and output of oil-seeds by about 20 per cent. A considerable proportion of oil-seeds is processed by agricultural producers and may not be included in the data on industrial production.

In the Soviet Union the expansion in output of textile fabrics and shoes exceeded the rate achieved during the preceding year while the increase in output of major foodstuffs, except sugar, was considerably lower. The advance in durable consumer goods, though generally higher than food and clothing, was, in many specific products, lower than in the preceding year. There was generally a slackening in the rate of expansion of output of such consumer durables as passenger cars, refrigerators and washing machines, while the output of items such as furniture, bicycles, motor cycles, radios and watches, which are in greater demand among lower-income groups, expanded at a higher rate than in 1957 (see tables 99 and 100).

Table 99. Indices of Industrial Production of Selected Consumer Goods, by Country
(Preceding year = 100)

Country and year	Cotton fabrics	Woollen fabrics	Silk and artificial fabrics	Leather shoes	Meat	Butter	Vegetable oils	Sugar
Bulgaria								
1957	107.0	104.7	120.1	130.0	106.3	115	113.3	109.3
1958	110.7	106.8	108	123.0	121.6	116	122	127
Czechoslovakia								
1957	105.4	103.8	104.0	128.9	107.2	105.9	97.1	133.6
1958	108.8	111.5	108.7	122.3	100.4	111.4	105.2	108.1
Eastern Germany								
1957	98.5	108.3	105.6	102.7	106.7	107.0	92.2	117.8
1958	106.2	119.9	108.3	112.1	104.3	122.6	101.6	121.5
Hungary								
1957	114.9	122.1	114.1	128.9	101.5	96.4	105.6	139.0
1958	105.0	105.9	114.4	115.6	109.1	138.8	70.2	89.5
Poland								
1957	100.9	100.3	106.5	109.4	114.1	126.3	89.7	136.2
1958	105.0	102.3	106.7	114.9	118.2	111.7	128.8	101.5
Romania								
1957	98.0	91.0	89.6	106.2	77.3	111.8	111.7	122.7
1958	109[a]	93.9[a]	126[a]	110.2	112.7	153.9	110.4	101.5
USSR								
1957	103	105	107	109	117	112	109	103
1958	104	107	105	112	108	104	85	121

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins.
[a] Estimated on basis of nine months.

Table 100. Indices of Output of Selected Consumer Durable Goods
(Preceding year = 100)

Item	USSR		Other eastern European countries	
	1957	1958	1957	1958
Bicycles	106	110	96	...
Cameras	111	111	73	...
Motor cycles	112	119	124	119
Passenger cars	116	108	133	120
Radios	94	110	117	114
Refrigerators	138	116	117	156
Sewing machines	118	118	110	110
Television sets	119	138	475	197
Washing machines	193	143	142	135
Watches	104	105	116	110

Source: Reports on fulfilment of plans; national statistical yearbooks and bulletins.

In the eastern European countries, the advance in output of woollen fabrics in Czechoslovakia and Eastern Germany was particularly noteworthy. Unlike the situation in the Soviet Union, however, the increase in output of the major food items, other than sugar, was larger than in the preceding year, the only significant exceptions being meat in Czechoslovakia and Eastern Germany and butter in Poland. In the other eastern European countries, the expansion in output of butter was unusually high, a fact which reflected the increase of milk procurement as well as a shift in favour of butter in total demand for fats. Among consumer durables, the output of most products rose at a lower rate in 1958 than in 1957.

In contrast to the preceding year when the rate of increase of output per man in industry had slackened in most countries, there was an acceleration in most countries during 1958. In Bulgaria, where output per man had actually declined in 1957, an advance of 5 per cent was registered in 1958. None the less this country remained the only one where most of the industrial expansion was achieved through an increase in employment rather than through a rise in output per man. A significant gain in output per man, accompanied by a slackening in the rate of increase of employment, also took place in Czechoslovakia, Eastern Germany and Poland. In Hungary, where most of the advance in output per man in 1957 had represented a recovery from the low level of 1956—when it had been depressed by the October uprising—the level of productivity achieved in 1958 was above that which had prevailed in 1955. In contrast, the rate of increase in output per man in the Soviet Union appears to have again moderated somewhat in 1958 while in Romania there was a considerable reduction in the rate (see table 101).

ALLOCATION OF NATIONAL PRODUCT AND CHANGES IN DEMAND AND SUPPLY

Changes in the rate of growth of national product between 1957 and 1958 were of little significance in Bulgaria, Poland and Czechoslovakia; in the former two, the expansion slowed down slightly while, in the latter, a somewhat higher rate of increase was achieved (see table 102). More significant was the acceleration in the Soviet Union where national product rose by 9 per cent in 1958 as compared with a 6 per cent increase in 1957; a fairly substantial advance also took place in Eastern Germany. In Hungary, however, the rate of increase of national product fell from 21 per cent in 1957 to only 5 per cent in 1958, reflecting largely the transition from recovery to actual expansion.[30] Romania was the only country where national product declined; it seems to have fallen by about 2 per cent as compared with an advance of 15 per cent in 1957. In mainland China the changes which occurred in 1958 were of an entirely different order of magnitude both as compared with the developments

[30] In constant prices; data in table 102 are in current prices.

Table 101. Indices of Employment and Output per Man in Industry, by Country
(Preceding year = 100)

Country	1956		1957		1958	
	Number of wage earners	Output per wage earner	Number of wage earners	Output per wage earner	Number of wage earners	Output per wage earner
Bulgaria[a]	107.8	107.0	118	97.9	108	104.9
Czechoslovakia	102.4	106.8	103.9	105.9	103.4	107.4
Eastern Germany	99.4	106.8	103.6	104	102.0	108.7
Hungary[b]	102.4	88.6[c]	100.8	111.4[d]	103.8	108.3
Poland	104.2	104.6	103.4	105.4	100.7	108.9
Romania	101.6	108.7	100.2	108.3	104.1	105.3
USSR	104	107	103	106.5	103.8	106

Source: Reports on fulfilment of plans; replies of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies; *Statisztikai Havi Közlemenyek*, No. 2, 1959.

[a] State and co-operative industry only.

[b] State industry only.

[c] Average January-September 1956, 102.5 (January-September 1955 = 100).

[d] 96.3 in relation to the average of January-September 1957.

Table 102. Indices of National Product, Investment and Retail Sales, by Country
(Preceding year = 100)

Country	National product			Investment			Retail sales		
	1956	1957	1958	1956	1957	1958	1956	1957	1958
Bulgaria	105	108	107[a]	101[b]	82[b]	122[b]	115	110	111
China (mainland)	117[c]	105[c]	165[c]	163	89	215	119	109	116
Czechoslovakia	106	107	108	122	110	105	109	109	101
Eastern Germany[d]	105	107	108	131	107	115	104	107	109
Hungary[d]	88	129	105	103	95	109	110	109	105
Poland	108	108	106	104	107	108[e]	117[f]	114[f]	106[f]
Romania	93	115	98[g]	112	92	...	113	105	97[g]
USSR	112	106	109	117	112	111	108	114	106

Source: National statistical yearbooks; reports on fulfilment of plans and replies of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies; *Hsin-Hua Semi-Monthly*.

[a] In 1939 prices. Percentages for the earlier years are apparently based on data in 1952 prices.

[b] Centrally controlled investments only.

[c] Gross output of industry and agriculture.

[d] In current prices.

[e] Presumably in current prices.

[f] Socialist retail trade only. Total sales rose in 1956 by 15 per cent and in 1957 by 17 per cent.

[g] Index of national product estimated on the basis of a statement in *Scinteia* (Bucharest),28 December 1958, indicating a threefold increase in 1958 over 1948 and on the basis of indices for the preceding year from the *Statistical Yearbook of Romania*, 1958. Index of retail sales estimated on the basis of a statement in *Scinteia*, 7 March 1959, indicating a 130 per cent increase in retail sales as compared to 1950, and on the basis of indices for the preceding years from the *Statistical Yearbook*, 1957.

in other centrally planned economies and with past changes in the Chinese economy. Gross output of industry and agriculture, which in 1956 and 1957 had risen by 17 and 5 per cent respectively, increased in 1958 by 65 per cent. Although national product increased less, partly because of a much smaller rate of increase in transport, communications and trade, even allowing for this and for the differences between changes in gross and net output of industry and agriculture, the rate of increase in national product in 1958 seems to have been of the order of 50 per cent.

In several countries, the changes in the rate of expansion of national product reflected fluctuations in agricultural production. The effect of the changes in agricultural output was most apparent in Romania where the sharp rise in agricultural production in 1957 and the subsequent decline in 1958 were the main factors influencing the changes in national product. Similarly, in Hungary the deceleration in 1958 was mainly due to the sharp decline in the rate of expansion of agriculture, although industrial production also increased at a smaller rate than in 1957. In the Soviet Union, industrial production expanded at the same rate as in 1957, and the steep increase in agricultural output in 1958 was the only factor accelerating the growth of national product. In mainland China, by contrast, the sharp advance in gross output was accounted for almost equally by both industry and agriculture.

The tendencies in fixed investment in 1958 were in general opposite to those which had emerged in 1957. The characteristic feature of the changes in the investment sector in 1957 had been a deceleration of investment activity in some countries and an absolute decline in others. In 1958, however, only in Czechoslovakia and the Soviet Union did fixed investment increase at a lower rate than in 1957. In the Soviet Union, this was the second consecutive year of decline; the rate of increase in investment, which had been 17 per cent in 1956, fell to 12 per cent in 1957 and 11 per cent in 1958. In Czechoslovakia, the rate fell from 22 per cent in 1956 to 10 per cent in 1957 and 5 per cent in 1958. But in all other countries for which data are available, fixed investment in 1958 increased at a much higher rate than during the previous year. In Eastern Germany, fixed investment rose in 1958 by 15 per cent and in Poland by 8 per cent as compared to 7 and 4 per cent respectively in 1957. In Bulgaria and Hungary, where investment had fallen in 1957 by 18 and 5 per cent respectively, it increased by 22 and 9 per cent in 1958. The greatest change took place, however, in mainland China where centralized fixed investment had declined by about 11 per cent in 1957 but increased by 115 per cent in 1958. Total fixed investment in mainland China undoubtedly increased even more if account is also taken of the very steep increase in construction work organized at the local level which entailed relatively little additional State expenditure. The very extensive irrigation works, as well as the construction of dams and artificial lakes for hydroelectric stations and for the prevention of floods, were achieved by the mobilization of tens of millions of agricultural workers and peasants who, because of the seasonal character of agricultural work, had been previously occupied for only about two-thirds of the year. The employment of these workers for construction in the countryside entailed very little expenditure since the peasants used their own tools or locally produced equipment and their work was considered part of their normal activities as members of the collective farms.

Retail sales increased in several countries at a slower rate than in 1957, the most significant changes

having taken place in Czechoslovakia, Poland and the Soviet Union; in Czechoslovakia the rate of increase fell from 9 per cent in 1957 to one per cent in 1958, and in the Soviet Union, from 14 per cent in 1957 to only 6 per cent in 1958. In Romania, for which no official data are available for 1958, retail sales seem to have declined under the impact of the fall in agricultural supplies whereas in 1957 they had increased by 5 per cent. In contrast, in Bulgaria and mainland China, retail sales increased more than in 1957.[31]

The indices of retail sales do not always adequately reflect changes in personal consumption, especially in countries with large peasant sectors where the share of retail sales in total consumption may undergo appreciable changes from year to year. Similarly, the indices of fixed investment may be at variance with changes in inventories and net foreign trade and therefore cannot always be considered as indicative of changes in total investment. In consequence, the comparison of indices of fixed investment, retail trade and national income can give only a very general indication of changes in the allocation of national product, and, for most countries, these have to be complemented by other quantitative or qualitative information.

The most striking changes in the allocation of resources took place in mainland China where State fixed investment increased by 115 per cent, retail sales of consumer goods by 16 per cent and national product by some 50 per cent. The shift in the allocation of resources was certainly much less pronounced than would appear from the comparison of these indices because consumption undoubtedly increased much more than retail sales, and total net investment most probably rose less than State fixed investment.[32] The data on changes in retail sales in mainland China in 1958 were even less indicative of changes in consumption than in the past because both the sharp increase in agricultural output and the profound institutional changes in the agricultural sector resulted in a considerable increase in the share of consumption goods which were supplied directly to the peasants by collective farms or communes and did not enter the network of retail trade. It is not unlikely that this shift from the retail trade network was not limited to foodstuffs, since in several localities the peasants were also supplied by the communes with industrial goods which—at least in part—were locally produced or acquired by local authorities through wholesale outlets; and these supplies would therefore not be reflected in the retail trade indices. However, even though consumption increased much more than retail sales, the shift towards fixed investment and stock formation, caused mainly by the excellent harvest, was of a magnitude without precedent in mainland China or in any other centrally planned economy.

Substantial increases in the share of investment in national product were characteristic of most of the other centrally planned economies in 1958 although their magnitude was much smaller than in mainland China.

In the Soviet Union national product had risen by 6 per cent in 1957, retail sales by 14 per cent and State fixed investment by 12 per cent. Since the poor harvest during that year had resulted in a substantial decumulation of agricultural stocks built up during the two preceding years, total investment had increased much less than State fixed investment, while the share of consumption in national product had increased substantially. In 1958, however, these tendencies were reversed, as indicated by the fact that retail sales increased by only 6 per cent whereas national product rose by 9 per cent and fixed investment by 11 per cent. In contrast to 1957, the bumper harvest of 1958 resulted presumably in a substantial increase in agricultural stocks and therefore, during the latter year, the movement of stocks was a factor raising the share of total investment in national product. Similarly, in Czechoslovakia, where consumption had increased in 1957 at the same rate as national product, namely, by 7 per cent, the share of consumption declined substantially in 1958; consumption rose by only 2 per cent, whereas national product increased by 8 per cent.[33]

Changes in the allocation of national product in Eastern Germany and Hungary are much less apparent from the available statistical data. In Eastern Germany national product increased by about 8 per cent, State fixed investment by 15 per cent, while volume of retail sales advanced by less than half as much. Net exports also increased, but the lack of information on changes in inventories and in non-centralized and private investment prevents any definite conclusions about the change in total investment in relation to national product. Since, however, the movement of retail sales in Eastern Germany generally reflects fairly well the changes in personal consumption, it seems that some shift in favour of investment occured in 1958.

In Hungary, national income and retail sales both increased in 1958 by 5 per cent, and fixed investment by 9 per cent. At the same time net imports declined by more than 25 per cent but investment in inventories also seems to have fallen, partly as a result of the poor harvest. As a consequence, the share of total investment in national product seems to have increased slightly. Consumption, on the other hand, probably increased less than retail sales and slightly less than national product, mainly owing to a smaller

[31] In Eastern Germany value of retail sales increased by 9 per cent in 1958 compared to 7 per cent in 1957, but volume of sales increased at about the same rate as in 1957.

[32] In terms of actual outlays, excepting the estimated value of investment work of members of collective farms, which did not entail much additional outlay.

[33] Data on percentage changes in consumption are official indices, announced in the reports on fulfilment of the plan for 1957 and 1958.

Table 103. Bulgaria and Poland: Allocation of Net National Product in 1957 and 1958

Item	Poland[a]			Bulgaria[b]		
	1957	1958	1958 Index (1957=100)	1957	1958	1958 Index (1957=100)
	(billions of zlotys)			(millions of levas)		
National product	308	325	105.6	30,819	34,000	110.4
Consumption	247	257	104	24,215	27,630	114.1
Personal	231	240	104	22,253	25,410	114.1
Accumulation	74	77	104	6,594	6,370	96.6
Net fixed investment	48	52	109	3,519	4,420	125.6
Changes in inventories	26	25	96	3,075	1,950	63.4
Net foreign balance	−13	−9	69	(—)	(—)	

Source: Reports on fulfilment of plan for 1958 and reply of the Bulgarian Government to the United Nation questionnaire of November 1958 on economic trends, problems and policies.

[a] In 1958 prices. Estimated on the basis of data on national product and on the share of its components in 1958 in current prices and on percentage increases over 1957 in constant prices.

[b] In current prices. Presumably net national product, although the lack of data on net foreign balance could be interpreted as indicating that the concept used is that of net domestic expenditure. The difference between the rate of increase in national product given in the present table and in table 102 is accounted for by the fact that the data in the latter table are expressed in 1939 prices.

increase, or possibly even a decline, in peasants' consumption caused by the fall in their income. This pattern of change was very different from developments in 1957 when a very steep increase in accumulation of stocks had more than offset a decline in fixed investment and had resulted in a very steep increase in the share of total investment in national product. The aggregate increase in consumption and total investment had exceeded in 1957, in absolute amounts, the increment in national product, the difference being covered by a sharp advance in net imports. Net imports which, in 1957, had amounted to some 5 per cent of national product, gave way in 1958 to a net export balance equal to about one per cent of national product.

Full data on changes in the allocation of national product are available for only Bulgaria and Poland; and these are shown in table 103. In Poland domestic expenditure exceeded national product in both 1957 and 1958, but the share of net imports in domestic expenditure fell from some 4 per cent in 1957 to about 2.7 per cent in 1958. Fixed investment increased at a higher rate than in 1957 but, whereas total investment during 1957 had risen by 19 per cent, reflecting an increase of more than 50 per cent in inventories, it increased by only 4 per cent in 1958, as stock formation declined by 4 per cent. Both personal and public consumption increased by 4 per cent in 1958 as compared with a 12 per cent increase in 1957. Since national product advanced by about 6 per cent in 1958, consumption and total investment both declined in relation to national product; and the obverse of those changes was a fall in net imports. The share of personal consumption was equal to about 72 per cent of total available supplies in both 1957 and 1958.

Bulgaria was the only country of the group where the share of personal consumption in national product increased in 1958. The shift from about 72 per cent of national product in 1957 to 75 per cent in 1958 was brought about by a 14 per cent increase in personal consumption[34] and a 3 per cent decline in net investment. The fall in total investment was accounted for entirely by a 37 per cent decline in stock formation; its share in national product was lowered from 10 per cent in 1957 to about 6 per cent in 1958. Net fixed investment increased in 1958 by about 26 per cent. The considerable decline in investment in inventories seems to have reflected the fluctuations in crops. The increase in output of crops in 1957 had contributed to a substantial rise in stocks whereas the poorer harvest in 1958 had the opposite effect.

Changes in money payments to the population in relation to output were generally much more in line with the shifts in allocation of resources in 1958 than in 1957. The considerable increase in money payments in relation to output which had occurred in most countries in 1957 was arrested in 1958 (see table 104). In 1957, the rise in money income had ensued from substantial advances in wage rates, higher prices paid to peasants and steep increases in pensions. But in 1958, in all countries excepting Bulgaria, the wage increases were smaller, while peasant incomes rose much less and further increases in pensions contributed little to the percentage rise in total money payments. Average workers' earnings increased less than output per man in all countries, the margin being very large in Hungary and Czechoslovakia (see table 105).

The effect of these changes on the balance between supply and demand differed from country to country, but, in general, supplies seem to have risen sufficiently to meet demand. It is true that the lack of information

[34] Personal and public consumption increased from 79 to 81 per cent of national product.

Table 104. Indices of Money Incomes of the Population and Retail Sales, by Country

Country	Total money income	Wage bill	Peasants' income	Value of retail sales	Volume of retail sales	Retail sales (billions of national currency units)
	(Preceding year = 100)					
Bulgaria						
1956	106.0	105.9	106.3	106.3	114.5	15.2
1957	110.6	110.6	...	110.2	109.9	16.7
1958	111.0	106.8	129.0	110.7	110.7	18.4
Czechoslovakia						
1956	106.4	106.8	...	106.7	109.4	83.5
1957	107.2	105.0	...	106.9	109.1	89.2
1958	...	103.4	...	101.4	101.4	90.5
Eastern Germany						
1956	...	102.6	...	103.5	103.8	32.6
1957	...	106.4	...	106.7	107.9	34.8
1958	...	109.0[a]	...	109.4	[b]	38.1
Hungary						
1956	108.7	110.8	100.8	109.7	111.0	48.3
1957	116.2	113.7	126.8	109.4	105.0	52.8
1958	105.9	108.2	97.4	104.9	104.9	55.4
Poland						
1956	118.1	115.8[c]	116.8	114.6[d]	117.2[d]	147.7[d]
1957	121.0	118.0[c]	123.0	121.9[d]	113.8[d]	180.1[d]
1958	...	106.6[c]	...	108.7[d]	106.0[d]	195.7[d]
USSR						
1956	...	107.0	...	108.0	108.0	540.8
1957	...	111.0	106.0	114.0	114.0	616.5
1958	...	...	...	108.0	106.0	667.0

Source: Reports on fulfilment of plans; replies of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies; national statistical yearbooks.

[a] Estimated wage bill in industry.
[b] Estimated at about 6 to 7 per cent.
[c] Socialist sector.
[d] Socialist retail trade.

on consumer expenditure other than on purchases in the retail trade network makes it difficult to assess the extent to which the increase in demand was met by an advance in supply. However, a comparison of changes in income payments in relation to changes in retail sales in 1957 and 1958 seems to indicate that in 1958 the supply-demand position improved in Bulgaria, Eastern Germany, Hungary and Poland, whereas in the Soviet Union and Czechoslovakia the relation between increases in money incomes and sales was less favourable than in 1957.

It is noteworthy that in most countries where the net increment in savings deposits had increased steeply in 1957, the increases in deposits were substantially lower in 1958, the greatest decline occurring in the Soviet Union.[35] This would indicate that the rate of visible saving of the population has been related to the rate of increase rather than to the abso-

[35] Increments in savings deposits in billions of national currency units during the last three years were as follows:

	1956	1957	1958
Czechoslovakia	2.50	3.1	2.7
Poland	.96	3.3	2.1
USSR	10.00	16.8	6.5

Table 105. Indices of Output per Man, and of Money and Real Wages in Industry, by Country

Country	1956			1957			1958		
	Output per man	Wages		Output per man	Wages		Output per man	Wages	
		Money	Real		Money	Real		Money	Real
Bulgaria	107.0	102.0	110.9	97.9	104.8	104.0	104.9	102.2[a]	102.2[a]
Czechoslovakia	106.8	102.6	105.3	105.9	100.5	102.4	107.4	102.1	102.1
Eastern Germany	106.8	103.3	103.8	104.7	103.0	104.7	108.7	106.5	...
Hungary	88.6	106.7	107.8	111.4	120.4	117.6	108.3	101.3	101.0
Poland[b]	104.6	111.6	112.7	105.4	119.5	112.7	108.9	106.5	103.7
USSR	107	103	104	106.5	107	107	106	...	...

Source: Reports on fulfilment of plans; replies of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies; national statistical yearbooks.

[a] Industry under central administration.

[b] State and co-operative industry.

lute level of income payments. It is, however, possible that the increase in residential building financed from private funds was a significant factor influencing the change in savings in 1958.

Bulgaria was the only country in the group where money payments to the population increased at the same rate as in 1957. This was mainly due to a 16 per cent increase in pensions and other non-wage payments and to a 29 per cent increase in payments to peasants; the wage bill increased by only 7 per cent as compared to 11 per cent in 1957. The steep increase in peasants' money incomes, in the face of the virtual absence of change in total agricultural production, was the outcome of an appreciable expansion in output and sales of livestock products, vegetables, tobacco and grapes. Retail sales increased in the same proportion as money income and the balance between supply and demand seems to have improved.

In Eastern Germany money income of the population increased in 1958 much less than in 1957; in absolute terms, the increase was 3.1 billion marks compared with 3.6 billion in 1957. However, retail sales rose by 2.2 billion marks in 1957 and by 3.3 billion in 1958 in current prices. Although the increases in both money payments and the value of retail sales in 1958 were affected by the changes in prices and wages, comparison with the corresponding data for the preceding year clearly indicates an improvement in the supply-demand situation which permitted the elimination of rationing on 1 June 1958. Despite several price reductions which brought the cost of living down about 40 per cent between 1950 and 1957, the rationing of meat, fats, milk, butter and sugar continued until mid-1958. The proportion of rationed to total supplies varied from 16 per cent for eggs to 65, 77 and 94 per cent for meat, butter and sugar, respectively. The elimination of rationing and the unification of dual prices were accompanied by marked increases in the level of prices at which rationed goods were formerly sold and a reduction in free prices of the same goods (see table 106). The average prices of these goods were, however, considerably increased. These increases were partly offset by price reductions of several semi-durable and durable consumer goods, of restaurant meals and of some foodstuffs such as cocoa, chocolate, rice and pepper.

Although, according to official statements, the general price level was to remain unchanged, it seems that the cost of living for a worker's family increased on the order of 5 to 10 per cent under the impact of derationing. But after the corrective price reductions announced in July, it declined by some 4 per cent and, for the year as a whole, was 2 to 3 per cent above that of 1957.[36] The effect of price increases on the real income of the former ration holders was offset by payments of tax-free supplements to wage earners and by special additions to children's allowances and pensions. The tax-free supplements were considerably greater for the lowest-paid workers, and apart from this, the wages of the lowest-paid groups were increased. Although no conclusive data are available, there is little doubt that the average real wage increased as a result of these reforms, and that the wage differential, at least between the lower and medium brackets, was reduced. The effect of the reform on the distribution of income between wage earners, salary earners and other groups varied according to their dependence on rationed supplies prior to derationing. The peasants seem to have benefited from the reform because of the decline in prices of goods purchased by them in retail trade. Although, for several commodities, prices paid by the State agencies for free purchases of agricultural produce from the peasants were reduced, this seems to have been offset by an increase in prices paid for compulsory deliveries and a general advance in prices paid for beef, sugar-beets and potatoes.[37]

Table 106. Eastern Germany: Changes in Prices of Selected Foods, 1 June 1958

Item	*Share of ration sales in total sales*	*Unified prices of 1 June 1958 as percentage of previous prices*		
		Ration sales	*Non-ration sales*	*Average*
Meat[a]	65	2.25	.66	121.9
Fats (animal)[b]	73	1.62	.57	108.6
Butter	77	2.33	.49	125.2
Milk	68	2.87	.71	145.5
Margarine	31	1.23	.68	78.5
Eggs	16	3.0	1.00	112.5
Sugar	94	1.67	.35	152.5

Source: *Statistisches Jahrbuch der Deutschen Demokratischen Republik, 1957* (Berlin); *Neues Deutschland*, 29 May and 6 July 1958.

[a] Average ration prices estimated on the basis of prices for various meats and meat products.

[b] Prices relate to one kind of lard, whereas the percentage share of rationed goods relates to several kinds of animal fats.

In Hungary, the considerable gap between the rise in income payments and the volume of retail sales which developed in 1957 narrowed appreciably in 1958; income advanced at a much smaller rate whereas the increase of 5 per cent in the volume of retail sales was the same as in the preceding year. The more moderate advance in income reflected a much smaller increase in the wage bill, and more important, a decline in peasants' money income which, in the previous year, had increased by almost 27 per cent. Despite this

[36] The percentage reductions of prices announced on 7 July 1958 were as follows: pork, on the average, 8.5; sausages, average, 8; pork fat, 13; milk, fresh, 15; milk, condensed, 11; cream, 14.5 (*Neues Deutschland*, Berlin, 6 July 1958).

[37] According to official statements, the combined effect of the rise in money payments and of the change in prices associated with derationing was to increase the real purchasing power of the population by 1.7 billion marks between June and December 1958, an amount corresponding to almost 5 per cent of retail sales in 1957; together with the effect of the price reductions in July, this would amount to over 5 per cent.

narrowing of the gap between supply and demand, the pressure of demand, especially on food, seems to have continued; but, apart from some fluctuations in the course of the year, consumer prices remained generally stable.

In Poland, the considerable decline in the rate of increase in income of wage and salary earners was accompanied by a smaller decline in rate of growth of the retail sales volume. But it seems that the rate of increase in peasants' money income, which in 1957 had risen by about 23 per cent, was smaller than that of wage and salary earners in 1958; consequently, the margin between total money income and the volume of supplies was substantially reduced. The rise in retail prices of about 3 per cent over 1957 was entirely due to price increases during the latter part of 1957; throughout 1958 prices remained relatively stable. Specific shortages continued to be present, however, and prices on peasants' markets were about 8 per cent higher in 1958 than in 1957. The cost of living for a worker's family increased by about 2 per cent as compared to 6 per cent in 1957.

In Czechoslovakia, during 1957, the wage bill as well as total income of the population had increased less than the volume of retail sales, making possible a reduction in consumer prices. But, in 1958, retail sales increased by only 2 per cent whereas income of wage and salary earners rose by about 4 per cent. Although statistics on peasants' income are not available, it seems likely that their money income increased less than the wage bill and that therefore the margin between the rates of increase in volume of supplies and of money income was smaller than would appear from the comparison of indices of income of wage and salary earners and of retail sales. It is true that new saving deposits declined substantially. But it seems that the amount spent out of personal incomes on housing and services was sufficient to close the possible gap between demand and supply of consumer goods and to ensure stability of prices. In fact, prices which had declined by 2 per cent in 1957 remained unchanged in 1958.

In the Soviet Union changes in the relationship between money incomes and the volume of retail sales were in many respects similar to those which took place in Czechoslovakia. In 1957, the wage bill had risen by about 11 per cent, pension payments by 58 per cent and peasants' income by 6 per cent, while volume of retail sales had increased by 14 per cent. In contrast, in 1958, volume of retail sales rose by 6 per cent; income payments to the population do not seem to have increased much more. Real income for employed persons among both wage and salary earners and peasants rose in 1958 by 5 per cent.[38] The number of wage and salary earners increased by about 3 per cent and the number of working peasants presumably rose less despite the transfer into this category of workers formerly employed by the machine and tractor stations. However, since separate data on changes in wages and on per capita income of working peasants are not available, it is not possible to provide quantitative estimates of the changes in total money income of each of these groups or consequently of the two groups taken together. It seems, however, that in 1958 peasants' income increased at a higher rate than the wage bill, because of a very steep increase in agricultural production and in the sales of agricultural goods to the State. Total money income of the collective farms which in 1957 had remained practically unchanged increased in 1958 by 38 per cent. Although the disposable money income of the members of collective farms increased much less because of a substantial increase in the share of current proceeds allocated to reserve funds or to investment,[39] there is little doubt that the increase in money and real income per working peasant was considerably greater than the gain in wages. Taking into account all these changes, it may be supposed that money wages advanced less than 5 per cent and that the increase in the wage bill and in the distributed money income of peasants, when taken together, increased only slightly more than the volume of retail sales. At the beginning of the year prices of passenger cars, carpets and alcoholic beverages were raised and the effect of these increases on the average retail prices was hardly offset by a reduction in prices of television sets and cameras. The comparison of changes in volume and value of retail sales seems to indicate that on the average retail prices rose in 1958 by about 2 per cent over 1957. This increase might be due mainly to a considerable rise in prices of alcoholic beverages which represent quite a substantial share of total sales.[40] It is noteworthy that in the Soviet Union, as in other countries, current visible saving of the population as reflected in changes in net deposits in savings banks, declined from 16.8 billion roubles in 1957 to 6.5 billion in 1958.

Changes in the balance between demand and supply of consumer goods in mainland China cannot be ascertained owing to the lack of information on money incomes of the population in 1958. Even if such data were available, they could hardly shed much light on the actual changes in the pressure of demand upon supply in a situation where the methods both of payments and of allocation of consumer goods were subject to far-reaching changes. However, while the very

[38] This figure, indicated in the report of the fulfilment of the plan for 1958, reflects also increases in pensions and other benefits as well as in free State services and in income in kind of the members of collective farms.

[39] Prices paid for purchases and the undistributed income of collective farms were raised in connexion with the abolition of machine and tractor stations and the resulting rise of investment and maintenance expenditure of the collective farms.

[40] Prices of vodka and wines increased by 10 to 20 per cent. The sales of vodka seem to have increased less than total sales or even to have declined, as indicated by the fact that, according to official statements, the volume of sales, exclusive of vodka, increased in 1958 by 7 per cent whereas total volume, inclusive of sales of vodka, rose by 6 per cent over 1957.

steep increase in the proportion of resources devoted to investment tended to intensify the pressure of demand on supplies of consumer goods, this was appreciably offset by the considerable increase in output of food and industrial crops and by the substantial increase in total output per man in relation to money payments to the population.

PLANS FOR 1959

The plans of economic development in 1959 may be broadly divided into two groups. The plans of mainland China and Bulgaria, on the one hand, envisage exceedingly high rates of expansion, while, on the other, the plans of the remaining countries provide for relatively moderate rates of growth, generally below the rates achieved in 1958. Among the latter countries, only Eastern Germany and Romania plan to increase industrial production at the same rate as in 1958; in all the other countries, industrial production is planned to increase less than in 1958, the increases in Poland and the Soviet Union being less than the average rates scheduled in their seven-year plans. The greatest deceleration in output is planned by Hungary where industrial production is to increase by 5 per cent in 1959, or by half as much as in 1958. This reduction of the rate of growth, however, reflects in part a transition from the period of recovery from the events of 1956 to a period of renewed expansion. In mainland China, the plan for 1959 provides for the continuation of the very steep advance in industrial production although the planned rate of increase of 41 per cent is less than two-thirds of that achieved in 1958. Bulgaria, however, plans to accelerate the expansion of industrial output from 13 per cent in 1958 to 28 per cent in 1959.

In most countries, the advance in industrial production is planned to be realized mainly through increases in output per man and only to a much smaller extent through increased employment; the expansion of employment in 1959 is to range from one to 3 per cent. Only in Bulgaria is industrial employment scheduled to increase more than output per man, the respective rates being 17 and 8 per cent (see table 107).

As with the plans for industrial production, the targets set for agricultural output by Bulgaria and mainland China far exceed the rates planned by other countries. The Bulgarian plan provides for a 74 per cent increase in agricultural production. Following the example of mainland China, Bulgaria intends to achieve this advance through a reorganization of its collective farms into larger units, an increase in labour input, and a considerable expansion in the use of fertilizers and in irrigation projects. In mainland China agricultural production is planned to increase by 39 per cent, which, as with industrial output, is much less than in 1958. It should be added that the authorities of mainland China do not expect to maintain these high rates of growth after 1960. This is conceived as the last year of the period of the "great leap forward" which, according to official statements, has been intended to draw off idle resources into employment and, by sharply raising the levels of output and consumption, to provide the basis for a more balanced growth in the future. Among other countries, the highest rate of increase in agricultural production is planned by Czechoslovakia where output is scheduled to advance by 12 per cent; Poland and Hungary expect increases of 4 and 5 per cent, respectively.

In most countries, national product is planned to

Table 107. Planned Targets for 1959
(1958 = 100)

Item	*Bulgaria*	*Czecho-slovakia*	*Eastern Germany*	*Hungary*[a]	*Poland*	*Romania*	*USSR*
National product	145	...	...	106	106	113	108
State gross fixed investment	175[b]	113	120	124	113[c]	115	111
Retail sales	123	105	111	106	110	109	...
Personal consumption	127	107	...	...	105	...	...
Industrial production	128	109	111	105	108	110	108
Producer goods	127[d]	...	...	106	107	112	...
Consumer goods	125[d]	...	...	104	108	107	...
Industrial employment	117	102	101	102	102	103	102
Output per man in industry	108	107	110	103	105	106	106
Agricultural production	174	112	...	105	104	...	...
Real wages	...	102	...	103	102	...	...
Foreign trade, turnover	...	110	111	114	101	...	...
Exports	...	...	107	110	106	...	...
Imports	...	...	116	118	98	...	...
Housing[e]	...	130[f]	147	...	108	125[f]	...

Source: Plans for 1959; replies of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies; *Rabotnicheskoe Delo* (Sofia), 14 March 1959.

[a] Industrial production in State industry only; output per man and employment in industries under ministerial jurisdiction, only.

[b] Total net fixed investment.

[c] Gross investment including investments from private means.

[d] Unrevised data. The index for total production was originally planned at 126 and later increased to 128. No revised data were announced for producer and consumer goods separately.

[e] Increase in total number of apartments.

[f] Increase in the number of apartments built from State funds.

increase at slightly higher or slightly lower rates than in 1958. In Romania, the change is much more considerable since the plan provides for a 13 per cent increase of national product in 1959, whereas in 1958 national product seems to have declined. In Bulgaria, however, the plan calls for a 45 per cent rise as compared with 7 per cent in 1958. In mainland China gross output of agriculture and industry is planned to increase by 40 per cent as compared to the 65 per cent reported for 1958.

Comparison of the planned growth of national product with the plans for investment, retail sales and, in a few cases, personal consumption, seems to indicate that consumption is generally planned to increase less than national product; the greatest shifts towards investment and other State expenditure is apparently planned in Bulgaria.[41] In almost all countries, gross fixed investment is scheduled to increase at a substantially higher rate than in 1958. Similarly, retail trade is planned to expand at an accelerated rate in all countries for which data are available. As during the preceding years, the largest share of investment is allocated to industry. Within the industrial sector, plans for 1959 provide for significant shifts in favour of the chemical industry in accordance with the goals set in the long-term plans. The Soviet Union plans to increase investment in the chemical industry in 1959 by 71 per cent; Eastern Germany, by 39 per cent, and Romania, by 50 per cent.[42] In other countries the rates of increase planned for the chemical industry are smaller, but they are everywhere considerably above the average scheduled for total industrial production. Another characteristic of the plans for 1959 is a considerable increase in investment in residential housing; this generally exceeds the average rate planned for total investment. Residential building is planned to increase by 18 per cent in the Soviet Union, 25 per cent in Romania, 30 per cent in Czechoslovakia and Poland, and 47 per cent in Eastern Germany.[43] Among the countries which have announced their plans for foreign trade, Czechoslovakia, Eastern Germany and Hungary intend to expand their total trade turnover by more than 10 per cent. The Polish plan provides for only a one per cent increase; exports are to rise while imports are to fall in order to reduce the deficit on current account. In contrast, Eastern Germany and Hungary, which were net exporters in 1958, plan to expand their imports more than their exports.

[41] No data are available for mainland China.

[42] In Romania, in 1959, 20 per cent of all State investment is to be allocated to the chemical industry.

[43] Except for Romania, where the percentage increase refers to investment outlays on urban housing, the data relate to the number of housing units to be constructed in 1959. In the Soviet Union 80 million square metres of housing space are to be built in 1959, out of which 30 million are to be financed from private means. In Poland the plan for 1959 provides for construction of 228,000 units in cities and urban settlements, compared to 175,000 built in 1958. In Eastern Germany, 91,000 units are to be made available, out of which 70,000 are to be new houses and 21,000 reconstructed buildings.

FOREIGN TRADE

The rate of expansion in foreign trade of all the centrally planned economies, excepting mainland China, slackened considerably in 1958 (see table 108). An expansion of 14 per cent in 1957 gave way to a smaller expansion of 5 per cent in 1958 primarily because of a sharp deceleration in trade of the Soviet Union and Eastern Germany; together, these countries account for more than half of the total turnover of the centrally planned economies. The decline in the rate of expansion of Soviet trade reflected the fact that the steep increase in 1957 was to a considerable extent due to the high level of exports associated with expansion of credits granted to several centrally planned economies. A significant part of the sharp advance in 1957 was also occasioned by the expansion of trade with the rest of the world. Trade with western Europe, for instance, was stimulated by the diversion of demand for petroleum and its derivatives caused by the Suez crisis. The decline in the rate of expansion of trade of other eastern European countries was, for the most part, caused by the need to restrict imports in order to improve the external balances which had deteriorated in 1957. The expansion of foreign trade during 1957 had been, in some cases, the result of a substantial advance in imports, whereas exports had increased less than imports or had even declined. In contrast to trade of the Soviet Union and other European centrally planned

Table 108. Indices of Foreign Trade Turnover[a] and Value of Trade, by Country

(Preceding year = 100)

Country	*1956*	*1957*	*1958*	*1958 Value of trade (millions of roubles)*[b]
Bulgaria	139	120	105	2,974
Czechoslovakia	116	108	104	11,573
Eastern Germany	112	125	104	14,300
Hungary	84	122	112	5,226
Poland	109	112	103	9,145
Romania	96	107	105	3,357
USSR	111	115	102	34,008
Total, above countries	109	115	104	80,575
China (mainland)	99	92	114	12,274[c]
TOTAL	108	114	105	92,849

Source: National statistical yearbooks; reports on fulfilment of plans; replies of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies; *Vneshnyaya Torgovlya, 1959* (Moscow).

[a] Exports plus imports. Indices for 1956 and 1957 differ from those in United Nations, *World Economic Survey, 1957* (sales number: 58.II.C.1) because of revision of data.

[b] Converted into roubles at official rates of exchange.

[c] Total trade of mainland China amounted in 1957 to 10,353 million yuan and in 1958 to 11,802 million yuan, *Byulleten Inostrannoy Kommercheskoy Informatsii*, No. 28 (1704), 5 March 1959 (Moscow), page 2. Conversion into roubles was obtained by using the rate of exchange, one yuan = 1.04 roubles. For derivation of this rate of exchange, see *World Economic Survey, 1957*, table 111, footnote *f*.

economies, that of mainland China increased by 14 per cent in 1958 following an absolute decline in 1957.

The attempts to improve the balance of trade, through expanding exports or reducing or stabilizing imports, were generally successful, at least among those countries for which data are available (see table 109). Among the countries which experienced a deficit in 1957, Czechoslovakia and Hungary achieved significant export surpluses in 1958 and Poland reduced its deficit by almost one-half. In all three countries this change was brought about by a reduction in imports and a steep increase in exports. Eastern Germany, which had an export surplus in 1957, continued to expand exports and recorded a further gain in its net export balance. Bulgaria was the only country where imports increased more than exports in 1958, and its net export balance consequently deteriorated.

The improvement in trade balances was, in part, the result of more favourable terms of trade for countries exporting manufactured goods to the rest of the world. For Poland, however, the terms of trade worsened in 1958 mainly because of a further decline in the price of coal.

Table 109. Exports and Imports, by Country
(Millions of roubles)[a]

Country and item	*1956*	*1957*	*1958*
Bulgaria			
Exports	1,361	1,486	1,503
Imports	997	1,333	1,470
Balance	364	153	33
Czechoslovakia			
Exports	5,593	5,472	6,101
Imports	4,781	5,592	5,472
Balance	812	−120	629
Eastern Germany			
Exports	5,629	7,243	7,570
Imports	5,335	6,462	6,730
Balance	294	781	840
Hungary			
Exports	1,975	1,948	2,713
Imports	1,861	2,724	2,513
Balance	114	−776	200
Poland			
Exports	3,939	3,900	4,237
Imports	4,087	5,006	4,907
Balance	−148	−1,106	−670
USSR			
Exports	14,463	17,526	...
Imports	14,452	15,751	...
Balance	11	1,775	...
China (mainland)			
Exports	5,793	5,622	...
Imports	5,512	5,145	...
Balance	281	477	...

Source: Statistical yearbooks; reports of fulfilment of plans; *Statisticheski Izvestia*, No. 1, 1959; *Statisztikai Havi Közlemenyek*, No. 1, 1959.

[a] See footnotes *b* and *c* to table 108.

The changes in the commodity composition of trade of three eastern European countries for which data for 1958 are available are shown in table 110.

The pattern of geographical distribution of trade of the centrally planned economies did not change significantly in 1958. The total trade of countries listed in table 111 increased in 1958 at approximately the same rate as their trade with the rest of the world; thus, the share of the latter—amounting to about 30 per cent of total trade—remained practically the same as in 1957. Among the individual countries, the most significant changes in the geographical distribution of trade occurred in Poland. Whereas its total trade rose by about 3 per cent in 1958, its trade with the other centrally planned economies declined by 4 per cent; this mainly reflected a fall of 10 per cent in trade with the Soviet Union and an increase of 12 per cent in trade with the rest of the world.[44] The effect of this shift on the share of the rest of the world in total trade of the centrally planned economies was offset by an absolute decline in trade of Czechoslovakia and a relative fall in trade of Eastern Germany with the rest of the world.

In mainland China, considerable changes in the distribution of trade occurred in 1958. Trade with the Soviet Union increased in 1958 by 18 per cent and trade with Czechoslovakia, Eastern Germany, Hungary and Poland by 26 per cent.[45] At the same time, however, trade of mainland China with some western European countries more than doubled.[46] The lack of information on changes in trade with other countries, whether centrally planned or private enterprise economies, makes it difficult to assess whether the share of the rest of the world in total trade of mainland China increased. In any event the share of the four western European countries for which, as shown in table 111, data on trade are available increased from 7 per cent of total trade of mainland China in 1957 to 14 per cent in 1958.[47]

The preceding review of changes in the foreign trade of the centrally planned economies may be supplemented by the more detailed information on east-west trade to be derived from statistics of the private enterprise economies. Despite the differences in coverage and definition, the data reproduced in table 112 show in general the same tendencies as are apparent in table

[44] Trade of Poland with other eastern European countries remained practically the same as in 1957; trade with mainland China and other Asian centrally planned economies increased by about 24 per cent.

[45] Trade with Hungary rose by 40 per cent, with Poland by 32 per cent and with Eastern Germany by 25 per cent.

[46] France, Italy, United Kingdom and Federal Republic of Germany.

[47] The trade of centrally planned and private enterprise countries unaccounted for in table 111 seems to have fallen from 27 per cent of total trade of mainland China in 1957 to 17 per cent in 1958. Trade with the Soviet Union and the four eastern European countries represented 66 per cent of total trade of mainland China in 1957 and 69 per cent in 1958.

Table 110. Commodity Composition of Foreign Trade of Centrally Planned Economies, Selected Countries

(Percentage of total)

Country and item	1956	1957	1958
Czechoslovakia			
Exports			
Machinery and equipment	40.3	40.8	43.4
Fuels and industrial raw materials	36.9	34.8	31.1
Food and agricultural raw materials	7.4	7.0	7.1
Manufactured consumer goods	15.4	17.4	18.4
Imports			
Machinery and equipment	17.2	18.7	18.6
Fuels and industrial raw materials	55.0	54.0	54.7
Food and agricultural raw materials	24.6	23.3	23.2
Manufactured consumer goods	3.2	3.9	3.4
Hungary			
Exports			
Machinery and equipment	30.2	38.0	35.8
Fuels and industrial raw materials	23.4	22.1	23.5
Food and agricultural raw materials	31.0	26.4	23.5
Manufactured consumer goods	15.4	13.5	17.3
Imports			
Machinery and equipment	12.5	11.8	16.7
Fuels and industrial raw materials	70.8	71.7	70.8
Food and agricultural raw materials	12.7	10.3	8.3
Manufactured consumer goods	4.0	6.2	4.2
Poland			
Exports			
Machinery and equipment	15.6	20.0	26.9
Fuels and industrial raw materials	63.8	61.0	50.8
Food and agricultural raw materials	11.7	12.6	17.3
Manufactured consumer goods	8.9	6.4	5.0
Imports			
Machinery and equipment	33.2	23.8	26.4
Fuels and industrial raw materials	48.6	53.1	53.9
Food and agricultural raw materials	12.4	17.4	11.4
Manufactured consumer goods	5.8	5.7	8.3

Source: National statistical yearbooks; replies of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies.

111. Thus the slowing down in the rate of expansion of trade of the centrally planned economies with the rest of the world during the first ten months of 1958 compared with the same period of 1957 was mainly occasioned by the changes in trade of the Soviet Union. Whereas Soviet trade with the rest of the world had increased steeply in 1957, in 1958 it fell below the level reached during the first ten months of 1957.[48] The trade of other eastern European countries with the rest of the world increased by 5 per cent, which was a somewhat lower rate than in 1957, but the trade of mainland China accelerated from an increase of 5 per cent in 1957 to over 30 per cent in 1958.

During the period under review, imports of the centrally planned economies in their trade with the rest of the world increased more than exports, resulting in a substantially smaller export surplus than during the first ten months of 1957.[49]

The general slackening in the expansion of trade of the centrally planned economies with the rest of the world was accompanied by divergent tendencies in their trade with various areas. Trade with the United States and Canada increased substantially, mainly because of an advance of 60 per cent in imports. Although the greatest percentage increases in imports from this

[48] According to Soviet data covering the whole year, its trade with the rest of the world increased by 2 per cent in 1958 and by 17 per cent in 1957.

[49] As indicated in United Nations, *World Economic Survey, 1957*, page 224, imports slightly exceeded exports during the twelve months of 1957.

Table 111. Geographical Distribution of Trade of Centrally Planned Economies
(Exports plus imports in millions of roubles)

Country and year	Centrally planned economies			Rest of the world	Total
	USSR	Other eastern Europe	China and other Asia		
Czechoslovakia					
1957	3,764	2,858	720	3,724	11,066
1958	3,808	3,318	840	3,607	11,573
Eastern Germany					
1957	———	10,070	———	3,630	13,700
1958	———	10,600	———	3,700	14,300
Hungary					
1957	1,368	1,524	358[a]	1,421	4,671
1958	1,402	1,723	533[a]	1,568	5,226
Poland					
1957	2,721	2,184	382	3,619[b]	8,906
1958	2,397	2,212	472	4,064[b]	9,145
USSR					
1957		——— 24,500 ———		8,800	33,300
1958		——— 25,000 ———		9,000	34,000
Total, above countries					
1957	———	50,449	———	21,194	71,643
1958	———	52,305	———	21,939	74,244
China (mainland)					
1957	5,129	1,948[c]		783[d]	10,767
1958	6,052	2,465[c]		1,696[d]	12,274

Source: National statistical yearbooks; *Statistisztikai Havi Közlemenyek*, No. 3, 1959; *Biuletyn Statystyczny*, No. 2, 1959; *Byulleten Inostrannoy Kommercheskoy Informatsii*, 5 March 1959; reports on fulfilment of annual plans; replies of Governments to the United Nations questionnaire of November 1958 on economic trends, problems and policies.

[a] Possibly includes a small amount of trade with other areas; turnover with mainland China amounted to only 243 million roubles in 1957 and to 364 million roubles in 1958.

[b] Including internal exports and net supply to seagoing ships, which amounted in 1957 to 71.7 million roubles and in 1958 to 61.4 million roubles.

[c] Czechoslovakia, Eastern Germany, Hungary and Poland only.

[d] Federal Republic of Germany, France, Italy and United Kingdom only.

area were registered by mainland China and by the Soviet Union, whose imports rose fivefold and twofold, respectively, in absolute terms the most significant expansion occurred in imports of eastern Europe.[50] As a result of these developments, net imports of eastern Europe, and therefore of all centrally planned economies, from the United States and Canada, increased substantially in 1958.

More significant in absolute terms was the further increase in trade of the centrally planned economies with the Middle East. Unlike developments in 1957, the expansion in trade turnover in 1958 was entirely due to larger exports, imports of the centrally planned economies from the Middle East having declined slightly during the first ten months of the year. As a consequence, the net import balances of 1956 and 1957 were replaced by an export surplus in 1958. The advance in exports of the centrally planned economies to the Middle East was mainly because of an expansion in trade of eastern Europe and, to a much smaller extent, of the Soviet Union.

The two other areas which substantially increased their trade with the centrally planned economies in 1958 were Yugoslavia and Asia and the Far East. In 1958, as during the two preceding years, the trade of the centrally planned economies with Yugoslavia continued to expand rapidly; this was mainly accounted for by an expansion of more than 40 per cent in their exports, which substantially improved the net export balance of the centrally planned economies. This expansion was entirely due to exports of eastern Europe, which more than doubled; exports of the Soviet Union and mainland China to Yugoslavia declined. An opposite tendency appeared in trade with Asia and the Far East, since imports of the centrally planned economies from that area increased more than exports and net exports slightly declined. The expansion of trade with Asia and the Far East mainly reflected the advance in trade of mainland China; trade of the Soviet Union with that area increased much less and the trade of other eastern European countries declined in 1958.

[50] Imports of eastern Europe from the United States increased by 79 per cent during the first ten months of 1958 compared with the same period in 1957.

Trade with western Europe, which accounted for about 57 per cent of total trade of the centrally planned economies with the rest of the world in 1957, increased at a much slower rate than trade with the areas discussed above, although in absolute terms the increase was greater. Imports of the centrally planned economies rose much more than exports during the first ten months of 1958 compared with the same ten

Table 112. Trade of Centrally Planned Economies with Rest of World[a]
(Millions of dollars)

Area and period	USSR		Other eastern European countries[b]		China (mainland)		Total	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Canada and United States								
1956	21.5	28.1	42.3	43.7	5.6	2.5	69.4	74.3
1957	18.2	7.5	44.1	70.5	5.0	1.5	67.3	79.5
1958	17.6	19.9	46.9	100.8	4.0	7.2	68.5	127.9
Latin America								
1956	25.5	25.7	75.4	49.0	1.5	2.2	102.4	76.9
1957	4.4	56.2	53.2	46.1	0.5	0.4	58.1	102.7
1958	13.1	32.5	29.2	41.1	0.2	14.6	42.5	88.2
Middle East								
1956	30.8	15.3	72.4	97.1	20.8	26.5	124.0	138.9
1957	75.6	76.0	88.3	92.4	18.1	42.5	182.0	210.9
1958	90.4	76.5	135.9	96.9	19.8	34.5	246.1	207.9
Western Europe[b] [c]								
1956	369.6	349.6	817.3	624.8	133.8	140.1	1,320.7	1,114.5
1957	515.5	365.0	797.1	785.1	115.9	197.1	1,428.5	1,347.2
1958	478.9	376.5	858.8	813.6	143.3	341.2	1,481.0	1,531.3
Finland								
1956	88.5	120.7	89.4	48.1	1.1	6.3	179.0	175.1
1957	128.4	135.5	100.3	58.7	5.1	5.8	233.8	200.0
1958	97.3	116.8	44.5	45.2	3.2	7.3	145.0	169.3
Yugoslavia								
1956	51.3	30.0	28.5	25.2	3.5	3.7	83.3	58.9
1957	53.3	38.6	53.1	39.6	7.7	3.3	114.1	81.5
1958	49.2	27.2	111.4	64.5	1.4	4.5	162.0	96.2
Asia and the Far East								
1956	33.2	40.1	56.1	57.1	334.2	144.9	423.5	242.1
1957	60.5	59.8	55.9	54.6	316.8	143.2	433.2	257.6
1958	57.0	94.1	37.6	48.1	373.5	167.7	468.1	309.9
Australia and New Zealand								
1956	1.2	5.7	6.3	25.4	4.7	4.9	12.2	36.0
1957	0.5	7.0	5.8	46.9	5.7	17.2	12.0	71.1
1958	1.1	2.1	5.8	35.5	7.6	18.3	14.5	55.9
Africa								
1956	0.4	8.0	28.4	9.0	19.3	0.2	48.1	17.2
1957	2.0	35.6	28.8	10.6	6.3	2.9	37.1	49.1
1958	1.6	6.0	25.6	9.5	22.4	3.1	49.6	18.6
Total								
1956	622.0	623.2	1,216.1	979.4	524.5	331.3	2,362.6	1,933.9
1957	858.4	781.2	1,226.6	1,204.5	481.1	413.9	2,566.1	2,399.6
1958	806.2	751.6	1,295.7	1,255.2	575.4	598.4	2,677.3	2,605.2

Source: United Nations, *Direction of International Trade*, a joint publication of the Statistical Office of the United Nations, the International Monetary Fund and the International Bank for Reconstruction and Development; estimates of the Bureau of Economic Affairs; Statistisches Bundesamt, *Wirtschaft und Statistik*, No. 12, 1957, No. 12, 1958 and No. 2, 1959 (Stuttgart); Statistical Department of Egypt, *Weekly Cotton Bulletin*, September and October 1958 (Cairo); *Revista del Banco Nacional de Cuba*, No. 11, 1958 (Havana).

[a] Exports from and imports into the centrally planned economies, as recorded by their trading partners. Data relate to first ten months of each year.

[b] Including trade between Eastern Germany and the Federal Republic of Germany.

[c] Metropolitan countries in the Organisation for European Economic Co-operation.

months of 1957 and the net export balance of 1957 was replaced by a net import balance in 1958.[51] The most significant feature of trade of the centrally planned economies with western Europe in 1958 was the very marked expansion of trade of mainland China. Whereas the trade of the Soviet Union with western Europe during the first ten months of 1958 slightly declined and that of other eastern European countries rose by about 6 per cent, trade of mainland China increased by more than 50 per cent. This increase, which raised the share of mainland China in trade of the centrally planned economies with western Europe from 11 per cent in 1957 to 16 per cent in 1958, was chiefly due to an increase of 73 per cent in imports from western Europe; exports of mainland China expanded by 24 per cent.

Among the areas showing a decline in trade with the centrally planned economies, the most important was Finland. Imports of the centrally planned economies from Finland declined during the first ten months of 1958 compared with the same period in 1957 by 15 per cent, and exports of Finland fell by 38 per cent; thus the net export balance in 1957 was changed to a net import balance in 1958. Total trade of the centrally planned economies with Latin America also declined by 20 per cent during the first ten months of 1958 compared with the same period in 1957,[52] the net import balance remaining practically unchanged at about $45 million. Trade of the centrally planned economies with Oceania and Africa, which had increased substantially in 1957, fell in 1958 by 15 and 30 per cent respectively. In both areas the decline was entirely due to a fall in imports, since exports of the centrally planned economies increased.

Changes in the commodity composition of trade of the centrally planned economies with the rest of the world during the first half of 1958 compared with the same period in 1957 were characterized by an increase in exports of foodstuffs, machinery, transport equipment and other manufactured goods and a substantial fall in exports of raw materials, mineral fuels and lubricants (see table 113). The rise in exports of foodstuffs was entirely accounted for by the trade of eastern Europe, exports from the Soviet Union and from mainland China having declined. The fall in exports of fuels and lubricants occurred in the trade of all centrally planned economies and seems to reflect the variation in western European demand for eastern European fuels caused by the Suez crisis and its aftermath. On the import side the changes between 1957 and 1958 were, in many respects, opposite to the developments in exports. Imports of food declined and imports of raw materials increased substantially. The fall in food imports from the rest of the world occurred only in eastern European countries and resulted in a change from a net import balance in 1957 to a substantial net export balance in 1958.[53] Imports of raw materials increased in the trade of both eastern Europe and mainland China. As a consequence of these changes, the centrally planned economies increased their net exports of food and substantially reduced their net exports of fuels and lubricants. Among other commodity groups the most significant change occurred in the trade balance of raw materials which moved from a net export balance of about $20 million in 1957 to a net import balance of $54 million in 1958. The changes in net imports of oils and fats, chemicals, machinery and other manufactures were of little significance.

ECONOMIC SITUATION IN YUGOSLAVIA

The economic situation in 1958 was strongly influenced by the sharp fall in agricultural production caused by unfavourable weather conditions. Agricultural output, which, after a decline of 12 per cent in 1956, had increased by 35 per cent in 1957, fell again in 1958 by about 15 per cent (see table 114). As a consequence, national product remained practically at the level reached in 1957 despite the fact that industrial production increased by 11 per cent. Personal consumption, which had increased during the preceding year by 14 per cent, expanded by only 5 per cent in 1958. Although State fixed investment increased in current prices by 17 per cent, a substantial part of this increase was covered by imports of capital equipment; and this, together with the decline in investment in inventories caused by the poor harvest, led to a reduction in the share of total investment in national product. It is of interest to note that the decline in agricultural production and its effect on national product were not unexpected since the plan for 1958 had foreseen a 14 per cent fall in agricultural output.[54] The actual decline in agriculture was, however, slightly greater than anticipated, while the increases in other sectors were smaller; national product, which was planned to increase by about 4 per cent in 1958, therefore rose by less than one-half of one per cent. The fall in agricultural production took place entirely in crop output, this being only partly offset by a substantial increase in meat production.[55]

In contrast to the changes in agricultural production, which are subject to sharp fluctuations, industrial production continued to expand at a high rate for the fourth consecutive year, although the percentage in-

[51] During the twelve months of 1957, however, the centrally planned economies had a small import surplus in their trade with western Europe.

[52] Mainly on account of a 59 per cent decline in imports from Cuba and a 54 per cent decline in exports to Brazil.

[53] The comparison relates to January-June of each year, and no conclusions relating to the whole year can be drawn from these data. During the twelve months of 1957 the centrally planned economies were net exporters of food.

[54] *See* United Nations, *World Economic Survey, 1957*, page 226, table 116.

[55] Output of rye fell by 20 per cent in 1958, that of maize by 30 per cent, sugar-beets by 27 per cent, tobacco by 40 per cent and potatoes by 20 per cent. Output of milk remained practically unchanged but meat production increased by 20 per cent. It is likely that this latter increase was at least partly caused by a higher rate of slaughtering caused by the fall in supply of fodder.

Table 113. Composition of Trade of Centrally Planned Economies with Rest of World[a]
(Millions of dollars)

Item and period	USSR		Other eastern European countries		China (mainland)		Total	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Foodstuffs								
1956	45.8	40.5	126.1	156.0	28.5	3.2	200.4	199.7
1957	67.8	46.8	99.7	110.7	34.4	0.9	201.9	158.4
1958	47.9	50.1	150.6	93.9	32.0	6.5	230.5	150.5
Fats and oils								
1956	0.9	8.8	1.7	9.0	7.5	0.1	10.1	17.9
1957	0.8	5.2	1.7	11.7	5.0	—	7.5	16.9
1958	0.2	4.0	2.0	12.0	5.5	—	7.7	16.0
Raw materials								
1956	88.9	32.9	46.2	100.2	41.4	17.4	176.5	150.5
1957	95.8	34.3	55.2	123.4	41.0	14.6	192.0	172.3
1958	78.6	31.1	50.9	135.2	29.8	47.2	159.3	213.5
Mineral fuels and lubricants								
1956	57.5	—	104.4	3.8	—	—	161.9	3.8
1957	124.6	—	123.5	3.3	—	0.1	248.1	3.4
1958	94.3	—	75.6	1.7	—	—	169.9	1.7
Chemicals								
1956	9.2	5.0	31.4	34.6	5.4	33.1	46.0	72.7
1957	9.5	8.9	33.7	48.2	6.5	27.0	49.7	84.1
1958	12.6	13.0	39.9	42.8	5.5	34.8	58.0	90.6
Machinery and transport equipment								
1956	6.6	89.0	43.9	34.1	0.4	4.1	50.9	127.2
1957	14.0	84.8	60.8	58.0	0.2	24.4	75.0	167.2
1958	18.0	73.9	66.9	76.3	0.3	10.1	85.2	160.3
Other manufactured goods								
1956	47.3	68.7	112.6	97.0	13.2	9.5	173.1	175.2
1957	63.3	105.5	104.9	127.2	17.3	24.5	185.5	257.2
1958	73.4	105.4	110.2	162.8	24.3	24.4	207.9	292.6
Total								
1956	256.2	244.9	466.3	434.7	96.4	67.4	818.9	747.0
1957	375.8	285.5	479.5	482.5	104.4	91.5	959.7	859.5
1958	325.0	277.5	496.1	524.7	97.4	123.0	918.5	925.2

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D, January-June 1956, 1957 and 1958.

[a] Exports from and imports into the centrally planned economies, as recorded by their trading partners, during January-June of each year. Trade between Eastern Germany and the Federal Republic of Germany not included.

crease achieved in 1958 was considerably smaller than in 1957. The advance of 11 per cent in industrial production in 1958 was largely realized through a further increase in employment, which rose by about 8 per cent; output per man advanced by only 3 per cent, much less than in 1957.

The demand-supply situation seems to have deteriorated in 1958 mainly because of deficiencies in the food supply. The contraction in agricultural output was only partly alleviated by the decumulation of stocks; prices of food consequently increased by about 9 per cent whereas prices of industrial goods remained unchanged. The rise in food prices, as reflected in the cost of living index, accelerated considerably towards the end of the year when they reached a level about 20 per cent above that of the last quarter of 1957. Prices of services also increased substantially during the same period. For the year as a whole, the cost of living for a worker's family rose by 6 per cent over 1957. The volume of retail trade, which had risen by 23 per cent in 1957, increased by only 5 per cent in 1958. The wage bill advanced more rapidly and, despite a decline in peasants' incomes, total income of the population increased at a higher rate than the volume of retail sales. Real hourly wages of workers, which had increased by about 9 per cent in 1957, declined slightly in 1958.[56]

The value of foreign trade increased by 8 per cent in 1958; this was much less than in 1957 when it had risen by 32 per cent. During 1958, however, exports

[56] The difference between the changes in real earnings of wage earners in 1957 and 1958 appears to have been much greater if monthly earnings, inclusive of bonuses and other payments, are taken into account. Such earnings rose in 1957 by 17 per cent, and in 1958 they declined by about 3 per cent.

Table 114. Yugoslavia: Selected Economic Indices
(Preceding year = 100)

Item	1956	1957	1958	1959 (planned)
National income[a]	98	123	100	112
Agricultural production	88	135	85	121
Industrial production	110	117	111	111
Producer goods	106	116	113	113
Semi-manufactured goods	112	114	111	...
Consumer goods	111	121	110	114
Electric power	116	123	118	110
Coal	112	104	104	...
Employment in industry	104	108	(108)	104
Output per man in industry	106	108	103	106
Real wages (hourly)	104	109	99	105
Cost of living	105	102	106	...
Consumption, personal[a]	100	114	105	106
Volume of retail sales	105	123	105	...

Source: Reply of the Government of the Federal Republic of Yugoslavia to the United Nations questionnaire of November 1958 on economic trends, problems and policies; *Indeks*, No. 2, 1959 (Belgrade); *Statisticki Godisnjak*, 1957 (Belgrade).
[a] In constant prices.

increased much more than imports and the deficit on current account consequently declined (see table 115). As in the preceding year, this deficit was covered by foreign loans and reparation payments. The geographical distribution of Yugoslav trade did not change appreciably during the year. In both 1957 and 1958, western Europe accounted for about 50 per cent of Yugoslav exports and 40 per cent of imports. Eastern Europe, including the Soviet Union, accounted for about 27 per cent of exports in 1957 and 1958, but the share of this region in Yugoslav imports increased from 22 per cent in 1957 to 28 per cent in 1958.

Table 115. Yugoslavia: Balance of Payments, 1957–1959[a]
(Billions of dinars)

Item	1957	1958	1959 (planned)
Exports of goods and services	159.2	178.0	198.0
Imports of goods and services	218.2	225.0	235.0
Balance	−59.0	−47.0	−37.0
Loans and credits, net	31.8	35.0	21.0
Reparations and compensation of claims	15.5	10.0	10.0
State and private grants	11.3	13.0	12.0
Changes in foreign exchange reserves	12.7	−7.0	−6.0
Clearing debts	−7.5	−3.0	...
Other transactions	−4.8	−1.0	...
TOTAL	59.0	47.0	37.0

Source: Reply of the Government of the Federal Republic of Yugoslavia to the United Nations questionnaire of November 1958 on economic trends, problems and policies.
[a] Including non-commercial exports and imports, as well as items not registered in foreign trade statistics. Data for 1958 are preliminary.

The plan for 1959 provides for a considerable increase in national product, mainly owing to the expected rise of 21 per cent in agricultural production; industrial output is planned to expand at the same rate as in 1958. National product is planned to increase by about 12 per cent in 1959, and personal consumption by 6 per cent, thus indicating that the share of consumption in national product is planned to decline. Gross fixed investment is planned to increase by 4 per cent, which is much less than the increase in national product, but this decline in the share of fixed investment is to be offset by an increase in stock formation and a reduction in net imports.

The rates of increase scheduled in the plan for 1959 are generally higher than the average rates which were envisaged in the five-year plan of economic development for 1957 to 1961. The data reproduced in table 116 indicate that the average rates of increase achieved in the first two years of the plan were also generally greater than those specified in the five-year plan; real wages, however, rose at a lower rate than the average rate planned for the whole period of the five-year plan.

Table 116. Yugoslavia: Actual and Planned Indices of Output, Consumption and Real Wages, 1957–1961[a]
(1956 = 100)

Item	Actual		Planned	
	1957	1958	1959	1961
National product	122.9	123.4	137.8	154.4
Industrial production	117.0	129.9	144.2	168.0
Agricultural production	135.0	114.8	138.9	142.7
Personal consumption	114.4	119.7	127.1	141.9
Real wages[b]	117.0	113.5	119.2	143.4

Source: *Official Gazette of the Federal Republic of Yugoslavia*, 25 December 1957 (Belgrade); *Indeks*, No. 2, 1959; reply of the Government of the Federal Republic of Yugoslavia to the United Nations questionnaire of November 1958 on economic trends, problems and policies.
[a] All data in constant prices.
[b] Monthly earnings inclusive of bonuses and other payments.

Long-term plans of economic development

In the course of 1958 and the early months of 1959 several centrally planned economies announced goals for new long-term plans of economic development. The new targets usually appeared in the form of directives adopted by the communist parties or were indicated in the speeches of government officials. Although most of the plans are not yet officially proclaimed as State documents, there is little doubt that the goals set will eventually be adopted with only minor changes. In the Soviet Union the original five-year plan covering the

years 1956-1960 was abandoned and replaced by a new seven-year plan for 1959-1965. Several other eastern European countries have already modified their plans to ensure that they should cover the same period as the Soviet plan. In Poland and Czechoslovakia the remaining years of the 1956-1960 plans were integrated into the larger plans for 1959-1965. The targets of the Bulgarian five-year plan for 1958-1962, published in June 1958, were revised sharply upwards at the beginning of 1959 and the duration of the plan was extended until 1965. In contrast to this, Hungary abandoned its 1956-1960 plan after the October uprising and announced in 1958 an entirely new plan covering only the next three years, conceived as an intermediate period of readjustment to overcome the effects of the uprising of 1956. Romania and Eastern Germany have not yet announced their new plans, but Eastern Germany has set a few targets for specific items in 1965. The five-year plan of mainland China for 1958-1962 was not officially revised, but the expansion of the country's economy in 1958 was such that several of the targets set for 1962 had been reached or exceeded and, therefore, the five-year plan became obsolete.

Apart from the five-year or seven-year plans of economic development, several centrally planned economies are preparing plans covering a period of fifteen years. So far, only the Soviet Union and Poland have published some of the targets of their fifteen-year plans.

INDUSTRIAL PRODUCTION

In all the centrally planned economies, with the exception of Bulgaria, industrial production is planned to increase less rapidly than it did during the preceding periods. The considerable acceleration of industrial expansion in Bulgaria was adopted at the beginning of 1959 under the stimulus of the experience of mainland China. In the latter country, industrial production increased by 66 per cent in 1958—or two-thirds of the planned increase for the whole plan period from 1958 to 1962 (see table 117).

Output of producer goods is again planned to increase more rapidly than that of consumer goods. The comparative rates of growth in the two sectors appear to remain approximately the same as during the preceding period in all the countries for which data are available.

The anticipated slowing down of industrial expansion in most of the centrally planned economies arises from several factors which differ in importance from country to country. In the Soviet Union, Eastern Germany and Czechoslovakia, the most significant factor seems to be the increasing difficulty of maintaining the previous rate of expansion in the industrial labour supply. In the latter two countries, as well as in Poland, another factor of importance has been the balance of payments problems which have arisen from the need to import increasing amounts of raw materials. The greater emphasis placed on the development of the extractive industries in investment plans, particularly in those of the Soviet Union, may also have tended to slow down the planned growth of industrial output, since the period required for completion of investment projects in mining is considerably longer than in manufacturing, and the capital output ratio is presumably higher.

Certain characteristics with respect to changes in the broad composition of output appear common to all plans announced in 1958-1959. In the first place, all the countries intend to achieve a very marked accelera-

Table 117. Industrial Production during the Current Long-Term Plans and during the Preceding Periods

Country	*Current plans*[a]				*Preceding periods*[b]			
	All industry		*Producer goods*	*Consumer goods*	*All industry*		*Producer goods*	*Consumer goods*
	Index[c]	*Annual rate of increase*			*Index*[c]	*Annual rate of increase*		
Bulgaria	350	17.0	...	...	292	14.3	...	...
Czechoslovakia	192	8.6	...	...	237	10.7	12.3	9.0
Eastern Germany[d]	155	9.2	10.0	7.0	190	13.7	14.2	13.0
Hungary	125	7.7	9.7[e]	5.4[f]	127	8.4	7.1[e]	8.8[f]
Poland	180	8.6	8.7[g]	8.2[g]	228	12.5	13.1	11.6
Romania	162	10.1	11.5	8.8	216	16.9	18.3	14.5
USSR	180	8.6	9.3	7.3	212	11.4	12.2	9.7

Source: Directives for long-term plans, and national statistical yearbooks.

[a] Planned periods covered: Bulgaria, 1958-1965; Czechoslovakia, 1958-1965; Eastern Germany, 1956-1960; Hungary, 1958-1960; Poland, 1959-1965; Romania, 1956-1960; USSR, 1959-1965.

[b] Periods covered: Bulgaria, 1950-1957; Czechoslovakia, 1950-1957; Eastern Germany, 1951-1955; Hungary, 1953-1955; Poland, 1952-1958; Romania, 1951-1955; USSR, 1952-1958. "Preceding period" encompasses the same number of years as covered by the current plans. For all countries except Hungary, it refers to the period immediately preceding the beginning of the plans; for Hungary, the years 1953-1955 were chosen because the changes during the three years immediately preceding the beginning of the new plan were influenced by the 1956 decline and its aftermath.

[c] Year preceding the beginning of the period covered = 100.

[d] Eastern Germany announced also the target for total industrial production for the period 1961-1965; it should increase in 1965 over 1960 by 50 per cent.

[e] Heavy industry.

[f] Light industry and food industry.

[g] Years 1961-1965.

tion of mineral production by exploiting both lower quality deposits and, as in the Soviet Union, deposits located in remote regions. Secondly, more than average rates of expansion are planned for the chemical industries (see tables 118 and 119). Special emphasis is placed on output of fertilizers, plastics and artificial fibres, with expansion of the latter two industries to be based mainly on chemical processing of crude petroleum. A petroleum-chemical industry is to be developed even in countries such as Eastern Germany, where the industry will have to rely entirely on imported petroleum. Thirdly, all the plans provide for a marked change in the pattern of fuel consumption, consisting of a shift from solid fuels to domestically produced, or imported, liquid fuels or natural gas. This shift is to be most pronounced in the Soviet Union. The increasing part to be played by the Soviet Union in supplying fuels to the other countries renders the changes outlined in its plan of special importance for the whole area.

As the data reproduced in table 120 indicate, in the Soviet Union the share of coal in total fuel production, which had increased between 1940 and 1950, declined considerably between 1950 and 1957. This trend is to be intensified in the next seven-year plan and in the subsequent seven years. By 1965, the share of coal is to be reduced to only 43 per cent of total fuel production as against nearly 61 per cent in 1957; by 1972 it is envisaged that coal will account for less than one-third of the output of fuels. Petroleum and natural gas, which together accounted for 27 per cent of fuels in 1957, are planned to comprise over half the total by 1965 and 58 per cent by 1972. It is also noteworthy that atomic power is forecast to contribute 3 per cent to total energy output by 1972, exceeding the proportion to be supplied by hydroelectric power.

The planned reduction in dependence on coal was motivated principally by the fact that the cost of coal has tended to increase relatively to that of other fuels, while discovery of new resources of petroleum and natural gas has made it possible to envisage their increasing substitution for coal.[57] As the cost of petroleum is only about one-third the cost of its thermal equivalent in coal, and that of natural gas is only about one-eighth, the shifts toward petroleum and natural gas represent substantial economies in fuel costs. Similarly, in Poland, consumption of natural gas is planned to be 22 per cent higher in 1965 than in 1957 and over one-fifth of the supply is to be provided by imports.[58]

Another important consideration encouraging the expansion of petroleum production in most of the centrally planned economies is the desire to establish a petroleum-chemical industry which, through processing crude petroleum and its derivatives, will provide the basis for new industries, such as plastics and synthetic textiles.

The emphasis on the chemical industry in the new plans of the centrally planned economies is reflected not only in a planned rate of growth above the average for all industries, but more strikingly in the fact that the advance in chemical output is planned to exceed even that of the engineering industries, which had been assigned the highest priority under preceding plans (see table 118). Underlying this is the desire to provide substitutes for scarce raw materials and to increase the supply of fertilizers. The substitution of man-made for natural fibres is being pressed not only on grounds of cost but also because it would lessen the dependence of State-owned industries on domestic or imported agricultural supplies. Increased production of plastics is especially intended to provide a substitute for metals

[57] The Soviet coal mining industry, especially in the Ukraine, has recently encountered rising unit cost. The average unit cost of coal in 1957 was 8.5 per cent higher than in 1955. The rise in the cost of coal produced in underground mines was considerably greater than 8.5 per cent, because there had meanwhile been an increase in the proportion of coal produced by less costly opencast mining. See *Voprosy Ekonomiki*, No. 5, 1958, page 63.

[58] Consumption is to rise from 590 million cubic metres in 1957 to 1,300 million cubic metres in 1965.

Table 118. Indices of Planned Increases in Output of Chemical Industry, Engineering and Electric Power
(Year preceding the beginning of the plan = 100)

Country and period	All industry	Electric power	Chemical industry				Engineering industry			
			Total	Fertilizers	Artificial fibres	Plastics	Total	Tractors	Trucks	Metal-cutting machine tools
Bulgaria (1958–1965)	350	377	700	836	...	...	600	...	...	...
Czechoslovakia (1958–1965)	192.5	215	250	400[a]	194	300	230	...	...	...
Eastern Germany (1956–1960)	155	153	[b]	142	[b]	[b]	...	...	190[c]	130
Hungary (1958–1960)	125	140	131	172	...	...	135	156	105	...
Poland (1959–1965)	180	176	254[d]	230	176	567	238	570	288	168
Romania (1956–1960)	162.5	186	...	...	...	...	...	...	...	72.5
USSR (1959–1965)	180	219	300	300	400	700	200	...	160[c]	145

Source: Plan directives and national statistical yearbooks.

[a] Nitric fertilizer only.

[b] Data relate to original targets. New targets announced for individual items for 1956 (1958 = 100) were as follows: chemical industry: total, 200; plastics, 280; artificial fibres, 580.

[c] All motor vehicles.

[d] Industry under the jurisdiction of the Ministry of Chemical Industry only.

Table 119. Targets for Selected Industrial Products in Long-Term Plans

Country and item	Fuels[a]	Electric power[b]	Steel[c]	Fertilizers[d]	Artificial fibres[e]	Cement[c]	Cotton fabrics[f]	Woollen fabrics[f]	Leather footwear[g]	Sugar[c]
Bulgaria										
Target for 1965 (in quantities)	17.0	10.0	0.9	1.6	26.0	3.0	37.5	30	14.0	...
Average annual rate of increase:										
Planned (1958–1965)	17.2	18.0	27.5	30.4	...	16.6	11.9	10.7	...	...
Actual (1950–1957)	10.0	18.8	—	...	...	5.6	11.0	9.4	3.2	...
Czechoslovakia										
Target for 1965 (in quantities)	94.0	38.0	9.4	0.3	92.5	7.0	...	...	...	...
Average annual rate of increase:										
Planned (1958–1965)	5.3	14.1	7.8	7.9	8.6	8.4	...	...	...	...
Actual (1950–1957)	7.5	11.5	9.3	9.3	9.7	11.8	...	...	...	...
Eastern Germany										
Target for 1960 (in quantities)	85.0	44.0	3.5	0.5	...	5.2	395.0[h]	59.0[h]	22.0[i]	...
Average annual rate of increase:										
Planned (1956–1960)	5.2	8.9	6.8	7.5	...	11.8	14.5	6.3	4.6	...
Actual (1951–1955)	7.4	8.0	20.2	15.7	7.0	16.0	21.9	−1.5	17.2	...
Hungary										
Target for 1960 (in quantities)	14.0	7.6	1.0	0.4	...	1.5	228.0[j]	27.5	18.5	292.0
Average annual rate of increase:										
Planned (1958–1960)	8.9	11.7	0.5	4.9	...	11.4	3.3	4.8	8.9	−1.0
Actual (1953–1955)	11.3	8.9	3.9	7.7	...	3.6	3.3	3.3	9.4	11.6
Poland										
Target for 1965 (in quantities)	133.0	41.5	8.8	0.9	116.0	10.0	790.0	100.0	48.0	1,500.0
Average annual rate of increase:										
Planned (1956–1960)	3.9	8.4	6.6	12.4	8.6	10.4	3.9	3.5	5.0	5.0
Actual (1952–1958)	2.3	12.1	10.4	...	23.5	9.2	3.7	3.7	9.7	3.1
Romania										
Target for 1960 (in quantities)	41.0	8.0	1.7	...	...	3.6	300.0[j]	...	25.7[k]	300.0
Average annual rate of increase:										
Planned (1956–1960)	10.5	13.2	17.2	...	...	12.5	4.2	...	7.8	7.3
Actual (1951–1955)	14.2	11.5	6.7	...	...	...	11.7	...	8.9	9.9
USSR										
Target for 1965 (in quantities)	1,092.0	510.0	88.5	35.0	664.0	78.0	7,850.0	500.0	515.0	9,625.0
Average annual rate of increase:										
Planned (1959–1965)	7.6	11.8	7.0	16.0	21.9	12.9	4.4	7.4	5.3	6.9
Actual (1952–1958)	10.4	12.3	6.9	11.2	31.7[l]	13.3	2.9	8.1	5.9	10.5

Source: Directives for long-term plans and national statistical yearbooks.

[a] Planned targets expressed in millions of tons of hard coal equivalents. Index for fuels computed on the basis of planned and actual output of hard coal, brown coal, crude petroleum and natural gas. Caloric coefficients used as follows (in millions of calories): hard coal, 7.0; brown coal: for Bulgaria, Hungary and Romania, 2.8; for Eastern Germany, 2.2; for Czechoslovakia, Poland and USSR, 4.9; crude petroleum, 10.0; natural gas (millions of cubic metres), 9.6.

[b] Planned target in billions of kilowatt-hours.

[c] Planned target in millions of tons.

[d] Planned target in millions of tons. For Bulgaria and USSR, on ton-per-ton basis; for other countries, in nutrient content.

[e] Planned target in thousands of tons.

[f] Planned target in millions of linear metres.

[g] Planned target in millions of pairs.

[h] Millions of square metres. In 1958 the target was revised and the planned output for 1961 for cotton fabrics was set at 301 million square metres, and for woollen fabrics at 48.7 million square metres.

[i] In July 1958 the target for 1961 was set at 23.5 million pairs.

[j] Millions of square metres.

[k] All kinds of footwear.

[l] Average for 1951-1958.

which have been in short supply—particularly non-ferrous metals, but also, to a lesser extent, steel.

The considerable increases planned for agricultural output require a much larger input of fertilizers than was the case during the preceding period. Even in the Soviet Union, where the output of chemical fertilizers reached 12 million tons in 1958, the bulk went to land under such industrial crops as cotton, flax, sugar-beets and sunflowers, and only relatively small amounts were applied to the area under grain.

Output of electric power is planned to increase at a considerably higher rate than that of industrial production in all countries except Poland and Eastern Germany (see table 118). In the Soviet Union the output of electric power is to amount to 510 billion kilowatt-hours in 1965. In order to reach this goal, the seven-year

Table 120. Union of Soviet Socialist Republics: Actual and Planned Changes in the Structure of Fuel Production, 1940–1972

(As percentage of total fuel production, in terms of caloric content)

Item	*1940*	*1950*	*1957*	*1960 Planned*	*1965 Planned*	*1972 Planned*
Coal	59.2	65.4	60.8	55.6	43.0	32.2
Oil	18.5	17.0	23.4	25.2	51.0	34.4
Natural gas	1.6	2.2	4.0	8.9		23.3
Peat	5.6	4.6	3.8	3.7	...	2.4
Oil shales	0.3	0.5	0.7	0.6	...	0.6
Hydroelectric power	1.3	2.2	2.9	2.8	...	2.6
Atomic energy	—	—	—	—	...	3.2
Firewood	13.5	8.1	4.4	3.2	...	1.3

Source: *Pravda* (Moscow), 14 November 1958; *Voprosy Ekonomiki*, No. 5, 1958 (Moscow), pages 56 *ff.*

plan provides for an increase in installed capacity of 59 million kilowatts, as compared to 52 million kilowatts installed between 1928 and 1958. It is significant that, in contrast to the former policy of concentrating on expansion of huge hydroelectric stations, the new seven-year plan relies mostly on the expansion of thermal stations. This change in policy was chiefly motivated by consideration of the shorter period and lower cost per unit of capacity involved in construction of thermal stations, a factor which makes it possible to achieve a greater rate of expansion within a given period of time and with a given investment outlay. The question of relative operating costs per unit of output of hydroelectric and thermal stations seems to have been considered of less importance in the present circumstances.[59]

Between 1959 and 1965 the Soviet Union plans to build forty large thermal stations, with a total capacity of 48.5 million kilowatts, and to complete the hydroelectric stations already under construction. The expansion in capacity of hydroelectric stations will amount in 1959-1965 to 10.5 million kilowatts, which is 35 per cent more than was installed during the preceding six years. A substantial number of the new thermal stations are to use natural gas as fuel and some of them are to be of the "open" type, meaning that the turbines are to be installed in the open air in order to reduce the capital outlay on building.

In Poland, the seven-year plan provides for a net increase in installed capacity of power stations by about 67 per cent, that is, by 3.3 million kilowatts, of which 10 per cent is to be hydroelectric power, more than half is to be generated by brown coal and only 37 per cent by hard coal.[60]

As in the past, the new Soviet plan provides for a further shift in the location of industry towards the east, the main reason for the shift being the availability of untapped natural resources in eastern provinces. As a consequence the share of this region in total output of basic materials and power is to increase substantially.[61]

Within the sector producing consumer goods, the plans provide in general for higher rates of increase in output of light industries than in food processing. Only in the Soviet Union is food processing planned to expand faster than output of light industries.[62] In all countries the tendency is to improve the quality of consumer goods and to increase the proportion of higher-grade products in total output. Thus, production of woollen and artificial fibre fabrics is to increase at a generally higher rate than output of cotton fabrics. Similarly, in food processing industries, processing of meat and milk is planned to expand more than output of other foods.

Among consumer durables, the plans provide for substantial rates of expansion of output of household goods, with special emphasis on washing machines, refrigerators and similar appliances, the output of which has been relatively small in the past.[63]

In all centrally planned economies the advance in industrial production is to be achieved to a much larger extent than during the preceding period by an increase in output per man and to a smaller extent by a rise in employment (see table 121). None the less,

[59] The investment outlay for each kilowatt of installed capacity in hydroelectric stations amounts, in the Soviet Union, to four thousand roubles, while in thermal stations it is one-third of this amount. The time for construction of a hydroelectric station extends to seven, or even ten years.

[60] *Gospodarka Planowa*, Nos. 1/2, 1959 (Warsaw), page 33. The share of power generated by brown coal is planned to increase from 1.5 per cent in 1958 to 29 per cent in 1965.

[61] In 1965 the share of the Soviet eastern region in total output is planned to amount to 50 per cent of coal, 48 per cent of steel, 88 per cent of refined copper, 71 per cent of aluminium, 42 per cent of cement, 46 per cent of electric power and 52 per cent of timber (*Pravda*, 28 January 1959).

[62] Light industries, as defined in the centrally planned economies, do not include food processing. The annual average planned rates for light industries and food processing are, respectively: Bulgaria, 15 and 12 per cent; Czechoslovakia, 5 and 4 per cent; Hungary, 5 and 4 per cent; Poland, 8 and 4 per cent; Romania, 8 per cent each and the Soviet Union, 6 and 8 per cent. The planned average annual rate of increase for durable consumer goods in the Soviet Union was set at over 10 per cent.

[63] In Poland, output of washing machines is to treble and that of refrigerators to increase almost tenfold between 1958 and 1965; in the Soviet Union, during the same period, output of household goods, inclusive of furniture, is planned to double.

Table 121. Average Annual Rates of Increase in Industrial Employment and Output per Man in the Long-Term Plans

Country	Current plan[a]				Preceding period[a]			
	Employment		Output per man		Employment		Output per man	
	Index	Average annual rate of increase	Index	Average annual rate of increase	Index	Average annual rate of increase	Index	Average annual rate of increase
Bulgaria	...	...	300	14.7	172	8.0	170	7.9
China (mainland)	...	...	...	...	120[b]	...	165	...
Czechoslovakia	109	1.1	175	7.2	126	2.9	191	8.6
Eastern Germany	103	0.6	150	8.4	134[b]	6.0	154	8.8
Hungary	102[c]	0.7	122	6.8	112	4.0	114	4.5
Poland	114[d]	1.9	158	6.7	133	4.2	171	8.0
Romania	110	1.9	148	8.2	150	8.4	148	8.2
USSR	124[e]	3.1	145	5.7	140	4.9	158	6.7

Source: Directives for long-term plans and national statistical yearbooks.

[a] For period covered, see table 117.

[b] Target originally planned.

[c] Index of total employment, 102.

[d] Index of total employment, 123.5.

[e] Index of total employment, 122.

the increases planned for output per man in the new plans are generally smaller than in the past.

AGRICULTURAL PRODUCTION

Whereas industry in general is planned to expand at a smaller rate than during preceding periods, the rates of expansion set for agriculture are generally higher than those achieved in the past (see table 122). In most cases, however, they are more modest than the planned, but unattained, targets of preceding plans. The plans for agricultural production also present a much less uniform pattern than those for industry. In the Soviet Union, Bulgaria and Czechoslovakia, the growth of agricultural production is to be considerably accelerated. In mainland China, the original plan provided for only slightly higher rates of increase than during the preceding plan, but the increases which took place in 1958 were more than double the expansion planned for 1958-1962 and a further increase, although at a slower rate, is anticipated for the next few years. Apart from mainland China, the largest advances in agriculture are planned by Bulgaria and the Soviet Union.

Table 122. Gross Agricultural Production in Long-Term Plans

Country	Current plans[a]		Preceding period[a] (actual)	
	Index[a]	Average annual rate of increase	Index[a]	Average annual rate of increase
Bulgaria	400	18.9	147	4.9
Czechoslovakia	140	4.3	116	1.9
Eastern Germany	122	4.1	132	5.7
Hungary	112[b]		124[c]	
Poland	130	3.8	130	3.8
Romania	...	...	103[d]	0.6
USSR	170	7.9	152	6.1

Source: Directives for long-term plans, national statistical yearbooks and *Voprosy Ekonomiki*, No. 2, 1959.

[a] For periods covered, see table 117. Indices, year preceding the beginning of the period = 100.

[b] Average output in 1958-1960 over 1955-1957.

[c] Average output in 1955-1957 over 1952-1954.

[d] Index and average rate of growth computed for the years 1952-1956; no data available for 1950.

In Bulgaria, the original version of the plan adopted in June 1958 provided for an increase in agricultural output of 35 per cent between 1957 and 1962. The plan was drastically revised in 1959, however, undoubtedly under the influence of the developments in mainland China. According to the new directives announced in June 1959, agricultural production is to be four times as high in 1965 as it was in 1957. This represents an increase in the average annual rate of expansion from some 6 per cent *per annum* to almost 20 per cent between 1957 and 1965. This increase is to be achieved by an expansion of the sown area of about 4 per cent and by a very great extension of irrigation works, which, by 1962, are to cover about 20 per cent of the total cultivated area and, by 1965, some 40 per cent. This, together with a sharp increase in the supply of fertilizer and improved methods of cultivation, is expected to raise yields substantially. Higher yields and a shift towards more valuable crops are to be the main factors accounting for the expected growth of total output. The plan also provides for far-reaching institutional changes considered essential for the achievement of the very high rates of increase set in the plan. The 3,450 collective farms have already been amalgamated into 625 larger units. The machine and tractor stations are to be eliminated in the near future and their machinery sold to the collective farms. The multiple prices paid for government purchases are to be replaced by unified prices. Payment to the peasants, which previously was based on the revenue of the collective farms and distributed among their members (after various deductions) on the basis of work accomplished, is to be replaced by wages. The wages are to be paid in kind as well as in cash, however, but with the share of cash payments gradually increasing. The

reorganization is intended, among other things, to increase the average annual working period of able-bodied members of the farms from 150 to 250 days a year, and to use the additional man-days both for large investment projects in agriculture and for development of local industries under the direction of the collective farms. The organization of restaurants and canteens in the collective farms is intended to release female workers from domestic occupations for productive work in the collective economy. These reforms, similar in many respects to the changes which occurred in mainland China in 1958, are expected to bring about a marked rise in output per man in agriculture and at the same time to foster the expansion of industrial production—mainly the processing of agricultural raw materials—in the countryside.

In the Soviet Union, the planned increase of 70 per cent in agricultural output during 1959-1965 also exceeds that achieved during the preceding seven years, but by a much smaller margin than in Bulgaria. The annual average rate of 8 per cent compares favourably with the rate of 6 per cent recorded over the preceding seven years. It should be added, however, that the annual rate of increase between 1954 and 1957 amounted to more than 7 per cent, and in 1958 an exceptionally large increase of 12 per cent was achieved.[64] The planned advance in agricultural production in the new seven-year plan is to consist mainly of very considerable increases in output of animal husbandry and industrial crops (see table 123); the expansion in output of grain is to be much smaller, increasing by only 24 per cent as compared to 76 per cent during the preceding seven years. The increase in crop production is to be achieved mainly through higher yields, no appreciable change being planned in the sown area (see table 124).

The gain in yields is to be realized not only by further increases in the application of fertilizers and more mechanization (see tables 125 and 126), but also by the greater specialization of regions in production of crops for which they are best suited. It is significant that, in accordance with the new methods of central management of agricultural production,[65] the regional specialization is to be achieved not so much by administrative orders as through the purchasing policy of State agencies. Thus, the purchasing agencies have already ceased to buy grain in certain regions of the Ukraine and in the Baltic republics in order to induce these regions to concentrate on production of meat and milk.

A similar policy is to be applied to collective farms located in the vicinity of large cities, which are to shift to production of vegetables and products of animal husbandry. At the same time, the supply of certain products, such as potatoes, to urban areas is to be assured by the creation of large State farms.

The planned doubling of output of meat is to be achieved by very large increases in livestock numbers as well as by the provision of more fodder to fatten cattle and by improved stock-breeding. The planned expansion of 24 per cent in output of grain is considered sufficient to provide for the required amount of feedstuffs. According to official estimates, one-half the output of grain is to be used for this purpose. Since human consumption of grain amounts at present to some 90 million tons, leaving, in 1958, some 40 million for fodder, it may be inferred, on the basis of the data for planned output, that a sufficient increase in the supply of fodder presupposes that human consumption of grain will not exceed its present level. Taking into account the growth of population, this would indicate a slight decline in per capita consumption of cereals, a tendency in line with the trends in Soviet consumption apparent during recent years.

In contrast to the Bulgarian and Soviet plans, the targets set for agricultural output by the other countries are rather moderate. As in the Soviet Union, the output of livestock products is planned to increase at a higher rate than that of grain in Poland, Czechoslovakia and Hungary; but in Eastern Germany and Romania, the reverse seems to be true. Compared to the preceding period, however, the output of meat is planned to expand more rapidly than in the past in all countries except Poland.

The expansion in crops in these countries is to be achieved mainly by an increase in yields. In fact, the Polish, Czech and Hungarian plans for grain production are expressed in terms of increases in yields without any indication of an extension of the sown area which presumably is to remain approximately unchanged.

A significant feature of the new agricultural plans is the considerable emphasis placed in all countries on the increase in output per man in agriculture. The plans generally provide for little, if any, addition to the agricultural labour force and, in some countries, the planned increases in output per man might, if fulfilled, release agricultural workers for other occupations. The Soviet seven-year plan calls for a doubling of output per man on collective farms and a 63 per cent increase on State farms. Taken together, these imply an average increase in output per man of some 90 per cent, and, since total output of agriculture is to increase by 70 per cent, this would indicate an absolute decline in agricultural manpower. It is certain, however, that the gain in output per man is to be secured, at least in part, through a fuller utilization of labour—the number of days worked per year on collective farms is to be increased, in some cases at the expense of time spent in

[64] The increase in agricultural output during 1951-1953 amounted to 1.6 per cent *per annum*.

[65] The collective farms are no longer given planned assignments for output or for the area to be sown under different crops. They are assigned instead targets for their sales of agricultural products.

Table 123. Targets for Selected Agricultural Products in Long-Term Plans

(Thousands of tons, except as indicated)

Country and item	Grains	Raw cotton	Sugar-beets	Sunflower seeds	Potatoes	Meat[a]	Milk[b]	Wool	Eggs[c]	Cattle[d]	Hogs[d]	Sheep[d]
Bulgaria												
Target for 1965	6,600[e]	210	3,000	550	...	1,300[f]	3.3	35	6.8	1,000[g]	6,000	14,000
Index, 1965 (1957 = 100)	300	428	209	263	...	300	373	235	780	179	400	184
Index, 1957 (1949 = 100)	190	191	288	158	...	120	129	100	140	85	136	82
Czechoslovakia												
Target for 1965[h]	6,600	—	6,900	...	...	1,290	5.4	...	3.0	...	...	...
Index, 1965 (1957 = 100)	136	—	102	...	...	143	149	...	146	...	...	...
Index, 1958 (1950 = 100)	103	—	99	...	...	112	115	...	131	...	...	...
Eastern Germany												
Target for 1960	...	—	8,300	...	18,600	1,400	7.7[i]	...	...	...	...	...
Index, 1960 (1955 = 100)	...	—	145	...	166	120	140	...	...	...	...	...
Index, 1955 (1950 = 100)	...	—	...	...	...	137	155	...	...	...	...	...
Hungary												
Target for 1960[j]	5,700	...	...	...	3,000	...	2.1	8.4	2.1	2,600	6,000	2,050
Index, 1960 (1957 = 100)	105	...	...	...	106	...	131	133	118	135	111	118
Index, 1955 (1952 = 100)	159	...	...	...	211	...	107	...	94	102	123	125
Poland												
Target for 1965	15,600[k]	—	10,500	...	44,000	3,000	15.4	...	...	10,750	16,250	...
Index, 1965 (1958 = 100)	116	—	125	...	126	136	136	...	...	131	135	...
Index, 1958 (1951 = 100)	123	—	157	...	166	140	...	...	...	114	142	...
Romania												
Target for 1960	15,000	...	3,000	375	3,500	1,300	2.5	34	...	...	...	...
Index, 1960 (1955 = 100)	151		150	115	135	147	120	164	...	...	...	...
Index, 1955 (1950 = 100)	110		100	100	119	90	98	92	...	...	...	...
USSR												
Target for 1965	172,000	5,900	80,000	5,500[l]	147,000	16,000[m]	99.4	548	37.0	126,200	...	182,500
Index, 1965 (1958 = 100)	124	134	147	110[l]	171	202	175	170	157	178	...	141
Index, 1958 (1951 = 100)	176	121	228	260	...	172	160	166	177	125	170	137

Source: Directives on long-term plans and national statistical yearbooks.

[a] Live weight.

[b] Billions of litres.

[c] Billions of units.

[d] Thousands.

[e] Coarse grain only; the output of wheat and rye in 1958 amounted to 2.4 million tons.

[f] Live weight, including poultry.

[g] Cows only.

[h] Planned targets for grains and sugar-beets estimated on the basis of the planned increases in yield given in the plan directives; targets for meat, milk and eggs estimated on the basis of a statement by Mr. Novotny that output of milk is to amount to 730 litres in 1965, output of meat (including poultry), 175 kilogrammes, and eggs, 407 units per hectare of agricultural area.

[i] Including goat's milk.

[j] Planned target for grains estimated on the basis of planned increase in yield for wheat, rye and maize. Increase in yield in 1960 over average yield in 1953-1957 amounts to 7 per cent for wheat, 10 per cent for rye and 3 per cent for maize. Planned targets for milk, wool and eggs estimated from planned increases in yield and stock.

[k] Wheat, rye, barley and oats, only.

[l] Total oil-seeds.

[m] Slaughtered weight.

Table 124. Actual and Planned Yield of Major Crops in Long-Term Plans
(Quintals per hectare)

Country and commodity	Actual yield A	Planned yield B	B as percentage of A C
Czechoslovakia	*1954–1957*	*1961–1965*	
Wheat	19.5	26	133
Barley	19.8	25	126
Sugar-beets	262.8	312	119
Eastern Germany	*1953–1955*	*1960*	
Grains	23.4	26.0	111
Potatoes	159.4	200.0	125
Sugar-beets	291.0	320.0	110
Hungary	*1953–1957*	*1958–1960*	
Wheat	14.4	15.5	108
Rye	11.5	12.7	110
Maize	21.3	22.0	103
Potatoes	97.4	167.5	172
Poland	*1955–1958*	*1965*	
Grains	14.5	17.5	121
Potatoes	124	160	129
Sugar-beets	196	236	120
USSR	*1955–1958*	*1959–1965*	
Grains	9.3[a]	12.8[b]	138

Source: Directives for long-term plans and national statistical yearbooks.
[a] Computed from data on total grain output and land under grain cultivation.
[b] It was stated by Mr. Khrushchev (*Pravda*, 8 February 1959) that the grain yield should increase in 1959-1965 by 3.5 quintals per hectare. It is not clear whether this increase refers to the average of 1955-1958 or to the exceptionally high yield obtained in 1958. Compared to the 1958 yield, the planned increase in the long-term plan would amount to only 20 per cent.

private agricultural activity by collective farmers. Similarly, Czechoslovakia plans to double output per man, while total output is to rise by 40 per cent. This suggests that agricultural manpower is to decline by 30 per cent during the seven years. According to official statements, however, 325,000 young people are to join the agricultural labour force during this period. This would indicate that one of the factors contributing to the increase in output per man in agriculture is the rejuvenation of the labour force, 37 per cent of which consisted, in 1958, of people over fifty years of age. The other countries of the group also anticipate considerable increases in output per man; precise estimates, however, are not given. In Bulgaria, as already stated, the steep increases in output per man are to be achieved by increasing the number of days worked.

Table 126. Supply of Tractors to Agricultural Sector in Long-Term Plans

Country and item	Thousands of units
Czechoslovakia	
Stock in 1956	38.8
Deliveries in 1958–1965	100.0
Hungary	
Stock in 1957	26.2
Stock in 1960	27.4
Eastern Germany[a]	
Stock in 1957	34.6
Stock in 1960	39.5
Poland	
Stock in 1956	51.1
Deliveries in 1961–1965	57.0[b]
Romania[a]	
Stock in 1957	32.3
Stock in 1960	37.0
USSR	
Stock in 1957	892[c]
Deliveries in 1959–1965	1,000

Source: Directives on long-term plans and national statistical yearbooks.
[a] In conventional 15-horsepower units.
[b] Including 15,000 single-axis tractors.
[c] The corresponding figure in conventional 15-horsepower units amounts to 1.6 million.

NATIONAL PRODUCT AND INVESTMENT

In all countries, the main factor contributing to the growth of national income is to be, as in the past, the

Table 125. Supply of Fertilizers to Agricultural Sector in Long-Term Plans
(Plant nutrient content)

Country	Kilogrammes per hectare of arable land		Total supply		1965 (Index, 1957=100)
	Annual average, 1949-1953[a]	1957[a]	1957 (thousands of tons)	1965 (thousands of tons)	
Bulgaria	9.5[b]	50.4	215.4	1,500	696
Czechoslovakia	36.3	77.1	395	987.5	250
Eastern Germany	123.9	167.7	869[c]	936[d]	108
Hungary	7.0	12.0	69.3	111[d]	160
Poland	23.2	39.1	625.7	1,251.0	200
USSR	6.5	11.6	2,120[e]	6,200[f]	292

Source: Directives on long-term plans and national statistical yearbooks.
[a] Harvest years from 1 July to 30 June.
[b] Annual average, 1950-1953.
[c] 1956.
[d] 1960; plant nutrient, 16 per cent.
[e] 1958; plant nutrient assumed to be 20 per cent.
[f] Plant nutrient assumed to be 20 per cent.

Table 127. Annual Rates of Increase of National Product and Consumption in Current Plans, and Actual Rates in Preceding Periods[a]

Country	Current plans			Preceding periods		
	National product	Consumption[b]	Ratio	National product	Consumption[b]	Ratio
Bulgaria	16.2	14.7	90.0	9.7	12.0	134.5
Czechoslovakia	...	4.8	...	8.0	6.6	90.3
Eastern Germany	7.7	6.2	93.1	10.1	11.1	104.3
Hungary	4.2	3.5	98.2	5.2	10.0[c]	192.3
Poland	7.0	6.3	96.2	8.2	7.3	89.0
Romania	8.4	10.0[d]		13.7	14.9[d]	
USSR	7.3	7.1[c]	98.8	10.3	11.6[d]	

Source: Directives on long-term plans and national statistical yearbooks.

[a] Periods covered: Bulgaria: planned, 1958-1965; actual, 1952-1958; Czechoslovakia: planned, 1958-1965; actual, 1950-1957; Eastern Germany: planned, 1956-1960; actual, 1951-1955; Hungary: planned, 1958-1960; actual, 1953-1955; Poland: planned, 1959-1965; actual, 1952-1958; Romania: planned, 1956-1960; actual, 1951-1955; USSR: planned, 1959-1965; actual, 1952-1958; China (mainland): planned, 1958-1962; actual, 1953-1956.

[b] Personal consumption, unless otherwise indicated.

[c] Personal and social consumption.

[d] Retail sales.

planned expansion of industry. Consequently, national product is planned to increase at smaller rates than during the preceding period in all centrally planned economies except Bulgaria, where the rate of expansion is to be considerably accelerated (see table 127). The very low rate of growth planned in Hungary reflects the fact that the three-year plan was conceived as an intermediate period of consolidation and reorganization, rather than as a long-term plan of economic growth.

One of the characteristics of the new long-term plans is a very significant narrowing of the margin between the rates of growth planned for industry and agriculture. This reflects the reduction of the planned rates of expansion of industry and the increased rates scheduled for agriculture; even in Bulgaria, where the expansion of industrial production is to be accelerated, a higher rate of advance is planned for agriculture. This narrowing of the disparity in rates of growth between the two sectors is apparent in all countries except Eastern Germany, where the rate of increase planned for agriculture is smaller than in the past.

The annual increases in agricultural output scheduled in the new plans and those achieved during the preceding period, expressed as percentages of the increases in industrial production, are shown below:

	Current plans	Actual, preceding period
Bulgaria	106.8	34.0
Czechoslovakia	50.0	17.8
Eastern Germany	42.6	41.6
Poland	44.2	30.4
USSR	91.2	58.7

The most significant changes in the relative contributions of industry and agriculture to the planned growth of national product are to take place in the Soviet Union and Bulgaria. In Bulgaria, agricultural production which, during the past seven years, increased at one-third of the rate achieved by industrial production, is planned to expand faster than industry in the new seven-year plan. In the Soviet Union, the seven-year plan provides for an increase in agricultural output at a rate only slightly lower than that planned for industry.

Data on planned investment expenditure over the entire plan period and actual outlays during the preceding period, which are reproduced in table 128, indicate considerable increases in aggregate outlays in all the centrally planned economies except Hungary.

Changes in allocation of investment by sector in the new plans, as compared with the actual pattern achieved in the past, varied from country to country (see table 129). These differences reflect, in part, the fact that the several plans cover different periods of time and were variously influenced by policies prevailing at the time of their formulation. For instance, Romanian and Eastern German plans covering the period 1956-1960 were adopted in entirely different circumstances from those relating to the plans of the Soviet Union and Poland formulated in 1958. The targets of the Bulgarian plan for 1958-1962 were all revised upwards and these revisions undoubtedly call for considerable changes in the volume and sectoral distribution of fixed investment; these, however, have not yet been announced.[66] Finally, the investment policy in Hungary was greatly influenced by the difficulties experienced in 1956.

The share of investment allocated to industry is planned to decline in Romania, Eastern Germany and,

[66] The data in table 129 refer to the orginal 1958-1962 plan.

Table 128. Gross Fixed Investment in the Long-Term Plans[a]

Country and item	Billions of national currency units
Bulgaria (at 1956 prices)[b]	
1953–1957, actual	19.9
1958–1962, planned	26.7
Index (1953–1957 = 100)	134
Czechoslovakia (in current prices)	
1952–1958, actual	188.5
1959–1965, planned	300.0
Index (1952–1958 = 100)	159
Eastern Germany (at 1955 prices)	
1951–1955, actual	29.5
1956–1960, planned	54.6
Index (1951–1955 = 100)	185
Hungary[c]	
1953–1955, actual	39.8
1958–1960, planned	45.1
Index (1953–1955 = 100)	113
Poland (at 1958 prices)[d]	
1952–1958, actual	382.5
1959–1965, planned	665.7
Index (1952–1958 = 100)	174
Romania (at 1955 prices)	
1951–1955, actual	63.0
1956–1960, planned	107.5
Index (1951–1955 = 100)	171
USSR (in current prices)	
1952–1958, actual	1,072.0
1959–1965, planned	1,955.0[e]
Index (1952–1958 = 100)	182

Source: Directives on long-term plans and national statistical yearbooks; *Kozdazdagi Szemle* (Budapest), November 1958.

[a] For Bulgaria, Romania and the Soviet Union: State investment only; for Hungary: investment in State and co-operative sector and investment in private housing financed by State credits; for Czechoslovakia, Eastern Germany and Poland: total fixed investment.

[b] Data given in the original plan for 1958-1962. Although the plan was subsequently revised upwards and extended to 1965, no new investment data were published. The 1958-1962 figure refers presumably to State investment only and the data for 1953-1957 were adjusted accordingly. Total investment in agriculture in 1953-1957 amounted to 4.9 billion levas. The plan for 1958-1962 provides for 2.7 billion levas to be invested in agriculture by the State and an additional 2.2 billion levas of investment credits granted to collective farms. It is probable that total investment in agriculture is to exceed the 4.9 billion levas, since this figure does not include the amounts to be invested by the collective farms from their own means.

[c] State fixed investment plus investment of co-operative farms and private investment in housing financed by State credits. Data for 1953-1955 from *Magyar Statisztikai Zsebkönyv* (Budapest), 1958; data for 1958-1960 are revised figures as given in *Kozdazdagi Szemle*, November 1958, page 1157, and are expressed in 1954 prices which presumably did not differ much from prices during 1953-1955.

[d] Data for 1952-1958 in 1958 prices obtained by converting the 1952-1957 figures in 1956 prices by an implied price index derived from 1956-1960 data expressed in 1956 and in 1958 prices. Data for 1959-1965 derived from the revised planned data for 1961-1965 and from the planned investment for 1956-1960 after deduction of actual investment in 1956-1958.

[e] In addition to 1,955 billion roubles invested by the State, the plan provides for an additional 1,000 billion roubles invested out of private and co-operative funds. No comparable data are available for the preceding seven-year period.

especially, in Poland, and to increase in the Soviet Union, Bulgaria and Hungary. Poland, Hungary, Romania and Eastern Germany plan to increase the share of fixed investment allocated to agriculture. More detailed information on changes in the allocation of industrial investment available for the Soviet Union reveals significant changes in the share of different industries, reflecting the planned structural changes in industrial production (see table 130). Thus, very steep increases are planned in the share of investment allocated to the chemical industry, the ferrous metallurgical industry and petroleum and natural gas extraction. The shift towards investment in natural gas is much greater than that in petroleum; while the total is planned to increase 2.4 times, investment in natural gas is to increase 4.2 times as compared to 1952-1958. In contrast, the share of investment allocated to coal, electric power and even machine building is reduced. Investment in electric power is to result in an increase in installed capacity of 59 million kilowatts, of which only 10.5 million will be contributed by hydroelectric stations. In addition to the State fixed investment shown in tables 128 and 130, the Soviet plan anticipates very large investment outlays out of private or co-operative funds; these are expected to amount to 1,000 billion roubles, or more than half the amount of State investment. Whereas State investment in agriculture is planned to reach 150 billion roubles, investment financed by co-operative farms is expected to amount to 350 billion roubles. Thus, the share of agriculture in total State and non-state investment is planned to be much higher than the share indicated in table 129, which relates to State investment only. Similarly, investment in residential building financed out of private and local funds is expected to exceed very substantially the 377 billion roubles to be made available from the centralized State funds. The addition of non-centralized investment to State expenditure would raise the share of agriculture in total fixed investment during 1959-1965 to 17 per cent, while the share of industry would amount to only 32 per cent. Although no comparable data are available for 1952-1958, there is little doubt that the new plan provides for a shift in total investment towards agriculture and a very considerable increase in the share of outlays on housing.[67] During 1958-1965, about 655 million square metres of housing space are to be built in urban areas, an increase of 2.3 times over the preceding seven years,[68] and 7 million houses are expected to be constructed in the countryside, financed by the collective farms. The amount of residential space in urban areas is planned to increase by 60 per cent between 1958 and 1965.

[67] Out of non-centralized funds (private and local), 500 billion roubles are expected to be spent for housing and other investment. The amount to be spent on housing only was not specified.

According to Mr. Khrushchev, total investment in agriculture during 1952-1958 amounted to about 250 billion roubles, which is half the amount to be spent in 1959-1965.

[68] This corresponds to about 15 million apartments.

Table 129. Allocation of Gross Fixed Investment, by Sectors
(Percentage of total)

Country and item	Industry[a]			Agriculture	Housing	Transport and communications	Health	Trade
	Total	Producer goods	Consumer goods					
Bulgaria								
Actual (1953–1957)	61.1	55.7	5.4	14.0	4.9	13.3	5.1	2.1
Planned (1958–1962)	62.4	49.6	12.8	10.2	3.0	12.3	10.0	2.1
Eastern Germany								
Actual (1951–1955)	36.9	...	7.8	7.8	14.2	10.1	...	...
Planned (1956–1960)	46.5	...	...	11.9	13.4	13.6	...	...
Hungary								
Actual (1953–1955)	45.2	...	...	19.0	...	8.8	...	3.0
Planned (1958–1960)	47.5	...	...	15.9	...	...	...	...
Poland								
Actual (1951–1955)	46.6	...	...	13.2[b]	11.7	12.2	...	3.4
Actual, 1958	40.5	...	...	13.6	23.8	9.1	...	3.0
Planned (1961–1965)	38.0	...	...	12.6	26.4	9.1	...	1.9
Romania								
Actual (1951–1955)	62.5	55.2	7.3	10.3	3.8	11.2	...	2.5
Planned (1956–1960)	58.5	52.5	6.0	12.5	5.5	11.5	7.0	2.5
USSR								
Actual (1952–1958)	43.0	39.3	3.7	...	19.4[c]	10.0	—— 4.0 ——	
Planned (1959–1965)	48.5	44.3	4.2	7.7	19.3[c]	10.8	—— 4.1 ——	

Source: Directives on long-term plans and national statistical yearbooks.

[a] Including building industry.

[b] Including forestry.

[c] Including public utilities.

Table 130. Union of Soviet Socialist Republics: Allocation of Industrial Investment, 1952–1958, and Planned Allocation, 1959–1968

Item	Percentage distribution 1952-1958	Percentage distribution 1959-1965	1959-1965 as percentage of 1952-1958
Industry	100	100	205
Ferrous metallurgy[a]	8.8	10.5	245
Chemical industry	4.3	10.8	515
Oil and gas extraction	15.6	18.1	238
Coal industry	13.3	8.1	125
Electric power	16.3	13.4	169
Machine building	14.2	12.4	180
Timber, paper and wood industry	5.5	6.2	233
Food, and light, industry	8.7	8.7	206
Building industry and building materials	13.3	11.7	180

Source: Speech by Mr. Khrushchev, *Pravda*, 28 January 1959, and directives on the seven-year plan.

[a] Including extraction of ferrous ores. Non-ferrous metallurgy not included in the total.

In Poland, for which the data reproduced in table 129 relate to total fixed investment, the new plan provides for a steep decline in the share of investment allocated to industry, transport and trade and a rise in the share of investment allocated to agriculture and housing.[69] One of the characteristics of the Polish investment plan is a considerable increase in the share of non-productive investment which is primarily reflected in an advance in the share of residential housing from 10 per cent in 1951-1955 to about 27 per cent in 1961-1965. Together with investment outlays for social and cultural purposes and for municipal utilities, total non-productive investment in the new plan will amount to more than 37 per cent of total investment compared with 19 per cent in 1951-1955.

[69] Investment in the private and the co-operative sectors of agriculture represents 66 per cent of total planned investment in agriculture.

PLANNED CHANGES IN CONSUMPTION

The lack of information on planned rates of increase in total fixed investment, changes in stocks and government expenditure, and, in some countries, on changes in personal consumption, renders it difficult to assess the planned changes in the allocation of national income between end uses. A broad indication of such changes may, however, be derived from a comparison of the data on national product and consumption, shown in table 127. It should be noted that in some cases the indices represent total consumption, inclusive of government consumption, while, in other cases, they represent retail sales. However, while the difference between changes in total or personal consumption and retail sales may in some cases be substantial, it seems that in most countries their movements are generally parallel.

A significant feature of the new plans of economic development is the fact that the rate of increase in

consumption is planned to decline substantially in all countries, excepting Bulgaria. In the Soviet Union, for which no data on consumption are available for the seven years preceding the new plan, retail sales rose during that period at an annual rate of almost 12 per cent; during the new seven-year plan both consumption and retail sales are to increase at the same rate of 7 per cent *per annum*.

In all countries, consumption is planned to increase at a slower rate than national product, indicating a decline in its share in the allocation of resources. In Romania, where retail sales are planned to increase at a higher rate than national product, this seems to signify a prospective increase in retail sales in relation to total consumption rather than a prospective increase in consumption in relation to national product. None the less, the margin between the rates of increase planned for national product and consumption is everywhere smaller than during the past. In countries where, during the period preceding the new plans, consumption or retail sales increased more than national product, the new plans provide for lower rates of increase in consumption in relation to national product, while in countries where the share of consumption previously declined, the shift towards investment or government expenditure is sharply reduced.

In conformity with the planned increases in consumption, real wages and real income of peasants are to increase at a much smaller rate than during the preceding period in the Soviet Union, Poland and Eastern Germany. In Hungary real wages are to increase more than during the preceding period but peasants' incomes are planned to increase much less (see table 131).

Table 131. Planned and Actual Indices of Real Wages and Peasants' Incomes, Selected Countries

Country	*Real wages*		*Real peasants' incomes*	
	Current plan	*Preceding period*	*Current plan*	*Preceding period*
	Average annual rate			
Eastern Germany..	5.4	6.8	6.9	8.4
Hungary.....	2.0	1.1	1.3	3.9
Poland.....	4.3	5.8	4.3	...
Romania.....	5.4	5.2	...	...
USSR.....	4.9[a]	6.4	4.9	8.4

Source: Directives on long-term plans and national statistical yearbooks.

[a] Real income per employed person including pensions and allocations. Money wages only are to increase at the rate of 3.4 per cent annually (*Voprosy Ekonomiki*, No. 2, 1959, page 21).

The increase in average real wages in the Soviet Union is to be realized by higher money wages; prices are generally to remain stable. This policy, which was introduced in 1955, represents a reversal of the policies prevailing between 1947 and 1955 when the increase in real income was brought about mainly by reductions in retail prices. A major feature of wage policy in the new plan period is the very considerable increase planned for minimum wages. This monthly minimum wage is to be increased from 250 to 350 roubles in 1958 to 400 to 500 roubles in 1962.[70] In addition, the minimum old age pension is to be increased by 33 per cent during the same period. Between 1962 and 1965 the minimum wages are to be raised further to 500 to 600 roubles, an increase of another 29 per cent, and relatively smaller increases are to be granted to workers in the middle ranges of the wage scale. The plan does not mention any increases planned for wages in the upper ranges and this may imply a possible reduction in wage differentials in the Soviet economy. The considerable increase in minimum pay may be intended to induce an increasing proportion of women and younger people to enter the labour force. The increase in real wages is to be accompanied by a further reduction of the working week. The plan provides for the extension of the forty-hour week to all industries in 1962, and for the gradual introduction of a thirty-five-hour week commencing in 1964 and becoming general between 1966 and 1968. The reduction of the working week presupposes a much steeper increase in output per man-hour than the planned increases in output per man.

FIFTEEN-YEAR PLANS

In addition to the plans reviewed above, most of the centrally planned economies are preparing targets for much longer periods. The change from five-year to seven-year plans was motivated by the fact that the construction period required for large-scale enterprises, especially in the extractive industries and in industries producing basic raw materials, frequently extends beyond five years. A much longer period is required to bring about broad structural changes involving the creation of new branches of industry or shifts in the location of entire industries. The fifteen-year plans are to provide a general framework within which the shorter and more detailed plans may be shaped to conform with the long-term objectives. Only the Soviet Union and Poland have so far announced the general targets of the new perspective plans.

The Soviet fifteen-year plan, which was announced before the new seven-year plan, covers the period 1959–1972. The announced targets of this plan are reproduced in table 132 together with the goals set for 1965 in the seven-year plan; these indicate that a large proportion of the output planned for 1972 is intended to be achieved by 1965. The estimated average rates of increase during 1959–1965 and 1966–1972 indicate that if the fifteen-year plan targets are not revised the expansion of output of several basic com-

[70] Minimum wages were presented in the plan in the form indicated in the text; this presumably reflects regional differences.

Table 132. Union of Soviet Socialist Republics and Poland: Targets and Annual Rates of Increase of Output of Selected Commodities in Fifteen-Year Plans

Commodity and unit	USSR				Poland			
	1965	1972	Average increase 1959-1965	Average increase 1966-1972	1965	1975[a]	Average increase 1959-1965	Average increase 1966-1975
Iron ore (millions of tons)	155	275	8.3	8.5	...	...	...	...
Coal (millions of tons)	606	700	2.9	2.2	112.5	136.8	2.4	2.0
Steel (millions of tons)	88	110	7.0	3.1	9.0	13.8	7.0	4.3
Crude petroleum (millions of tons)	235	375	11.0	6.9	...	...	...	...
Natural gas (billions of cubic metres)	150	295	26.0	10.2	1.0	...	...	...
Electric power (billions of kilowatt-hours)	510	850	11.9	7.6	44.3	78.7	9.4	5.9
Cement (millions of tons)	78	100	12.9	3.6	10.0	18.2	10.4	6.2
Woollen fabrics (millions of metres)	500	600	7.4	2.6	101.0	133.0	3.7	2.8
Sugar (thousands of tons)	9,625	9,500	8.6	−0.2	1,550.0	1,862.0	5.1	1.8

Source: *Yubileinaya Sessia Verkhovnogo Soveta SSSR*, 6 November 1957 (Moscow); *Pravda*, 16 January 1959 and 8 February 1959; *Economic Directives for the Polish Plan 1959-1965* and *Gospodarka Planowa*, No. 6, 1958 (Warsaw).

[a] Computed on the basis of planned output per capita and projection of the population in 1975 assumed to equal 38 million.

modities will slacken substantially between 1966 and 1972 as compared with the preceding seven-year period.

The Polish fifteen-year plan was prepared in conjunction with the five-year plan for 1961–1965,[71] and covers the period between 1961 and 1975. The data shown in table 132 illustrate that, as in the Soviet Union, the average rates of increase of output of most commodities will be lower between 1966 and 1975 than during the preceding five years, although the deceleration is to be much smaller than in the Soviet Union.

In addition to information on planned increases in output of specific commodities, Poland announced planned indices for several aggregates such as industrial and agricultural production, national income and consumption. The planned rate of increase in national income during the fifteen-year period was determined in such a way as to maintain full employment on the one hand, and to safeguard the balance of payments on the other. The considerable degree of dependence of the Polish economy on imports of raw materials was the most important factor limiting the planned rates of growth. As indicated by the data in table 133, the rates of expansion planned for the period 1965–1975 will be smaller than those planned for 1961–1965, in respect to national income and investment, but greater in respect to total and per capita consumption. The considerably higher rates of increase in retail trade compared with personal consumption during the fifteen-year period reflect the anticipated increase in the share of retail trade in total consumption of the rural population. The much slower rates of increase planned for agriculture than for industry will reduce the share of agriculture in national product from an estimated 28 per cent in 1960 to 17 per cent in 1975.

[71] This was later integrated with the two remaining years of the preceding plan into the seven-year plan for 1959-1965, which was analysed in the preceding section.

Table 133. Poland: Average Annual Rates of Increase in the Five-Year Plan, 1961–1965, and in the Perspective Plan, 1961–1975

Item	Five-year plan 1961-1965	Perspective plan 1961-1975
National income[a]	6.6	6.5
Gross investment	9.0	6.9
Personal consumption		
Total	5.7	6.0
Per capita	4.1	4.4
Industrial output	8.4	7.1
Agriculture, gross output	3.7	2.7
Retail trade turnover[b]	4.4	6.9

Source: *Nove Drogi* (Warsaw), August 1958; *Rocznik Statystyczny*, 1958 (Warsaw); *Gospodarka Planowa*, No. 6, 1958 and *Economic Directives for the Polish Plan 1959-1965*.

[a] Computed in producer prices.

[b] Computed in prices of 1 May 1957.

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