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FOREWORD

This report, *World Economic Survey, 1956*, is the ninth 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 asked to prepare annual factual surveys and analyses 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 the world economic situation as a prerequisite for recommendations in the economic field, as well as to serve the needs of the general public.

The present survey complies with the request of the Economic and Social Council, contained in a resolution of August 1956, that future surveys should continue to focus attention upon long-term problems of general interest. In the *World Economic Survey, 1955*, the development of production and trade throughout the world during the post-war decade was reviewed. Drawing in part upon this review of post-war economic developments, part I of the present survey is devoted to a study of balance of payments problems during the post-war period. In chapter 1, following a brief historical review of world-wide balance of payments experience since the war, the main post-war changes in the network of international balances and the pattern of international settlements are examined. Chapter 2 provides an analysis of the main factors underlying balance of payments developments in North America and western Europe in recent years; and, in this connexion, examination is made of the relationship between internal demand and external balance, the effect on balances of payments of structural changes in the world economy, differential price movements and their origins, and short-term fluctuations. In chapter 3, the post-war forces shaping the balance of payments experience of the primary producing countries are studied. The trends in the balances of some twenty countries are analysed and related to their main domestic and external determinants. To this end, examination is made of trends in foreign demand for exports, changes in the level and pattern of domestic demand and production, inflation and price developments, and short-term fluctuations.

Part II of the survey contains an examination of recent events in the world economy. Chapter 4 provides an analysis of the industrially advanced private enterprise economies, special attention being given to the factors underlying economic expansion in 1956 and to the role of policy in promoting stability and growth. Chapter 5 examines recent trends in the primary producing private enterprise economies, and includes estimates of recent changes in the availability of supplies and their utilization for consumption and investment. An assessment of the economic outlook at the beginning of 1957 is given for both these groups of economies; this is based largely on replies by governments to a questionnaire concerning full employment and the balance of payments circulated by the Secretary-General in November 1956. Chapter 6 provides an account of recent changes in the centrally planned economies; this is supplemented by an analysis of the new five-year plans and of current changes in the methods of planning and management.

Drawing upon the analyses of both the post-war trends and the recent experience, the Introduction to the survey examines some problems of external disequilibrium and their relation to internal imbalance.

There are published as supplements to this survey reviews of economic conditions in areas outside the scope of the work of the regional economic commissions of the United Nations: *Economic Developments in the Middle East, 1955-1956* (sales number: 1957.II.C.2) and *Economic Developments in Africa, 1955-1956* (sales number: 1957.II.C.3).

The basic data used in the report 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 survey was prepared in the Department of Economic and Social Affairs by the Bureau of Economic Affairs.

EXPLANATORY NOTE

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; GNP for gross national product; IBRD for International Bank for Reconstruction and Development; OEEC for Organisation for European Economic Co-operation. "Rhodesia and Nyasaland" stands for Federation of Rhodesia and Nyasaland.

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INTRODUCTION

Introduction

PROBLEMS OF INTERNAL AND EXTERNAL BALANCE

Economic visibility, never of more than limited range, has been disturbingly lower in 1957; from the peaks that have been reached the economic landscape has seemed more than usually veiled. At the beginning of 1956 it had been widely expected that world demand for goods and services would continue to mount, though at a slower rate than in 1955. For the most part, this expectation has been realized; though the new climb in production which began at the end of Korean hostilities continued, almost everywhere the pace faltered. Indeed, while the economy as a whole continued to move forward, in virtually every country important industries merely marked time, and several key industries even fell behind. It is a testimony to the strength of the upsurge in business confidence that despite the slackening in these sectors, investment was sufficiently buoyant to lift economic activity above the levels of a year earlier. Nevertheless, enough hesitation was encountered in the course of 1956 and early 1957 to generate some doubts as to how long the ascent might continue; though on balance the outlook appears to be for some continued rise in the coming months, the margin of uncertainty is greater than a year ago, and all signs of deflationary tendencies in economic activity are being watched with concern. Governments in several industrial countries have recently begun to take a few cautious steps towards relaxation of some restraints which they had imposed earlier.

The loss of economic momentum, it needs to be said, originated as much in the realm of government policy as in the area of private decision-making. Increasingly in the course of 1956, but in some instances beginning even earlier, governments came to tighten the reins on both producer and consumer. A common concern in all countries was the building up of pressures on prices in the course of the expansion; to this was added, in some countries of western Europe, mounting deficits in the balance of payments. While the countries that were in balance of payments difficulties in 1954 and 1955 have generally improved their positions in the past year, there have been setbacks elsewhere; moreover, the upward sweep of the price curve has not yet been halted.

The current period is certainly not the first occasion on which the industrial countries have had to face the dilemma of reconciling their desire for rapid economic growth with the need to maintain internal and external balance. Indeed, by contrast with the crisis proportions of this problem in the early post-war years, the present dimensions may not even seem very significant. Yet perhaps the very absence of a crisis may serve to highlight the underlying nature of the problem of promoting growth with stability. So long as the world was preoccupied with the dangerous instability traceable to the heritage of war-time devastation and dislocation and to the accumulated backlog of pent-up demand it was difficult to view the challenge of stable growth in proper long-term perspective; it could be hoped instead that the imbalance was only a transition period phenomenon which would disappear under normal conditions. The current pressures, however, have emerged not in a context of destroyed productive capacity and abnormally swollen demand but as a phase of normal growth. The present expansion has occurred without the massive support of pent-up demand which characterized the early post-war years. Nor, as in the period of Korean hostilities, has it depended for its strength upon any current or prospective increase in military expenditure; on the contrary, such outlays have been cut—in some cases sharply—from the Korean peak, and the rise in civilian demand has more than filled the gap. Neither is it traceable to a liberal fiscal policy; though some of the added tax burden imposed to finance the higher military outlays during Korean hostilities has been cancelled, tax rates are generally not far from war-time levels and government budgets remain balanced. And it must be added that the growth has continued in the face of the most restrictive monetary policy this generation has known.

Such an expansion of civilian demand, it goes without saying, is vital in the interests of a growing world economy. Beginning in mid-1954 it enabled the United States to compensate for a cutback from Korean levels of military expenditure in a relatively short period of time and then to lift its economy to an all-time high. It gave the world sufficient resiliency to withstand the impact of the 1953/54 recession in the United States and to continue its expansion almost without interruption—a striking contrast to the world crisis provoked by the even milder and equally short-lived United States recession of 1948/49. It has provided the industrial countries with the highest levels of living they have ever known, while adding at the same time to their capacity for further growth. Nor has the effect been limited to the industrial countries. By lifting export receipts of

many primary producing countries after the collapse of the Korean boom it has permitted a renewed expansion of their imports and given added impetus to their development programmes. Yet, after only two or three years of rapid expansion, governments have already found it necessary to slow down the rate of increase—in some cases through the application of very stringent measures.

Paradoxical though it may be, these restraints have been found necessary despite the continued existence in many countries of considerable unused capacity, notably in consumer goods but also in building and ancillary industries. It must be added, moreover, that though the restraints have been broadly successful in slowing the rate of expansion, the pressures which provoked these measures do not seem to have abated by early 1957. Prices and wages were generally rising at an accelerating rather than decelerating pace during 1956, and after the closing of the Suez Canal this trend was reinforced somewhat by an acceleration of the rise in costs of shipping and by higher prices for fuel. Indeed, monetary policy itself, though it lessened pressure from the demand side, may at the same time have contributed to rising pressure on some prices, especially of building, from the cost side; the same is true of fiscal policy in several countries where subsidies were reduced and indirect taxes increased to lessen the pressure of demand stemming from government budgets. The extent to which the restraints may have contributed to some improvement in the balance of payments of certain western European countries is difficult to ascertain; the rise in their exports may have been due less to monetary policy than to the additional productive capacity in capital goods industries created by the maturing of investment projects and to the increase in import demand of underdeveloped countries following the earlier rise in their export receipts.

Economic Growth and Inflationary Pressure

The imbalance accompanying the current economic expansion cannot but raise some question as to the potentialities for sustained stable growth in the industrial countries. It is one thing to seek to lower the pressure of an abnormally swollen demand; there is little danger that such action will precipitate a downturn in economic activity. It is quite another, however, to curb an upward trend in demand associated with normal growth; the pressures that arise in such circumstances are more difficult to control, because not one set, but two sets of forces, opposing each other, must then be counteracted. While an economy that is approaching capacity levels of operation becomes subject to the danger of demand inflation, it is not thereby freed of the risk of demand deflation. Against the hazard that too rapid a rise in effective demand may generate inflationary pressure on existing productive capacity must be balanced the chance that a drop in demand may provoke a recession.

The need for caution would be great even if long-term policy merely called for maintaining effective demand stable, for preventing either a rise or a decline in its level. In fact, however, such a policy would fall short of requirements; an industrial economy is confronted with the dilemma that it must continually move forward if it is to keep in balance—it cannot stand still for long or it will soon fall back. This is inherent in the dual but non-symmetrical role of net investment, both as a component of current demand absorbing the output of existing capacity and as a means for increasing productive capacity. While a constant absolute rate of investment absorbs an unchanging volume of output of existing capacity, it continually adds to that capacity; a constant rate of investment therefore tends to produce a growing gap between effective demand and capacity. Unless investment or other elements of effective demand can be continually increased to match the growth in capacity, excess capacity and unemployment are likely to emerge. True that if investment rises too rapidly effective demand will grow faster than capacity and the economy will be subject to inflationary pressure. But if investment does not rise rapidly enough, and *a fortiori* if it remains unchanged from year to year, excess capacity may develop and generate deflationary pressure. Not only a decline, therefore, but even an inadequate increase in effective demand may have deflationary implications. While economic policy must guard against too rapid a rise in effective demand because it may generate a wage-price spiral, it must at the same time avoid too slow a rise that might have unwelcome depressing effects on economic activity. The dimensions of this dilemma may well increase in coming years as a rising fraction of investment outlays is channelled into technological research, thereby perhaps accelerating the growth of productive capacity in relation to investment. The faster capacity expands, the more rapidly must effective demand grow to keep in balance with it.

A policy of stable growth would be a sufficiently challenging objective even if the only instability to be overcome were that arising from a global lack of balance, from a consistent excess or insufficiency of effective demand in relation to capacity throughout the economy. As the current situation amply demonstrates, however, economic imbalance may not be of a uniform but rather of a highly mixed character; slack and tight markets may exist side by side. Since resources are not freely transferable between industries, excess demand may

emerge in some industries while capacity in others remains under-utilized. In such circumstances a policy of generalized restraint upon demand may prove costly; while eliminating excess demand where it exists it may also depress demand where excess capacity is available.

Even the most superficial comparison with the war and early post-war years is sufficient to indicate the striking contrast between the universal pressures which existed then and the sectoral pressures of the current period. Current pressures are not generally the result of large budget deficits; on the contrary, despite the high levels of public expenditure, many governments have been operating with a cash surplus in recent years. Nor is the pressure universally evident in a significant increase in the proportion of income devoted to investment; this ratio, too, has remained fairly stable in a number of countries over a considerable period of time. The proportion of private income generated by those elements which contributed so heavily to earlier inflationary pressures has thus not risen markedly in the recent period. Correspondingly, there has been no significant decline in the proportion of private income available for personal consumption. Neither has there been any marked tendency to depress the proportion of available income devoted to private saving. The distribution of private income as between income-earning groups, despite year-to-year fluctuations, gives no evidence of a major shift since the end of Korean hostilities; neither has there been any abnormal rise in the proportion of personal disposable income that individuals wish to consume. The backlog of pent-up demand has long since been liquidated and even the increase in consumer credit with which automobiles and other durable goods were financed after 1953 affected the composition of consumption more than it raised the proportion of income consumed.

Not only is there no evidence in the case of consumption goods of pressure of excess demand, there is instead abundant evidence in developed countries of excess supplies and excess capacity. This has been true of food and textiles for some time, but recently even consumer durable goods industries have been suffering from considerable under-utilization of capacity and some unemployment. Despite the current concern with inflationary pressure, there can be little doubt that these industries are troubled by inadequate rather than by excess demand. Even in producer goods, considerable slack has emerged in those industries servicing home building and producers of consumer durables.

This does not mean, of course, that pressure of excess demand has been an unimportant element in the current inflation. On the contrary, the pressure on existing capacity in certain key industries—notably energy, steel and engineering—has been very intense in most countries, so intense that it has acted as a brake on the general growth of the economy. Though the pressure has not been universal, the areas where it has been experienced are so vital that its effects have been felt throughout the economy.

It is true that unemployment in most countries is relatively low and the labour market comparatively tight, so that output in some industries might be limited by shortages of labour rather than of fixed capital equipment. There is nevertheless little doubt that output in most consumer goods industries could be significantly expanded if demand were greater. Unemployment at the end of 1956 was, if anything, somewhat higher than a year earlier and average hours of work were also somewhat shorter. Moreover, average output per man-hour of work was apparently adversely affected by developing slack in consumer durable goods industries as employers often hesitated to lay off men despite some decline in output. Under these circumstances it may be assumed that an increase in output could be achieved with the existing labour force if demand were adequate to call for higher production schedules.

The mixed character of pressures in the current period, with excess demand in some industries and excess capacity in others, adds another dimension to the problem of promoting stable growth. An economy marked by universal inflationary pressures is characterized by a lack of balance between an insufficiently elastic supply of savings and a growing investment demand. Equilibrium can be restored in such an economy only by stimulating the supply of savings or by curbing the rate of investment. Governments will naturally differ in the extent to which they may, in given circumstances, choose to curb consumption or investment demand, but in either case generalized restraints to restore balance between the supply of savings and investment demand may eliminate excess demand without adverse effects on current output. In an economy with significant excess capacity in consumer goods industries, however, this simple approach breaks down. Here there may not be a lack of balance between the supply of savings and investment demand, but only between the pattern of demand and the structure of the existing productive capacity; what may limit investment in such circumstances is not insufficient saving but inadequate capacity in key investment industries. What may be needed to deal with such pressure is not so much a check on the rate of growth of total demand as a change in its pattern so as to provide for an expansion of capacity in basic industry to eliminate damaging production bottlenecks. Generalized restraints, on the other hand, may depress consumer demand, even where excess capacity is available, long before the excess of investment demand over capacity is eliminated; the measures may then be reflected more in a loss of output than in relief of inflationary pressure.

Of course it may be essential, as a short-term measure, to restrain investment, not only when the demand exceeds the supply of savings but also when it exceeds the existing capacity of the necessary basic industries.

Otherwise the excess may generate socially intolerable pressures on prices and wages throughout the economy which might even build up to a speculative boom and bust. Such a policy of moderating restraint is all the more likely to succeed if in the meantime capacity in basic industries can be expanded to relieve the pressure of demand on the scarce supplies and thereby permit early relaxation of the restrictive measures before their effects are transmitted throughout the economy. If the restraints are maintained for too long or applied too vigorously, however, there is an opposite danger that they may themselves precipitate a downturn in economic activity; indeed, by reacting upon the demand for investment they may suddenly produce excess capacity even where previously there were shortages.

Whatever their short-term merits, generalized monetary restraints seem less adequate as a long-term solution to the problem of mixed pressures. It is true, of course, that general restraints may facilitate a transfer of resources from industries with excess capacity to those with excess demand. At best, however, such a policy tends to be passive; it only lessens some obstacles to the transfer of resources but does not provide any incentive for expansion of facilities in the industries where they are inadequate. Moreover, the magnitude of even this passive contribution is uncertain, since, as has already been noted, investment may be depressed not only where there is excess but also where there is inadequate capacity.

Still a third dimension is added to the problem of promoting stable growth by the emergence of cost inflation, a key element in current pressures. Among the factors contributing to the inflation of costs, the bottlenecks in basic industries have certainly been of great importance. Price increases in fuel and steel products have raised costs of materials throughout the economy, and to an increasing degree the higher costs have been translated into higher prices, even in industries operating below capacity levels. Bottlenecks are not the only element in cost increases, however. More generally, wages and prices have been rising as a result of attempts by the various income-earning groups to increase or preserve their shares of an expanding national income. Part of the increase in wage rates has, it is true, been offset by growing productivity, but with the slackening rate of growth in 1956 the contribution of this element has also declined. Though most of the impact has thus far been at the wholesale level, the accelerated rise has imparted an upward momentum to retail prices as well. Reinforcing the increase in prices of consumer goods has been the greater measure of stability achieved in prices of primary products, once the decline in these prices which set in after the Korean boom was halted.

Of great importance at the consumer level has also been the increase in costs of services. In part, the rise in these costs represents a catching up with the increase in commodity prices since before the war; this is particularly true of rent, transportation and public utility rates, which, as a result of government regulations, have long lagged behind commodity prices. In part, however, higher service costs are an inevitable concomitant of the rise in rates of earnings in the rest of the economy. Increases in wages in the commodity sector tend to spread to the service sector as well; earnings in the two sectors, though by no means equal, are of course not unrelated. But whereas in commodity production wage increases have been continually compensated in part or in whole by increases in productivity, the scope for such technological improvement in the service industries has been much more limited. It is in these industries, therefore, that increases in per capita wages and profits have been largely reflected in higher prices at the consumer level. The rise in relative prices of services as compared with commodities has been further facilitated by a relative shift in the structure of demand from commodities to services associated with expanding national income; this has made possible a relative increase in prices without significant loss of volume.

Inflation of costs is, of course, not unrelated to the state of demand; there is no doubt that economic expansion may stimulate, and economic recession may depress, tendencies to raise prices and wages. This does not mean, however, that there is a one-to-one correspondence between cost inflation and demand inflation. Pressure from the cost side may arise long before effective demand has risen to the full employment level and may persist long after it has fallen below that level. Any attempt to overcome cost inflation by measures to curb demand for goods and services could generate considerable unemployment long before it curbed appetites for higher prices and wages.

That inflationary pressures may have many roots, rather than a single origin, is universally recognized. There seems to be less agreement, however, on possible implications for anti-inflationary policy; general monetary restraints appear often to be favoured as the primary, if not the sole means of reducing current inflationary pressures of whatever origin, be they due to a global excess of demand or only to bottleneck limitations, or even if they represent cost rather than demand inflation. This attitude represents a striking reversal of that which prevailed during the war and early post-war years when governments, in their concern over the long-term depressing effects of high interest rates on investment, virtually permitted monetary policy to atrophy. Increasingly in the past several years, governments have come to rely on monetary policy as the main line of defence against any new inflationary pressure. In part this attitude may stem from a belief that fiscal policy has already been stretched to its outer limits; while the opinion is widely shared that current tax rates are at the maximum levels tolerable in times of peace, governments seem to believe that public expenditure, high as it may be in relation to any peace-time benchmarks, cannot

be cut significantly without neglect of essential responsibilities.

The current support for monetary policy, however, is not merely for a second-best alternative. It reflects in part a significant change in the prevailing economic philosophy of governments, a return to a view that changes in liquidity are both more effective and more desirable than are variations in income as a means of regulating the economy. In part, it also stems from a belief that monetary policy is *par excellence* a non-discriminatory policy for regulating general economic activity. But while it is true that monetary policy may be administered uniformly, it does not follow that it is therefore "neutral" as between the various claimants upon the resources of the economy. Uniform policies are neutral when applied under uniform circumstances; when the underlying conditions are not comparable, such policies may be highly discriminatory in their effect. A uniform monetary policy without allowance for special circumstances and needs is no more likely to be "neutral" as between different sectors of the economy than would be a uniform income tax imposed on all incomes without exemption.

No useful purpose would be served here in reviewing the relative merits of fiscal versus monetary policies. The two types of policy complement each other and a judgement as to the proper balance between them must be based not only on economic but also on social and political considerations. While both sets of policy impinge on effective demand, they are likely to produce significantly different effects on virtually every element of the community. Directly involved are differences in the distribution of real income between public and private shares, between labour and property income, and between small and big business. Even more significant may be the resulting differences in the allocation of resources between the public and private sectors, between investment and consumption, between housing and industrial investment, and between inventory accumulation and investment in fixed capital. Clearly, all of the elements which help not only to shape the structure of the economy but also to determine its long-term rate of growth may be involved. Viewed in this light it seems indeed striking that so little empirical information is available on which to base a judgement as to the proper balance in any given set of circumstances between fiscal and monetary policies.

Though the decision to reactivate monetary policy after years of disuse commands wide support, it may not be inappropriate to ask whether the pendulum may not by now have swung too far in the opposite direction. Bearing in mind the inflexibility of interest rates in the downward direction, one cannot but be impressed with the rapidity and magnitude of the increases in the past two years. Equally striking is the seeming tendency to rely chiefly on monetary policy not only to correct a global imbalance between the supply of savings and investment but even to counteract pressures from other sources, including those arising from a sectoral imbalance between demand and capacity for selected investment goods or from cost inflation. There is little evidence that credit restraints, however essential they may be in the short run, can in themselves provide an adequate long-term answer to the need for maintenance of higher inventories or for expansion of capacity in key bottleneck industries, or for increasing the mobility of resources. There is equally little empirical support for a belief that monetary policy can by itself provide a suitable and effective substitute for appropriate wage-price policies by labour, management and government. A single economic policy seems no more likely to overcome all sources of imbalance which produce rising prices and wages than is a single medicine likely to cure all diseases which produce a fever.

The problem in under-developed countries

The multiplicity of inflationary forces is even more evident in the under-developed than in the industrial countries. It is common to attribute inflationary pressures in under-developed countries to the inadequacy of the rate of savings to finance the growing requirements for investment. In so far as this formulation calls attention to the need for increasing the rate of saving and for avoiding undue reliance upon budget deficits or credit expansion to finance economic development it is certainly valid and significant. Yet it might well be asked why additional investment should necessarily be inflationary so long as a large proportion of manpower and resources in many countries is under-employed and could be used to produce some additional goods without sacrificing any other output. If an expansion of investment is not necessarily inflationary during a depression in an industrial country because the resulting rise in income may itself provide the additional savings required, why can the same not be true of economic development of under-developed countries? Why cannot the rise in income generated by the new investment, making possible the utilization of hitherto unemployed resources, also provide the additional saving to finance the new investment without inflationary repercussions?

It might be said that the answer lies in the fact that expansion of output in under-developed countries is limited in the first instance not by insufficient effective demand but by inadequate capital equipment. But even this does not provide a complete answer. While inadequate facilities may constitute a physical limitation on the rate of growth possible in the under-developed countries, they do not in themselves explain why additions to such capital equipment, providing for the employment of hitherto unemployed or under-employed manpower and resources, cannot be made without giving rise to inflationary repercussions. It may also be recalled that the output of many goods and services essential for development could be greatly expanded in under-devel-

oped countries with the use of labour alone. Moreover, it cannot be said that capital equipment is fully utilized even in under-developed countries where capital is scarce; not only are plant and equipment generally employed on single shifts but it is known that in some industries there is considerable idle equipment.

It follows that the answer to the problem of inflation cannot be sought in the inadequacy of monetary or fiscal policy alone, important as this has been for economic instability in many primary producing countries, nor even in the inadequacy of plant and equipment, important a physical limitation as this may be on the rate of growth. An additional key element in inflationary pressures in under-developed countries is the high degree of immobility of resources in under-developed countries, which prevents the structure of production from adapting itself sufficiently rapidly to the pattern of demand. If the new investment and the increased employment could be made to provide the additional consumption goods in the same proportion as the demand for them increases under the stimulus of the additional outlays for investment, inflationary consequences would by no means be inevitable. The higher demand for consumption would be met by increased output; and, as long as consumers devoted some fraction—however small—of their income to saving, the resulting rise in income might be large enough to generate the additional saving required to finance the new investment. It follows that the difficulty of adapting the structure of production to the pattern of demand may set even narrower limits upon the rate of economic development attainable without inflationary pressures than those determined by the rate of growth of the supply of saving. An increase in saving only releases resources from consumption; if these resources are not transferable to increase the supplies of goods, the demand for which is stimulated by the additional investment, inflation may develop side by side with under-employment.

As is well known, this problem is likely to be most acute in countries which are not self-sufficient in food production. This is true not only because in countries with very low levels of living a very large proportion of income is likely to be spent on food. Equally important is the fact that the process of economic development is normally associated with a transfer of population from farms, which provide their own food requirements, to towns and cities, which are dependent upon deliveries from the farms. In such instances, shortages from rising demand are often compounded by limitations of supply; farm sales may be limited not only by inadequate transportation and marketing facilities, but also by reluctance of farmers to sell their crops, either because food consumption on the farms may itself be so low that even the transfer of population leaves little surplus for sale, or because industrial goods are in too scarce supply to provide farmers with sufficient incentive to market their crops. Of course the problem is likely to be less serious in countries that are self-sufficient in food, but not even food-exporting countries are necessarily entirely immune against pressures from this source. The rise in incomes may increase food consumption at home sufficiently to lower export proceeds and thus reduce the capacity to import other essential consumer goods or the raw materials necessary for their production. This reduction in supplies may in turn react unfavourably even on farm production and marketing.

Thus, in under-developed countries with limited supplies of food or other essential consumer goods, severe inflationary pressures may be generated even in the absence of budget deficits and with relatively low rates of investment that may be far from adequate to raise per capita standards of living. In such countries even more than in the industrial countries, it is clear that fiscal and monetary policy alone, however essential they may be for price stability, will not suffice to maintain economic growth without inflationary pressures; in the absence of policies to adapt the pattern of production and supply to the pattern of demand in a growing economy, fiscal and monetary restrictions may preserve stability only at the cost of retarding or even preventing economic development. Unless an appropriate part of the under-utilized manpower and materials is devoted to the expansion of supplies of food and other consumer goods hand in hand with the rise in investment, countries may be faced with the cruel decision of either choking off economic growth or seeing it frustrated by unendurable inflationary pressure.

It is not only the problem of inflationary pressure in the midst of under-employment and under-utilization of resources that is more prominent in under-developed than in developed countries. Paradoxical as it may be, in view of the very much smaller proportion of the population that is engaged in industry, cost inflation, too, has frequently been more intense in many of the under-developed countries. Levels of living are generally so low that they cannot be cut much further without generating powerful social forces for redressing the balance. Any increase in prices of food or other essential consumer goods thus gives rise to counter-pressures for compensatory increases in wages; indeed, in many instances where labour has gained new bargaining strength in the course of economic development, wages in government and private industry have been legally or contractually linked to the cost of living. Higher wage costs are then offset by higher prices, and a wage-price spiral, once started, may build up at a rapid rate, entirely out of proportion to the initial inflationary impulse.

Nor can the under-developed countries count with the same confidence as industrial countries on a rising secular trend in productivity and in per capita incomes to halt or even damp the wage-price spiral. On the contrary, the low levels of living and the under-developed state of the economy often accentuate the harmful effects

of the spiral by depressing productivity and the incentive to work. Farmers have less incentive to increase sales of their products when they cannot receive industrial goods in return, and wage earners have little inducement to increase productivity if output is limited by inadequate supplies of complementary factors so that higher output per man would only mean less employment. Moreover, as the wage-price spiral mounts, speculative fever may quickly replace the entrepreneurial spirit, with all the well-known adverse effects on the allocation of resources and on the rate of economic development.

Growth and the Balance of Payments

Complex as are the problems of promoting growth with internal stability, they are eclipsed by the challenge posed by requirements of external balance. The mutual interrelationships between external and internal equilibrium have been the subject of a vast and ever-growing economic literature. Since the depression of the nineteen thirties the world has been acutely conscious of the threat which deflation, even in one country —provided it is sufficiently important in world trade— may pose to international equilibrium; it was, of course, the fear of this threat which prompted the incorporation of the scarce currency clause in the charter of the International Monetary Fund. A country with inadequate effective demand to absorb full capacity production not only fails to realize its own economic potential, but also acts as a drag on the rest of the world; while its exports tend to be supported by the maintenance of high rates of activity abroad, its own demand for imports is reduced. To the extent to which its imports are competitive with, rather than complementary to, its own industries, the drop in its imports may even be proportionally far greater than the reduction in its output. The resulting export balance shifts part of the burden of unemployment and declining incomes from the home country to the rest of the world. Other countries are then confronted with twin problems of internal and external imbalance.

Industrial countries with diversified productive capacity may protect themselves against a loss of income and unemployment originating abroad by means of a compensating expansion of domestic demand. They must still cope with the burden of imbalance in their international accounts, however; unless they can offset the loss of export revenue by lowering their imports they may be faced with balance of payments deficits beyond their financial capabilities. The problem is doubly difficult for the under-developed countries, where the loss of export earnings is more likely to take the form of falling prices than of declining output and unemployment; in their case it may be no less difficult to compensate for the loss of income than for the drop in foreign exchange earnings. Given the typically high degree of specialization of under-developed countries in export goods for which there is often little demand at home, the immobility of resources, and the dependence upon imports of capital goods for internal expansion, it may often not be feasible to offset the loss in national income from exports through a compensating expansion of domestic demand.

The danger to international equilibrium immediately after the war arose not from external deflationary pressures as had been feared, but from internal inflationary forces. It is unnecessary to dwell here upon the sources of the grave international disequilibrium prevailing in the first few years after the war's end; they have been analysed at length in earlier reports and are briefly reviewed in chapter 1 below. The crippling cut in levels of living in war-devastated areas, the urgent need to reconstruct and rehabilitate destroyed productive capacity, the almost universal release of pent-up demand, and, above all, the revolutionary change in social attitudes towards economic development not only generated internal pressures of demand upon supply in most parts of the world, but also spilled over into foreign markets as an insistent demand for imports in excess of export capacity. With North America as the only major region in a position to satisfy this excess demand as a result of the remarkable war-time expansion in its productive capacity, the international disequilibrium took on the character of a world-wide dollar shortage. So acute were these crises of external disequilibrium and internal inflation in the early post-war years that the two problems virtually became identified in public thinking as twin expressions of the same underlying economic imbalance.

Important as this emphasis may have been in the circumstances, it is necessary to view the problem of external imbalance, perhaps even more than that of internal pressure, not in a crisis setting alone but in a normal context of long-term growth. Though the acute crisis of international disequilibrium has long since passed, it cannot be said that the problem of international balance has been permanently solved. Even today non-commercial foreign payments of the United States remain an important element in the world's ability to balance its dollar accounts. And, of course, concern with deficits in the balance of payments has far from disappeared. Many of the industrial countries continue to experience periodic pressures on their balances of payments beyond their financial capabilities—the restraints imposed upon the rate of growth in several of the western European countries since 1955 have been motivated by anxiety over external deficits even more

than by concern over rising prices. And if, viewed in longer-term perspective, the pressure of external deficits in industrial countries has very much diminished in intensity, there is little evidence of such a trend in the under-developed countries; on the contrary, in many of them the pressure has not only been chronic but appears even to have increased in recent years.

The need to view the problem of external balance in a context of long-term growth stems in part from the fact that all of the elements of internal imbalance in a dynamic economy are simultaneously elements of external imbalance. The second problem constitutes an even greater challenge than the first, however, for though internal equilibrium is a necessary condition for external balance it is by no means sufficient. In a dynamic world economy, international equilibrium requires not only that each country should maintain internal balance but also, as we shall have occasion to emphasize, that the rates of growth in all countries should be consistent with one another.

External balance and internal pressures

It will be readily apparent upon reflection that any tendency towards internal imbalance between aggregate effective demand and productive capacity constitutes at the same time a tendency towards external imbalance of the same magnitude. When aggregate effective demand is equal to productive capacity within a country, its export capacity is equal to its import demand. Any discrepancy, however, between total demand and capacity, must have as its counterpart an exactly equal difference between import demand and export capacity. If the rate of increase in investment causes total demand to grow more rapidly than capacity, import demand will also grow more rapidly than the capacity to export; the country will thus be chronically faced, not only with internal upward pressure on its prices but—in the absence of offsetting net receipts from abroad—also with external pressure on its balance of payments. In the absence of any significant change in the structure of production and domestic utilization, both the demand for imports and the supply of exports would, it is true, normally rise in association with the growth of the economy; in a dynamic, unlike a static, economy, excess demand need not necessarily be accompanied by a decline in the supply of exports. As long as pressure of aggregate excess demand exists, however, any rising trend in exports would be accompanied by a more rapidly rising trend in import demand.

Other patterns of change in import demand and export supply are no less likely, however; neither side of a country's foreign trade need bear a unique relationship to its rate of growth. The pressure of excess demand might, for instance, be reflected, in analogous fashion to that of a static economy, in a rising trend of import demand and a declining trend of export supply. Should the pattern of production change in favour of greater self-sufficiency, on the other hand, both exports and imports might even show a declining trend, with the demand for imports falling at a lower rate, however, than the supply of exports.

Just as a higher rate of growth in demand than in capacity will be associated with chronic pressure on a country's balance of payments, so in the converse case a lower rate of growth in total demand will have as its counterpart a chronic tendency towards a surplus in the balance of payments. Again, in a dynamic economy, import demand need not necessarily exhibit a declining trend; on the contrary, in the absence of any significant change in the structure of production a rising rather than falling import demand is probable. If aggregate demand is rising less than productive capacity, however, import demand will rise less than export supply. On the other hand, not only import demand but even export capacity might show a declining trend if the economy should be sufficiently reoriented in the direction of self-sufficiency; in this case, however, import demand would fall more rapidly than the capacity to export.

The persistence of international disequilibrium for many years after productive capacity had been everywhere expanded and pent-up demand had been liquidated has produced a lively controversy in the economic literature as to whether its cause should be sought in chronic inflationary pressure in the deficit countries or whether other elements might be responsible. That the current upward pressure on prices has its origin as much in bottlenecks and cost inflation as in over-all imbalance between investment demand and saving supply has already been noted. Had rising investment demand or budget deficits pressed upon the supply of savings and thereby created an excess of consumer demand over supply, it would have necessitated a relative shift in the distribution of income from groups such as labour, who tend to save a small proportion of income, to others such as corporations and large landowners, who tend to consume a smaller proportion of their income. No such general trend in the distribution of income has been visible in the nineteen fifties; even some primary producing countries with uncontrollable wage-price spirals frequently exhibit no signs of such a shift in distribution.

The lack of evidence of over-all inflationary demand pressures, particularly in western Europe, has led many economists to suggest that the cause for the persistent dollar shortage of the post-war decade must be sought not in inflationary pressure in the deficit countries but in a chronic tendency towards a surplus in the balance of payments in the United States. This tendency, in turn, is attributed to a more rapid rise of productivity in the United States than in the rest of the world.

It is universally agreed, of course, that differences in average levels of productivity between countries will not in themselves generate balance of payments problems; from the time of Ricardo onwards, it has been a com-

monplace in economic literature that international trade depends on comparative rather than absolute advantage. The hypothesis under consideration is only that disparities in the rates of growth of productivity—not differences in the average levels—are likely to generate chronic balance of payments difficulties. Again there is universal agreement that rapid advances in productivity in one country may create balance of payments difficulties for some countries; there is no dispute, for instance, that some countries may be faced with chronic balance of payments difficulties if their major exports have been replaced by synthetics developed abroad. There is also general agreement that the world at large and not only single countries may be faced with difficult and recurring problems of readjustment if rapid advances in productivity in an important country tend continually to give it a comparative advantage in commodities in which it previously had a comparative disadvantage. The question at issue, however, is not one of the burden of readjustment to shifting comparative advantage but of chronic disequilibrium in international trade. Does a relatively rapid rate of growth in productivity create a chronic tendency towards a surplus in the balance of payments, or is the rate of advance in productivity irrelevant for balance of payments problems?

The analysis of the preceding paragraphs suggests that the relative rate of advance of productivity is only one side of the coin; the other side is the relative rate of increase in effective demand. An advance in productivity may stimulate a sufficiently large increase in investment demand so that total demand is adequate or even more than adequate to absorb the output of the expanded capacity; in that case no deflationary pressure and no tendency towards an export balance need emerge. If the advance in productivity raises capacity, however, more rapidly than it increases demand, a chronic tendency towards deflation and a surplus in the balance of payments may develop. It is not the rate of increase in productivity alone, but the entire complex of economic forces affecting the rate of growth of productive capacity on the one hand, and aggregate effective demand on the other, which shapes the tendencies towards internal and external imbalance.

Part of the problem of external imbalance, however, stems not from over-all inflationary or deflationary tendencies but from sectoral imbalance. Significant as inadequate adaptability of resources has been for pressure on internal prices, it has perhaps been of even greater strategic importance in pressures on the external balance. Since import demand and export supply are each residual differences between domestic production and domestic utilization, and since the balance of payments is in turn a residual difference between exports and imports, it is clear that even very small percentage changes in demand or in output may cause very considerable changes in the balance. Even if countries were prepared to accept the price inflation associated with bottleneck limitations, they might be compelled to slow down the rate of growth as a result of a sudden deterioration in their balance of payments unless they had adequate reserves to tide them over until the bottlenecks were overcome.

The problem has proved difficult enough, as has already been noted, even in the highly diversified industrial economies. Even in these economies, expansion has been repeatedly slowed down by inability to expand energy, steel and engineering supplies sufficiently rapidly to avoid internal and external pressures. While a large part of the difficulty stems from physical limitations, such as the exhaustion of coal resources, and another has its origin in broad social forces tending to limit the mobility of labour, inadequate realization by both government and business of the role of these key industries in limiting continued expansion has no doubt been an important contributing factor. In part this may reflect a natural conservatism with regard to planning too far in advance of current needs; in part the attitude may also have been reinforced by uncertainty over the future trend of military requirements which absorb so high a proportion of the output of these same key industries. Whatever the reasons, however, it seems clear that the bottlenecks have served as an important check on post-war economic growth. The check has also been self-reinforcing: the bottlenecks have directly impeded the rate of growth of productive capacity in capital goods industries; through their impact on prices and especially on the balance of payments they have also prompted governments to adopt fiscal and monetary restraints which have not only slowed down the rate of growth in demand, but by relieving pressures against key industries may have also tended to obscure their strategic role as bottlenecks.

The role of inadequate mobility of resources in pressures on the balance of payments, as on prices, has been both more profound and more enduring in under-developed countries. Even in highly diversified economies it is not always certain that the rise in import demand generated by bottlenecks can be offset by stepping up savings to release additional export supplies; there can be no general assurance either that the goods released from domestic consumption will find markets abroad or that the resources which might be released from their production could be readily transferred to export goods industries. Measures to increase savings to offset bottleneck pressures may thus contribute to a decline in production of domestic goods and unemployment as much as to a reduction in external deficits. In under-developed countries this uncertainty is considerably magnified by the fact that goods consumed at home do not have ready export markets and resources cannot be readily transferred from domestic to export production. The problem is further complicated by the virtually complete dependence upon imports of capital goods, which many countries at relatively early stages of de-

velopment simply cannot produce at home; an increase in capital formation may thus generate a rise in import demand and accordingly necessitate an increase in export supply far more than in proportion to the resulting rise in income. And, as has already been noted, the problem is not always limited to imports of capital goods; economic development may also generate unbearable pressures on the balance of payments through disproportionate increases in import demand for food in countries that are not self-sufficient in production of staples. The difficulty of transferring resources to the production of vital import goods may thus confront under-developed countries with critical external pressures even at relatively low rates of economic development that might not otherwise pose a problem of non-inflationary financing.

Internal demand pressures, whether over-all or sectoral, have reacted upon the balance of payments not only directly, by increasing import demand or reducing export supply at prevailing prices, but also indirectly, through their effects in altering the price structure both within and among countries. Significant changes in the price structure have also been brought about by differing degrees of cost inflation in individual countries as well as by broad differences in exchange and other government policies. It is difficult both for statistical and analytical reasons to trace through the effects of changes in prices upon balances of payments. Nevertheless, such highly provisional examination of this complex problem as is reported in chapters 2 and 3 below does suggest, on the one hand, that the wide post-war variations in relative prices among industrial countries may have significantly affected their competitive strength in export markets; and, on the other, that the broad spread that has emerged in many under-developed countries between domestic and foreign trade prices may have contributed importantly to the allocation of their resources between domestic and foreign-trade goods.

External balance and relative rates of growth between countries

Important as inflationary demand and cost pressures have been in the balance of payments deficits of the post-war decade, it can by no means be assumed that the problem of international disequilibrium could be automatically solved by eliminating internal pressures. Internal imbalance is not the only factor which may generate external disequilibrium. External balance is a relation between countries and not the resultant of a country's internal developments alone; its maintenance therefore calls not only for balanced growth within countries but also for harmonic relations between their rates of growth. It is not enough that each country preserve a balance between its rates of growth of effective demand and productive capacity; the rates of growth at which this balance is achieved in individual countries must be consistent with one another.

Over-all balance, it has been repeatedly stressed, does no more than enable each country to divert sufficient supplies from domestic use to pay for its import requirements. It does not in itself ensure that it will be able to find buyers for the goods it has available for export. In order that a country may be able to sell all its available export supply, foreign demand must grow at a sufficient rate to provide the expanding markets for the volume it must export to pay for its imports. Otherwise its economic growth will be frustrated, not by its inability to provide the savings to finance its investment demand, but by the inadequacy of foreign demand to absorb the exports which it must sell.

This is not to say that rates of growth must be uniform in all countries. This would be true only if import demands were equally income-elastic in all countries so that a given percentage change in income resulted in a uniform percentage increase in import demand in all countries. In that case uniform rates of growth of output would be associated with uniform rates of increase in import demand and external balance would be preserved along with internal balance. Since import demands are not equally responsive to income changes in all countries, however, external equilibrium cannot be maintained with uniform rates of growth. If a country's import demand rises by 2 per cent with every rise of one per cent in its income, whereas world demand for its exports rises only one per cent with every one per cent increase in world income, that country will be able to keep its exports and imports in balance only if its output grows at half the rate of the rest of the world. Should its income grow at a faster rate, it would be faced with an excess of import demand over its exports even if its savings supply were adequate to finance its investment demand; its exports would fail to match its imports, not because of supply limitations but as a result of inadequate foreign demand. It follows that all countries might be able to maintain internal economic balance; yet international equilibrium would not necessarily prevail unless their rates of growth were consistent with one another so that the rate of increase of each country's import demand could be matched by an equal rate of growth in world demand for its exports.

Some of the major changes in the structure of world trade with which post-war economic growth was associated have been reviewed at length in the *World Economic Survey, 1955*.[1] World demand for primary products has lagged substantially behind manufactures; within manufactures there has been a major relative shift in world demand from consumer to capital goods, and among consumer goods, from non-durables to durables. Among the primary products there has also been considerable diversity in growth of demand; world demand for oil has shown steady and continuing growth, but other minerals have fared less well and staple foods

[1] United Nations, *World Economic Survey, 1955* (sales number: 1956.II.C.1).

and agricultural raw materials have lagged badly behind. The change in composition of world demand has naturally altered the geographic distribution of world trade.

Though the industrial countries have, as will be seen in chapter 2, shown a substantial ability to adapt their structure of output to the changing character of world demand, the degree of adaptability of individual countries has depended largely on the extent to which they could undertake new investment or draw upon reserves of unemployed or under-employed manpower. Moreover, adaptation to the changing geographical distribution of world trade has been significantly more limited, partly owing to the costs and uncertainties attached to the exploration and development of new markets and partly owing to the prevalence of discriminatory trade policies.

The changing structure of world demand has been of greater importance, however, in relation to problems of many under-developed countries. Such countries are evidently importers of goods with a very high responsiveness of demand to income and exporters of goods characterized by a relatively low sensitivity. Assuming that export supplies were adequate to satisfy world demand at unchanging prices, it follows that if they were to keep their import demand in balance with the world demand for their export goods, many under-developed countries would have to grow at a slower rate than the industrial countries. External balance under such conditions would produce an ever-growing gap between levels of living of under-developed and developed countries.

If the gap is gradually to be narrowed rather than widened, provision must be made for permitting levels of living in under-developed countries to rise at a faster percentage rate—though not, of course, absolute increment—than in industrial countries without incurring balance of payments difficulties. If allowance is made for the more rapid increase in population likely in the under-developed countries owing to the recent sharp decline in their death rates, it will be evident that the relative rate of increase must be even higher in total than in per capita incomes. For a time this may be facilitated through capital imports; these may enable a country to import in excess of its exports and to use the additional margin of supplies to expand its productive capacity and income. No country can rely on capital imports indefinitely, however. Ultimately, it must achieve a rate and pattern of economic development sufficiently rapid and diversified to satisfy two joint requirements. Productive capacity must be so expanded as to provide the margin of income for the savings necessary to support a growing economy without inflationary pressure. In addition, the economy must become sufficiently diversified to provide not only for internal flexibility but also for a measure of adaptability to the changing structure of world demand.

This is not to say that there can be a generalized blueprint for economic development; least of all that development involves autarky or the sacrificing of the benefits of international specialization and exchange. The specific pattern for development will naturally depend upon the resource base of each individual country. In some countries overhead capital development must be given first priority, in others, an expansion of food supply may be vital; many may be able to advance rapidly in consumer goods industries while still others may find growing opportunities for developing output of some capital goods. What is necessary in all cases, however, is a continuing reorientation of the international division of labour to reduce the excessive dependence of under-developed countries upon imports in relation to the world's dependence upon their exports. If a better balance in world economic growth is to be achieved, the structure of world production must become better adapted to the pattern of world demand.

Part I

THE BALANCE OF PAYMENTS IN THE POST-WAR PERIOD

Chapter 1

POST-WAR BALANCE OF PAYMENTS EXPERIENCE: A GLOBAL VIEW

Despite all the physical upheaval of the Second World War, the task of reviving production and trade after the war proved to be infinitely easier than that of restoring a viable international balance. In retrospect it is clear that the problem of economic recovery in a physical sense was, if anything, over-estimated, at the end of the war, while the magnitude of difficulties which would have to be faced in reconstructing the fabric of international trade and payments was far from adequately appreciated. In most parts of the world outside the battle areas the shift of the economy from a war-time to a peace-time footing was accomplished with unexpectedly little friction, and pre-war levels of civilian output were soon being far surpassed. Even in western Europe the pre-war volume of total output was regained in the course of 1948. Only in south-eastern Asia was the recovery period prolonged, partly because of the relatively slow revival of agriculture—as in Europe—and partly because of the great complex of problems which accompanied the transition to independence in many of the countries in the area.

By contrast, the full scope of the problem of international imbalance was not fully grasped for some time after the end of the war, despite all the care and forethought which went into the creation of the Bretton Woods institutions. It was not simply that no one anticipated the sheer size of the deficits that would be incurred by the war-devastated countries in the process of recovery. More serious was the fact there was inadequate understanding of the nature of the longer term problems that would remain after recovery was complete. At the end of the war, and even during the early post-war years it was generally believed that the most dangerous threat to international balance of a long-term character would be likely to arise from periodic deflationary tendencies in great trading countries. It has turned out, however, that the more important problems thus far in the post-war period have been those posed on the one hand by great structural changes in the world economy and on the other by the universal demand for the fullest possible utilization of resources with a view to rapid economic growth.

Early Post-war Years

The pattern of international trade and payments emerging in the course of the early post-war years represented a response to tremendous shifts in the world distribution of income, productive capacity and exchange assets resulting directly or indirectly from the war.

The widespread destruction of industrial and agricultural capacity in the battle areas—primarily in Europe and Asia—had been accompanied by dramatic advances in the economic potential of North America and Australasia and, to a lesser extent, of countries in Africa. These changes in the relative economic strength of great areas of the globe were bound to necessitate far-reaching modifications in the pattern of world trade and payments. The problems of adjustment inherent in this situation were complicated by the inability of the countries which had suffered losses due to the war to hold their domestic demand down to the level corresponding to their decreased productive capacity. So great was the pressure of pent-up demand that a limitation of total demand to the extent required to avoid inflationary pressure would have involved a reduction of incomes on a scale generally regarded as unacceptable. In these circumstances, most of the governments in the war-devastated countries saw no alternative to the temporary retention of the whole war-time apparatus of exchange and trade controls as a means of limiting the drain on foreign exchange brought about by the excess of domestic demand and of facilitating the process of structural adjustment to the post-war world.

Heavy pressure of demand upon supply was, of course, characteristic of all countries after the war, and not merely of those in which there had been extensive war damage. All countries encountered in some degree the efforts of business enterprises and consumers to replenish their stocks of goods which had been scarce or unobtainable for many years—drawing, for this purpose, not only upon current incomes but also upon savings accumulated during the war. However, the pressure of demand against resources was relatively lightest in North America, and heaviest in a number of other industrial as well as under-developed countries. The backlog of demand in Canada and the United States at the end of the war, great as it was, naturally reflected

less urgent pressures than those characteristic of countries in which production and consumption had declined and in which the supply even of basic food staples was well below pre-war standards, and in some cases even war-time standards.

The marked variation between countries in the degree of excess demand over supplies available from domestic production would, in itself, have sufficed to bring about profound distortions in the structure of international trade and payments, and severe disequilibrium. The problem was, however, compounded by other important developments in the world economy, notably the transfer of real income from developed to under-developed countries consequent upon the rise in the prices of primary products exported by the latter in terms of the manufactures imported from the former. Given the difficulties of under-developed countries in raising their domestic output, and their virtually complete dependence upon imports for supplies of engineering products and luxury consumption goods, the proportion of any increment in real income devoted to imports by these countries is generally higher than in developed countries. Moreover, the corresponding loss of real income by western European countries probably did not involve any reduction in imports below the rigorous limits already imposed by severe quantitative controls. Thus the transfer of real income to under-developed countries implicit in the post-war improvement in their terms of trade tended to add to total world import demand at a time when exportable supplies outside North America were highly inelastic because of the destruction of productive capacity and the massive claims of domestic demand throughout the world.

Even without any improvement in terms of trade, however, many of the under-developed countries would have been in a position to finance large-scale imports to meet pent-up domestic demand for investment and consumption. Large foreign exchange reserves had been accumulated by these countries during the war; such reserves were held in the form of gold and dollars by those countries, notably in Latin America, which had furnished supplies to Canada and the United States during the war. As may be seen from table 1, the gold and dollar holdings of the Latin American republics rose from $1.0 billion in 1937 to $3.8 billion at the end of 1945, while the group of "all other countries" (consisting primarily of independent non-sterling countries in Asia—including Japan) increased their holdings from $1.0 billion to $2.5 billion. At the same time sizable claims in sterling were accumulated by a number of countries which had contributed in various ways to the war-time requirements of the United Kingdom. It may be estimated that United Kingdom liabilities to countries outside western Europe and the western hemisphere rose from something like £400 million in 1936-1938, on the average, to about £2,800 million at the end of 1945. Of the latter figure, over one-half was owed to two countries only—Egypt and pre-partition India.[1]

In addition to the increased command over imports afforded by improved terms of trade and the accumulation of exchange reserves, some under-developed coun-

[1] The leading holders of sterling outside western Europe and the western hemisphere at the end of 1945 were as follows (millions of pounds sterling): India, 1,280; Egypt, 404; Australia, 128; Malaya, 115; Palestine, 115; East Africa, 100; West Africa, 100 (Bank for International Settlements, *The Sterling Area* (Basle, January 1953), pages 71 to 75).

Table 1. Estimated Gold Reserves and Dollar Holdings,[a] 1937 and 1945 to 1955

(Billions of dollars, end of year)

Year	Sterling area		Continental OEEC countries and dependencies	Other Europe	Canada	Latin American republics	All other countries	Total
	Total	United Kingdom						
1937	4.9	4.4	6.8	1.0	0.4	1.0	1.0	15.1
1945	4.1	2.7	7.9	0.8	1.7	3.8	2.5	20.8
1946	4.5	2.7	7.0	0.9	1.5	3.7	1.8	19.4
1947	3.7	2.3	5.3	0.8	0.7	2.9	1.8	15.2
1948	2.9	2.2	5.6	0.7	1.2	2.7	1.9	15.0
1949	2.7	1.9	6.0	0.6	1.4	3.1	1.6	15.4
1950	4.5	3.6	6.6	0.6	2.0	3.5	1.9	19.1
1951	3.8	2.8	6.9	0.5	2.2	3.4	2.4	19.2
1952	3.3	2.3	8.1	0.6	2.5	3.4	2.6	20.5
1953	4.1	3.0	9.8	0.5	2.4	3.6	2.7	23.1
1954	4.2	3.2	11.4	0.6	2.6	3.7	2.5	25.0
1955	3.7	2.6	13.0	0.7	2.6	3.8	2.9	26.7

Source: Board of Governors, Federal Reserve System of the United States, as cited in *Economic Report of the President*, 1954, 1955 and 1956 (Washington, D.C.).

[a] Includes gold reserves and dollar holdings of all countries except the United States; gold reserves of the Union of Soviet Socialist Republics not included. Holdings of the Bank for International Settlements (both for its own account and for the European Payments Union) and of the Tripartite Commission for Restitution of Monetary Gold are included with the holdings of continental countries of the Organisation for European Economic Co-operation (OEEC) and their dependencies. Figures represent: (i) reported and estimated gold reserves of central banks and governments and (ii) official and private dollar holdings reported by banks in the United States, including foreign-held deposits, United States Government securities maturing within twenty months after date of purchase, and certain other short-term liabilities to foreigners.

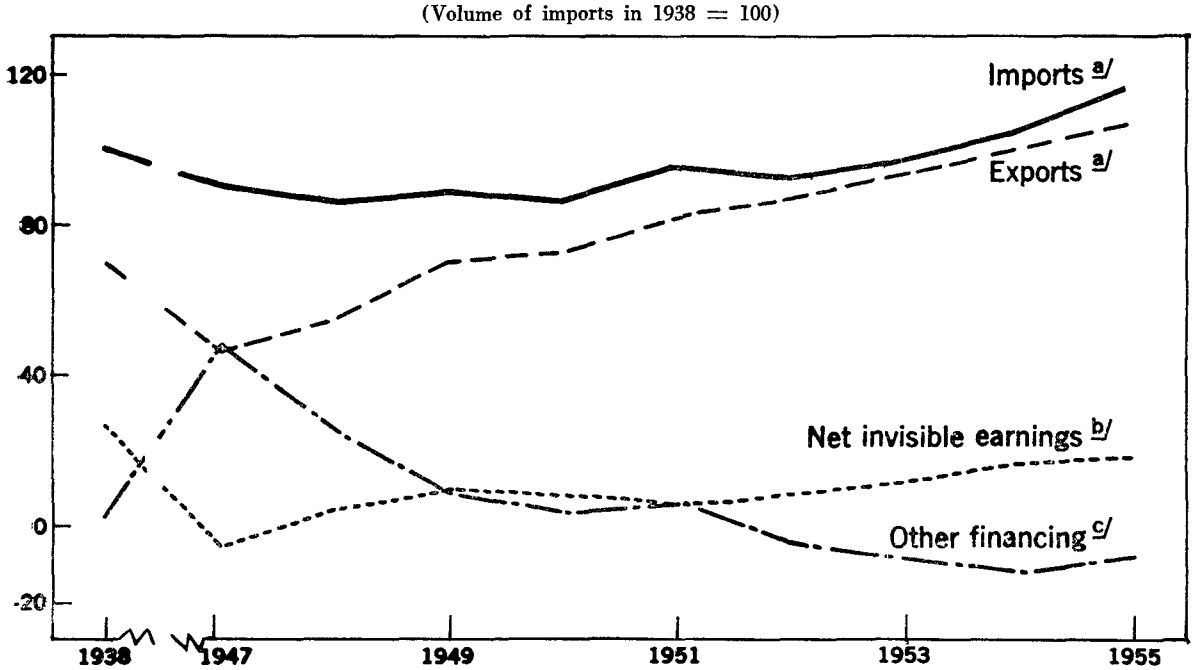
tries received foreign grants and loans for reconstruction or development; and there were significant flows of private capital to a number of mineral-producing countries. Consequently, although the total volume of goods shipped by the under-developed countries to the industrial countries showed no increase over the pre-war period during the early post-war years, the former countries were able to finance a substantially greater volume of imports than before the war.

Even more important than the deterioration in terms of trade from the point of view of the effect on the balance of payments of western Europe were the losses of service income. No longer, as before the war, could western Europe expect to finance one-quarter of its imports of goods from the rest of the world by means of net income from invisible transactions. By dint of liquidating investments to pay for the war, accumulating new indebtedness to other countries and undertaking large-scale post-war military commitments overseas, the United Kingdom, which was most affected by the decline in service income, found itself in 1946 and 1947 with a passive balance on invisible account. Other western European countries also experienced loss of service receipts due either to reductions in investment income or to the destruction of merchant shipping and other dislocations suffered during the war.

The resulting strains upon western Europe's balance of payments are indicated in table 2 and chart 1. Although western Europe's overseas exports had surpassed the 1938 volume by the end of 1948, the proportion of the 1938 import volume that these exports could finance remained below that recorded before the war owing to the deterioration in terms of trade. Since at the same time the relative importance of net invisible earnings had been greatly reduced, it was necessary to seek external aid even to finance a level of overseas imports which, up to 1951, did not rise as high as 90 per cent of the pre-war volume. And it was actually not until 1953 that, for the first time in the post-war period, exports of goods and net earnings from invisibles by western Europe passed the point at which they alone could finance a volume of imports of goods equivalent to that which had been purchased outside the area in 1938.

The adjustments required in international trade and payments were not limited to those resulting from the inability of western Europe to finance the pre-war volume of imports and the rise in the command over imports exercised by under-developed countries. Major changes had taken place, or were in process of occurring, affecting the principal channels of trade both in primary products and manufactures. The prostration of Germany and Japan, the slowness of agricultural recovery throughout Europe and Asia—aggravated in one or more years by disastrously bad harvests—the interruption of supplies from several of the countries in the Far East where war devastation had been heavy

Chart 1. Elements in the Financing of Western Europe's Imports from the Rest of the World
(Volume of imports in 1938 = 100)



Source: Table 2. The percentages shown for exports of goods, net invisible earnings and other financing represent the proportions of the 1938 import volume that these respective items could finance in the various years shown.

[a] Merchandise.
[b] Including military expenditures in western Europe by the United States. Negative entries represent net invisible payments.
[c] Including use of reserves, borrowing, economic aid, etc.

Table 2. OEEC Countries: Financing of Imports from Rest of World
(Volume of imports in 1938 = 100)

Item	1938[a]	1947	1948	1949	1950	1951	1952	1953	1954	1955
Imports of goods from rest of world[b]	100	90	86	89	86	95	92	97	105	117
Financed by:[c]										
Export of goods	70	47	55	70	73	82	87	93	100	107
Invisible earnings (net)[d]	27	−5	5	10	9	6	9	12	17	18
Total, current earnings	97	42	60	80	82	88	96	105	117	125
Use of reserves, borrowing, aid and other means	3	48	26	9	4	7	−4	−8	−12	−8

Source: Organisation for European Economic Co-operation, *Statistics of National Product and Expenditure*, No. 2, 1938, and 1947 to 1955 and *General Statistical Bulletin* (Paris). Minus sign indicates excess of additions to reserves over other items.

[a] Excluding western Germany's transactions with eastern Germany.

[b] Excluding imports under military aid.

[c] The percentages shown for exports of goods, net invisible earnings and use of reserves, borrowing, aid and other means represent the proportions of the 1938 import volume that these respective items could finance in each year shown.

[d] Including military expenditures in western Europe by the United States.

or in which civil strife had begun after the war, and the drastic decline in the trade of eastern Europe and the Soviet Union with the rest of the world—all these factors combined to compel countries to turn to the only area capable of making good the deficiencies in supply, namely North America.

At the same time, important shifts had taken place in the composition of demand for manufactures. Among the industrial countries a rise in the proportion of trade in basic industrial materials and equipment reflected the reconstruction requirements of western Europe and the concentration of the limited exchange resources of that area upon "essential" goods. Similar criteria of essentiality were being applied in under-developed countries, especially where import demand was heavy or where it was feared that the resumption of imports of industrial consumer goods might compete with domestic production established or expanded during the war. In addition, the inability to secure much needed supplies of capital goods from the belligerent countries during the war years had built up a large backlog of demand for such goods in the under-developed countries. More significant still, especially from the long-run point of view, was the fact that the concept of economic development was gaining—or had already gained—a powerful hold upon the minds of the public and of the governments in these countries.

Thus, demand had shifted away from textiles and other industrial consumer goods—traditional exports of western Europe, as well as of Japan—and in favour of engineering products. While under normal conditions adequate supplies of the latter products would have been forthcoming from the principal exporting countries in western Europe and North America, the western European producing industries were already under great strain through having to provide urgently for the replacement of war damage and for long overdue maintenance and expansion within Europe itself—to say nothing of the fact that the second largest pre-war European producer of capital goods, Germany, was in a state of economic collapse.

Just as the shortfall in deliveries of basic foodstuffs and raw materials from traditional sources in the early post-war years compelled western Europe to shift a considerable proportion of its external purchases to North America, so the inability of western Europe to meet the full demands of the under-developed countries for capital equipment prompted the latter likewise to seek supplies from the same source. This tendency was reinforced by the food shortages which occurred in a number of the under-developed countries during the first few years after the war and which likewise had to be met by abnormal purchases in North America. Largely owing to these changes in the pattern of trade, Latin America ran substantial deficits with the United States in the early post-war years, as shown in table 3. These were accompanied, up to 1950, by substantial surpluses with the rest of the world, particularly western Europe, which used part of the aid received from the United States to finance net imports from Latin America.

The position in the overseas sterling area was rather different. Here, as in Latin America, considerable import balances with the United States were incurred from 1947 to 1949—mainly as the result of heavy demand in

Table 3. Latin American Republics: Balance on Goods and Services, 1947-1955
(Billions of dollars)

Year	Balance with		Total
	United States[a]	Other non-Latin American countries	
1947	−2.08	1.34	−0.74
1948	−1.37	1.28	−0.08
1949	−0.76	0.50	−0.26
1950	−0.37	0.91	0.54
1951	−1.10	0.19	−0.91
1952	−0.85	−0.59	−1.44
1953	−0.14	0.36	0.22
1954	−0.56	0.35	−0.21
1955	−0.68	0.12	−0.56

Source: International Monetary Fund, *Balance of Payments Yearbook* (Washington, D.C.).

[a] Balance with Canada included from 1951.

Table 4. United States: Financing of Exports to Rest of World
(Annual averages; volume of exports in 1936-1938 = 100)

Item	*1936–1938*	*1946–1949*	*1950–1952*	*1953–1955*
United States exports of goods and services[a]	100	221	206	218
Financed by:[b]				
United States imports of goods and services	87	107	159	170
United States private capital and donations	−1	18	20	18
United States Government economic aid, loans, military expenditure	1	90	54	56
Foreign capital movement	−15	2	−17	−16
Gold purchase or sale	36	15	−6	−6
Errors and omissions	−7	−10	−4	−4

Source: United States Department of Commerce, *Balance of Payments of the United States, 1919-53* and *Survey of Current Business* (Washington, D.C.), June 1956.

[a] Excluding military aid exports.

[b] The percentages shown for the succeeding items represent the proportions of the 1936-1938 average United States export volume that the respective items could finance in each period.

the independent sterling countries rather than in the dependencies. But these transactions accounted for only part—albeit a crucial part—of the total current deficit of the overseas sterling area. Still larger, during the period 1947-1949 as a whole, were the import balances with the United Kingdom, financed by the drawing down of accumulated sterling assets or by capital inflow from the United Kingdom.

It will be obvious from the foregoing that North America was in surplus on current account with all the other major areas during the early post-war years; the considerable dollar surpluses which certain primary producing areas had earned from merchandise trade with North America before the war had in nearly all cases disappeared,[2] and there had also been a great increase in the scale of payments to North America for shipping and other service items. Thus, not merely was it necessary to find the means of financing a huge overall excess of imports from North America, but none of the major areas, and very few individual countries, could expect to cover even part of their deficits with the dollar area by earning a surplus of dollars in transactions with other areas of the world. It was this universal blocking of the normal channels for multilateral clearing of international accounts that, together with the size of the deficits, gave the balance of payments difficulties of the early post-war years their exceptionally intractable character.

As may be seen from table 4, it became necessary to finance a volume of exports from the United States which from 1946 to 1949 averaged considerably more than double the level recorded in 1936-1938. During the three pre-war years gold sales to the United States had sufficed to finance 36 per cent of that country's exports —or about 30 per cent of the total demand for dollars which, as indicated in table 4, included large capital movements to the United States over and above purchases of goods and services. While the direction of the net flow of capital was reversed after the war, it was no longer possible for United States gold purchases to play the strategic role in balancing the accounts that they had before the war. This was partly because of the tremendous increase in the real deficit with the United States and partly because the price of gold remained unchanged in terms of dollars while United States export prices doubled from 1936-1938 to 1948. Thus, the entire gold production of the world outside the United States and the Soviet Union in 1948 was equivalent to less than 5 per cent of United States exports of goods and services; and as may be seen from chart 2, the role of gold in the post-war settlement of transactions with the United States was greatly reduced.

The problem of financing the greatly increased post-war volume of shipments of merchandise from the United States was magnified by the rise which had taken place in the general level of prices. This may be seen from the following data (in millions of dollars):[3]

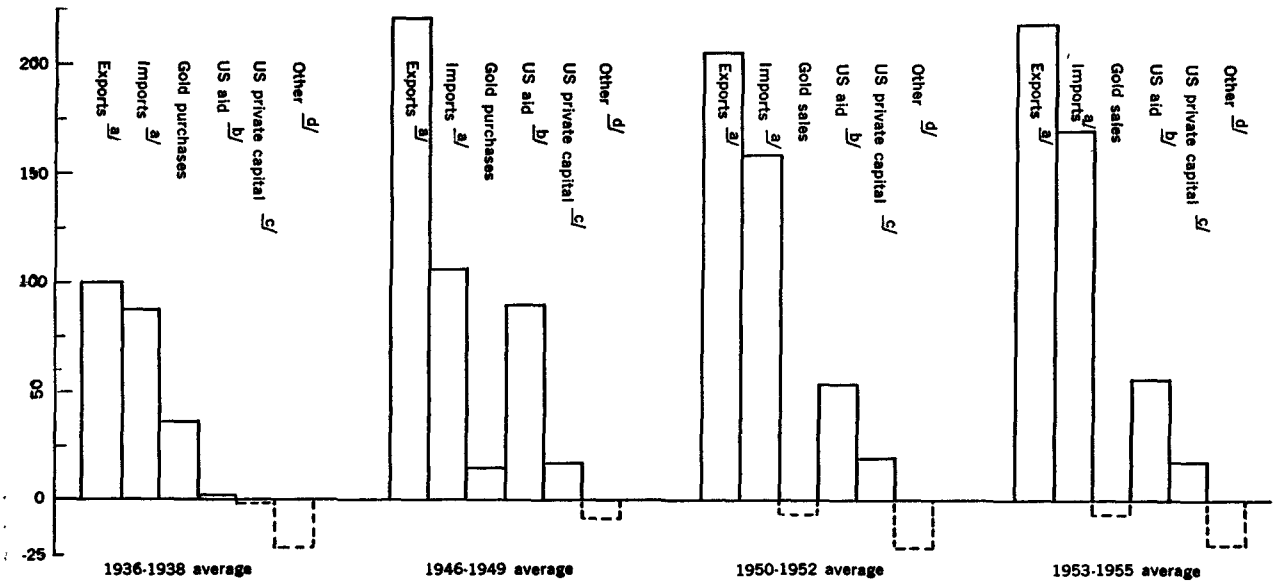
	Exports		*Imports*		*Balance*	
	Current prices	*1936–1938 prices*	*Current prices*	*1936–1938 prices*	*Current prices*	*1936–1938 prices*
Trade in 1936-1938 (yearly average)	2,925		2,489		436	
Trade in 1948	12,532	6,260	7,124	3,061	5,408	3,199
Change, 1936-1938 to 1948	9,607	3,335	4,635	572	4,972	2,763

[2] Of the primary producing areas, shown in table 10 below, only the four mineral and rubber exporting territories affiliated to western Europe still had an appreciable export surplus with North America in 1948—and even this was little larger in terms of current dollars, and consequently relatively much less important, than before the war.

[3] *Source:* United States Department of Commerce, *Foreign Trade of the United States, 1936-49* (Washington, 1951). Since the value of trade is the product of quantum times unit value, any analysis of a change in trade as a sum of effects of changes in quantum and unit value involves some element of arbitrariness.

Chart 2. Elements in the Financing of United States Exports

(Annual averages: volume of United States exports in 1936-1937 = 100)



Source: Table 4. The percentages shown for items other than exports represent the proportion of the 1936–1938 average export volume of the United States that these items could finance in the various periods shown.

[a] Goods and services.

[b] Governmental economic grants, loans, and overseas military expenditures.

[c] Including donations.

[d] Foreign capital movement and errors and omissions.

Had prices remained unchanged from the pre-war period to the post-war period, the United States export balance would have been limited to $3.2 billion. In the event, however, the rise in post-war prices sufficed to add a further $2.2 billion to the United States export balance—notwithstanding the fact that import prices rose substantially more than export prices.

It is noteworthy that as early as 1946 United States imports of goods and services would have been large enough to finance virtually the total pre-war volume of United States exports of goods and services. Although the ratio of imports to national product had fallen considerably by comparison with pre-war years, the rise in national product had been sufficiently great to generate a larger absolute demand for imports than before the war. And while shipments to the United States were limited by the scarcities prevailing elsewhere, special efforts were made to ensure that goods were available for export to the dollar area in the interests of mobilizing the maximum possible amount of purchasing power in dollars.

While United States private capital resumed its outward movement after the war—following the repatriation of capital which had taken place during the nineteen thirties—and while particular countries, especially those with large petroleum resources, received relatively large inflows of direct investment funds—private capital movements and remittances did not on the average finance more than a small fraction of the export balance on goods and services in the early post-war years.

In these circumstances it was inevitable that a major part of the export balance of the United States should be financed through governmental aid in one form or another. From 1946 to 1949 the United States Government was financing a volume of exports equivalent, on the average, to 90 per cent of the 1936-1938 level. Indeed, the size of the United States export balance during the early post-war years was, in effect, determined by the decisions taken by the United States Government regarding the provision of foreign aid. It is clear that the rest of the world could not have financed deficits of the magnitude actually incurred. This may be seen readily from the fact that the deficit on goods and services with the United States in 1946 and 1947 alone was virtually equal to the total value of the gold reserves and dollar holdings of all countries other than the United States at the end of 1945. Even the massive aid afforded by the United States did not, however, avoid the necessity for other countries to spend more than one-quarter of these holdings on imports during the early post-war years, as may be seen in table 1.

The Period of Acute Fluctuations, 1949-1952

Any division of the post-war period into sub-periods for the purposes of balance of payments analysis must inevitably be somewhat arbitrary, since each period merges into the next and there is no sharp dividing line between them. Moreover, although the years from 1949 to 1952 are characterized here as a period of acute fluctuations, this is not intended to imply that the rest of the first post-war decade was free of fluctuations in balances of payments. Nevertheless, the period from 1949 to 1952 warrants separate treatment—first on account of the balance of payments crisis of 1949 in the sterling area and then because of the abnormal oscillations in balances of payments which accompanied the conflict in Korea.

The failure of the brief attempt to restore sterling convertibility in 1947 had provided a clear warning that the prevailing international disequilibrium could no longer be regarded as a short-term phenomenon which would disappear after a relatively brief post-war "transitional period". It had also yielded abundant evidence of the vulnerability of sterling to changes in confidence. If any doubts remained on these matters after 1947, they were quickly disposed of in the course of 1949. A relatively mild recession in the United States together with a rise in sterling area demand sufficed to provide the occasion for a series of developments culminating in the devaluation of sterling, and then of most of the other "soft" currencies, in September 1949. So mild was the recession that in real terms the gross national product of the United States showed a drop of only one per cent from 1948 to 1949, while the volume of imports of goods declined less than 3 per cent. However, a considerable trimming of inventories by United States manufacturers in 1949—following the even more rapid build-up of the previous year—exerted fairly heavy pressure upon commodity markets, so that dollar earnings from shipments of raw and semi-manufactured materials to the United States dropped by about 13 per cent. Since dollar exchange budgets had been drawn up in many countries with little or no margin for unforeseen contingencies, this decline was sufficient to cause serious difficulties. Moreover, the adverse repercussions were not diffused equally throughout the world economy, but were to a considerable extent concentrated upon the sterling area. This was partly because imports of crude and semi-manufactured materials, which were especially sensitive to the recession, account for a much higher proportion of United States imports from the sterling area than from other countries.[4] But it was also due to the fact that the demand for dollar goods by the overseas sterling area increased in the first half of 1949 more than had been anticipated.

Difficulties resulting from these developments were greatly magnified by capital flight. Exchange controls proved unable to prevent a heavy drain on foreign exchange resources emanating from the acceleration of payments by sterling area importers and the delayed repatriation of proceeds of sales by exporters, as well as from other forms of speculation. In the end the bear movement against sterling—coupled as it was with widespread deferment of orders for products of the sterling area, in the expectation of devaluation—became a much more important source of dollar losses than the direct impact of the recession itself.

The more the expectation by traders of a devaluation of sterling gained ground, the more difficult did it become to resist this course of action, especially in view of the low level of gold and dollar reserves available to support sterling. Conversely, as soon as the expectation was realized, in September 1949, funds began to flow back into the sterling area dollar pool, and a rapid recovery in the balance of payments ensued. As will be seen from table 5, the whole aspect of the short-term dollar position changed drastically after the devaluation on 18 September 1949, the net reflux of dollar funds by the end of September alone amounting to $85 million. Particularly striking, as evidence of the confidence element in the change brought about by devaluation is the shift in the residual item in table 5 entitled "Other transactions" from an outflow at an annual rate of nearly $600 million in the second and third quarters of 1949[5] to an inflow at a rate of nearly $1.1 billion in the fourth quarter of the year.

The recovery of sterling was maintained and extended as the import restrictions imposed by sterling area countries at mid-1949 began to take effect, and as economic activity in the United States revived at the turn of the year, bringing with it an upturn in the demand for imports. Thus the crisis evaporated as rapidly as it had begun, and by mid-1950 the United Kingdom gold and dollar reserves had risen to their highest level since the end of 1946—despite the fact that dollar earnings from the United Kingdom's exports of goods to the dollar area remained lower in the first half of 1950 than in the corresponding period of 1949.

Most soft currency countries, as well as Canada, followed the United Kingdom in devaluing, though in many cases the percentage of devaluation chosen was smaller than 30 per cent. The latter figure had not been selected by the United Kingdom as reflecting any particular estimate of purchasing power parities or relative levels of export prices. Indeed, the available export price indices suggest that whatever divergence there may have been between the movements from 1938 to

[4] In 1948 crude and semi-manufactured materials accounted for 70 per cent of the value of United States imports from the sterling area, for 57 per cent of imports from continental OEEC countries and 58 per cent of imports from the rest of the world.

[5] Including the short period after devaluation from 18 September 1949 to the end of the month.

Table 5. Sterling Area Dollar Balance, by Quarters, 1948 and 1949

(Millions of dollars)

Item	1948				1949				1949	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	1 July to 17 Sept.	18 Sept. to 30 Sept.
Merchandise trade:										
United Kingdom:										
Exports to dollar area,[a] f.o.b.	170	167	186	193	184	151	153	149		
Imports from dollar area,[a] c.i.f.	485	495	469	414	428	504	512	399		
Trade balance	−315	−328	−283	−222	−243	−353	−359	−250		
Rest of sterling area:[b]										
Exports to North America,[c] f.o.b.	303	310	277	286	272	261	193	225		
Imports from North America,[c] f.o.b.	259	296	253	313	317	324	260	240		
Trade balance	44	13	25	−28	−45	−63	−67	−15		
Other transactions (net)[d]	−296	−103	−47	−101	—	−186	−105	272		
Total dollar balance[e]	−567	−418	−306	−351	−288	−602	−531	6	−548	16
North American[c] loans	345	7	—	81	224	67	29	27	20	9
South African gold loan	325	—	—	—	—	—	—	—	—	—
International Monetary Fund drawings	60	—	—	—	—	—	—	—	—	—
United States grants	—	89	163	349	120	273	277	230	217	59
Change in gold and dollar reserves (additions −)	−162	321	143	−79	−56	261	226	−263	311	−85

Source: United Nations Bureau of Economic Affairs.

[a] Independent western hemisphere countries, not including Argentina, Brazil, Chile, Paraguay, Peru, Uruguay; including the Philippines.

[b] Excluding Union of South Africa.

[c] Based on trade returns of Canada and the United States.

[d] Calculated as a residual.

[e] Data on the total dollar balance and its financing from United Kingdom White Paper on the *Balance of Payments, 1946 to 1953*, Cmd 8976 (London).

1948 in average United Kingdom and United States export prices for finished manufactures, in dollars, was probably within the order of error of the estimates. The degree of devaluation was rather the outgrowth of the extensive bear movement against sterling, and hence of the desire to establish a rate which could quite clearly be maintained against all pressures, and which would, therefore, lead at once to the liquidation of speculative positions.

The devaluations undertaken by countries outside the sterling area, on the other hand, were not, on the whole, the outcome of critical balance of payments situations. The much smaller impact of the United States recession, and of speculation, upon the rest of the world is strikingly reflected in the fact that countries outside the sterling area were actually able to add more than $180 million to their gold and dollar reserves as a result of transactions with the United States during the first nine months of 1949—continental western Europe and dependencies showing a gain of $100 million, and Latin America of nearly $170 million, while some losses occurred in a number of non-sterling countries in Asia. It is true that the sterling area in 1949 was much closer to a balance in its external payments—both over-all and on dollar account—than continental western Europe. But the decisive fact in the present context was that the sterling area situation deteriorated in 1949 while that of continental western Europe did not. Thus, the devaluations of 1949 in continental western Europe and other non-sterling countries were not so much a direct response to balance of payments pressure as a reflection of the desire to maintain the pre-devaluation price alignment with the sterling area, or something reasonably close to it.

The devaluations of 1949, widespread and drastic as they were, did not bring about an end to the régime of fixed exchange rates which had been inaugurated at Bretton Woods. It remained an accepted international objective, in the words of the Articles of Agreement of the International Monetary Fund, "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation". The exchange adjustments of 1949 were interpreted, in accordance with section 5 (*a*) of Article IV,[6] as being required in order to correct a "fundamental disequilibrium" and were therefore in no way inconsistent with the tenor of the Agreement.

It is nevertheless striking that the precedent of 1949 has not proved a compelling one in meeting subsequent balance of payments crises either in the sterling area or in most other countries outside Latin America—where special conditions regarding exchange rates have prevailed. There are probably three main reasons why countries have on the whole sought to avoid further exchange depreciation to meet balance of payments pressures. In the first place it has become increasingly recognized that under full employment the responsiveness of the balance of payments to exchange rate adjustments may be far less than is required to restore equilibrium. Even on the most favourable assumptions

[6] Section 5 (*a*) of the Articles of Agreement provides that "A member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium" (United Nations, *Treaty Series*, vol. 2, page 48).

regarding the price elasticity of demand for a country's exports, it is far from clear that an exchange rate adjustment can suffice to bring about all the internal changes which would be required to release goods from domestic use in a volume which would more than offset the decline in export prices in terms of dollars. And similarly the level of imports may not be greatly affected by higher prices in terms of domestic currency, especially where imports are subject to effective control. Once it becomes clear that action to correct a chronic balance of payments deficit must in any case include special measures designed to free resources for export, the case for devaluation may appear less conclusive. For—and this constitutes the second main point —devaluation always brings with it, under current conditions, the danger of touching off a wage-price spiral as the various sectors of the community struggle to escape the fall in real income which the devaluation implies. Finally, so far as western Europe is concerned, while the years since 1949 have seen some reduction in the competitive advantage conferred by the devaluations of that year, available export price indices suggest that much of that advantage has been retained. In some cases, this may be due to special subsidies for exports, remissions of taxation on exported goods and so forth. But the very use of such measures is indicative of the reluctance of governments to employ general exchange depreciation even where they may feel the external disequilibrium to be of a long-term nature.

The improvement in balances of payments with the dollar area which began towards the end of 1949 was sharply accelerated by the commodity price boom accompanying the outbreak of hostilities in Korea. In fact, during the nine months from mid-1950 to the end of the first quarter of 1951 the United States export balance of goods and services (other than military aid exports) touched the lowest level of the first post-war decade, at an average annual rate of under $700 million. Import demand soared under the influence of rapidly rising production and the efforts both of the Government and of private business to secure adequate stocks, especially of key primary products, against the possibility of serious shortages ahead, if the conflict in Korea were to spread to other areas. The important element in the ensuing commodity price boom, from the point of view of developments in balances of payments, was the rapidity with which prices rose. So steep was the rise in the value of raw material export shipments by primary producing countries that it was out of the question for their imports to keep pace. This would have been so even if there had been no exchange and trade controls. The existence of such controls, coupled with a reluctance to engage in a premature relaxation, especially in those countries which had only lately had to intensify their restrictions under balance of payments pressure, gave rise to considerable delays before imports began to reflect fully the rising tide of exports. These tendencies were particularly marked in the sterling area, with its recent memories of the 1949 crisis. And whereas many of the industrial countries on the continent of western Europe joined the United States in accumulating inventories of primary products in the second half of 1950 and early in 1951, the United Kingdom, together with other sterling countries, either refrained from adding to inventories or even allowed them to run down.

The non-synchronization of inventory movements between various countries and areas was one of the most important factors, along with the exceptionally steep commodity price movements, in the extraordinary fluctuations in balances of payments from 1950 to 1952. In the first phase of commodity boom, the balance of payments became abnormally unfavourable for those countries accumulating inventories of primary products —such as the United States, Belgium-Luxembourg and western Germany—and abnormally favourable for the sterling area and all primary producing countries in which the decline in stocks of exported goods was not offset by higher stocks of imported products. The converse held true of the second phase, when expectations regarding the scale of the Far Eastern conflict and the speed of rearmament programmes failed to be realized, thereby causing a collapse of commodity prices. Now the countries which had already laid in adequate inventories began to slow down their rate of importing at the same time as their exports were beginning to reflect the delayed response of the second group to the rise in export earnings during the earlier phase. The abnormally favourable balance of payments positions of primary producing countries characteristic of the period from mid-1950 to mid-1951 gave way to abnormal deficits as exports dropped away while imports continued to reflect earlier boom conditions.

Moreover, the deficits of the second phase were greater than the surpluses of the first. This was largely because once the rise in exports began to react upon economic activity generally in the primary producing countries, the domestic boom acquired a momentum of its own which persisted long after the demand for exports had collapsed. Meanwhile, in the United Kingdom, the delay in relaxing import restrictions resulted later in much higher expenditures on imports, at peak or near-peak prices, than those which had been saved by the initial running down of inventories.

Once again, as in 1949, various forms of speculative activity increased the amplitude of the fluctuations in balances of payments. Moreover, the speculation against the soft currency countries in 1951/52 was greater than the speculation in their favour had been in 1950/51. This might have been expected in any event, in view of the earlier post-war background. But in addition, as the swing from surpluses to deficits gained momentum in the sterling area and elsewhere in 1951/52, the imports of these countries rose above the level which they would otherwise have attained because of the expectation among traders that import restrictions would

be tightened once more, as they had been in 1949 under similar balance of payments pressures. Consequently, the very existence of the exchange and trade controls tended to encourage speculative inventory-building and thus to accelerate the ultimate intensification of restrictions and even to increase their severity.

Thus the years from 1950 to 1952 drove home the lesson that even without variations in the total level of economic activity of the magnitude which had been experienced before the war, commodity prices and balances of payments could fluctuate violently in response to major inventory movements, especially where such movements were not identically phased in the various countries and areas. While the balance of payments outlook had greatly improved in continental western Europe, especially in view of the rapid recovery of western Germany, it was clear that the balance of payments position of the sterling area, and of many of the non-sterling primary producers, remained very vulnerable to commodity price fluctuations. It had always been understood that there were limits to the freedom to pursue an independent economic policy conferred on a country by the use of exchange and trade controls. The events of 1951/52 gave a more precise idea of the nature of those limits, and of the dangers which could arise if the controls were not or could not be operated in a sufficiently sensitive manner to avoid aggravating the disequilibria with which they were intended to deal.

The Emergence of Long-term Problems, 1953-1956

With the end of the Korean conflict, the levelling off in armament expenditures in the major industrial countries, and the gradual dissipation of the after-effects of the commodity price cycle of the preceding period, the major focus of interest in the economic field shifted to long-term problems. Of special concern on the international scene was the problem of the reconciliation of economic growth—and particularly of different rates of growth in different countries—with balance of payments equilibrium. How far would greater international integration, by such means as the lifting of barriers to trade and the restoration of currency convertibility, be consistent with the efforts of under-developed and even of industrial countries to narrow the gap in living standards between their peoples and those of the most advanced country—the United States? These problems had, of course, been encountered in one form or another throughout the post-war period. But prior to 1953 they had been submerged, first in the overwhelming tasks of reconstruction and reconversion and later in the violent fluctuations of 1950-1952.

Despite these preoccupations, important steps had already been taken in the direction of a freer interna-

Table 6. OEEC Countries: Liberalization of Trade

(Percentages;[a] end of period)

Country[b]	June 1950	December 1950	1951	1952	1953	1954	1955
Italy	54	76	99.7	99.7	99.7	99.7	99.1
Greece	56	67	—	—	90.0	97.0	95.0
Portugal	53	61	84	85	92.8	92.8	93.7
Sweden	53	69	75	86	91.4	91.2	92.6
Switzerland	84.2	62	75	91.4	91.6	91.6	92.5
Germany, western[c]	44	63	—	81	90.1	90.1	91.3
Belgium-Luxembourg	59.2	65	75	75	87.2	87.7	91.1
Netherlands	57	65.6	71	75	92.6	92.5	91.1
Ireland	64	67	75	73.4	76.7	76.8	90.2
Austria[d]	53.5	66	—	—	50.6	82.4	88.7
United Kingdom	54	86	61	44	75.3	82.9	84.8
Denmark	53	50	62	75	76	75.9	78.4
France	58	66	76	—	17.9	64.6	77.5
Norway	38	44.7	51	75	75.5	75	75.0
Iceland	—	15	41	—	29	29	29.0
Turkey	42	60	63	63	—	—	—

Source: Organisation for European Economic Co-operation.

[a] Percentages relate to private imports from member countries of the OEEC and their overseas territories and the reference year is 1948, except in Austria and western Germany, where it is 1952 and 1949, respectively. The calculation takes into account: (i) the list of commodities imported on private account in the current period, irrespective of whether in the reference year they were imported on private or government account; (ii) the value of imports in the reference year. It should be noted that the freeing of a commodity which was, in the reference year, subject to very stringent import restrictions can raise the liberalization percentage only by a very small amount even if, thereafter, it is imported in much greater quantities. For further details on the method of calculation see, Organisation for European Economic Co-operation, *Sixth Report* (Paris, 1955), pages 149 to 150.

[b] In descending order of the percentage of liberalization at the end of December 1955.

[c] Reference year, 1949.

[d] Reference year, 1952.

tional framework, at any rate in the industrial countries. Beginning in 1949, trade among the western European countries was progressively liberalized; and while the process of liberalization was uneven, some countries taking refuge in tightened restrictions when confronted with acute balance of payments difficulties, the general trend was clearly towards greater freedom of trade within western Europe, as shown in table 6. From mid-1950 a system of multilateral settlements, with a significant element of convertibility, began to function within an area consisting not only of western Europe but also of all associated currency areas. And the Commonwealth Finance Ministers' Conference in 1952 deliberately rejected the view that solutions to sterling area problems could be found in a closed system of discriminatory arrangements.

However, there was no disposition to move hurriedly towards a freeing of international economic relations at the end of the Korean conflict. This was due to widespread concern, expressed *inter alia* in resolution 483 B (XVI) of the Economic and Social Council, that any levelling off or decline in arms production, while desirable in itself, might be accompanied by deflationary tendencies in the countries principally concerned.

In the event, this second, though lesser, reconversion problem was overcome with a minimum of dislocation. In western Europe the fall in defence expenditures was in any case small in relation to total output, and was more than offset by rising public civil expenditures. Private demand for investment and consumption proved sufficiently strong to support a 5 per cent increase in real national product each year from 1952 to 1955. In the United States, however, the fall in national security outlays from 1953 to 1954 was very sharp, being equivalent to between 2 and 3 per cent of aggregate national output. The effect of the decline in the government sector was reinforced by some private inventory liquidation—largely associated with the falling defence expenditures—and was only partly offset by higher demand for consumption made possible by reductions in taxation and in personal saving. As a result the national product declined close to 2 per cent in constant prices, thereby generating a substantially larger fall in the volume of imports.

Nothing could have demonstrated more clearly the distance which had been travelled since 1949 than the profound differences in the international repercussions of the United States recessions of that year and of 1954.[7] A somewhat larger decline in national output in 1954 than in 1949, instead of resulting in serious balance of payments difficulties in the rest of the world, coincided with a lifting of restrictions on dollar imports by a number of western European countries. And far from touching off a wave of speculation against sterling, as had occurred in 1949, the fall in United States import demand was actually accompanied by a surge of confidence, expressed in a sharp rise in private capital outflow, both to the United Kingdom and elsewhere, which in total sufficed to offset virtually all other elements of decline in the dollar supply.

Despite the slightly greater slackening in economic activity in 1954 than in 1949, the value of private imports declined proportionally less. The recession-sensitive imports of raw and semi-manufactured materials fell much more moderately in volume in relation to the decline in economic activity than in 1949. This was largely because commodity prices had been falling ever since the collapse of the 1950/51 boom, so that there had not been any major accumulation of inventories of imported raw materials requiring, as in 1949, to be scaled down. The same factor contributed to a greater price stability in 1953/54; and additional strength in world prices resulted from the offsetting rise in western Europe's import demand, which was of greater importance in total world demand than in 1949 when recovery had been incomplete.

Even more significant was the fact that the recovery and expansion of economic activity from 1949 to 1954 in the non-dollar countries had made it possible for them to reduce their dollar deficits very considerably, and rebuild their gold and dollar reserves to levels providing a larger measure of protection against sudden disturbances. This was particularly important in the sterling area, which as noted above, is more sensitive than the rest of the world to United States recessions and in which the low level of reserves was a primary factor in the dollar crisis of 1949. Whereas the setback in 1949 had given rise to heavy and unexpected drawings on gold and dollar reserves in the sterling area, the rate of additions to the reserves from mid-1953 to mid-1954 was scarcely less rapid than during the previous twelve months.[8] It was in these circumstances that it proved possible for the United Kingdom, as well as for other western European countries, to relax their restrictions on imports from the United States, despite the recession. Although their ability to do this depended upon the continuing high level of dollar disbursements abroad by the Government of the United States[9] (whether in the form of economic aid or of various types of expenditure overseas by the armed forces) there was no doubt of the sharp contrast with develop-

[7] For a more extensive examination of the international impact of the United States recessions of 1938, 1949 and 1954, see United Nations, *World Economic Report, 1953-54* (sales number: 1955.II.C.1), pages 112 to 119.

[8] The fall in United Kingdom gold and dollar reserves in the second half of 1954, which was relatively small after allowance for payments on the Canadian and United States loans at the end of the year, was due more to a sharp increase in the dollar import requirements of sterling countries, especially the United Kingdom itself, than to the slowness of the response of United States import demand to the recovery in production.

[9] Total disbursements abroad by the United States Government for economic aid, net long-term credits, overseas military expenditures and imports for the strategic stockpile totalled $4.7 billion in 1954 compared with well over $6.5 billion in 1949. Within these totals the sum of military expenditures and imports for the stockpile rose from under $1.1 billion in 1949 to over $3.2 billion in 1954.

ments in 1949 when there had been widespread resort to an intensification of import restrictions so as to protect shrinking gold and dollar reserves.

So great, in fact, was the demonstration of strength by sterling during the United States recession of 1953/54 that expectations of a United Kingdom move towards convertibility became widespread—thereby contributing to an influx of capital into the United Kingdom which provided yet another remarkable contrast with the events of 1949. In February 1955 a form of *de facto* convertibility for non-residents of the sterling area was introduced when the United Kingdom Government authorized the Bank of England, in its management of the Exchange Equalization Account, to operate in overseas markets for transferable sterling with the object of limiting the spread between the unofficial and official exchange rates for sterling against dollars.

It was generally anticipated that when the United Kingdom introduced formal convertibility for sterling, this would be accompanied by similar moves in a number of other western European countries enjoying strong balance of payments positions, notably the Benelux countries and western Germany. The balances of payments of this group of countries, like that of the United States, had reflected the effects of sharply rising import demand for inventory-building during the early phase of Korean hostilities. Since mid-1951, however, they had been running substantial export balances, owing mainly to their ability to take advantage of the rapid growth in the import demand of western Europe, particularly for steel and engineering products. Western Germany in particular had benefited from being able to undertake a massive expansion of production for export in the heavy industries at a time when substantial resources were being diverted by some of its main competitors to defence. All these countries greatly reduced discrimination against imports from the dollar area in 1954, and, together with the United Kingdom, formed a nucleus of countries anticipating at that time a reasonably early return to convertibility or partial convertibility. More generally within the European Payments Union, the growing economic strength of member countries was reflected in increased provision for gold or dollar settlements when the EPU agreement was renewed in 1954 and 1955. The extent to which multilateral settlements in gold and dollars were being employed among non-dollar countries even in the absence of formal convertibility is strikingly reflected in the fact that from mid-1954 to mid-1956 continental western Europe earned nearly one billion dollars from transactions with the sterling area—an amount equivalent to over one-quarter of the combined shipments of goods by the whole of continental western Europe to Canada and the United States during the same period.

The fact that developments in the direction of official convertibility have been slower than was envisaged in 1954 has been due to the reappearance of balance of payments difficulties in several of the countries of north-western Europe. The nature of these difficulties forms one of the principal subjects of examination in the following chapter. Here it may simply be said that the problems encountered appear to have reflected larger increases in internal demand in the countries concerned than in their trading partners; and, at the same time, an insufficient mobility of resources between those sectors of productive activity in which there has been a substantial growth of demand both at home and abroad and those sectors in which demand has risen less, or has even declined. Moreover, the situation has been complicated in some cases by significant cost inflation. These developments lie at the root of the more general problem of reconciling full employment and rapid economic growth with balance of payments equilibrium, which was noted at the outset of this chapter.

While developments in the industrial countries ever since the period of reconstruction have thus indicated the intention to move towards an international economy as free as possible of restrictions, particularly of a discriminatory type, the direction of movement in under-developed areas has been less clear. Except for the association of certain of the under-developed countries with the western European arrangements noted above, there seems, on the whole, to have been no clear trend in these countries towards more liberal trade and payments arrangements. During the early post-war years, when these countries were enjoying rising terms of trade, or were drawing upon war-accumulated assets, a heavy influx of imports was permitted; this continued up to the point, generally reached in 1948 or 1949, when restrictions had to be tightened to avert further losses of foreign exchange. A second period of relatively light use of import controls followed the outbreak of hostilities in Korea. After mid-1951, however, the tendency in the terms of trade was downwards, and this tendency persisted for some time after the second phase of the commodity cycle of 1950-1952 had been completed.

Many of the primary producing countries had to restrict imports severely during the second phase of the Korean commodity price cycle when goods ordered previously in response to the upsurge in export earnings continued to be delivered long after the boom had ended. As imports were curtailed while exports moved very gradually upwards, balances of payments improved and import restrictions were again relaxed in the latter part of 1953 and in 1954.

Since that time the experience of primary producing countries has depended in large measure on the extent to which they were drawn into the boom in demand for durable goods which developed in western Europe and North America. Thus, countries exporting rubber, metals and ores and petroleum experienced a substantial growth in foreign demand, especially in 1955, and many of them recorded large trade surpluses. Countries exporting other primary commodities have not experienced an equally strong upward trend in demand com-

parable to that prevailing for rubber, petroleum and the metals. Export earnings have generally fluctuated more or less sharply—the most violent fluctuations occurring in cocoa, coffee and tea—depending primarily upon changes in the size or quality of crops and in inventory policy in exporting and importing countries, and upon the extent of speculative activity accompanying or anticipating these changes. In all cases this has posed problems of adjustment akin to those experienced on a greater scale during the period of Korean hostilities. In particular, the inevitable lag between the cycles in export and import demand has led to large fluctuations in balances of payments, the amplitude of which has been intensified in many cases by the *modus operandi* of import and exchange controls and expectations of traders regarding changes in their use.

Equally important from a long-term point of view is the fact that the failure of export earnings to show a significant upward trend in a number of countries conflicts directly with the efforts of such countries to accelerate the pace of their development. It was demonstrated at some length in *World Economic Survey, 1955* that there is a long-run tendency for imports of primary products by industrial countries—with the notable exception of petroleum—to lag significantly behind the growth in these countries' output. Thus, under-developed countries have been faced with the dilemma that in the absence of large-scale capital inflow (which has naturally tended to concentrate upon the mineral and petroleum producers) they must either allow themselves to fall behind in the race for growth or be content to live from one balance of payments crisis to another.

The Network of International Balances

The post-war developments reviewed above in historical sequence have naturally had profound effects upon the pattern of international balances. Broadly speaking, it may be said that the network of international balances was highly abnormal in the early post-war period; and that by 1955 the changes which had occurred in the intervening years had tended to restore a pattern of balances much more closely akin to that which had prevailed in 1938. In spite of this tendency, however, there were major elements of difference between the pre-war pattern of balances and that of 1955, and from many points of view the differences may be considered more important than the similarities.

The rest of the world had, by 1955, achieved a considerable improvement in its balance with North Amer-

Table 7. Trade Balances of Four Major Areas
(Millions of dollars)

Country and year	World		North America		Western Europe and Japan		Primary producing areas		Centrally planned economies	
	Millions of dollars	Percentage[a]	Millions of dollars	Percentage[a]	Millions of dollars	Percentage[a]	Millions of dollars	Percentage[a]	Millions of dollars	Percentage[a]
North America:										
1938.....	1,145	40			1,085	59	−5	—	65	36
1948[b].....	6,090	51			4,160	76	1,725	25	205	49
1955.....	2,320	19			2,395	41	−30	—	−45	−69
Western Europe and Japan:										
1938.....	−1,695	−22	−1,085	−59			−670	−16	60	5
1948[b].....	−5,915	−39	−4,160	−76			−1,535	−17	−220	−24
1955.....	−2,470	−12	−2,395	−41			95	1	−170	−14
Primary producing areas:										
1938.....	680	12	5	—	670	16			5	2
1948[b].....	−120	−1	−1,725	−25	1,535	17			70	9
1955.....	30	—	30	—	−95	−1			95	11
Centrally planned economies:										
1938.....	−130	−8	−65	−36	−60	−5	−5	−2		
1948[b].....	−55	−3	−205	−49	220	24	−70	−9		
1955.....	120	6	45	69	170	14	−95	−11		

Source: Statistical Office of the United Nations and Bureau of Economic Affairs. Figures show difference between exports moving from the area shown at the left, and the exports moving to that area, from the areas listed at the top of the table. Adjustments have been made to the published figures to exclude special category exports not generally included in export returns, such as bunkers and stores, uranium and military equipment, and in 1955, transfers of ships to Panama and Liberia—valued at $191 million. Some adjustments to the 1938 figures have also been made in order to improve the geographic breakdown as published.

[a] Each surplus is shown as a percentage of the exports from the area shown at the left to the area shown at the top of the column; each deficit as a percentage of the exports to the area shown at the left from the area shown at the top.

[b] The 1948 estimates are subject to greater error than those for 1938 and 1955 because of much greater gaps in the information published regarding the destinations of exports in 1948.

ica—merchandise exports to North America had risen to more than four-fifths of the value of North American exports to other areas, from less than one-half the value in 1948. As table 7 shows, the trade of the primary producing countries with North America in 1955 was once again roughly in balance, as in 1938, instead of in heavy deficit, as in 1948; and though the deficit of western European countries and Japan with North America in 1955 was still more than twice as large in dollars as in 1938, these countries were financing a larger proportion of their purchases of North American merchandise from the proceeds of exports than before the war. Meanwhile they had also replaced their large deficit with primary producers of 1948 by a surplus in 1955.

By 1955 the major post-war abnormalities in the pattern of balances of the four principal trading areas of the world had been eliminated. At the same time the trade in merchandise of the four areas, each taken as a group, was relatively more closely balanced than before the war. North America's export balance in 1938 had been equivalent to 40 per cent of the value of its exports to the rest of the world, but by 1955 this percentage had been reduced to under 20 per cent. The other industrial countries, in western Europe and Japan, which in 1938 exported 22 per cent less, in terms of value, than they received from the rest of the world, in 1955 had an import gap equivalent to only 12 per cent of the goods they received. The substantial pre-war export balance of the primary producing countries as a whole —equivalent in 1938 to 12 per cent of their total exports —had practically disappeared in 1955. Net trade between the centrally planned economies and the rest of the world, which was relatively much smaller in 1955 than in 1938, was closely determined under bilateral trade and payments agreements providing in general for balanced exchanges of goods.

Changes in real and money terms

It was pointed out in *World Economic Survey, 1955* that the main changes in the regional pattern of trade from 1938 to 1954 had been a rise of 60 per cent in the volume of exports from industrial countries while exports from primary producing countries had increased much less and exports from the centrally planned economies to the rest of the world had dropped by considerably more than one-half. The much greater rise in the exports of industrial than of primary producing countries was associated with a correspondingly greater increase in the volume of shipments of manufactures than of primary products.

Thus, trade in the main channels for the export of manufactures (other than to the centrally planned economies), namely the trade of industrial areas with one another, and exports to primary producing countries, increased considerably. On the other hand, trade in two of the main channels for the export of primary products, namely the exports of primary producing countries to western Europe and Japan, and to each other, failed to rise. Developments in only two channels of trade constitute exceptions to this pattern—namely North American exports to the other industrial countries, which expanded only moderately, and exports of primary producing countries to North America, which rose 70 per cent in volume from 1938 to 1954.

These changes in the structure of world trade in real terms have to be examined in conjunction with movements in the terms of trade in considering the developments in the pattern of international balances corresponding to them. The most important changes in the real balance of trade were the larger increase in the volume of exports from the industrial countries to the primary producing group than in exports in the opposite direction, and the great increase in the export balance of North America. The primary producing countries were able to finance this rise in their real import balance, largely because of a shift of the terms of trade in their favour. Owing to relative inelasticities in supply, the prices of crude foodstuffs and most raw materials exported by primary producers advanced in relation to those of manufactures exported by industrial countries, both from the immediate pre-war years to 1948 and from 1948 to 1955. Much of the change in the real balance of trade between the two areas was thus made possible by the increase in the purchasing power of primary producers' exports in terms of imports from the industrial countries. But there was also a striking deterioration in the current balance of merchandise trade of the primary producing areas from 1938 to 1955. Part of this, however, was probably offset by a reduction in the adverse balance on invisible account since pre-war years.

The disappearance of the pre-war merchandise export surplus of the primary producing countries came about entirely as a result of the replacement of the large pre-war surplus with western Europe and Japan by a deficit in 1955. A significant part of the expansion in exports from western Europe and Japan to the primary producers was thus made possible by the deterioration in the latter's balance of trade. On the other hand, the trade of all the primary producers as a group remained more or less in balance with North America in 1955 as it had been in 1938[10]—and a small surplus had appeared in their trade with the centrally planned economies.

Changes in the geographic distribution of North America's trade balance in current prices were very different from those in constant prices. In real terms the rise in the export balance of North America was directed entirely towards primary producing countries

[10] While, as pointed out in League of Nations, *Network of World Trade* (Geneva, 1942), the tropical primary producing areas had a large surplus with the United States in 1938, the other primary producing areas had an almost equally large deficit. The tropical countries also had a small surplus with Canada in 1938, but this was more than outweighed by the deficit of the other primary producing areas with Canada.

while the export balance with western Europe and Japan was virtually the same in 1955 as in 1938. But in terms of current prices the situation was exactly reversed—the balance with primary producing countries remained unchanged due to the offsetting movement in their terms of trade; and the whole of the increase in the current export surplus of North America was thus focused on western Europe and Japan, because the rise in the general level of prices had tended to magnify the surplus more than the volume changes tended to reduce it.

It follows from the above that the principal factor in the deterioration of the current balance of western Europe and Japan, taken together, was the rise in the current value, though not in the real value, of the deficit with North America, and the deterioration in the terms of trade with primary producers which made possible much of the increase in the real balance of trade with the latter. The change from a positive to a negative balance in trade with the centrally planned economies was mainly due to the disappearance of Japan's net exports to the territories on the Asian mainland which it had controlled in 1938. Western Europe's deficit in trade with the centrally planned economies was little larger than in 1938.

The foregoing paragraphs have dealt only with the over-all changes in the pattern of trade balances between the industrial countries and the whole complex of primary producing countries. The experience of individual primary producing countries, however, varied widely. While the export balance of primary producing countries as a whole virtually disappeared between 1938 and 1955, as has been seen, many countries whose exports either consisted predominantly of products in growing demand, or were traditionally directed to the rapidly growing North American import market, substantially increased their active trade balances. Thus the primary producing countries in the dollar area, the Middle East oil exporting countries, and other countries whose exports consist predominantly of minerals and rubber, together raised their export balance by over $2 billion from 1938 to 1955, as shown in table 8. On the other hand, there was a deterioration of $2.75 billion in the balance of the remaining primary producing countries, whose exports consisted mainly of foodstuffs and agricultural raw materials other than rubber, and were traditionally directed to western Europe and Japan, where import demand had risen much less than in North America since 1938.[11]

With a few notable exceptions (particularly Bolivia, Indonesia, Iran and Peru) the countries in the dollar area and those exporting mainly minerals or rubber benefited from a greater than average rise in the value of their exports, and could consequently finance an increase in the value of imports at least as great as the average for all primary producing countries without any deterioration in their balance of trade. On the other hand, again with a few exceptions (notably Brazil and certain of the tropical dependent territories exporting coffee and cocoa), the value of exports from other primary producing countries rose less than the average between 1938 and 1955. The great majority of these countries were therefore unable to increase the value of their imports as much as the average without incurring a marked setback in their balances of trade. As table 9 shows, a large part of the deterioration in the balance of this group as a whole was accounted for by countries whose imports rose less than the average, particularly the group of Far Eastern countries.

In some cases, however, the deterioration in the balance of trade was associated with a greater than aver-

[11] While the exports of the dollar primary producing countries and of the principal mineral and rubber exporting countries were about four-fifths larger in real terms than in 1938, the exports of the remaining primary producing countries rose by only about 5 per cent; increases in the volume of exports from several of the principal agricultural exporting dependent territories, from Australasia and the Union of South Africa, and from certain European primary producing countries slightly more than offset a reduction of 20 to 25 per cent in exports from the Far Eastern countries and the agricultural exporting countries in Latin America.

Table 8. Merchandise Trade Balances of Primary Producing Countries, 1938 and 1955
(Millions of dollars)

Area and year	World total	Merchandise trade balances with: North America	Western Europe and Japan	Rest of world
All primary producing countries:				
1938	680	5	670	5
1955	30	30	−95	95
Countries in the dollar area, or countries exporting mainly minerals and rubber:				
1938	565	125	170	270
1955	2,665	440	1,615	610
Countries outside the dollar area, exporting mainly agricultural products other than rubber:				
1938	115	−120	500	−265
1955	−2,635	−410	−1,710	−515

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

Table 9. Changes in the Trade of Primary Producing Countries, by Groups
(Millions of dollars; indices, 1938 = 100)

Region and group	Change in the value of trade balances, 1938 to 1955[a]	Index of value of	
		Exports	Imports[b]
Regions exporting mainly mineral products and rubber, or mainly to North America:			
Middle East oil exporting countries[c]	1,180	1,060	720
Primary producing countries in the dollar area[d]	260	660	800
Other mineral and rubber exporting countries[e]	660	390	400
Territories affiliated with western Europe[f]	315	470	460
TOTAL	2,100	540	560
Other primary producing areas exporting mainly agricultural products other than rubber:			
Other dependent territories	−775	440	530
Other Middle Eastern countries	−420	380	360
Other South American republics	190	330	320
Australasia and the Union of South Africa	−285	270	290
Other Far Eastern countries	−880	180	280
All other primary producing countries	−580	370	510
TOTAL	−2,750	300	360
All primary producing countries	−650	380	420

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

[a] Minus sign indicates a decrease in the value of the trade balance.

[b] Calculated from exports to the area indicated.

[c] Middle East countries in the sterling area, plus Iran and Saudi Arabia.

[d] Philippines and Latin American republics other than Argentina, Brazil, Chile, Paraguay, Peru, Uruguay.

[e] Belgian Congo, Chile, Federation of Rhodesia and Nyasaland, Indonesia, Malaya, Netherlands Antilles, Peru.

[f] Belgian Congo, Federation of Rhodesia and Nyasaland, Malaya, Netherlands Antilles.

age rise in the value of imports. In Spain and Yugoslavia—included in the residual group of "all other" primary producing countries—part of the cost of imports was financed by various forms of aid. In the case of the dependent overseas territories exporting agricultural products, the greater rise in imports than in exports was largely made possible by changes in the balances of the metropolitan countries with their own dependencies associated with the resumption of the outflow of capital to certain of these territories.[12]

The shifts in the geographic distribution of trade balances since 1938 shown in table 10 reveal that the close degree of balance in the trade of North America and western Europe and Japan with all the primary producing countries in 1955 was not the result of any general tendency for a closer balancing of the trade of particular primary producing countries with each group of industrial countries. With only one or two exceptions, the absolute balances of the main groups of primary producing countries with North America and with western Europe and Japan were substantially larger than in 1938; and in nearly all cases the mineral and rubber exporting countries improved their balances while the balances of the agricultural exporting countries deteriorated greatly. The principal exceptions were the South American countries exporting agricultural products, whose balance with North America and the other industrial countries improved,[13] and the dollar primary producing countries which ceased to be in surplus with either North America or western Europe and Japan.

As has been seen, much of the difference in the experience of primary producing countries as regards their balance of trade can be traced to the divergent rates of growth of their exports. These, in turn, arose largely from changes in the composition of the industrial countries' imports of primary products, as well as from the greater growth of the North American than the western European market. The changes in the balances between western Europe and Japan and the various groups of primary producing countries resulted from the fact that there had been no striking shift in the distribution of exports of western Europe and Japan to counterbalance the marked changes in the sources of their imports from primary producing countries. The distribution of exports and imports had been rather similar in 1938, and western Europe and Japan were in deficit on trade account with the main groups of primary producing countries; by 1955 there was a pronounced divergence between the distribution of exports and imports, apparent in the percentage shares shown in table 11, and consequently a greater degree of imbalance in trade with the various groups of primary producing countries.

[12] Of the deterioration in the balance of these territories of $775 million shown in table 10, about $470 million would seem to be due to the change in the balance of the French dependencies with France and about $100 million to the change in the balance of the United Kingdom dependencies (other than Malaya) with the United Kingdom.

[13] Brazil, which was responsible for much of the marked improvement in the balance with North America, used dollars acquired in trade with the United States to finance greatly increased imports of petroleum from the Netherlands Antilles and Venezuela.

Table 10. Geographic Distribution of Trade Balances of Primary Producing Areas, 1955, and of Changes in Balances from 1938 to 1955

(Millions of dollars)

Region and group	Trade balances of primary producing areas, 1955					Change in balance, 1938 to 1955			
	World	North America	Western Europe and Japan	Centrally planned economies	Primary producing areas	World	North America	Western Europe and Japan	Rest of world
Regions exporting mainly minerals and rubber, or mainly to North America:									
Middle East oil exporting countries[a]	1,250	20	820	—	410	1,180	30	935	215
Primary producing countries in the dollar area[b]	520	−110	−90	35	685[c]	260	−225	−120	605
Other mineral and rubber exporting countries[d]	895	530	885	−5	−515	660	510	630	−480
Territories affiliated with western Europe[e]	395	445	705	—	−755[c]	315	375	460	−520
TOTAL	2,665	440	1,615	30	580	2,100	315	1,445	340
Regions exporting mainly other agricultural products:									
Other dependent territories	−760	85	−700	−140	−5	−775	135	−800	−110
Other Middle Eastern countries	−600	−170	−420	60	−70	−420	−160	−430	170
Other South American republics	240	420	160	20	−360	190	435	45	−290
Australasia and Union of South Africa	−315	−350	85	50	−100	−285	−195	−70	−20
Other Far Eastern countries	−610	−160	−580	60	70	−880	−260	−675	55
All other primary producing countries	−590	−235	−255	15	−115	−580	−245	−280	−55
TOTAL	−2,635	−410	−1,710	65	−580	−2,750	−290	−2,210	−250
All primary producing countries	30	30	−95	95	—	−650	25	−765	90

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

[a] Middle East countries in the sterling area, plus Iran and Saudi Arabia.

[b] Philippines and Latin American republics other than Argentina, Brazil, Chile, Paraguay, Peru, Uruguay.

[c] Dollar countries in Latin America had a positive balance of over $600 million with the Netherlands Antilles in consequence of exports of oil from Venezuela to the Netherlands.

[d] Belgian Congo, Chile, Federation of Rhodesia and Nyasaland, Indonesia, Malaya, Netherlands Antilles, Peru.

[e] Belgian Congo, Federation of Rhodesia and Nyasaland, Malaya, Netherlands Antilles.

Changes in the pattern of North American trade were rather different. The growth in the importance of dollar primary producing countries as a source of North American imports was more than matched by the increase in their share of North American exports to primary producing countries. This was partly a reflection of the restrictive effect of import restrictions imposed by many of the non-dollar primary producing countries and partly the result of the concentration of United States foreign investment in the western hemisphere. The striking increase in the share of North America's imports derived from the group of countries exporting minerals and rubber did not, however, lead to any advance in their relative importance as a market for North American exports—nor was the sharp decline in the share of North American imports from other primary producing countries outside the western hemisphere matched by a similar drop in their share of

Table 11. Distribution of Trade of Industrial Countries with Primary Producing Countries, 1938 and 1955

(As percentage of total trade)

Area	1938		1955	
	Imports	Exports	Imports	Exports
Trade of western Europe and Japan with:				
Dollar countries	8	7	8	8
Non-dollar countries:				
Exporters of minerals and rubber	16	16	26	14
Exporters of other agricultural products	76	77	66	78
Trade of North America with:				
Dollar countries	44	35	53	56
Non-dollar countries:				
Exporters of minerals and rubber	17	16	23	13
Exporters of other agricultural products	39	49	24	31
South American countries	12	13	14	7
Other exporters	27	36	10	24

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

North American exports. Excluding the South American group, the agricultural primary producing countries supplied only 10 per cent of the total value of North America's imports from primary producing countries in 1955 but still took practically a quarter of North America's exports to all primary producing countries in that year.

Changes in the pattern of international settlements

As already noted, the pattern of international settlements in the early post-war years offered a striking contrast with that which had prevailed before the war. In pre-war years the United States had furnished a surplus of dollars to the European dependencies in payment for imports of certain primary products, notably rubber, tin, tea, cocoa and copra. These dollar funds were generally paid by the dependencies to Europe for merchandise, services or income on investments. The system was closed by the movement of dollars back to the United States, either directly or through Canada, in payment for import balances.

Latin America as a whole was normally in surplus on merchandise account with both North America and Europe, and used the net proceeds of the surplus largely for service payments to the industrial countries. In certain Latin American countries in some years, however, export balances with Europe served to finance import balances with North America, or *vice versa*.

While European countries were generally in deficit on merchandise account with most of the primary producing areas, the import balances were not in all cases fully matched by offsetting service receipts; nor were the import balances on merchandise account necessarily with the same countries as the export balances on service account. Germany was one of the largest net importers of goods from other continents, but was in over-all deficit on service account, including interest payments. It balanced its accounts by an excess of exports of goods to other continental European countries which in turn, like Germany, had merchandise export balances with the United Kingdom. Thus the United Kingdom—the largest of the net earners of service payments from primary producing areas—received only part of the corresponding net imports of goods directly from these areas: a major part of these payments served to finance its net imports of goods from North America and the continent of Europe.[14]

Far from being able to earn dollars in third areas immediately after the war, western Europe had to use dollars to finance imports from overseas countries other than the United States. From 1947 to 1949 western Europe's deficit on goods and services with the United States amounted to $12.4 billion, while receipts from United States aid and capital inflow, together with the liquidation of gold and dollar reserves amounted to some $17.6 billion. The difference of $5.2 billion between these two amounts represents in part a significant element of unrecorded capital flight from western Europe to the United States. But in addition, a substantial volume of dollar funds was used not only to finance the traditional deficit with Canada but also to purchase imports from other countries, especially in Latin America. These expenditures took the form of "offshore purchases" under the European Recovery Programme. For example, in 1948 over $450 million of United States aid to western Europe was used to finance western Europe's imports from Canada. In the absence of this arrangement, not only would it have been impossible for Canada's traditional exports to Europe to be maintained, but Canada would itself have had difficulties in financing its import balance of about $400 million on account of goods and services with the United States. Other movements of funds tending to preserve the pre-war pattern of Canadian trade despite the obstacles of the early post-war years included a Canadian loan to the United Kingdom, and United States loans to, and direct investment in, Canada.

Similar arrangements prevailed in Latin America. During the first year or two after the war, abnormally large purchases of essential food and raw materials by western Europe from Latin America were financed primarily by the use of gold and dollar holdings of western Europe, by the liquidation of investments, particularly of the United Kingdom, in Latin America, and by various forms of short-term credit granted by Latin American countries. This pattern was extended and sustained, as already noted, by "offshore purchases" under the European Recovery Programme. The dollars earned by Latin American countries under this programme, together with the proceeds of United States loans and direct investment, enabled them in turn to finance their import balances with the United States. These arrangements were responsible for much of the abnormality of the balance of trade of the primary producing countries with North America, and with western Europe and Japan in the early post-war years.[15]

Critical changes in the pattern of sterling area settlements arose from the fact that sales of newly mined gold in London, especially from the Union of South Africa,[16]

[14] The above exposition is based in large measure upon League of Nations, *Network of World Trade* and upon an article by Robert L. Sammons in United States Department of Commerce, *Survey of Current Business* (Washington, D.C.), November 1948.

[15] Together with the Philippines, the Latin American republics accounted for more than half of the deterioration in the balance of the primary producing countries' trade with North America between 1938 and 1948 (see table 7) and three-quarters of the increase in their surplus with western Europe and Japan. Conversely, much of the improvement in the over-all balance of all primary producing countries with North America and reduction in their surplus with western Europe and Japan between 1948 and 1955 was due to restoration of a more normal trade pattern between Latin America and the two industrial areas.

[16] Unlike other sterling area countries, the Union of South Africa settled part of its deficit with the dollar area directly,

and the export balances with the dollar area of certain of the Commonwealth countries, notably Malaya, were more than offset by dollar deficits of other overseas sterling countries. Thus the overseas sterling area as a whole no longer yielded a surplus of dollars to the United Kingdom—as it had before the war—to finance import balances with North America or with other countries employing dollar exchange. If anything, the flow of dollars was in the reverse direction, the United Kingdom using part of the economic aid received from North America to finance the net dollar deficit of the overseas sterling area. Even larger than their deficits with the dollar area were the import balances of overseas sterling countries with the United Kingdom, financed by the drawing down of accumulated sterling assets or by grants or capital inflow from the United Kingdom. Similar problems arose in the relationships between other metropolitan countries in western Europe and their dependent overseas territories. Just as United States aid furnished the means for preserving the system of multilateral settlements within the western hemisphere, so also it provided the additional margin of resources which countries such as Belgium, France, the Netherlands and the United Kingdom needed in the early post-war period in order to maintain large export balances with their affiliated monetary areas overseas and to meet other heavy external commitments. These economic interrelationships were very different from those which had prevailed before the war, as described above.

By the same token, part of the dollar aid furnished by the United States to western European countries was designed to avoid a rigid bilateral balancing of trade among these countries such as would have been necessitated by their inability to finance significant deficits with one another. Dollar funds were made available to countries that were creditors on intra-European account on condition that they extended equivalent grants, or "drawing rights", to the intra-European debtors. In effect this extended the system of "offshore purchases" to transactions within western Europe, but on a still more liberal basis in the sense that no restriction was placed on the composition of such transactions.[17]

Since recovery in the United Kingdom was more rapid than in many of the continental western European countries it was natural that the United Kingdom should find itself among the intra-European creditors in the early post-war years—in contrast with the pre-war situation described above. The United Kingdom export balance with western Europe, together with that of the United States, replaced for the time being the traditional export balance of Germany, where recovery was much delayed.

It will be clear from the foregoing that United States aid was of strategic importance in preserving such multilateral elements as survived the balance of payments difficulties of the early post-war years. Despite the relative—and, in some cases, even absolute decline since pre-war years in the resources available for the financing of trade deficits, such as service and investment income, private capital movements and remittances and gold transfers, the ratio of net balances between major areas to the total value of world trade was actually higher in 1948 than in 1928 and 1938. This, however, was due entirely to the abnormal circumstances of the reconstruction period; the basic trend since then has been in the direction of making a higher proportion of trade self-financing. In the course of the post-war years, there was a substantial recovery in the service and investment income of western Europe: as shown in table 2 net service receipts in 1955 would have bought 18 per cent of the 1938 volume of imports, compared with 27 per cent in 1938 and only 5 per cent in 1948. United States military expenditures in western Europe were, however, equivalent to about three-quarters of western Europe's net service receipts in 1955. On the other hand, United States aid declined considerably. Moreover, as countries regained their economic strength, it became possible for them to use part of the aid still being received from the United States to add to their gold and dollar reserves rather than to import goods, notwithstanding the fact that many of them, at any rate in western Europe, were progressively easing restrictions upon imports from the dollar area.

It therefore appears that the relaxation of exchange and trade controls by many of the important trading countries in recent years has not affected the basic trend whereby a larger proportion of world trade in goods is self-financing than was the case before the war. This in turn suggests that the structure of world production and trade has become at least partially adjusted to the relative decline in the types of international payment which, as noted above, served to finance the relatively larger trade balances which were customary before the war.

The self-balancing of world trade

These hypotheses are tested further in the data set forth in table 12. In this table the total trade of thirty-four countries accounting for more than four-fifths of the value of world trade is divided into three components according to the manner in which the trade may be considered to be balanced. The first column, showing

so that its participation in the sterling area dollar pool was on a limited basis. References in this context to the dollar deficit of the overseas sterling area as a whole therefore exclude that part of the deficit of the Union of South Africa financed by that country itself. During 1946 its gold sales to the United Kingdom were offset by drawings on the central reserves of the sterling area to meet the deficit of the Union of South Africa with non-sterling countries; and in 1947 its purchase of dollars from the United Kingdom exceeded its sales of gold. In subsequent years, however, it was a net contributor to the sterling area dollar pool.

[17] "Offshore purchases", on the other hand, were limited in the sense that funds could not be made available for purchases outside the United States of goods in surplus supply in the United States.

the percentage of "unbalanced" trade, represents the proportional excess of merchandise exports over imports, or of merchandise imports over exports, requiring to be financed by non-trade items such as net service payments, grants, capital transfers or gold settlements. The third column reflects the extent to which the countries analysed were able to finance their merchandise trade with each of their trading partners by a direct offsetting of imports against exports. The multilaterally balanced component consists of the proportion of trade balanced through the offsetting of debit balances with some countries against credit balances with others.

It has to be observed at the outset that the data in table 12 are suggestive rather than conclusive. In the first place, all except six of the thirty-four countries analysed record their imports on a c.i.f. basis. Thus a service element is included in the trade balances of most of the countries. This may give rise to errors of interpretation since it cannot be assumed that the cost of freight necessarily involves an equivalent payment to any foreign country—let alone to the particular country from which the goods were imported. Errors might also arise in the event of substantial changes in the share of freight in imports. In addition, the distribution of the self-balancing portion of trade between the bilaterally and multilaterally offsetting components would not necessarily correspond precisely to a similar distribution of transactions on total current account. Available data do not permit a distribution to be made of the total current account balance for each country, and it is

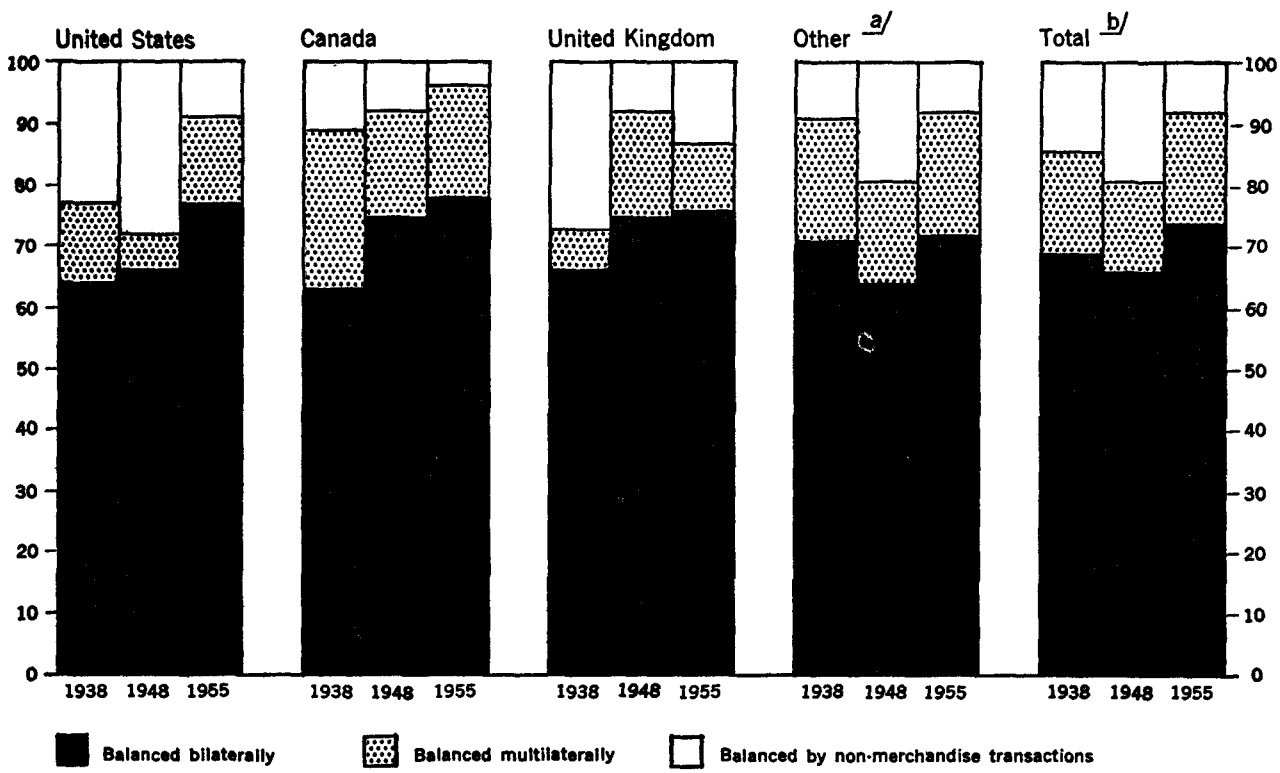
Table 12. The Balancing of Merchandise Trade[a]
(Percentages)

Year	Balanced by non-merchandise transactions	Balanced multilaterally	Balanced bilaterally
1928	11.1	21.2	67.7
1938	14.3	16.9	68.8
1948	18.7	15.0	66.3
1950	7.7	19.1	73.2
1951	10.0	19.1	70.9
1952	7.8	19.6	72.6
1953	8.4	19.0	72.6
1954	8.0	18.1	73.9
1955	8.4	17.8	73.8

Source: Statistical Office of the United Nations.

[a] The calculation refers to the trade of thirty-four countries accounting for 81 to 85 per cent of world trade and is based on an analysis which distinguishes, in the sum of imports and exports of each country: first column, its over-all trade surplus or deficit; second column, the sum, ignoring sign, of its surpluses or deficits with individual partner countries less its over-all surplus or deficit; third column, the remainder. Special category exports of the United States are excluded and no correction is made for imports valued f.o.b.

Chart 3. The Balancing of Merchandise Trade
(Percentages of total trade)



Source: Based on the calculations for table 12.

[a] Thirty-one countries.

[b] Thirty-four countries.

therefore not possible to say how far the value of service payments may affect the bilateral and multilateral components shown in table 12.

While it is not possible to arrive at any conclusive judgment regarding the extent of the qualifications to table 12 resulting from the considerations advanced above, some encouragement regarding the significance of the table may be drawn from the relative stability of the percentages shown in the three columns from 1950 to 1955, despite the very considerable changes in freight rates which occurred during that period. This stability may be regarded as indicating a basic validity in the proportions shown irrespective of minor year-to-year fluctuations.

At all events, the table yields conclusions in harmony with those reached earlier on the basis of other evidence. It shows that in recent years the proportion of world trade that is self-balancing has increased considerably not only in relation to 1948, when a very high percentage of world trade was being supported by aid from North America, but also by comparison with the pre-war years 1928 and 1938. This trend has been mainly due to changes in the balance of industrial countries. As can be seen in chart 3, the closer balancing of the trade of the United Kingdom, the United States and Canada has in fact been responsible for a very large part of the changes as compared with before the war. In the trade of the other industrial countries and of the nineteen primary producing countries included, the trend to closer balancing was much less marked than is suggested in the table; and if the primary producing countries were more fully recovered, their trade would almost certainly show the reverse tendency—namely, in the direction of a smaller degree of bilateral and over-all balancing than before the war.

The main reason for the closer balancing of the trade of Canada and the United States is, of course, to be found in the obstacles to the restoration of the pre-war multilateral system whereby trade with these countries was financed. At the same time, the sharp decline in the relative importance of service income in the United Kingdom's balance of payments since the war necessitated a correspondingly sharp increase in the share of its merchandise trade which is self-balancing. On the other hand, the highly unbalanced trade of continental western Europe in 1948—the principal factor in the abnormally high figure for 1948 shown in the first column of table 12—disappeared in the succeeding years as productive capacity recovered and expanded. In recent periods, the over-all degree of balance in continental western Europe's trade has been similar to that prevailing before the war; loss of service income was much less important than in the United Kingdom, and was probably made good in the course of the post-war period, notably through the rebuilding and expansion of mercantile marines, recovery of tourism and military expenditure of the United States. The proportional decline since pre-war years in the service payments of under-developed countries, principally to the United Kingdom, has meant that some countries have been able to spend a larger share of the proceeds of their exports of merchandise on imports. Moreover, in many of these countries exchange and trade controls have been used to achieve as precise a correspondence as possible between imports and exports. However, in some of the primary producing countries, surpluses or deficits have been much greater in relation to their trade than before the war, for reasons discussed earlier.

The decline since the pre-war period in the proportion of trade financed by non-merchandise transactions was accompanied by a rise in the share of trade bilaterally balanced between pairs of countries. It would have seemed logical to argue that a greater degree of post-war bilateral balancing would follow from the inconvertibility of currencies, tending to force countries to distribute their imports in accordance with the particular composition of currencies earned from exports rather than on the principle of buying in the cheapest market. It may well be that these circumstances have contributed something to the rise in the percentages shown in the third column of table 12 from 1928 and 1938 to 1950-1955. But the significance of this factor may well be smaller than might have been expected. Thus, the degree of transferability of currencies increased considerably from 1951 to 1955 as a result of a whole series of measures. These ranged from the establishment of the European Payments Union at mid-1950, with limited provision for gold settlements[18] in respect of transactions among western European countries and their affiliated currency areas overseas, to the introduction of *de facto* convertibility for non-resident sterling early in 1955. Nevertheless, table 12 shows a rise, rather than a decline, in the proportion of bilaterally balanced trade from 1951 to 1955.

Of more importance, perhaps, in the post-war rise in the share of world trade that is bilaterally balanced is the distribution of the increase in the United Kingdom's exports of merchandise designed to offset its wartime and early post-war losses of investment income. For the greatest increases in such exports occurred to those countries from which most of the pre-war investment income had been derived—namely the sterling area countries. In addition, western Europe is much nearer to balancing its trade directly with North America than it was either in the early post-war period or during the inter-war years. This change is, moreover, less and less dependent upon the use of controls on imports of dollar goods by western Europe and reflects increasingly the modifications made in the structure of production in western Europe in recent years—such modifications, for example, as the encouragement of grain production and the installation of oil refining capacity to replace imports from the dollar area, and the

[18] The relative importance of gold settlements was progressively enlarged in subsequent years.

decline in cotton textile output with its high dollar import content. This progressive adaptation of the western European economy to the post-war world may account in large measure for the absence of any tendency for the measures of liberalization referred to above to bring about a rise in the share of the multilaterally balanced component of world trade since 1951.

The present pattern of settlements

Certain of the multilateral elements characteristic of international transactions before the war and preserved through United States aid during the early post-war years have persisted throughout the post-war period, though within the narrower compass implied by the developments indicated above. Substantial dollar surpluses continue to accrue to dependencies of several of the western European countries through their sales of primary products to North America; these surpluses are offset or more than offset by net imports of goods and services from the respective metropolitan countries. The dollars thus transferred serve, as before the war, to finance the deficits of the western European countries concerned with North America. In the case of the sterling area, net imports of dollar goods by any member of the sterling area may be financed from the dollar surpluses achieved by certain of the dependencies, and by the sale of gold, especially from the Union of South Africa, in London. As stressed above, the significance of these multilateral transactions is considerably smaller, relatively, than before the war.

Settlements within western Europe have again reverted to something more closely akin to the pre-war pattern. Western Germany has regained the position of the largest net exporter to continental western European countries which, in turn, like western Germany itself, have export balances with the United Kingdom. These balances with the United Kingdom finance net imports from the overseas sterling area and other overseas countries in the sterling transferable account area; and, to the extent that, under the rules of the European Payments Union, balances with the sterling area as a whole are partially convertible into dollars, they are available to pay for net imports from the dollar area, as before the war.

The tendency towards a closer bilateral balancing of transactions between western Europe and North America is simply another aspect of the difficulties encountered by western Europe in earning dollars in transactions with third areas—other than the dependencies, discussed above. Under-developed countries implementing programmes for economic development, or encountering inflationary pressures for other reasons, have pressed much more firmly against the limit of their capacities to import than they did before the war, and have not generally been in a position to use dollars for purchases outside the dollar area. The principal exceptions to this are the under-developed countries within the dollar area itself, but western Europe has not thus far been able to expand its sales in these countries sufficiently to provide a significant source of net dollar earnings.

With the decline in east-west trade, and the channelling of such trade within the framework of bilateral trade and payments agreements, the importance of multilateral elements in transactions with eastern Europe and mainland China has likewise been much reduced compared with pre-war years. The main surviving elements of multilateralism have been the export balances of Poland and the Soviet Union with the United Kingdom, used to finance import balances with the overseas sterling area either of these countries themselves or of other eastern European countries with which they have payments surpluses. In some recent years these balances with the United Kingdom have not sufficed to meet the total current requirements of the area for sterling, with the result that the Soviet Union has sold gold either in London or elsewhere in western Europe.

The main supports to a multilateral system outside the dollar area have undoubtedly been those provided by the European Payments Union and the sterling area. Western European countries and members of their affiliated monetary areas overseas have been able to trade with one another, without having to concern themselves with the magnitude of bilateral balances with other individual members of the system, but only with the sum total of net balances with all members. Similar considerations have applied within the sterling area, as well as among other countries prepared to acquire and hold sterling for the settlement of their external transactions. Officially, settlements within the framework of the sterling area do not give rise to claims in convertible currency, whereas within the European Payments Union they do, at any rate in part. This distinction has, however, disappeared in practice since the decision of the United Kingdom Government to support transferable sterling in unofficial markets—in a manner which has thus far resulted in quotations within 2 per cent of the official rate of exchange.

While the system of international settlements is consequently much more viable than it was during the early post-war period, its central weakness continues to hinge upon abnormal elements in the balance of North America with the rest of the world. In particular, the maintenance of equilibrium on dollar account continues to rely upon the non-commercial components of western Europe's balance with North America, particularly the overseas military expenditures of the United States.

The measure of improvement in the situation in the course of the post-war period lies in the fact that exceptional dollar disbursements of the United States Government (including economic grants in aid, long-term loans and military expenditures) were equivalent

to little more than 6 per cent of the total value of world exports in 1955[19] compared with nearly 12 per cent in 1948. And while the residual imbalance has shown little or no sign of being removed in the course of the past two or three years, it has to be borne in mind that this has been a period of progressive liberalization of imports of dollar goods by many of the leading trading countries in western Europe. On the other hand, it cannot be assumed that the elimination of the persistent elements of imbalance will be as easy to achieve as the progress recorded thus far, since the greatest trading abnormalities in the early post-war years were also those which were the first to disappear, while the problems that remain form a hard core which has thus far proved intractable.

[19] Excluding exports of the centrally planned economies and special category exports of the United States.

Chapter 2

THE BALANCE OF PAYMENTS EXPERIENCE OF INDUSTRIAL COUNTRIES

The Nature of Post-war Balance of Payments Problems

All the industrial countries have experienced balance of payments problems of varying degrees of intensity in the course of the post-war period. Not all, of course, have had to contend with the threat of external deficits in excess of available foreign exchange resources. But balance of payments problems are, by their very nature, two-sided: they arise from the interaction of national economies upon one another and not simply from the tendencies in single countries taken by themselves. Thus even countries in persistent surplus on external account may be considered to have a balance of payments problem in so far as their surpluses exceed the level which they are prepared to finance by "normal" means—which may be taken to include not only the usual commercial transactions, but also governmental loans and even grants in so far as the latter are not designed essentially to balance the accounts.

The balance of payments problems encountered in industrial countries in recent years may be divided into four main types, although any such classification inevitably involves some overlap, and in fact the diagnosis of any particular situation may extend to two, three or even all four of the headings under which the problems are reviewed in this chapter.

First may be listed those balance of payments problems associated with changes in the relative pressures of demand upon supply experienced in the various countries. Thus, where the pull of demand in one group of countries has been greater than in another group, the export balance of the former has tended to decline or its import balance to increase.

Although it has become common in recent years to regard the occurrence of balance of payments difficulties in a country as *prima facie* evidence of inflationary pressures in that country, this has not always been the fact. It is only necessary to recall the climate of thinking in which the "scarce currency" provisions[1] of the Articles of Agreement of the International Monetary Fund were drawn up to realize that at the end of the war international concern was focused principally upon balance of payments dangers arising from the possibility of deflation rather than of inflation. This international concern derived, of course, from lessons drawn from the experience of the nineteen thirties, when it was more usual to regard balance of payments difficulties as having been imported from abroad rather than produced at home. As has been indicated above, on a strict view both aspects are involved, whether the circumstances be those of deflation or of inflation.

A second type of problem has arisen from various kinds of structural change in the world economy, notably shifts in principal sources of supply or in the character of demand. The most important of the problems which include these elements is that of the imbalance between the dollar area and the rest of the world, but there have been many other instances of imperfect structural adaptation to the post-war world. While substantial structural adjustments have occurred in the industrial countries during the post-war period, the pace of these adjustments has not always been sufficiently rapid to avoid disequilibrium in the balance of payments, the main reason being the relative immobility of resources.

A third category of problem consists of disequilibria between the prices of internationally traded and comparable goods produced in the various countries, leading to increases in import demand, and difficulties in selling exportable supplies, in the countries whose prices are too high. This category, though logically distinguishable from the first, is frequently associated closely and even inextricably with it.

Finally, problems have arisen as the result of short-term fluctuations. Where such problems have been set off by such developments as inventory shifts or harvest failures, or by short-term capital transfers, the only reason why a difficulty has existed at all has been the inadequacy of monetary reserves, since under normal conditions disequilibria of the above type are self-adjusting in the longer term. It will be seen, however, that there is no simple solution to the problem of inadequate monetary reserves—a problem which in the final analysis cannot really be separated from much broader policy questions in this field.

[1] International Monetary Fund, *Articles of Agreement* Article VII.

Demand Pressures and the Balance of Payments

Differential rates of growth

In a period of sustained growth such as the past decade, it was only natural to expect that from time to time some countries should find themselves out of step with their neighbours, either because their demand was growing more rapidly in relation to supply than that of other countries, or conversely because slack was developing in their economies while the advance was being maintained elsewhere. Countries experiencing the greatest pressure of demand upon supply at any particular time tended to attract substantially larger imports than was usual for them, while exports lagged owing to the slower rise in demand elsewhere, or even because the home market pre-empted supplies which would otherwise have gone for export.

It is important to note, however, that the countries experiencing the most persistent balance of payments difficulties in recent years have not necessarily been those recording the highest rates of growth. Great variations in the rate of increase in economic activity among the industrial countries are shown in table 13. Thus increases in aggregate real national product from 1950 to 1955 range from 7 per cent in Denmark to 55 per cent in western Germany. The much greater pace of economic advance in western Germany than in other countries since 1950 has not been accompanied by persistent pressures on the balance of payments but, on the contrary, by external surpluses which have risen beyond the point considered by the German authorities to be healthy for the economy. In fact, during much of the period one of the primary stimuli to higher activity in western Germany was the continuous rise in exports.

On the other hand, the relatively slow tempo of advance in Denmark has not enabled that country to avoid balance of payments difficulties. On the contrary, the 7 per cent rise in output from 1950 to 1955 was accompanied by a jump of no less than 24 per cent in the volume of imports, resulting from liberalization of import restrictions. In other words, Denmark chose to accommodate its rate of increase in economic activity to the needs of a liberal trade policy; and went so far as to bring about declines in activity in 1951, 1952 and again in 1955 when it encountered balance of payments difficulties.

Nor does an examination of developments in less extreme cases than Denmark and western Germany suggest any clear association between rates of growth *per se* and the strength or weakness of balance of payments positions. Thus the United Kingdom, which must certainly be classed among the countries which have faced relatively frequent external difficulties, does not seem to have experienced a higher than average rate of increase in output in recent years. Canada has been able to combine a rate of growth greater than that experienced in the United Kingdom with a balance of payments position so strong that during most of the period since 1952 the Canadian dollar has been at a premium in relation to the United States dollar.

Table 13. Rate of Increase in Economic Activity in Industrial Countries from 1950 to 1955

Country[a]	*Index of real output[b] in 1955 (1950 = 100)*	*Index of employment in 1955 (1950 = 100)*	*Cumulative annual rate of increase in real output[b] per employed person, 1950 to 1955 (percentage)*
Germany, western	155	123	4.6
Italy	138	104[c]	4.4[c]
Netherlands	127[d]	107[c]	2.4[c]
Canada	125	108	3.0
France	124	102[c]	2.9[c]
United States	121	105	2.9
Norway	120	103	2.8
Belgium	116	100[f]	3.4[f]
Sweden	116	103[g]	2.7[g]
United Kingdom	115	105	1.7
Denmark	107	103[c]	1.5[c]

Source: United Nations, *Economic Survey of Europe in 1956* (sales number: 1957.II.E.1), chapter VII, tables 1 and 4, and Bureau of Economic Affairs.

[a] In declining order of the percentage increase in real output from 1950 to 1955.

[b] For Belgium, France, Italy, United Kingdom, gross domestic product; for western Germany and Norway, net domestic product; for all other countries, gross national product.

[c] 1951 to 1955.

[d] Organisation for European Economic Co-operation, *General Statistical Bulletin*, No. 1, 1957 (Paris).

[e] 1950 to 1954.

[f] 1948 to 1954.

[g] 1949 to 1955.

The above is simply another way of saying that developments in balances of payments are not associated in any simple way with rates of growth. For one thing, the rate of growth which can be achieved without undue strain on the economy in general and on the balance of payments in particular will clearly depend in part upon the rate of increase in the supply of employable labour, and on the rate of utilization of such labour. For example, the increase in the total labour force from 1950 to 1955 varied from less than one per cent in France to more than 10 per cent in western Germany, where the normal intake was supplemented by large-scale immigration. Where, moreover, countries began the period under review with significant unemployment it was possible for employment to increase even more rapidly than the labour force, unlike those countries where unemployment was already low in 1950.

Consequently, rates of growth per employed person might be thought to provide a better key to the degree of strain on the resources of the various countries than total rates. A comparison of the first and third columns of table 13 indicates that the dispersion between countries in rates of growth per employed person is much smaller than the dispersion in total rates. But the order of countries in terms of their rates of growth per head of the employed population does not diverge markedly from the corresponding order in terms of total rates of

growth.[2] Thus even per capita rates of growth do not provide a direct key to the nature of balance of payments experience during the period to which they relate. In the first place, any given increase in the per capita output of a particular country could just as well be export-biased as import-biased. In other words, it could on the one hand be the result of a greater increase in demand abroad than at home, tending, therefore, to raise exports more than imports; or alternatively it could emanate from a relatively greater advance in domestic than in external demand, tending to force up imports more rapidly than exports.

Apart from this, a high rate of growth per employed person might well involve severe pressure on resources for one country and not for another. This would occur, for example, where the latter country—but not the former—was able to achieve exceptional gains in productivity per person simply by raising the degree of utilization of capacity. Available data do not make it possible to allow for differences in the degree of utilization of available plant and equipment. It might be considered, however, that the proportion of unemployed workers would provide a sensitive measure of the degree of pressure on resources in a country, and hence of the margin of resources available for improving the balance of exports and imports.

An examination of the unemployment percentages shown in table 14 in conjunction with changes in the percentage ratio of exports of goods and services to imports from 1948 to 1955 shows a close association in only three of the countries listed—namely Denmark, the Netherlands and the United Kingdom—and a weaker association in the United States. In these countries there was some tendency for declines in unemployment to be accompanied by declines in the above ratio and *vice versa*. Elsewhere it is difficult to detect any systematic relationship, although Canada, western Germany and Sweden—in addition to the United Kingdom and the United States—experienced a drop both in unemployment and in the ratio of exports to imports as the recent boom got under way from 1954 to 1955.

[2] This is all the more true after allowance for differences in the time periods in terms of which the former rates had to be computed in table 13, owing to shortcomings in the data.

Table 14. Percentage of Unemployed[a] and Export Ratio,[b] by Country
(Percentages)

Country and item	1948	1949	1950	1951	1952	1953	1954	1955
Belgium:								
Unemployed	6.4	11.6	10.9	9.8	11.8	11.8	10.9	8.4
Export ratio	92.5	102.0	90.7	106.5	107.0	103.5	101.1	108.2
Canada:								
Unemployed	2.2	2.8	3.6	2.4	2.9	3.0	4.6	4.4
Export ratio	111.5	103.8	92.0	90.3	103.0	92.5	92.2	8.5
Denmark:								
Unemployed	8.6	9.6	8.7	9.7	12.5	9.2	8.0	9.7
Export ratio	91.3	94.3	87.6	96.5	102.0	101.3	94.4	102.5
Germany, western:								
Unemployed	4.2	8.3	10.2	9.0	8.4	7.5	7.0	5.1
Export ratio	...	70.9	89.5	111.6	115.1	118.9	115.5	110.4
Italy:								
Unemployed	8.9[c]	8.6	8.3	8.8	9.5	10.0	10.0	9.8
Export ratio	77.9	82.6	93.2	89.0	73.9	79.7	85.4	87.3
Netherlands:								
Unemployed	1.0	1.5	2.0	2.3	3.5	2.7	1.9	1.3
Export ratio	81.1	96.0	88.1	99.1	117.0	113.0	102.1	105.8
Norway:								
Unemployed	1.0	0.8	0.9	1.1	1.2	1.5	1.3[d]	1.2
Export ratio	84.1	78.2	87.0	102.1	99.1	88.8	89.0	93.3
Sweden:								
Unemployed	2.8	2.7	2.2	1.8[e]	2.3	2.8	2.6	2.5
Export ratio	...	...	102.4	108.8	102.0	104.1	99.2	97.5
United Kingdom:								
Unemployed	1.6[f]	1.6	1.6	1.3	2.1	1.8	1.5	1.2
Export ratio	99.2	102.2	110.2	91.3	104.3	102.8	105.4	98.2
United States:								
Unemployed	3.6	5.8	5.1	3.2	2.9	2.8	5.4	4.2
Export ratio	153.4	163.8	115.1	124.8	115.1	101.7	108.0	106.3

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

[a] While the technique of measurement and the coverage of the number of unemployed differ among the various countries, the percentage of unemployed can be taken as a consistent measure of the changing degree of unemployment in each country over the period. Persons temporarily laid off are included among the unemployed in Belgium, Canada, the United Kingdom and the United States.

[b] Percentage ratio of exports of goods and services including factor income receipts, to imports of goods and services including factor income payments.

[c] January–June and October–December.

[d] Beginning February 1954, excluding unemployed farmers who own more than 20,000 square metres of land.

[e] Beginning November 1951, excluding commercial workers.

[f] July–December.

The reason why fluctuations in unemployment percentages provide only an imperfect guide to changes in pressures on the balance of payments is that these percentages indicate the degree of labour utilization required to meet *all* demands, both domestic and from abroad. Consequently, a shortage of labour may arise just as much from an increase in the export balance as from an increase in the domestic components of expenditure. In the former case unemployment will move in the opposite direction from the export balance rather than in the same direction. What is required in the present context is an indicator of the extent to which, within the total sum of demands upon the resources of the economy, home demand has competed with external demand.

Domestic demand and external balance

Such an indicator may be sought in the relationship between the internal and external components of the total demand for private savings. Private savings represent that part of private income which the community does not consume, but chooses instead to devote to investment, domestic or foreign, or to financing any excess of government expenditures over revenues. If the volume of private savings were fixed, any increase in one component of the demand for savings could occur only at the expense of some other component. Thus an increase in the demand for savings arising from domestic sources—whether to finance domestic investment or the budget deficit—would have to be offset by a fall in investment abroad—that is, in the balance on goods and services with other countries. It is, however, possible for savings to rise, especially where the economy possesses unutilized resources which can be drawn into production. If an increase in domestic demand brings about an advance in total output and income and hence in the volume of savings, the rate of investment abroad need not be affected.

How far, in practice, an increase in the domestic demand for savings will be satisfied through a corresponding expansion of output and how far through an offsetting fall in foreign investment will depend in large part on the flexibility of output. If there is abundant unused capacity and an adequate supply of labour and raw materials, and provided that the level of demand from abroad is rising sufficiently rapidly, the export balance may be maintained at the same time as additional resources are devoted to domestic investment or the financing of a budget deficit. On the other hand, if all resources are fully employed, the only way of increasing output and incomes in real terms will be by raising productivity, and this may not suffice to provide additional savings of the magnitude required. In that case the export balance will decline; and in so far as this fails to offset higher domestic demand in full, an upward pressure on prices will develop tending to redistribute income in favour of profits and therefore—since a relatively high proportion of profits is saved—in favour of savings.

In other words, to the extent that output is elastic, domestic demand does not necessarily compete with external demand for the available supplies of savings, since these savings can themselves be increased. But in so far as output is inelastic—and even in the countries with the highest percentages of unemployment there will inevitably be some rigidities, even if only in the short term—the rise in domestic demand will spill over to the foreign balance, tending to raise imports in relation to the supply of exports.

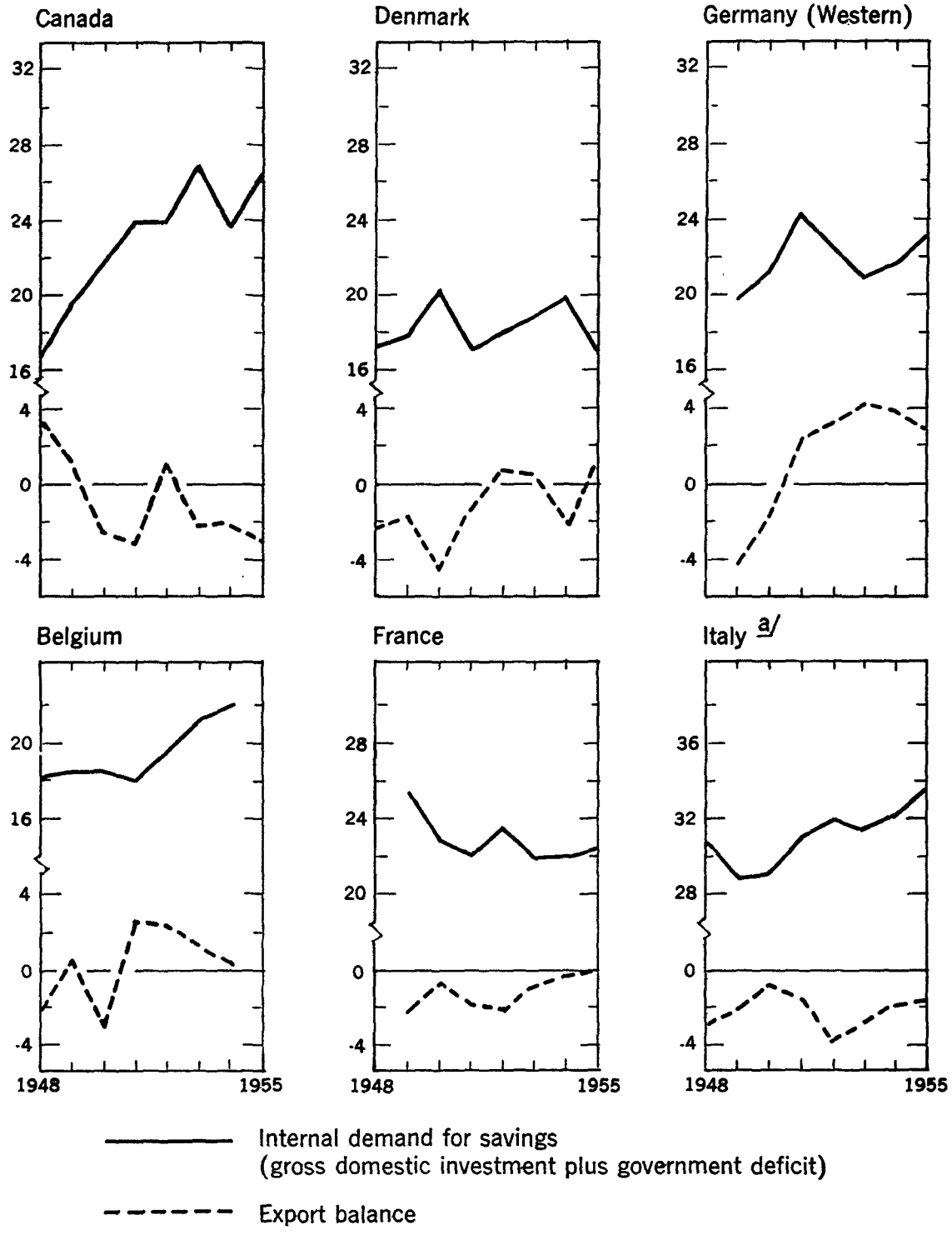
The record of recent years appears to confirm the existence of a compensatory relationship between domestic demand pressures and the balance of payments on current account which is to be expected on the general grounds of theory indicated above. This is illustrated in chart 4, which sets forth the post-war relationship between the domestic demand for savings and the export balance, both calculated as a proportion of gross private income after tax, for all the industrial countries for which data are available, while table 15 provides the percentages on which the chart is based.[3] In all the countries analysed there seems to have been a strong tendency throughout the post-war period for relative increases in the combined pressure on resources arising from domestic investment and the budget deficit to be accompanied by declines in the export balance; and conversely for an easing of domestic pressures to be associated with greater buoyancy in the foreign trade sector of the economy.

Naturally, exceptional years in which the above relationship does not hold may be observed in most of the countries under examination. Only in the Netherlands and the United Kingdom is the relationship perfect or near-perfect throughout the period from 1948 to 1955 in the sense that a rise in domestic demand invariably accompanies a drop in the external balance and *vice versa*. But it will be noted that at least half of the exceptions involve cases in which the year-to-year changes were relatively slight. It is comparatively rare for a pronounced rise in internal demand to be accompanied by a movement in the same direction in the external balance; and there are no cases, it seems, in

[3] Gross private income after tax is defined as gross national expenditure less current government revenue plus current government transfer and interest payments. It is identically equal to the sum of the export surplus, the budget deficit (government deficit on current account), gross domestic fixed capital and inventory formation and private consumption (import and budget surpluses being treated as negative items). The domestic demand for savings is equal to gross domestic investment plus budget deficit (or minus government surplus). In the case of Italy, the lack of relevant data has made it impossible to calculate gross private income after tax and its components. The series shown for that country in chart 4 is based on gross national product data and relates the export balance to gross domestic investment plus government current expenditure. To the extent that changes in government current expenditure do not reflect changes in the budget deficit, the chart for Italy may be misleading. In view of shortcomings in the data, Italian experience has not been fully considered in this section.

Chart 4. Relationship betwee
Expor

(As percentage of gro

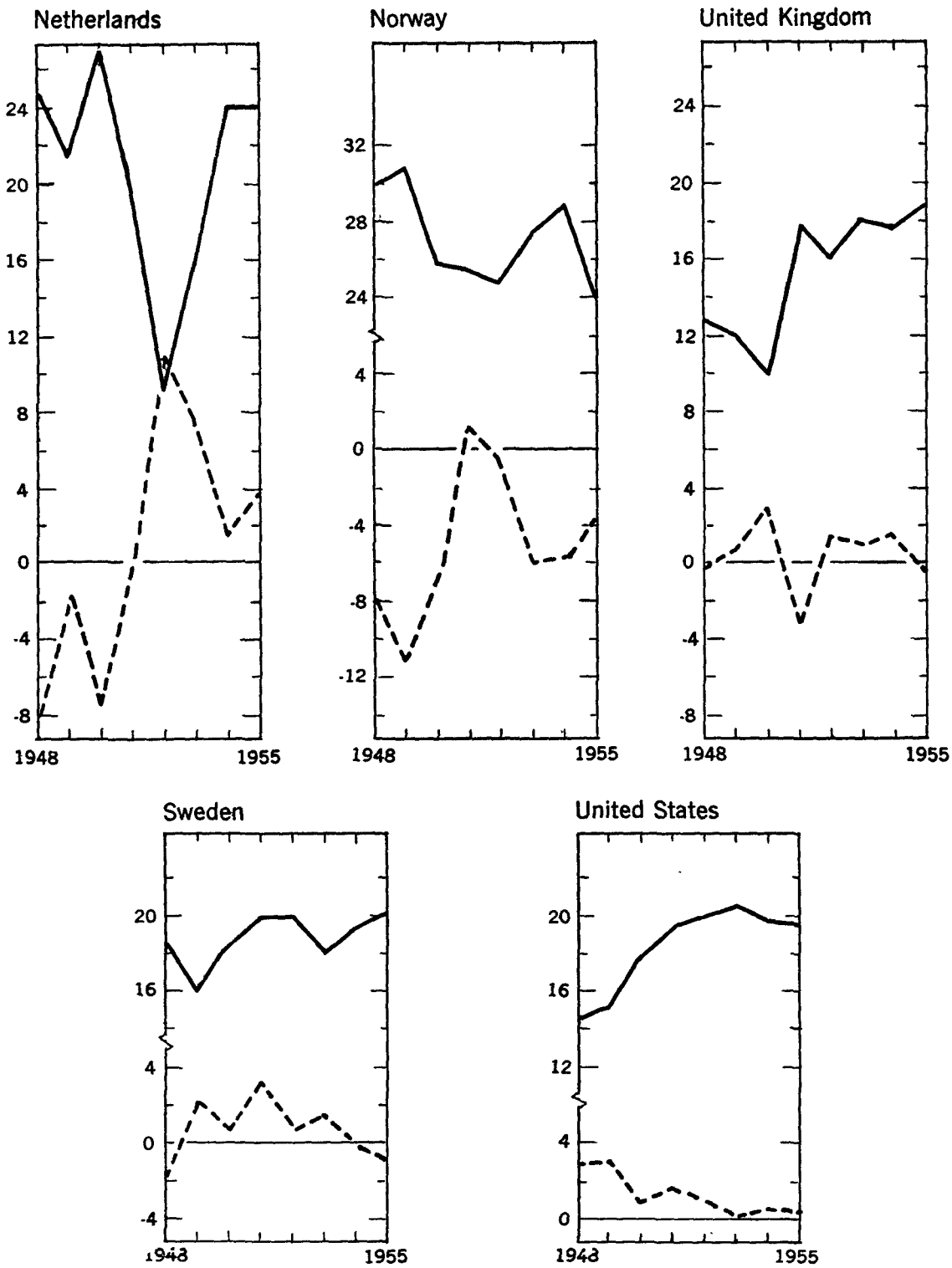


Source: Statistical Office of the United Nations and Bureau of Economic Affairs.

[a] The relationship for Italy is between the export balance and the sum of gross domestic

Internal Demand for Savings and the Balance

rivate income after tax)



investment and government current expenditure, both shown as percentages of gross national product.

Table 15. Demand for Gross Private Saving, by Country

(Percentage of gross private income)

Country and item	1948	1949	1950	1951	1952	1953	1954	1955
Belgium:								
Gross domestic investment	18.8	17.3	18.2	18.7	17.5	17.7	19.4	...
Budget deficit or surplus (−)	−0.6	1.1	0.3	−0.6	2.1	3.4	2.6	...
Internal demand for saving	18.2	18.4	18.4	18.0	19.6	21.2	22.0	...
Export balance	−2.3	0.5	−3.1	2.5	2.4	1.2	0.4	...
Total demand for gross private saving	16.0	19.0	15.3	20.5	22.0	22.3	22.4	...
Canada:								
Gross domestic investment	25.5	26.0	28.7	32.9	28.8	30.6	26.3	30.1
Budget deficit or surplus (−)	−8.9	−6.5	−6.9	−9.0	−4.9	−3.9	−2.9	−3.8
Internal demand for saving	16.6	19.6	21.8	23.9	24.0	26.8	23.5	26.3
Export balance	3.3	1.1	−2.4	−3.3	0.9	−2.2	−2.1	−3.1
Total demand for gross private saving	19.9	20.6	19.4	20.7	24.8	24.6	21.3	23.2
Denmark:								
Gross domestic investment	22.5	21.7	24.6	20.6	21.3	23.1	23.5	21.3
Budget deficit or surplus (−)	−5.2	−3.8	−4.4	−3.6	−3.3	−4.3	−3.7	−4.4
Internal demand for saving	17.3	17.9	20.2	17.0	18.0	18.8	19.8	16.9
Export balance	−2.3	−1.7	−4.5	−1.4	0.7	0.5	−2.2	1.0
Total demand for gross private saving	15.0	16.2	15.7	15.6	18.7	19.3	17.6	17.9
France:								
Gross domestic investment	...	23.9	22.6	21.9	22.3	20.4	20.7	21.2
Budget deficit or surplus (−)	...	1.5	0.2	0.1	1.3	1.5	1.4	1.2
Internal demand for saving	...	25.4	22.9	22.0	23.6	21.9	22.1	22.4
Export balance	...	−2.3	−0.7	−2.0	−2.2	−1.1	−0.4	—
Total demand for gross private saving	...	23.1	22.2	20.0	21.4	20.9	21.7	22.4
Germany, western:								
Gross domestic investment	...	25.7	27.3	31.7	31.0	31.7	32.5	34.8
Budget deficit or surplus (−)	...	−5.9	−6.2	−7.3	−8.3	−10.6	−10.8	−11.6
Internal demand for saving	...	19.8	21.1	24.4	22.7	21.0	21.7	23.2
Export balance	...	−4.2	−2.0	2.3	3.2	4.2	3.9	2.9
Total demand for gross private saving	...	15.5	19.2	26.7	26.0	25.2	25.6	26.1
Italy (as per cent of gross national product):								
Gross domestic investment	18.5	18.5	19.1	20.6	19.8	19.7	20.1	21.6
Public consumption	12.2	10.3	10.0	10.5	12.1	11.7	12.2	12.0
SUB-TOTAL	30.7	28.8	29.1	31.1	31.9	31.4	32.3	33.6
Export balance	−2.8	−2.2	−0.8	−1.6	−3.8	−2.9	−2.0	−1.7
TOTAL	27.9	26.6	28.3	29.5	28.1	28.5	30.3	31.9
Netherlands:								
Gross domestic investment	28.8	29.1	36.0	32.4	24.7	28.3	33.6	31.5
Budget deficit or surplus (−)	−3.8	−7.6	−9.5	−12.9	−15.7	−12.2	−9.7	−7.6
Internal demand for saving	24.9	21.5	26.5	19.5	8.9	16.1	23.9	23.9
Export balance	−8.8	−1.8	−7.3	−0.6	10.8	7.7	1.4	3.6
Total demand for gross private saving	16.1	19.6	19.2	18.9	19.8	23.8	25.3	27.5
Norway:								
Gross domestic investment	36.9	37.8	34.0	34.5	34.2	35.6	36.2	36.0
Budget deficit or surplus (−)	−7.1	−7.1	−8.2	−9.2	−9.7	−8.2	−7.4	−8.0
Internal demand for saving	29.8	30.7	25.9	25.3	24.5	27.4	28.8	24.1
Export balance	−7.7	−11.2	−7.0	1.2	−0.5	−6.0	−5.9	−3.6
Total demand for gross private saving	22.2	19.4	18.8	26.5	24.1	21.3	22.9	24.4
Sweden:								
Gross domestic investment	22.9	21.0	21.3	25.7	27.0	24.9	26.7	28.5
Budget deficit or surplus (−)	−4.4	−5.2	−2.9	−5.6	−7.0	−6.9	−7.3	−8.3
Internal demand for saving	18.6	15.8	18.5	20.0	20.0	18.0	19.4	20.1
Export balance	−1.9	2.2	0.7	3.3	0.7	1.3	−0.3	−0.9
Total demand for gross private saving	16.7	18.0	19.2	23.4	20.7	19.3	19.0	19.2
United Kingdom:								
Gross domestic investment	16.3	15.9	13.6	20.3	16.1	17.2	17.3	20.0
Budget deficit or surplus (−)	−3.6	−3.8	−3.9	−2.4	—	0.8	0.3	−1.2
Internal demand for saving	12.7	12.1	9.8	17.9	16.1	18.1	17.7	18.8
Export balance	−0.2	0.6	2.9	−3.2	1.3	0.8	1.5	−0.5
Total demand for gross private saving	12.5	12.7	12.7	14.7	17.4	18.8	19.1	18.3
United States:								
Gross domestic investment	22.0	18.6	24.3	24.7	21.8	21.9	20.4	23.2
Budget deficit or surplus (−)	−7.4	−3.4	−6.5	−5.1	−1.7	−1.4	−0.8	−3.7
Internal demand for saving	14.6	15.2	17.8	19.6	20.1	20.5	19.6	19.5
Export balance	2.7	2.8	0.8	1.4	0.9	0.1	0.5	0.4
Total demand for gross private saving	17.3	18.0	18.6	21.0	20.9	20.6	20.1	19.9

Source: See appendix table in this chapter.

which substantial declines occurred simultaneously in domestic demand and the export balance. The parallel advances in the two series in western Germany, Sweden and the United States from 1950 to 1951 and in Denmark from 1951 to 1952, constitute the principal exceptions to the general pattern of association emerging from chart 4 which will call for further explanation below.

However, an even more important difficulty in interpreting the relationships suggested by the chart is implicit in the observation which was made above to the effect that balance of payments changes arise from the interaction of national economies upon one another and not simply from the tendencies in single countries taken by themselves. If this be so, changes in the pressure of internal demand in any particular country could not in any case provide a complete explanation of changes in the balance of payments of that country. For a complete explanation would require, as a minimum, a *comparison* of the changes in the pressure of demand in the country under review with those occurring simultaneously in other countries. The fact that the pull of the home market increases in any given country will not necessarily react adversely upon the balance of payments if the pull of external markets increases even more at the same time. Conversely, a setback in demand at home may release supplies for export but will not actually result in a rise in the export balance unless demand abroad is maintained, or at any rate falls less than demand at home (so that exports tend to decline less than imports). Under these conditions, it is, at first sight, surprising that in each country covered in the accompanying chart the export balance seems to depend only upon the pressure of demand upon supply in that country itself, without reference to the state of supply and demand abroad.

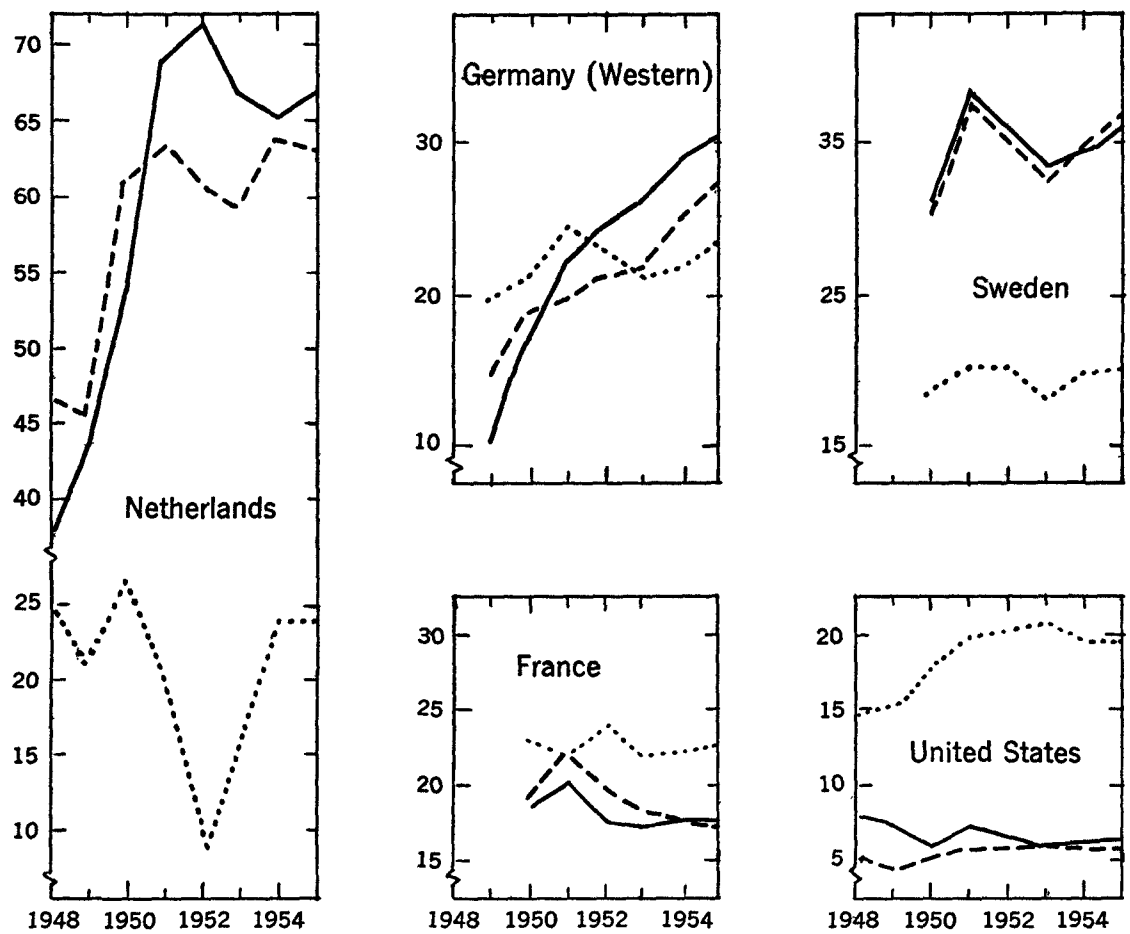
The explanation of this phenomenon would appear to depend upon how far, in any particular instance, a rise or fall in the internal demand of a given country is synchronized with a corresponding change in other countries generally, and particularly in the major trading countries. Where no such synchronization has occurred, the pattern of developments shown in the chart would be fully in line with expectations. Thus it does not seem unreasonable that an advance in internal demand in a country, when accompanied by stable demand elsewhere, should tend to bring about a deterioration in the balance of payments by raising the demand for imports and reducing the incentive to export; and this deterioration might well be all the greater if external demand were declining rather than stable. Moreover, the converse should also hold true. It appears in fact that, except in 1950/51 and 1951/52, economic fluctuations in the leading industrial countries were not synchronized, so that the total external environment confronting any one country was, on the whole, either stable or moderately expansive. Thus, for example, the United States recessions of 1949 and 1953/54—neither of which was sufficiently severe to induce comparable setbacks elsewhere—were accompanied by strongly rising demand and output in most of the other industrial countries. Conversely, the slowdown in business activity of 1951/52 was considerably more marked in western Europe than in North America. Even after the outbreak of hostilities in Korea, developments in the sterling area were out of phase with those in continental western Europe and North America, as pointed out in the previous chapter. It is this general stability of the economic environment resulting from offsetting changes in the major industrial countries that made it possible for the balances of payments even of such small countries as the Netherlands and Norway—where exports are equivalent to between 40 and 50 per cent of total output—to fluctuate in close sympathy with internal demand alone.

On the other hand, in so far as upswings and downswings in internal demand are synchronized, especially among the major trading countries, they will tend to generate shifts in the terms of trade with the primary producing countries—and hence, because of time lags, in the balances of payments with these countries. Thus the upsurge in the internal demand of the industrial countries during the boom accompanying the initial stages of the Korean conflict brought about a sharp movement of the terms of trade in favour of the primary producing countries; and since it took time before the increase in the export earnings of the latter countries could be translated into a corresponding rise in imports, the immediate effect was to reduce the export balances of the industrial countries in current prices. Later, when the demand of the industrial countries slackened, the tendency for their export balances to rise as a result was intensified both by a recovery in their terms of trade and by the delayed shipments to primary producing countries responding to the previous advance in their incomes. It is for these reasons that the accompanying charts create the illusion that the external balances of the countries listed depend exclusively upon internal developments, and not at all upon external developments, whether synchronized with the former or not.

It will be seen from chart 4 that the fluctuations in internal demand and the export balance are most sensitively related, taking both magnitude and direction of change together, in the Netherlands, Norway, Sweden and the United Kingdom; and that, *per contra*, in such countries as Belgium, France, western Germany and the United States, the relationship is a less sensitive one. The former group of countries includes those which have generally experienced the highest rates of utilization of available labour and equipment during the postwar period. This has meant that their elasticity of supply has been, on the whole, significantly lower than in the second group of countries, where the margin of unused or under-utilized resources has usually been much greater. Increases in total demand have therefore

Chart 5. Relationship between
Exports and

(As percentage of gross



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

* The relationship for Italy is between exports, imports and the sum of gross domestic investment and government current expenditure, all shown as percentages of gross national product.

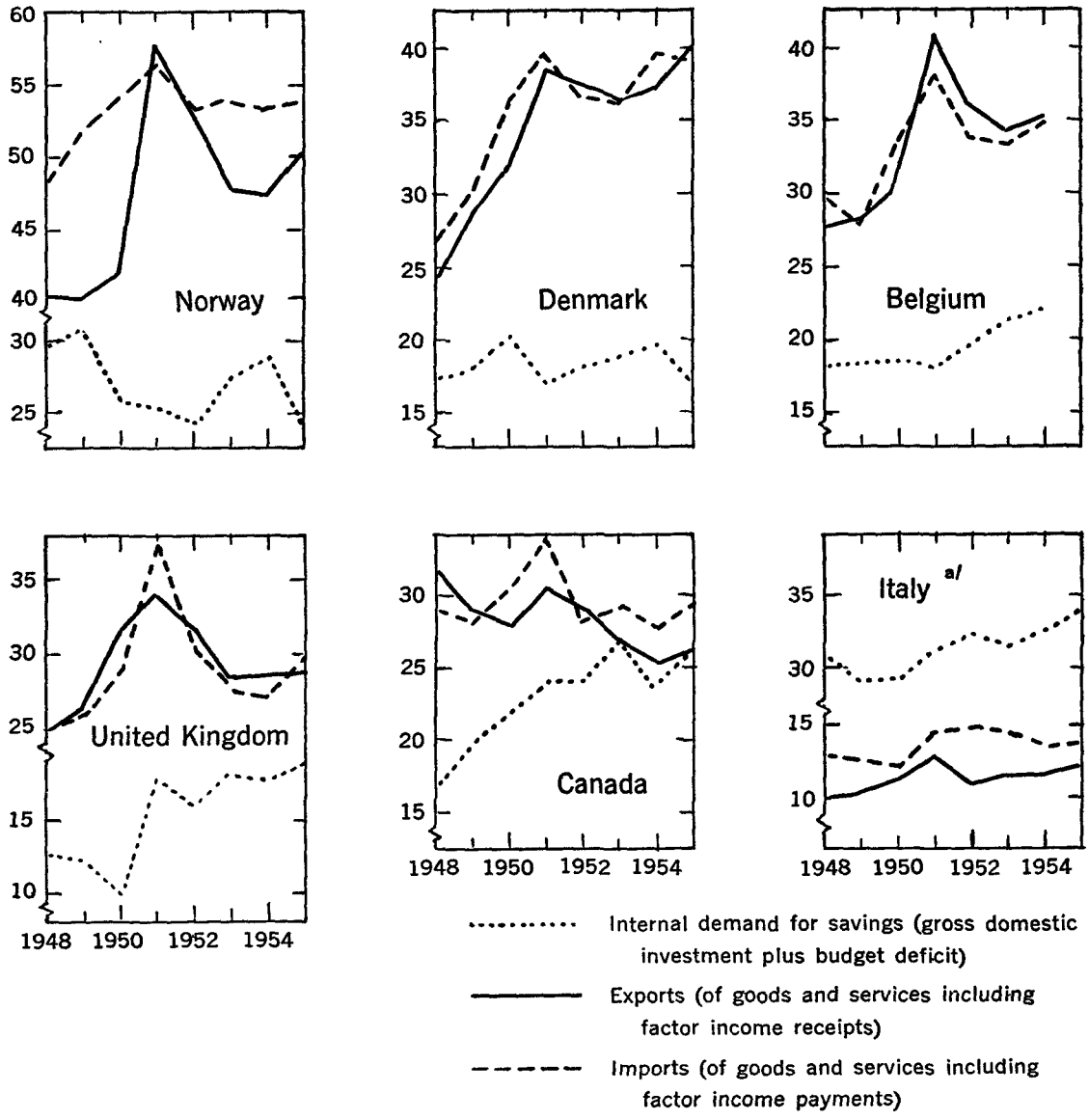
frequently confronted the first group with the need for a choice between the various claims upon their resources and for relatively sharp adjustments in one or other of the components of demand so as to avoid undue pressures. For the second group, on the other hand, the choice has usually been less clear-cut because of the possibility of drawing upon their reserves of labour and capacity, and thereby of meeting the higher demands of one sector of the economy without necessarily encroaching upon the supplies going to any other sector.

Nevertheless, even in the countries in the second group there is evidence in the chart of interaction between domestic demand pressures and the export balance, largely, no doubt, because short-term elasticities of supply may be significantly lower than long-term elasticities even where abundant resources are available; and temporary bottlenecks in specific items or types of skilled workers may arise despite the absence of general pressure on labour or capacity. The relationship between internal demand and external balance is weakest of all in the United States. This is only to be expected in view of the critical role of the United States Government's economic aid and overseas military expenditure policies and of the exchange and trade control policies of other countries in determining the year-to-year changes in the balance on goods and services. It is true that the decline

Internal Demand for Savings,

Imports

private income after tax)



in the export balance in 1950 accompanied a sharp upturn in internal demand pressures and that there is a corresponding association between the drop in internal pressures during the recession of 1953/54 and the rise in the export balance. But while the advance in imports in 1950 can legitimately be attributed to the recovery from the previous year's recession, the fall in exports was induced mainly by import restrictions imposed in the sterling area and a number of non-sterling under-developed countries; and the same is true of the fall in exports from 1951 to 1953. On the other hand, the complementary movements in domestic demand and the export balance shown for 1953/54 do appear to be mainly the result of the same type of interaction as is indicated for other countries. The recession in the United States was accompanied by a further advance in economic activity elsewhere, and by higher internal demand pressures in all western European countries represented in the chart except the United Kingdom, where the fall in pressure was very slight and activity continued to rise. In these circumstances the decline in imports resulting from the fall in United States demand was accompanied by stable or slightly rising exports, which contributed to the recovery from the recession.

The parallel advances in internal demand and the

export balance in western Germany, Sweden and the United States from 1950 to 1951 and in Denmark from 1951 to 1952, which were noted above, do not appear to present major difficulties in interpretation. Western Germany and the United States had substantial spare resources in 1950 which could be drawn upon to meet larger demands both at home and abroad. In Denmark, the rise in the internal demand ratio from 1951 to 1952 was due mainly to an increased rate of investment in transport equipment, particularly motor vehicles and probably also ships, the former associated with the liberalization of import controls. This was accompanied by a substantial decline in the production of manufactures, particularly consumer goods, and hence in the imports of raw materials and semi-manufactures. The decline in imports, together with a recovery in the terms of trade, was primarily responsible for the improvement in the external balance on goods and services. In Sweden the increase in the export balance in 1951, accompanying a rise in domestic demand pressures, was due entirely to an exceptional improvement in the terms of trade as the export prices for wood products soared.

The inverse or negative correlation between internal demand pressures and the export balance described above does not appear to depend on any specific relationships with either exports or imports taken separately. On the contrary, a comparison of chart 5 with chart 4 will indicate clearly that the correlation of internal demand pressure with either exports or imports is much weaker than with the balance of exports and imports. In other words, it cannot be assumed that a rise in the internal demand ratio necessarily implies a corresponding increase in imports and decline in exports; it may just as well accompany a rise in exports which is, however, less than the rise in imports or a decline in imports which is less than the decline in exports. The reason for this must be sought, once again, in the general context of world supply and demand in which the changes in any particular country are occurring. If a rise in the pressure of internal demand in a given industrial country coincides with similar developments elsewhere, the general growth in demand may bring about an advance in the exports of that country; but imports may expand even faster, especially if the upsurge in the demand of industrial countries is sufficiently strong to turn the terms of trade against them. Conversely, the general world context may be one of contracting demand. In this case import prices may be declining sufficiently rapidly for the value of imports of the given country to drop notwithstanding the rise in its domestic demand; but exports may be falling even faster.

It may now be useful to recapitulate briefly the elements which seem to be common to all or most of the industrial countries. The crucial point appears to be that, as the limits to the level of production set by capacity and the labour force are approached, any growth in the pressure of domestic demand—as reflected in the ratio of investment and budget deficit to gross private income—will meet increasing resistance from production bottlenecks. As the pressure of domestic demand upon supply builds up, a safety valve may be available to the economy in the form of a reduction in the net supply of goods for export (or a rise in net imports from abroad). However, in so far as this safety valve fails to function, whether because of inability to finance the required increase in imports or for any other reason, the growing pressure of demand will force a rise in prices. A second element is common to those countries whose exports consist largely of manufactures and whose imports are dominated by primary products. To the extent that increases or decreases in demand pressures in these countries are synchronized, they tend to bring about changes in the terms of trade with primary producing countries, having the effect of raising imports relative to exports when internal demand increases, and reducing imports relative to exports when demand declines. This is due to the time lag before changes in export prices and hence in export earnings of primary producing countries affect the demand for imports—whether upwards or downwards.

Apart from these general forms of interaction between the pressure of internal demand and the export balance, there are certain specific relationships which vary to a considerable extent from country to country, depending upon the structure of their economies and of their foreign trade.

In many of the countries, there is an intimate relationship between inventory fluctuations and the balance of payments, as may be seen in chart 9 presented below in connexion with the discussion of short-term fluctuations. The relationship is not, however, uniform among the industrial countries. In Denmark, the Netherlands and the United Kingdom there appears to be a strong compensatory relationship between these two components of demand, and in Canada and the United States a weaker association of the same type. In Italy, Norway and, to a lesser extent, in Belgium, on the other hand, inventory accumulation and the export balance seem to move in parallel. The remaining countries show no clear pattern of association between inventory changes and the balance of payments.

Several reasons for an inverse relationship between inventory movements and the balance of payments in certain of these countries suggest themselves. Such data as are available suggest that the import content of inventories in industrial countries tends generally to be relatively high, because both their inventories and their imports are heavily weighted by primary products. Moreover, the import content of changes in inventories may well be even higher than of total inventories since stocks of imported foodstuffs and raw materials are probably apt to fluctuate more than work in progress. Over two-thirds of the aggregate inventory change in the United Kingdom in 1950 fell directly or indirectly upon imports, whereas the import content of total output in that year was only 22 per cent. It is, of course,

natural for inventories of imported goods to be affected by the same changes as imports for current consumption. Thus, when demand slackens there would be a tendency, other things being equal, to reduce inventories as well as consumption; and conversely, when demand expands, imports would reflect a desire to build up inventories as well as to provide for current consumption. These normal tendencies might well be sharply amplified if exchange and trade controls in a particular country were operated in such a way as to promote heavy speculative stocking and destocking of imported goods in the expectation of changes in licensing regulations. This may account, at any rate in part, for the over-riding importance of inventory changes in the balance of payments experience of the United Kingdom, especially in 1950/51. The rise in the rate of inventory accumulation between these two years was equivalent to no less than 6 per cent of the gross national product and almost certainly included a large speculative component in the anticipation of a tightening of import restrictions; the rapid deterioration in the balance of payments position in the course of 1951 had spread the fear in the minds of the general public that such restrictions would be required, long before the Government actually took the decision to act.

On the other hand, the rate of accumulation of inventories of exportable goods will tend to move in sympathy with production for external demand and hence with exports. In this case internal demand and the external balance will tend to fluctuate in phase rather than out of phase, thereby cancelling out at least part of the effects of the interaction noted above on the import side.

It should be noted that the above discussion of inventory changes assumes that elasticities of supply are sufficient to enable the rate of inventory accumulation to be raised or lowered as desired. To the extent that this is not the case, especially for primary products, the relationships referred to will be disturbed accordingly. It then becomes perfectly possible for, say, an increase in the demand for imports to be accompanied by an involuntary reduction in inventories instead of by a voluntary increase; or for a fall in the demand for exports to result in an involuntary rise in inventories of export goods instead of a voluntary decline. In general, therefore, the nature of the relationship between inventory fluctuations and the balance of payments will depend in any particular country on such factors as the relative significance of imported and exported goods in inventory changes and the extent to which, in any year examined, such changes were voluntary or involuntary.

A second form of organic relationship between domestic demand pressures, as defined here, and the export balance lies in the fact that investment, and possibly also defence expenditure, may have a high marginal import content, and conversely a considerable damping effect on exports. Certain of the elements in this relationship will be studied in greater detail below in connexion with the analysis of structural changes in the industrial countries. Two qualifications should, however, be mentioned at this stage.

First, investment may itself respond directly to exports, rising when expectations are for a growing world demand and decreasing when world demand slackens. In so far as changes in investment and exports are so related, the negative correlation found between changes in internal demand and the export balance will, to that extent, be reduced. The importance of this factor in particular countries may, as a first approximation, be regarded as proportional to the ratio of exports to gross national product. In other words, this factor would be likely to be most powerful in the Netherlands, where exports of goods and services in 1955 were equivalent to 50 per cent of gross national product, as shown in table 16, and least significant in the United States where the corresponding proportion was less than 5 per cent. However, since the inverse relationship between domestic demand and the export balance appears at least as strong for the countries appearing at the top of table 16 as for those at the bottom, it must be concluded that the above form of dependence of investment on exports did not affect that relationship significantly.[4]

Table 16. Ratio of Trade to Output in 1955,[a] by Country
(Percentages)

Country[b]	*Exports*[c]	*Imports*[c]
Netherlands	52.7	49.9
Norway	40.8	43.7
Belgium	35.3	32.6
Denmark	33.5	32.6
Switzerland	29.8[d]	29.2[d]
Sweden	27.1	27.8
United Kingdom	23.5	24.0
Germany, western	22.8[d]	20.1[d]
Austria	22.0	25.7
Canada	21.6	24.1
France	15.9	14.4
Italy	12.0	13.7
United States	5.0	4.7

Source: Statistical Office of the United Nations.

[a] Ratio of exports and imports of goods and services, including factor income payments, to gross national product in current prices.

[b] In descending order of the ratio of exports of goods and services to gross national product.

[c] Excluding the value of military equipment transferred between governments.

[d] Excluding factor income payments.

It also has to be borne in mind that the most rapidly expanding components of exports are not necessarily those which predominate either in total investment or in changes in investment. In fact, two of the most im-

[4] This does not, however, imply that this factor was of no importance during the period under review since investment may have responded to exports only with a substantial time lag, whereas the relationship discussed here is that between current home demand and the current export balance.

portant determinants of the total level of investment in many countries in recent years have been public administration and the construction of housing which, on the average, contributed between 25 and 40 per cent of total gross fixed investment in the countries under review during the period 1950-1955. A further substantial component of fixed investment has consisted of commercial construction. Clearly, these elements of investment do not, in general, generate exports. It is true that they may to some extent respond to exports. For example, imports of construction materials may be liberalized as a result of an improvement in the export balance, thereby permitting a higher level of construction (in so far as construction had previously been held back by raw material shortages); and in some countries, notably those exporting primary products, a rise in export profits in a period of growing demand may provide a stimulus to luxury housing in a manner similar to that experienced in many under-developed countries. But it will be obvious that connexions such as these between investment and exports would at most be tenuous in the developed countries and would, in general, be far overshadowed by other factors.

It has already been pointed out that the association observed for each individual country between year-to-year changes in the external balance and in internal demand pressures has to be interpreted in the context of the corresponding changes occurring at the same time in other countries. An examination, country by country, of the year-to-year changes shown in table 15 and chart 4 indicates that, in the absence of marked fluctuations in terms of trade, the balances of payments of particular countries have tended to improve the more their internal demand has fallen in relation to the internal demand of other countries, and to deteriorate in the measure that internal demand has risen relative to the internal demand of other countries. The main exception to these tendencies is to be found in the periods 1950 to 1951 and 1951 to 1952, when movements in the terms of trade were considerable and did not affect all countries in the same way because of differences in the commodity composition of their exports and imports. If the composition of trade were alike in all industrial countries, changes in trade balances due to changes in terms of trade would simply be superimposed upon movements resulting from variations in relative demand pressures. Because of differences in commodity composition, however, deterioration in terms of trade for some industrial countries may accompany improvement for others, and these developments may—and in 1950-1952 did—cancel out the effects of changes in relative demand pressures.

Thus far the discussion has been primarily concerned with the year-to-year changes in pressure of internal demand, and in the export balance. It remains to consider the trends over the period as a whole. In the short run, changes in the total volume and in the structure of output are naturally limited—even, to some extent, in under-employed economies—so that the competition for output between internal and external demand is fairly pronounced.

In the longer run, however, the total volume of output can be increased significantly and its composition shifted in line with world demand, even in the fully employed economies; moreover, pronounced changes in the proportion of income consumed may also take place. Thus the relationship between internal demand and external balance is not as intimate over a long period as it is from year to year. While in some countries fairly clear trends from 1950 to 1955 can be observed, in others the period is too short or the fluctuations too great to establish a trend with any precision. With due allowance for lack of precision in several cases, the countries appear to be distributed as follows with respect to the trends in internal demand and external balance from 1950 to 1955.[5]

[5] *Source:* table 15.

		Export balance		
		Rising	*Falling*	*Stable*
Internal demand	Rising	Belgium	Sweden United States	Canada United Kingdom
	Falling	Denmark		
	Stable	France Germany, western Netherlands Norway		

Most of the western European countries show a trend towards rising export balances or declining import balances, except for Sweden and the United Kingdom, where a balance had already been achieved in the external accounts at a much earlier stage in the post-war period than in the other countries. The declining net exports of the United States reflect the recovery in the balance of payments positions of other countries.

Nearly all countries experienced a tendency for the total pressure of demand, internal and external together, to rise over the period from 1950 to 1955 as a whole; and even in France and Sweden, where this tendency

was less obvious for the period as a whole, some upward pressure began to develop in 1953 or 1954. In Canada, Sweden, the United Kingdom and the United States, the rise in demand was wholly or mainly the result of internal factors, while in Denmark, France, western Germany, the Netherlands and Norway, it was the rise in the export balance that was responsible. Only in Belgium did the export balance and the pressure of internal demand both tend upwards from 1950 to 1954, and even here this tendency in the export balance is not necessarily significant of a trend, as may be seen by examining chart 4.

Balance of payments pressure and demand inflation

It has been shown that changes in the external balances of the industrial countries in recent years have been sensitive to changes in domestic demand in each individual country in relation to other countries, the greatest deteriorations in export balances occurring, in general, in the countries experiencing the largest relative increases in domestic demand. This does not imply that balance of payments difficulties arising in particular countries during the period under review can necessarily be attributed to global demand inflation—that is, to an actual excess of aggregate demand in relation to capacity. A situation of excess aggregate demand may be said to exist where the total pressure of domestic and foreign investment, and of any excess of government expenditure over revenue, is too high in the sense that it generates a demand for consumer goods which cannot be satisfied out of available resources at the existing level of prices and distribution of income. In theory, any level of demand, however great, could be satisfied without the danger of inflation provided that a sufficiently large volume of goods and services could be imported. In practice, however, conditions of inelastic supply or limitations on the ability of a country to finance an import balance beyond a certain point, impose a limit on the extent to which the external sector can serve as an outlet for rising demand pressures. Excess aggregate demand in the present sense, therefore, arises after the role of the external sector as an equilibrating factor has been exhausted, leaving changes in prices and income distribution as the means whereby supply and demand are brought into balance. It is important to note, however, that a country or group of countries may experience a deterioration in the balance of payments when its demand increases even without any excess pressure of total demand against productive capacity developing, but simply because demand in some other country or group of countries is not rising as rapidly. Once again it is necessary to stress the point that it is the relative changes in demand, whether upwards or downwards, that are of crucial importance for the determination of balance of payments positions, not the absolute level of demand in any one country taken by itself.

Correct diagnosis of actual problems may well be of vital importance in practice, seeing that the appropriate remedies will differ accordingly. For example, a situation of excess aggregate demand in the sense defined above clearly calls for a reduction of aggregate demand in the country concerned to the level dictated by available resources. But other types of situations may equally well be involved in any balance of payments disequilibrium, including, for example, deflationary tendencies in a major trading country, for which such remedies as the "scarce currency" provisions of the International Monetary Fund were designed, as noted earlier.[6] If deflationary policies were adopted in an attempt to solve balance of payments problems caused by a decline in external demand, the deficit countries would succeed only in increasing the difficulties of the surplus countries in regaining a higher level of activity since the latter would be confronted by a fall in the demand for their exports. Furthermore, such corrective measures would run the danger of initiating a cumulative downswing in production on a worldwide scale.

Since the early post-war inflation of 1946-1948 there have been two main periods in which the problem of global demand inflation might be thought to have arisen —namely, in 1950/51 immediately after the outbreak of hostilities in Korea, and in 1955, as a result of the general rise in activity and investment demand in that year. It is of interest to consider how far the balance of payments difficulties experienced by certain countries on these two occasions were the product of such demand inflation.

An upsurge in inflationary demand pressures usually presupposes an increase in the demand for savings out of gross private income after tax—because of an advance in domestic or foreign investment, or in the excess of government expenditures over revenues, or some combination of these. An increase in such pressures could, however, also occur with an unchanged demand for private savings simply because people decided to save less and consume more out of given incomes than before. In either case an upward pressure on prices would develop, and the consequent advance in profits would provide the basis for the necessary increase in private saving since a higher proportion is saved of profits than of other incomes, especially wage incomes.

From 1950 to 1951 the demand for saving out of gross private income after tax remained unchanged or declined proportionally only in Denmark, France and the Netherlands. This may be seen both from table 15, in which the total demand for private savings is given as the sum of the main components of that demand, or from table 17, in which the two main constituents of the total supply of private savings are shown. In Denmark and the Netherlands 1951 was a year of improvement in balance of payments positions. On the other hand,

[6] This is quite apart from balance of payments problems resulting from such factors as imperfect structural adaptation, or short-term fluctuations, which have yet to be examined.

Table 17. The Supply of Gross Private Saving[a]

(Percentage of gross private income after tax)

Country and item	1950	1951	1952	1953	1954	1955
Belgium:[b]						
Personal disposable income	87.8	87.3	84.5	85.5	...	...
Personal saving	4.4	8.8	7.8	8.0	...	...
Gross corporate saving	11.1	11.7	14.7	14.4	...	...
Total gross private saving	15.3	20.5	22.0	22.3	22.4	...
Canada:						
Personal disposable income	85.5	88.2	83.7	83.9	84.1	83.5
Personal saving	4.9	8.9	8.5	8.5	5.4	6.7
Gross corporate saving	17.5	15.7	14.8	16.1	16.7	17.6
Total gross private saving	19.4	20.7	24.8	24.6	21.3	23.2
Denmark:						
Personal disposable income	92.4	92.1	91.7	91.1	...	...
Personal saving	8.1	7.8	10.5	10.4	...	...
Gross corporate saving	7.6	7.9	8.3	8.9	...	...
Total gross private saving	15.7	15.6	18.7	19.3	17.6[c]	17.9[c]
France:[d]						
Personal disposable income	85.8	85.9	84.9	84.2	84.7	85.1
Personal saving	8.0	5.9	6.3	5.0	6.4	7.5
Gross corporate saving	17.8	20.2	17.3	15.7	15.0	14.6
Total gross private saving	22.2	20.0	21.4	20.9	21.7	22.4
Germany, western:[e]						
Personal disposable income	85.9	79.1	80.5	83.3	83.7	81.0
Personal saving	3.2	3.5	5.0	6.4	7.8	6.6
Gross corporate saving	16.0	23.2	21.0	18.8	17.8	19.5
Total gross private saving	19.2	26.7	26.0	25.2	25.6	26.1
Netherlands:						
Total gross private saving	19.2	18.9	19.8	23.8	25.3	27.5
Norway:						
Total gross private saving	18.8	26.5	24.1	21.3	22.9	24.4
Sweden:						
Personal disposable income	83.7	80.7	86.7	87.8	87.4	...
Personal saving	2.9	4.1	7.4	7.0	6.5	...
Gross corporate saving	16.3	19.3	13.2	12.2	12.6	...
Total gross private saving	19.2	23.4	20.7	19.3	19.0	19.2
United Kingdom:						
Personal disposable income	86.2	84.4	85.7	85.0	84.1	85.5
Personal saving	−1.1	−0.8	3.1	3.8	3.3	3.8
Gross corporate saving	13.8	15.4	13.3	14.2	15.4	14.7
Total gross private saving	12.7	14.7	17.4	18.8	19.1	18.3
United States:						
Personal disposable income	86.7	86.0	86.3	86.4	86.2	85.5
Personal saving	5.4	7.0	7.2	7.0	6.3	5.5
Gross corporate saving	13.2	13.5	13.1	12.7	13.2	13.9
Total gross private saving	18.6	21.0	20.9	20.6	20.1	19.9

Source: Statistical Office of the United Nations; Bureau of Economic Affairs and national sources for Belgium, France and western Germany.

[a] Equal to the sum of personal saving, corporate saving and total capital consumption allowances—the last two components being combined in gross corporate saving. Apart from rounding error, the failure of detail to add to total demand for saving shown in table 15 in some countries is attributable to one or more of the following: residual error, inventory valuation changes not adjusted for, or lack of conceptual comparability between the national and the United Nations system of accounts

[b] In part from Université libre de Bruxelles, *Economie belge et comptabilité nationale, 1948–1954* (1955).

[c] Estimated.

[d] From National Institute of Statistics and Economic Studies; *Rapport sur les comptes de la nation, 1949–1955* (Paris).

[e] In part from Deutsches Institut für Wirtschaftsforschung; *Vierteljahrshefte zur Wirtschaftsforschung*, No. 1, 1955 and No. 3, 1956 (Berlin).

the rise in the external deficit of France in 1951 can clearly not be attributed to excess aggregate demand, seeing that total demand pressures—and even the pressure of internal demand—actually fell. In fact, since the quantum of exports rose more than that of imports, the adverse external movement in 1951 was due entirely to the deterioration in terms of trade.

In the other countries listed in tables 15 and 17 the demand for savings rose substantially from 1950 to 1951, but the only countries in which the external balance suffered were the United Kingdom and, to a much smaller extent, Canada. Elsewhere considerable improvements were recorded in foreign balances; this represented the counterpart of the deterioration in the United Kingdom—where, as pointed out in chapter 1, there was a replenishment of stocks run down in 1950 at a time when other countries had been accumulating inventories—and in the primary producing countries which were now beginning to take deliveries against

Table 18. Distribution of Personal Disposable Income,[a] Selected Countries

(In percentages)

Country and item	1950	1951	1952	1953	1954	1955
Canada:						
Personal saving	5.7	10.1	10.2	10.1	6.4	8.1
Labour income before tax and after transfers	74.0	73.9	77.9	80.0	82.6	81.2
Labour tax burden[b]	51.6	62.8	66.7	66.5	67.9	70.8
Germany, western:						
Personal saving	3.8	4.4	6.2	7.7	9.3	8.1
Labour income after tax and transfers	56.1	58.0	58.8	59.6	59.3	60.8
Netherlands:						
Labour income after tax and transfers[c]	59.1	61.3	62.3	60.7	61.5	60.6
Sweden:						
Personal saving	3.4	5.0	8.6	8.0	7.4	...
Labour income after tax and transfers	76.8	78.3	79.8	82.7	82.8	...
United Kingdom:						
Personal saving	−1.3	−1.0	3.6	4.5	3.9	4.5
Labour income after tax and transfers	80.6	82.7	81.9	81.6	81.9	82.3
United States:						
Personal saving	6.1	8.1	8.3	8.1	7.3	6.4
Labour income after tax and transfers	76.9	78.3	77.9	78.6	79.8	81.1

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

[a] Labour income after tax and transfers is calculated by adding net transfers of the household sector to compensation of employees and subtracting withholding tax. In western Germany adjustment is made only for gross transfers from the household sector. In the United Kingdom labour income after taxes and transfers is calculated by adjusting income from civilian employment plus pay of the armed forces for current transfers and total direct taxes.

[b] Labour's share of total individual income taxes. Data refer to fiscal years ending 31 March of the following year.

[c] In percentage of gross private income.

expanded orders placed in the latter half of 1950 and the early part of 1951, during the commodity boom.

Of the countries in which the demand for savings rose in relation to income in 1951, Belgium, Canada and the United States do not exhibit symptoms of severe demand inflation during the latter year as a whole. In none of these countries was there a significant redistribution of income in favour of profits; in Canada gross corporate saving[7] fell in relation to gross private income after tax, as shown in table 17 while in Belgium and the United States the increase was probably within the order of error of the estimates. In the United States, moreover, a rise in the share of labour in personal disposable income, as shown in table 18, was nevertheless accompanied by a relative advance in personal saving. There was also a sharp increase in the saving ratio in Canada, although here labour's share in disposable income apparently fell. In addition to the above three countries, western Germany was also clearly not experiencing demand inflation in 1951; while the share of gross corporate saving in gross private income after tax jumped considerably, the percentage of unemployment declined only from 10.2 in 1950 to 9.0 in 1951.

The total demand for savings also rose in relation to income in Norway, Sweden and the United Kingdom, but in the case of Norway the rise was due entirely to a relative increase in the export balance, the internal demand for savings out of income having remained stable. Some evidence of demand pressure in Sweden and the United Kingdom is to be found in the relative increase in gross corporate saving in these two countries in 1951. The shift to profits in Sweden can in large part be attributed to windfall gains produced by the sharp improvement in the terms of trade, as in Norway. At the same time, both in Sweden and in the United Kingdom, saving out of personal disposable income was maintained or increased despite a rise in the share of labour in such income. As in most of the other countries, moreover, the seasonally adjusted index of industrial production in the above three countries levelled off at or soon after mid-1951; in most countries, including Norway and the United Kingdom, production dropped before the end of 1951, but in Sweden it was maintained. This can be seen in the following seasonally adjusted indices of industrial production during the four quarters of 1951 (1953=100):[8]

	First quarter	Second quarter	Third quarter	Fourth quarter
Belgium	101	105	104	102
Canada	92	92	91	89
Denmark	103	100	99	97
France	98	101	102	103
Germany, western	84	87	86	86
Italy	89	90	89	88
Netherlands	95	93	90	88
Norway	90	93	97	94
Sweden	99	100	101	101
United Kingdom	96	100	100	98
United States	91	91	88	89

[7] Gross corporate saving is the sum of corporate profits, after taxes and dividend distribution, and total capital consumption allowances. In so far as a redistribution of income in favour of profits takes the form of higher dividends, it would tend to reduce the share of labour in personal disposable income thereby affecting the data in table 18.

[8] Organisation for European Economic Co-operation, *General Statistical Bulletin*, No. 2, 1957 (Paris).

Thus symptoms of severe demand inflation do not emerge from the data for 1951, except to some extent in Sweden and the United Kingdom. In view of the improvement in the external balance in Sweden, the United Kingdom remains as the sole case in which adverse developments on external account in 1951 were coupled with considerable aggregate pressure on resources, and even here the pressure did not last long enough to prevent industrial production from falling by the end of the year.

As implied in the above data on industrial production, 1951 was a heterogeneous year beginning with a wave of scare buying by consumers, when it seemed that hostilities might spread beyond the borders of Korea, and ending with involuntary accumulation of inventories of consumer goods when the scare had passed. Unfortunately, quarterly or half-yearly data along the lines of tables 17 and 18 are available only for the United States. Even these, however, show no rise in the total demand for private saving during the year ending in mid-1951 as a whole, compared with the previous year. And although the share of labour in personal disposable income rose from 1949/50 to 1950/51, the proportion of disposable income allocated to personal savings also increased—again indicating no growth in the pressure of demand; this was in spite of abnormal rates of consumer spending reached in the third quarter of 1950 and in the first quarter of 1951, when personal saving out of disposable income fell to unusually low levels.

It has to be borne in mind, of course, that, to a considerable extent, inflation had been held in check by government action. Expectations of inflation were coloured by memories of war-time experience and counter-inflationary measures were accordingly stringent. In addition to the reimposition of direct controls in such countries as Canada and the United States, governments adopted fiscal policies calling for substantial increases in tax rates, which in most cases were reflected in increased budget surpluses or reduced deficits in relation to income in 1951 as shown in table 15, and which, even in the remaining countries, served to offset most of the rise in government expenditure. These anti-inflationary measures were based on the assumption that military claims on resources would grow at a speed which did not, in fact, materialize. In practice rearmament programmes were scheduled over considerably longer periods than had originally been contemplated in the latter months of 1950. Consequently the measures of restraint tended to over-compensate for the growth in demand, with the result that the commodity price boom collapsed rather rapidly after the first quarter of 1951, and production leveled off or declined soon after.

The question naturally arises how there could have been price increases of the magnitude experienced after mid-1950 if governments had thus effectively curbed the total pressure of demand. The factors involved are considered in greater detail below. In the present context, however, it is important to stress that any rise in total demand, even where unemployment is high, will tend to engender price increases inasmuch as the supply of foodstuffs and raw materials, especially of agricultural origin, is not responsive to a growth in demand in the short term. Such an increase in the prices of primary products then reacts upon the cost of living, and hence upon wages; and the upward movement of prices, once initiated, tends to acquire a momentum of its own, as shown further below. Thus, for example, the recovery from the trough of the depression in the nineteen thirties was accompanied by a general advance in prices, although unemployment remained high even at the peak of the recovery in 1937, and there was clearly no excess of aggregate demand even then. In the particular case of the price boom of 1950/51, moreover, a major role was played by heavy accumulation, both by governments and private business, of inventories of certain imported products expected to become scarce in the event of war. The latter factor was of critical importance in the particularly steep price increases for certain commodities produced largely in the general Pacific area, notably rubber, tin and wool.

Still less evidence of excess aggregate demand than shown above for 1951 emerges from an examination of the data for 1955. While production rose in all countries listed in table 17, the total demand for private savings declined, if anything, as a proportion of income in the United Kingdom, and the changes in Sweden, the United States and probably western Germany must be regarded as within the order of error of the estimates. In western Germany, moreover, there was still substantial unemployment, although particular shortages of labour were beginning to appear in one or two sectors of the economy. The only significant increases in demand pressures among countries listed in table 17 were those recorded in Canada, the Netherlands and Norway. While it appears from table 18 that the distribution of personal disposable income changed little in the Netherlands, the lack of adequate data makes it impossible to characterize the situation fully. In Norway the pressure of demand remained relatively lower than in 1951, when real output and income had been smaller. Canada appears to exhibit, in very mild form, some of the symptoms of excess aggregate demand in so far as there was a rise in the share of gross corporate saving in income after tax and a fall in the share of labour in disposable income;[9] even here, however, unemployment declined relatively little.

Under these conditions it seems likely that the main source of upward pressure on prices in 1955 was not any excess of aggregate demand in the industrial countries, but rather factors operating on the cost side, the nature of which is discussed below. It will be seen that

[9] These changes in the distribution of income do not appear to have been greatly affected by reductions in corporate and personal tax rates.

a number of factors on the cost side have been tending to raise prices in the industrial countries in recent years, but that from 1952 to 1954 these were offset by the falling prices of primary products, so that final prices remained stable. When, however, the decline in primary product prices was ultimately halted, and even reversed in 1955, the continuing increase in other costs began to affect final prices.

The Impact of Structural Change

Balances of payments have been affected not only by changes in the total level of domestic demand in each country, relative to other countries, but also by structural shifts in world production and trade. Within individual countries, domestic production ordinarily does not (and to maximize real income ordinarily should not) respond precisely to changes in final demand, so that import demands and export availabilities have tended to reflect the changing relation of domestic supplies to domestic uses of output. On the other hand the export markets of each country, and the supplies of goods available for import, have reflected shifts in the industrial structure and patterns of consumption of that country's trading partners.

The same general structural forces have been in operation in all industrial countries in the post-war decade. There has been a continuation of the concerted shifts in both the nature of demand and the availabilities of supplies that have been going on for a much longer time. Within the industrial countries, the demand for durable goods, both for producers and consumers, has risen significantly faster than demand in general. Furthermore, the growth of manufacturing of non-durable consumer goods in primary producing countries has reduced the export markets for these goods open to the industrial countries; at the same time the demand for investment goods has risen considerably. In consequence, the markets for engineering products and for basic metals have been expanding rapidly, while the markets for textiles and other consumer non-durable manufactures have not. The increased consumption of durable goods has been accompanied by a pressure of demand upon the supply of basic metals, and in turn fuels, and in particular years of rapid increase, bottlenecks in these sectors have appeared. These changes in the pattern of consumption and exports in the industrial countries have in turn led to changes in both the composition and the total magnitude of imports. In particular, the value of imports of metals, metal products and fuels has risen in relative importance, while imports of agricultural products, both raw materials and foods, have declined.

The geographic structure of world trade has also been changing. While markets in the non-industrial areas of the world have been lagging, markets in western Europe have been expanding rapidly—in part because of their extremely depressed level immediately after the war. Furthermore, as noted previously, a part of the imbalance between the dollar area and the rest of the world may be ascribed to structural factors. This latter problem will not, however, be discussed at any length in the present context. The general setting of the problem has been indicated in the historical review of post-war balance of payments problems and in the examination of changes in the network of international balances, to be found in chapter 1. In addition, the reader may be referred to *World Economic Survey, 1955*.[10] It was pointed out there that the dollar problem could not be regarded simply as a short-term consequence of the Second World War, arising from the exceptional requirements of the war-torn countries that they were temporarily unable to meet. The United States had been running substantial export balances on merchandise account from the late eighteen seventies. What was new was not the existence of such balances, but the inability to finance them by conventional means; the gap between the demand for dollars and the supply since the Second World War was bridged partly by unilateral grants and loans by the United States Government and partly by the use of import and exchange controls throughout most of the world. In the course of the post-war period the world's dependence upon shipments from the United States has been considerably reduced, but a significant gap in commercial transactions remains, financed by United States economic aid and overseas military expenditures. Part of the continuing gap should no doubt be attributed to the relatively heavy pressures of demand in countries attempting to promote a more rapid rate of economic growth than is characteristic of North America at the present time, but there are also structural elements in the problem.

The impact of structural change upon the balances of payments of individual countries has varied with the circumstances in which the countries found themselves. On the one hand, countries differ in the distribution of their export markets, with respect both to commodities and to countries of destination. The influence of differences in the commodity structure of exports upon the level of exports in the post-war decade has been less than might have been expected, but differences in geographic structure have been of more importance. On the other hand, countries also differ with regard to the relation between the structure of domestic consumption and the structure of domestic output, and it is this relation that determines the availability of supplies for export and the demand for imports, both of raw

[10] United Nations, *World Economic Survey, 1955* (sales number: 1956.II.C.1).

materials and of finished goods. In evaluating the importance of such factors in the different countries, it will be useful to examine in turn the nature of the changes in the structure of exports of the industrial countries, the relation of these changes in exports to changing internal demand and supply, and the consequent changes in import demand.

Changes in the structure of industrial exports

Since 1938, the value of the exports of industrial countries as a group has risen nearly fourfold, but the countries have not shared equally in this rise. There have been large differences, not only in the magnitude of the increase in exports, but in its timing. The countries with large increases up to 1950—in particular Canada, the United Kingdom and the United States—have on the whole tended to lose ground since then to countries whose recovery took longer, particularly western Germany. In seeking the underlying reasons for these differences, it will be useful to examine the influence of both commodity composition and geographic distribution upon the rate of growth of exports.

The nature of the long-term changes in the commodity structure of the world's demand for exports from the industrial countries is set forth in table 19. For more than forty years the share of machinery, transport equipment, and chemicals in total exports of manufactures has been rising, while the share of other manufactures, especially textiles and other non-durable consumer goods, has been contracting. The three rapidly growing groups now account for one-half of the value of world exports of manufactures, compared with less than a quarter immediately before the First World War. The share of textiles, on the other hand, has dropped from one-third to one-tenth during the same period.

It has been shown[11] that Sweden and the United States were the two countries that were best placed in 1913 from the point of view of the relationship between their export structures and the changes in the commodity composition of world demand for manufactures that followed the war, and that these two countries were also the quickest to react to the changes in world demand during the decade after the First World War. Thus exports of machinery and transport equipment, which in 1913 were already nearly one-quarter of United States exports of manufactures, rose to almost 45 per cent by 1928. In Sweden the expansion occurred principally in machinery and shipbuilding. The other European countries were not prepared to take any major steps in this direction, and such changes in export structure as occurred were due mainly to the relative decline in the exports of textiles.

Structural adaptation has apparently been much easier after the Second World War than it was after the first, even for those countries with relatively unfavourable export structures. This was probably due to the much greater increase in world trade over the pre-war level recorded during the past decade. In 1923, the fifth full year after the end of the First World War, the total volume of world exports was still 7 per cent below the 1913 level, while exports of manufactures were still more depressed. On the other hand, by 1950—the comparable year following the Second World War—the total volume of world trade had already exceeded the 1938 level by 23 per cent while the growth in exports of manufactures was stronger still. The subsequent expansion in the volume of trade was somewhat faster from 1923 to 1929 than from 1950 to 1956, but not sufficiently

[11] United Nations, *Growth and Stagnation in the European Economy*, by Ingvar Svennilson (sales number: 1954.II.E.3), page 181.

Table 19. Exports of Manufactures from Leading Industrial Countries[a]

(In percentage of total exports of manufactures)

Item	*1913*	*1928*	*1938*	*1950*	*1950*	*1955*
Expanding groups:[b]						
Machinery	10.7	13.3	19.9	23.0	36.4	24.5
Transport equipment	5.1	9.9	13.0	15.8		13.6
Chemicals	6.9	7.0	9.5	9.8	10.6	11.5
TOTAL	22.7	30.2	42.4	48.6	47.0	49.6
Stable or declining groups:[b]						
Metals	19.7	17.9	20.3	16.4	17.4	20.0
Textiles	32.7	29.0	16.5	17.9	16.1	10.7
Miscellaneous manufactures	24.9	22.9	20.8	17.1	19.7	19.6
TOTAL	77.3	69.8	57.6	51.4	53.2	50.3
Total manufactures	100.0	100.0	100.0	100.0	100.0	100.0

Source: United Nations Bureau of Economic Affairs and *Growth and Stagnation in the European Economy*, by Ingvar Svennilson (sales number: 1954.II.E.3), table 53.

[a] The first four columns are derived from Svennilson, op. cit. and are based upon the exports of Belgium, France, Germany, Italy, Luxembourg, Sweden, Switzerland, the United Kingdom and the United States. The last two columns are based upon exports of the above countries together with Canada, Denmark, Japan, Netherlands, Norway and, for textiles only, India. The commodity groupings also differ slightly in composition as between the first four and last two columns of the table. Data refer to current territory in each year. Data for 1950 and 1955 include exports of western Germany only.

[b] Products have been divided into two groups according to the changes in the share of each in total exports of manufactures from 1938 to 1955.

so to qualify significantly the general picture of a much more vigorous upsurge in the more recent period, as shown in the following indices of world exports:[12]

Total exports

1913 = 100		*1938 = 100*	
1923.....	93	1950.....	121
1929.....	137	1956.....	173

Exports of manufactures

1913 = 100		*1938 = 100*	
1923.....	88	1950.....	140
1929.....	144	1956.....	213

The shifts in commodity composition of exports since 1938 shown in table 19 hold true for most of the industrial countries individually as well as for the group as a whole. At the same time there seems to be little relation between the initial commodity structure of exports and the extent of the total increase in exports. The relatively small increase in Italian exports may be partly attributable to this factor, because of the large share of textiles in Italian exports. Similarly, the relatively poorer showing of France and the United Kingdom in the more recent post-war period may be attributable in part to the large share of textiles in their exports, since the sharp decline in the demand for textiles has been concentrated in the latter part of the post-war period. In the same way there is perhaps some indication that adaptability of commodity structure has worked to the advantage of particular countries at certain times. For instance, the extremely rapid rise of west German exports since 1950 has been accompanied by a substantial shift toward the expanding commodities. Similarly, the United Kingdom made its greatest gains in exports in the early period, when the shift in the composition of its exports toward the expanding commodities was relatively large. But on the whole the relationship is slight; for the industrial countries generally, these considerations have been of relatively minor importance.

The geographic distribution of exports has had somewhat more influence on the differential rates of increase in exports among the industrial countries. For the industrial countries as a group, the share of total exports going to primary producing countries rose from 1938 to 1948, but from 1948 to 1955 the rise in the exports of the industrial countries to one another was much greater than to the rest of the world. The distribution of the trade of individual countries between primary producing countries and industrial countries has shown considerable stability. Clearly, under conditions in which there are substantial rigidities affecting shifts in exports from one foreign market to another, the over-all rate of increase in the exports of any one country is bound to depend to some extent upon the rates of increase in import demand in the particular markets in which that country happens to specialize.

In particular, the share of exports going to western Europe has played a major role. In the period up to 1950, before western Europe had recovered its capacity to import, those industrial countries whose major markets were elsewhere—Canada, France, the United Kingdom and the United States—were the ones whose exports increased most. Since 1950, however, those industrial countries whose major market is in western Europe have shown the largest relative increases in exports. This is readily apparent in table 20, which shows the shares of the exports of each country in 1950 going to various destinations, together with an index of the increase in total exports from 1950 to 1955. The countries are listed in descending order of the increase in their total exports, and for the most part this order corresponds well with the share of western Europe in their exports. The relatively poor showing of Denmark, in spite of the extremely high share of its exports going to western Europe, may be explained by the fact that less than one-fifth of these exports were manufactured products, the remainder being largely food.

There seems to be some evidence, furthermore, that the hold on the western European market of those countries for whom it was already a major outlet in 1950 has increased even more since then. The aggregate increase in exports of all industrial countries to western Europe from 1950 to 1955 was nearly 70 per cent. The countries showing the largest increases were western Germany, Canada, the Netherlands and Belgium-Luxembourg; aside from Canada, these are in order the countries whose total exports have expanded most. The three lowest increases were shown by the United Kingdom, the United States and Italy. These are, again in order, three of the countries whose total exports have expanded least during this period.

The distribution of exports among destinations other than western Europe has also had some bearing, although a lesser one, upon the magnitude of increases in total exports. Among the primary producing countries, imports of Latin America and the oversea sterling area have risen less than the average for the world, and imports of the dependencies of continental European countries and of other primary producing countries have risen more. Countries whose exports to the latter group are relatively large, and to the former group relatively small, have experienced a relatively greater increase in exports. The outstanding example is France; 41 per cent of French exports in 1950 went to the primary producing countries with rapidly increasing imports, so that French exports rose somewhat more

[12] Statistical Office of the United Nations. Estimates of the total increase in the quantum of world exports from 1938 to 1950 and 1956 exclude the exports of the centrally planned economies. Estimates of the quantum of exports of manufactures for all periods are based on data for selected countries accounting for at least 70 per cent of the total. Data on total exports and exports of manufactures for 1950 and 1956 exclude special category exports of the United States.

Table 20. Geographic Distribution of Exports of Industrial Countries, 1950
(In percentage of total exports of each country)

Country	Index of value of exports, 1955 (1950 = 100)	OEEC countries	Canada, Japan and United States	Latin America	Overseas sterling area	Dependencies of continental Europe	Other primary producing countries	Eastern Europe and mainland China
Germany, western	310	69	6	8	6	1	7	4
Netherlands	190	69	5	4	6	3	11	2
Belgium-Luxembourg	168	63	11	7	4	5	6	4
Norway	163	65	11	6	6	—	7	6
Sweden	157	63	7	9	6	1	6	7
France	157	42	5	7	3	31	11	1
Denmark	156	84	2	3	2	1	6	2
Italy	154	52	7	11	14	1	10	5
Canada	151	21	66	5	6	—	1	—
United States	141	29	25	28	7	2	7	1
United Kingdom	134	29	12	7	43	1	7	2

Source: United Nations Bureau of Economic Affairs.

than would be accounted for by the share going to western Europe. On the other hand, the relatively small increase in the exports of Italy, the United Kingdom and the United States in this period may be partly attributed to the large shares of their exports destined for Latin America and the oversea sterling area.

Changes in the structure of internal demand and supply

For the industrial countries as a group, exports constitute a relatively small part of total output—about 10 per cent. The individual countries range from the Netherlands, where exports are about double the magnitude of domestic investment, to the United States, where exports are only one-third of domestic investment. But it does not follow that balance of payments difficulties arising from structural change can be resolved easily just because the magnitudes involved are small. In a country faced with a balance of payments deficit, it may not be possible to expand exports significantly merely by releasing resources from domestic consumption. Instead, the attempt to restrict production for domestic use may simply lower total output, and at best bring about external balance by restricting imports to the level required for a lower level of economic activity, rather than by expanding exports. It is therefore important to examine the structural changes that have been taking place both in output and in internal consumption, with a view to determining where and to what extent these changes may have led to pressure upon balances of payments arising from excessive demand in particular sectors.

In the period since 1938 there has been a nearly universal rise, in all the industrial countries, in the share of those types of demand that focus upon the industries producing durable goods. Fixed investment and defence expenditures have generally risen as a proportion of total national expenditure, and consumption of durable goods has increased as a proportion of total consumer outlays. Although the greatest increases in output have also generally been recorded in the sectors producing durable goods, final demand has pressed most closely upon supply in the engineering industries, and this pressure has been reflected back upon basic metals and fuels. Difficulties in the expansion of the output of coal, particularly, have contributed to the problem of raising output in steel and in the engineering industries. For individual countries, the demand for imports or the availability of supplies for export in these industries has of course depended upon the extent to which these increases in internal demand and supply have been matched.

For the western European countries as a whole, domestic use of the products of each of these three industries has risen slightly faster than production, and the share of production exported has dropped slightly. Nevertheless, except for coal, the absolute value of exports, and thus their contribution to the balance of payments, has risen substantially.

The expansion of coal output in western Europe has been hindered by the difficulties encountered in recruiting sufficient new entrants into the coal mining industry to replace the normal outflow, coupled with the progressive depletion of the coal resources themselves. The continuing shortages of coal undoubtedly accelerated the trend toward increasing utilization of petroleum, but in spite of the rapid increase in the use of petroleum western Europe has in the post-war period been forced to import coal. Only in Belgium and the Saar, among the western European countries, have net exports increased substantially. In all of the other major western European producers, domestic use has risen faster than production, and exports have fallen. Domestic demand for coal has risen everywhere in western Europe except in Norway and Sweden, where the substitution of other fuels for coal has gone furthest. Domestic demand has apparently also fallen in the United States and Canada, and production has dropped in consequence.

Insufficient capacity in western Europe for the production of steel, likewise, may have impeded the rate of

advance of industry in general, and of the metal-using sectors of industry in particular. Even in the United States, where supplies of coal have been more than adequate throughout the post-war period, occasional steel bottlenecks have occurred due either to a sharp acceleration of economic activity or to the effect of strikes upon steel supplies. In several western European countries, particularly western Germany and the United Kingdom, the insufficiency of domestic supplies of steel has been eased through a greater increase in imports than in exports since 1950; the main sources for the additional imports have been Belgium, France and the United States.

For engineering products, throughout the post-war period there has been a considerable backlog of unfilled orders in the western European countries. This backlog decreased from its immediate post-war level until the Korean war boom, but at that time it almost doubled. By 1953, production had caught up with orders in some lines in some countries, but even then the overall level of back orders was higher than in 1950. Since 1953, there has been a steady increase in the size of order books, until in the second half of 1955 they represented for western Europe as a whole almost eight months' output, as compared with about four months in the United States. Nevertheless, in the major producing countries (France, western Germany, the United Kingdom and the United States) the rise in domestic consumption of engineering products has been more than matched by the rise in domestic production, so that in absolute terms net exports have not suffered, although only in western Germany has the relative share of exports increased. In France and the United States, the share of exports has remained unchanged, and in the United Kingdom it has been falling steadily. In most of the minor producers (Belgium, Canada and the Scandinavian countries), on the other hand, domestic production has been unable to cope with the increased consumption, and imports of engineering products have risen (or exports fallen). Denmark is perhaps the prime example of a net importer of engineering products where the substantial rise in domestic use was reflected in a significant deterioration of the trade balance in 1953 and 1954—and it is tempting in this case to ascribe the whole trouble to the nearly sixfold increase in purchases of automobiles.

Throughout the whole post-war period, most of the western European countries have found it necessary to impose restrictions of one sort or another in order to keep the use of the products of these industries within the limits of available supply. It is true that there was a general relaxation of restrictions after the Korean conflict, including the abandonment of licensing requirements, the reduction of taxes on both consumer durables and investment, and the relaxing of restrictions on consumer credit. In some countries, measures were also taken to encourage investment, ranging from a lowering of the interest rate to special tax advantages. But this relaxation of restrictions proved to be short-lived. In some countries as early as 1954, and in almost all by the end of 1955, active steps were again being taken to curb demand. The result has been a restriction of demand for engineering products below the levels that might otherwise have been expected, with a consequent lessening of the derived demand for metals and for fuels. To some extent, also, demand has been further limited by the deliberate postponement of public expenditure on both durable equipment and construction.

Changes of a very much shorter run nature in the demand for the products of the durable goods industries have also had sharp repercussions upon the balances of payments of particular countries from time to time. Whenever domestic demand moves sharply upward and supplies do not respond—a situation most likely to occur in the fully employed economies—heavy pressure can be exerted upon the balance of trade. Where specific capacity ceilings are reached, the outlet may take the form of high marginal imports or reductions in exportable surpluses. In open economies, trade has always provided this kind of cushion, and, as is pointed out in the discussion of short-term fluctuations below, if the situation is truly temporary it creates a problem only if foreign exchange reserves are inadequate. Where trade effectively plays an equalizing role, of course, shortages of particular commodities in specific countries will result in true production bottlenecks (as opposed to a deterioration of the trade balance) only when they occur in all producing countries at the same time.

The influence of such specific capacity ceilings upon balances of payments is more readily apparent for coal and steel than it is for engineering products. Some examples are shown in table 21. The average relationship of production and consumption in particular countries for the specified years is shown in the second column, and the fourth column shows the proportion of additional consumption matched by additional production in the following year. Failure of production to keep pace with consumption—with a consequent impact upon the trade balance—is indicated when the ratios in the fourth column are significantly lower than those in the second. Particularly striking examples are afforded by the increases in the consumption of coal from 1954 to 1955 in western Germany and the United Kingdom. Western Germany, which was a net exporter of coal in 1954, was able to increase its production of coal in 1955 by only 19 per cent of the rise in consumption, thus turning a coal export balance into an import balance. In the United Kingdom, production declined while consumption rose, thus accounting for the negative percentage shown in the fourth column. Since, in the particular years shown in the table, capacity ceilings in the production of coal seem generally to have been reached throughout Europe, the source of the additional

Table 21. Production and Consumption[a] of Hard Coal and Steel, Selected Countries

(In percentages)

Country and item	Ratio of production to consumption		Ratio of increase in production to increase in consumption	
	Year	Percentage	Year	Percentage
Hard coal:				
Belgium-Luxembourg	1950	107	1950–1951	48
France	1950	87	1950–1951	34
Germany, western	1950	111	1950–1951	54
Netherlands	1950	73	1950–1951	25
United Kingdom	1950	109	1950–1951	48
France	1954	86	1954–1955	69
Germany, western	1954	106	1954–1955	19
Netherlands	1954	68	1954–1955	−29[b]
United Kingdom	1954	106	1954–1955	−35[b]
Steel:				
Canada	1950	79	1950–1951	14
Sweden	1950	69	1950–1951	30
United States	1950	102	1950–1951	88
France	1951	161	1951–1952	51
Germany, western	1951	121	1951–1952	62
United Kingdom	1951	114	1951–1952	36
Denmark	1953	29	1953–1954	9
Sweden	1953	76	1953–1954	32
Germany, western	1954	104	1954–1955	78
Netherlands	1954	46	1954–1955	18
United Kingdom	1954	114	1954–1955	58

Source: Organisation for European Economic Co-operation.

[a] Production plus imports minus exports.

[b] Decrease in production as a percentage of increase in consumption.

imports was to a large extent North America. For example, dollar expenditures upon imports of coal by western Europe from the United States may have been of the order of $350 million in 1955.

Some idea of the impact of these short run bottlenecks upon the balance of trade may be obtained from the table below,[13] which shows changes from 1954 to 1955 in the balance of trade in coal and in steel, together with the changes in the total balance of trade.

	Changes in the balance of trade from 1954 to 1955		
	Total	Coal	Steel
	(Millions of dollars)		
Belgium-Luxembourg	181	20	148
France	145	35	163
United States	306	181	155
Germany, western	−335	−165	−81
Netherlands	−74	−10	−28
United Kingdom	−784	−171	−143

The changes in the balance of trade in these two items from 1954 to 1955 in western Germany, the Netherlands and the United Kingdom were equivalent to 40 per cent or more of the total reduction in export balances or increase in import balances. Offsetting movements occurred in Belgium-Luxembourg, France and the United States, where supplies of coal and steel were sufficient to enable these countries to meet larger demands from abroad as well as to satisfy the requirements of domestic consumption.

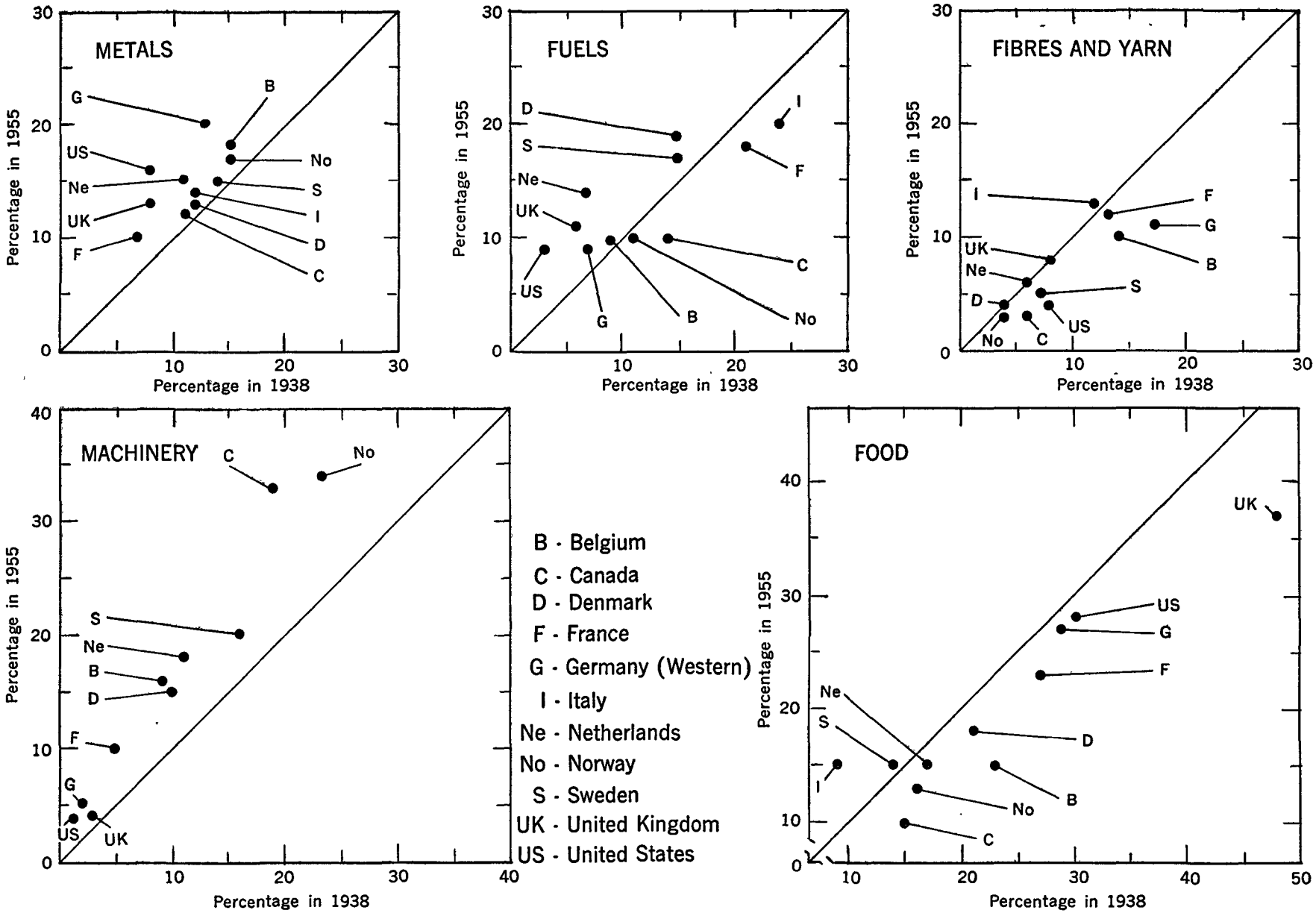
[13] United Nations Bureau of Economic Affairs.

It should be borne in mind, furthermore, that substitution plays an important role even in the short run; thus the substitution of petroleum for coal has mitigated the pressure of demand upon coal, and if marginal imports of petroleum as well as coal were included in the above table the effect of coal shortages upon the balance of payments would be shown to be even greater.

In the engineering industries, the marginal impact of increases in demand upon balances of payments has been much less sharp. Although shortages have appeared from time to time in particular segments of the industry—machine tools and electrical machinery in particular—engineering products as a whole are highly diversified, and these particular shortages have not appeared in enough segments of the industry at the same time to affect the data for the industry as a whole. For the most part, increasing domestic production has fairly closely matched increasing domestic use. There are, as has been pointed out above, longer run trends in some countries toward an increasing ratio of domestic consumption to production—notably in the United Kingdom—and in others, especially western Germany, toward a decreasing ratio, but these trends tend to be fairly steady over time; they do not show sharp year-to-year variations.

The Korean boom, for example, did not lead to any deterioration in the balance of trade in engineering products as a group in any of the major producing countries. In the United States, consumption of engineering products rose sharply, but production rose as

Chart 6. Shifts in the Composition of Imports from 1938 to 1955
(As percentage of the total value of imports)



Source: United Nations Bureau of Economic Affairs. For western Germany and Norway pre-war data relate to 1936 and 1937, respectively. B, Belgium includes data for Luxembourg.

much. In most of the other industrial countries, domestic consumption showed no abnormal rise, and the rise in production was, in general, greater. To some extent, this was undoubtedly the result of the deliberate limitation of domestic demand by governments referred to above. The investment boom of 1954/55 has perhaps had slightly more impact upon trade balances in engineering products. In France and the United Kingdom in 1955, and in the Netherlands in 1954, production failed to cover its usual share of the increase in consumption; the magnitudes involved are not nearly as large, however, as those for coal and steel shown in table 21 above.

These data do not, of course, mean that supply was necessarily always adequate in the engineering industries. The information on the level of back orders cited above, for instance, indicates that capacity was in fact a limitation in 1951, and probably again in 1954/55, if not generally throughout the engineering industries at least in some lines. And the difficulties in the expansion of coal and steel production must to some extent have impeded expansion of the output of engineering products. But these bottlenecks have not, for the most part, found an outlet in significantly increased imports or decreased exports. Rather, where stringency has appeared, consumption has been held to the level that the growth of production would permit. In the Korean period, capacity everywhere may have been so fully utilized that trade could not provide an effective relief from shortages; in the more recent period, the boom has not been as universal—in particular, it did not, especially in its early phase, extend to the United States—but in the western European countries the restrictive measures generally introduced in this period have limited the role that trade has been allowed to play.

Shifts in the composition of imports

Changes in the commodity structure of imports have in part been the logical response to these developments in the pattern of production and demand, in particular the shift in both internal and external demand toward durable goods and the accompanying shift in output from light to heavy industry. But the changes arising from this source have been modified by other forces. Technological change has had a powerful influence; its effect upon the fuel balance has been particularly important, but there are other areas in which it has been of considerable significance. Government policy has also had a direct and tangible impact on imports, in the attempt either to protect particular areas of the economy or to reduce balance of payments deficits. The geographic distribution of imports has also undergone considerable change in the post-war decade, in part as a necessary consequence of the changing commodity structure, but again greatly modified by government policy—notably the discrimination against imports from dollar sources.

The main changes in the commodity structure of imports of the industrial countries since the pre-war period are shown in chart 6. This chart shows, for five of the principal commodity groups, the changes from 1938 to 1955 in the percentage shares of each group in the total current value of imports. The vertical axis shows the percentage share in 1955, and the horizontal axis the percentage share in 1938. Points lying above the diagonal, therefore, indicate increases in shares, and points lying below the diagonal indicate decreases.

The impact of the changing structure of demand is readily apparent in this chart. In both western Europe and North America, the share of imports consisting of metals and metal products has risen substantially. In all of the countries examined, the share of each of these groups in total imports has risen, but the extent of the rise varies somewhat from country to country. The largest relative increase in imports of raw materials for the durable goods industries has occurred in the major producing countries—France, western Germany, the United Kingdom and the United States—whereas the largest rise in imports of finished durables has occurred in the smaller producers—Belgium, Canada, Denmark and Norway.

With regard to raw materials for the durable goods industries, in western Europe the largest increase has occurred in imports of steel, which have more than doubled in quantity since 1938. Imports of non-ferrous metals have increased slightly as a share of current value, but in quantity terms the increases have not been significant. In the United States, however, the situation is quite different. Whereas western Europe was always dependent on imports for most of its supplies of non-ferrous ores and metals, the United States was virtually self-sufficient in these items before the war. The volume of United States imports of both aluminium and zinc has increased more than twenty times since 1938, and that of iron ore more than ten times. Relatively large increases were also recorded for virtually all other metallic ores and metals, with the notable exception of tin, which was affected by technological advances during the war designed to offset the loss of supplies from the Far East. In consequence, the share of metals and metallic ores in the total value of imports of the United States has doubled during the period, rising from 7 to 15 per cent.

The largest part of the increase in the share of finished durable goods in the value of imports of industrial countries is attributable to producer durables. In particular, non-electrical machinery has risen in the countries whose own engineering industries are insufficient to meet their entire needs. The share of imports of transport equipment has also risen, but in general not as much. In Norway, however, imports of ships have almost alone been responsible for the rise in the share of transport equipment from 15 to 22 per cent of the

total value. In Denmark, also, imports of transport equipment—automobiles, in this case—consumed a rapidly increasing share of total imports through 1954. At that time, as noted above, restrictive government policy severely curtailed the demand for imported automobiles.

The consequences of rising demand for imports are most striking for metals and metal products, but they are also apparent in other areas. The share of pulp and paper products in the total value of imports has risen generally, and in France, the United Kingdom and the United States the share of imports of timber has also increased significantly. In France and the United Kingdom imports of rubber have increased in relative importance.

In like manner, the commodity structure of imports also reflects the shift away from textiles and other consumer non-durables. The share of textiles in the value of imports has dropped nearly everywhere; the absolute quantity of textile imports has remained roughly the same. But what is perhaps of greater significance is the changing nature of textile imports. The decreases are for the most part decreases in textile raw materials; the share of imports of fabrics in the total value of imports has generally risen slightly, and in quantity terms, imports of cotton fabrics for western Europe, for instance, have quadrupled. This substitution of imports of finished textiles for imports of textile raw materials is most striking in western Germany, but it is apparent also in Belgium, Sweden and, to a lesser extent, the United Kingdom. In the United States, imports of raw wool in 1955 were in quantity terms almost three times their pre-war level, but nevertheless the share of fibres and yarns combined dropped significantly.

The shares of other consumer non-durable goods and the raw materials for them have also generally dropped. Clothing, hides and skins, leather products and fats and oils all share the decrease.

Technological developments have also contributed to changes in the structure of imports. It would obviously be impossible in the present context[14] to evaluate the total effect of technological change upon the volume and structure of imports, but some of the more readily apparent consequences may be mentioned. The effect of advancing technology in limiting post-war demand for tin has already been touched on above. In addition, the substitution of synthetic for natural rubber, of aluminium for steel and timber, of synthetic for natural textile fibres, and of plastics for a wide variety of natural materials has had consequences that are visible in the commodity distribution of imports. The share of imports of rubber in the total value of United States imports, for instance, has fallen owing to the growth in domestic production of synthetic rubber. Imports of aluminium have risen sharply, both in absolute quantity and as a share of the total value of imports. In the United States, aluminium imports have risen more than non-ferrous metals in general, and in western Europe aluminium is the only non-ferrous metal to show a sizable increase—in quantity terms, double that of steel. At the same time, imports of timber into western Europe have not increased in quantity terms at all. Despite the fact that synthetic fibres are largely domestically produced, western European imports have nearly tripled in quantity since 1938, while imports of natural fibres have not increased at all.

In terms of the repercussions upon the balance of payments, however, the most far-reaching technological changes have been in the fuel balance. In western Europe, imported petroleum has increasingly been substituted for domestically produced coal as a source of energy. From 1948 to 1955 the percentage contribution of coal as a primary source of energy fell from 79 to 70 per cent, whereas that of crude oil rose from 10 to 17 per cent. While the substitution of petroleum was inevitable in any case, the rate at which it took place was probably a reflection in part of the European coal shortage. Indeed, the effect upon imports was increased by the change in western Europe's position from a net exporter of solid fuels before the war to a net importer since. In quantity terms, the increase in coal imports has not been large (about 15 per cent), but imports of crude petroleum have risen about eightfold. The impact of these changes in the fuel balance upon individual countries is shown in chart 6. The largest increase in the share of fuels in total imports was in the United Kingdom, and because of the sheer magnitude of United Kingdom imports it is this that dominates the totals for western Europe as a whole. However, the share of fuels has risen everywhere in western Europe except in France, Italy and Norway. The drop in Italy reflects the development of domestic sources of petroleum, and that in France presumably the rising domestic production of coal; in France, in contrast with some of the other European countries, net imports of coal have fallen. Norway has always been dependent upon imported coal, and the substitution of other sources of energy for coal was already well advanced before the war; coal now contributes less than 10 per cent of Norway's total energy supply, and almost 50 per cent is derived from domestically produced hydroelectric power. In contrast to the western European development, Canada has become increasingly self-sufficient in primary energy supply. Net imports out of total primary energy availabilities declined from 44 per cent in 1950 to 28 per cent in 1955. The share of fuel in total imports has also declined significantly since the pre-war period. This development reflects the post-war discovery and exploitation of extensive domestic petroleum resources.

Government policy has affected the structure of imports both through direct impact upon imports of par-

[14] For a further discussion of these matters see United Nations, *World Economic Survey, 1955* (sales number: 1956. II.C.1), chapters 1 and 2.

ticular commodities and through more general restrictions upon either total imports or imports from particular sources.

In western Europe, the impact of government policy upon particular commodities is most apparent for food. The degree of success which the policies of increased self-sufficiency in agriculture have achieved is apparent in chart 6; the share of imports of food in the total value of imports has dropped everywhere but in Italy and Sweden. These policies reflect in part the desire to reduce the heavy balance of payments deficits encountered in the early post-war years, which were due in large measure to the abnormally high net imports of food that were required in the recovery period. From a long-term point of view, however, restrictive food import policies were the inevitable accompaniment of domestic measures designed to bring standards of living on farms up to something closer to those prevailing in the towns than had been the case before the war.

Government policy in western Europe has also had an influence upon the structure of imports through restrictions on the total level of imports. During the early post-war years when controls on imports were relatively tight, priority was accorded to essential deliveries of food and raw materials, and of equipment for reconstruction, and there was little or no room for imports of other manufactures. As balance of payments positions improved import restrictions were relaxed and the imports of western European countries from one another were progressively liberalized. As table 22 shows, the liberalization of trade in raw materials is still well ahead of the other commodity groups, but there has been a substantial freeing of trade in food and manufactures since 1950. More recently, since 1954, discrimination against imports from North America has also been substantially reduced.

In the United States, the influence of government policy regarding particular imports is most apparent in petroleum and in the consequences of the stockpiling programme and of the purchases of military equipment and supplies abroad.[15] As a result of domestic conservation policies, petroleum imports—both crude and refined—have risen in quantity even more than those of western Europe, and fuel imports have increased from 3 per cent of the total value of imports to 9 per cent.

Government policy relating to the total level of imports has probably not had an influence on the structure of imports in the United States, or in Canada since the lifting of import restrictions at the beginning of 1951, comparable with its effect in western Europe. Tariff reductions have no doubt contributed to the total growth of the imports of North America, but no evidence is available that would suggest that the repercussions have been far-reaching.

Table 22. Western Europe: Average Import Liberalization, by Commodity Groups[a]

(Percentages; end of period)

Year	*Total*	*Food and feedstuffs*	*Raw materials*	*Manufactures*
1950				
First quarter.....	54.8	56.3	60.3	49.8
Fourth quarter...	66.7	66.8	76.7	58.8
1951.....	61.5	47.8	73.1	58.3
1952.....	63.9	55.5	71.0	61.9
1953.....	75.7	66.6	84.6	72.3
1954.....	83.3	79.3	91.6	78.2
1955.....	85.8	81.9	93.5	81.3

Source: Organisation for European Economic Co-operation.

[a] Percentages relate to private imports from member countries of the OEEC and their overseas territories and the reference year is 1948, with the exceptions noted below. The calculation takes into account: (i) the list of commodities imported on private account in the current period, irrespective of whether in 1948 they were imported on private or government account; (ii) the value of imports in 1948. Data for the end of 1954 and 1955 are not fully comparable with those for earlier years. The latter are calculated on the basis of imports in 1948 throughout; for 1954 and 1955, however, the liberalization percentages for western Germany are based on 1949 and for Austria on 1952. It should be noted that the freeing of a commodity which was, in the reference year, subject to stringent import restrictions can raise the liberalization percentage only by a very small amount even if, thereafter, it is imported in much greater quantities. For further details on the method of calculation see Organisation for European Economic Co-operation, *Sixth Report* (Paris, 1955), pages 149 to 150.

The over-all effect of structural change

It is not possible to sum up the effects of the various structural changes discussed above because they are indistinguishable, in the data, from the effects of all other factors. All that can be said is that on the whole imports have been rising more slowly than exports in western Europe since the war—as was inevitable if balance of payments deficits were to be reduced—while the opposite has been happening in North America—as again was inevitable if the critical problem of dollar shortage was to be overcome. The best evidence that post-war structural changes both in domestic production and in international trade have, on balance, tended to promote the above result rather than obstruct it is that the easing of balance of payments problems in recent years has taken place in the context of a progressive relaxation of trade restrictions. In other words, balance of payments adjustment between the industrial countries no longer rests almost exclusively upon the matching of imports and exports by government fiat in western Europe but is able to rely increasingly upon market forces which have shifted in accordance with the structural changes already reviewed.

Two notes of caution must, however, be struck. Although the imbalance between the dollar area and the rest of the world characteristic of the early post-war

[15] United States oversea military expenditures rose from $799 million in 1948 to $2,603 million in 1954 and $2,804 million in 1955. Government imports for the stockpile were estimated at about $160 million in 1948 and well over $600 million in 1954.

years has been greatly reduced, a significant "dollar gap" remains if account be taken only of commercial transactions, and this gap is at present bridged only thanks to economic aid and military expenditures overseas of the United States Government. Secondly, the fact that structural change has on the whole permitted a relaxation of governmental controls over external transactions in the developed countries does not mean that it has affected the under-developed countries in the same way. In so far as the structural changes reviewed above have tended to limit the export markets of many of the under-developed countries, the consequent easing of balance of payments pressures in the industrial countries is accompanied by an intensification of such pressures in those under-developed countries affected by the changes. Since ultimately the network of balances must be coherent on a worldwide scale and not simply within a restricted group of countries, it has to be conceded that the structural changes that have thus far taken place in the post-war period are entirely insufficient to bring about an enduring improvement in balances of payments on a worldwide scale. For the achievement of the latter objective would involve a process of structural change that would be more far-reaching and a rate of growth that would be even greater in the under-developed than in the developed countries, rather than the reverse.

The problem of mobility of resources

The fact that structural changes in the industrial countries have, on the whole, been in the direction dictated by long-term shifts in world demand and supply does not mean that these changes have taken place sufficiently quickly. Examples have been given of instances in which bottlenecks, especially in the supply of coal and steel, have contributed to heavy pressure on balances of payments by necessitating heavy imports of the items in short supply and limiting the production of goods intended for export.

One of the most important elements in the slow pace of structural adaptation is the relative immobility of resources. If capital and manpower could always be readily moved from industry to industry, resources could be mobilized at critical points with the aid of relatively small incentives so as to avoid the difficulties created by bottlenecks. In practice, however, spindles and looms cannot be converted into lathes no matter how much greater the profit on engineering products than on textiles. Thus the composition of plant and equipment can be changed only gradually as a result of shifts in the composition of new investment. The only way in which short-period mobility of the capital structure could be secured would be by having a margin of excess capacity, particularly in those industries in which bottlenecks are of critical importance for the economy as a whole—such as the steel industry. Just as electric power supplies have to be planned in such a way as to make it possible to meet peak loads, so is there a case for key sectors of industry to be equipped for peak demands.

In practice several of the industrial countries have found themselves frequently reaching the limits of capacity in certain sectors, as was shown above. There are indications that in some cases this has been due at least in part to inadequate investment during the post-war period. An approximate measure of a country's potential in altering its capital structure is provided by the proportion of total output set aside for gross investment in fixed capital.[16] It will be seen from table 23 that the average ratio of gross fixed investment to output from 1950 to 1955 varied widely among the industrial countries listed; the table suggests that Norway, at the top of the list, allocated nearly twice as large a proportion of its resources to gross investment as the United Kingdom, while the disparity in net investment was even greater.[17]

Part of the divergence between the gross investment ratios of the countries in table 23 was due to residential construction, an element of investment of uncertain relevance in the present context. The construction of dwellings would contribute to mobility only in so far as it made it possible or attractive for workers to move from one area to another, but the data do not lend themselves to a breakdown in these terms. Table 23 does, however, show that even if housing construction is deducted, the ranking of countries in terms of the ratio of gross investment to output is barely affected.

It does not follow that because the countries near the top of table 23 devoted a relatively large fraction of their resources to "productive" investment (that is, fixed investment excluding housing) they necessarily had a corresponding advantage in expanding capacity in the hardest pressed sector of metals and engineering. France, the United Kingdom and the United States compensated partly or wholly for the lag in over-all productive investment by allocating a higher proportion of such investment to the metals and engineering industry than most countries at the head of the table.

It also has to be borne in mind that the ratio of fixed investment to output in any country will depend partly

[16] Gross investment is referred to here rather than net investment because it would in principle be possible to disinvest in some sectors of the economy in favour of other sectors in which expanded capacity is desired. The textile industry is an example of an industry in which, at least in some countries, part of the capital stock is being allowed to run down. In practice it can be expected that the maximum resources available each year for changing the capital structure of a country would be somewhere between the gross and net investment figures.

[17] It is worth noting that in Norway, as well as in Canada, foreign resources have been made available to finance fixed investment on a larger scale than in the other countries. In Norway, from 1953 to 1956, the average annual net inflow of capital for investment in ships constituted 6 per cent of total gross fixed domestic investment; in Canada, over the period 1950 to 1955, 7 per cent of domestic gross fixed investment was financed by direct investment capital from abroad.

Table 23. Gross and Net Fixed Investment, Western Europe and North America

(Annual average 1950-1955; details in percentages)

Country[a]	Gross fixed investment (Per cent of gross national product)			Metal and engineering industries[b] (Per cent of gross fixed investment less dwellings)	Net fixed investment (Per cent of net national product)
	Total	Dwellings	Total less dwellings		
Norway	27.6	5.9	21.7	6.7	21.8
Canada	22.2	4.5	17.7	5.7	15.9
Netherlands	21.1	3.5	17.6	7.2	15.0
Germany, western	20.7	5.3	15.4	13.8	17.0
Sweden	19.4	4.5	14.9	5.8	12.0
Italy	19.2	4.0	15.2	...	13.8
Denmark	17.7	2.9	14.8	...	14.0
France	16.8	3.6	13.2	14.5[c]	7.5
United States	16.6	4.1	12.5	11.4	9.9
Belgium[d]	14.3	3.2	11.1	...	7.1
United Kingdom	13.7	3.1	10.6	11.5	7.1

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

[a] In descending order of the ratio of gross fixed investment to gross national product.

[b] The industry coverage of metals and engineering varies somewhat as between countries, but in general includes fixed investment in the iron and steel, mechanical and electrical engineering, trans port equipment and shipbuilding industries. For Norway and Sweden capital repair and maintenance are included both in the numerator and in the denominator of this ratio.

[c] 1952–1955 average.

[d] 1950–1954 average.

on the capital intensity of the various sectors of the economy and the rate of growth of each sector. For any given ratio of fixed investment to total output, the rate at which the capital structure of the economy can be transformed will depend upon whether this transformation involves a shift from sectors in which capital requirements per unit of output are relatively high to those in which they are relatively low, or *vice versa*. For example, since the capital requirements per unit of output are relatively high in shipping, it is to be expected that a country shifting its capital structure strongly in favour of shipping—such as Norway—would need to allocate a larger than average share of total output to investment; this is, of course, the case.

Table 24. Gross Fixed Investment in Producer Durables and Construction, Selected Countries,[a] 1950

(Per cent of gross national product)

Country	Producer durables and construction		Producer durables	
	National prices	Dollars	National prices	Dollars
Germany, western	19.5	18.8	11.1	6.2
United States	19.0	19.0	8.2	8.2
Italy	17.8	12.6	10.0	4.0
France	17.0	14.2	8.7	6.0
United Kingdom	13.8	12.0	8.1	5.7

Source: Organisation for European Economic Co-operation, *An International Comparison of National Product and the Purchasing Power of Currencies*, by Milton Gilbert and Irving B. Kravis (Paris, 1954).

[a] In descending order of the ratio of gross fixed investment in producer durables and construction to gross national product, based on national prices.

It is nevertheless clear that had, say, the United Kingdom been in a position during the period 1950 to 1955 to invest as high a proportion of its income as Canada or Norway, its exports would not have been limited to the extent that they actually were by inadequate supplies of engineering products, and the recurrent bottlenecks in coal and steel could have been avoided.

While the data in table 23 are adequate to support the foregoing exposition in general terms, they should be regarded as illustrative rather than precise. There are many elements of incomparability affecting ratios of this type, not the least being the substantial variations between countries in the relationship between the prices of investment goods and of other goods. A much greater degree of inter-country comparability than that provided in table 23 has been achieved in a special study of five of the countries listed in that table—namely France, western Germany, Italy, the United Kingdom and the United States.[18] In addition to other adjustments undertaken in the study, the price relationships obtaining in the United States in 1950 were applied to the expenditure pattern of each of the other four countries in that year. Ratios of investment to output based on these adjustments are shown in columns two and four of table 24 alongside the corresponding ratios calculated for each country in terms of its local price pattern. In both comparisons Italy's rank is lower in terms of United States prices than in terms of national prices, reflecting the relatively higher prices of investment goods in relation to other goods in Italy than in the other four countries. At the same time, in terms of both total fixed investment and of investment

[18] Organisation for European Economic Co-operation, *An International Comparison of National Product and the Purchasing Power of Currencies*, by Milton Gilbert and Irving B. Kravis (Paris, 1954).

Table 25. Gross Fixed Investment in Metal and Engineering Industries, Western Germany and the United Kingdom

Industry and country	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*[a]
Index (1950 = 100):						
Metals and engineering:[b]						
Germany, western	100	150	183	212	250	315
United Kingdom	100	111	119	111	138	175
Percentage of gross fixed investment in metals and engineering:						
Iron and steel:						
Germany, western	27.1	28.3	36.7	40.0	44.1	43.3
United Kingdom	32.4	32.3	29.8	26.6	28.6	24.9
Electrical and mechanical engineering:						
Germany, western	44.9	44.9	37.3	33.9	32.7	32.8
United Kingdom	33.8	34.1	38.7	40.8	38.1	35.3
Transport equipment:[c]						
Germany, western	16.2	16.2	15.9	16.1	14.1	14.7
United Kingdom	19.2	20.4	19.9	21.3	20.0	26.4
Shipbuilding:						
Germany, western	1.8	1.9	2.2	2.8	1.9	1.9
United Kingdom	2.0	2.4	2.2	2.4	2.4	2.2
Total, above sectors:						
Germany, western	90.0	91.3	92.1	92.8	92.8	92.7
United Kingdom	87.4	89.2	90.6	91.1	89.1	88.8

Source: United Nations Bureau of Economic Affairs.

[a] Preliminary.

[b] Excluding non-ferrous metals.

[c] Excluding shipbuilding.

in producer durables—which may be regarded as indicative of investment in productivity—the United States rises to the top of the list after correcting for price differences. The relative positions of western Germany, France and the United Kingdom, however, are not altered after taking account of this correction, but the range between them is much reduced.

Thus far the discussion has proceeded on the assumption that the distribution of investment within the major categories in each country was the optimum from its own point of view during the years 1950 to 1955. This cannot, however, be taken for granted. Of considerable importance, for example, is the fact that United Kingdom investment in the iron and steel industry has been falling proportionally since 1950, as shown in table 25, while corresponding west German investment has been rising. It seems reasonable to suppose that the capital requirements per unit of output in iron and steel are greater than in engineering or transport,[19] in which case differences in the direction of structural change may account for part of the contrast between western Germany and the United Kingdom as regards the rate of increase in investment in the critical sector of metals and engineering, shown in table 25. But the consequence of this for the United Kingdom has been a succession of bottlenecks in steel which, as noted above, have had a profound influence on the balance of payments not simply through the direct effect in necessitating imports of steel, but indirectly by obstructing deliveries from all metal-using industries—that is, from the very industries whose products were most in demand throughout the world.

Relative immobility of labour has in some cases been even more of a limiting factor than the immobility of the industrial structure. The shortages of coal miners and of skilled labour in the engineering industries have been critical elements in the sectoral imbalance experienced in many of the industrial countries, and hence have contributed also to difficulties in the balance of payments.

Many sociological and psychological considerations far outside the scope of the present study are involved in the problem of labour mobility. Nor is it possible to do more than refer briefly to the rigidity of wage structures as an element in sectoral labour shortages. What is involved here particularly is the question of wage differentials—differentials between industries, and between more and less skilled labour in each industry. It is commonly and cogently argued that factors of production in an industry undergoing rapid technological development should not hold the rest of the community to ransom, but should pass on part of the benefits in the form of relative reductions in prices. Thus in most countries in recent years productivity has risen much faster in manufacturing than in the rest of the economy but this has not resulted in a fully propor-

[19] According to a recent study by T. Barna, "The Replacement Cost of Fixed Assets in British Manufacturing Industry in 1955", *Journal of the Royal Statistical Society*, Series A (General), vol. 120, part 1, (London, 1957), the ratio of fixed assets to value added in the iron and steel industry in the United Kingdom in 1954 was 3.2 compared with 1.6 for electrical and mechanical engineering, 2.1 for motor and aircraft transport and 1.5 for other metal goods.

tional divergence in wage rates paid. While this is generally accepted as sound policy from a social point of view, it carries with it the unavoidable corollary that the function of wage rates as reflecting the scarcity prices of particular types of labour is thereby circumscribed. Similarly, any tendency for differentials between the wages of skilled and unskilled labour to adhere to "traditional" patterns during periods of change in the relative scarcity of the two types of labour would likewise undermine the effectiveness of wage incentives in bringing about redeployment of labour in the directions desired. In many cases, moreover, the process of wage bargaining has resulted in reduced pay differentials for skilled work even though it may have become much more difficult to recruit skilled labour on the scale required.

Wage differentials are in any case likely to weigh more heavily with new entrants into the labour force than with those already employed. For an employed worker the additional money benefits expected must be weighed against such things as loss of seniority, the sacrifice of specific skills, and loss of security should a policy of "last in, first out" be applied at a later stage in the alternative employment contemplated—to say nothing of the difficulties of uprooting whole families where the move involves a change of abode. The new entrant, on the other hand, probably requires less inducement to choose one industry rather than another than the worker who is already employed. Consequently, the more wage differentials fail, for whatever reason, to compensate adequately for the natural reluctance of people to change their jobs, the more will the mobility of labour come to depend on the rate at which new entrants are being absorbed into employment.

The first point to note, therefore, is that the rise in the total labour force from 1950 to 1955 in the countries listed in chart 7 ranged from less than one per cent in France to more than 10 per cent in western Germany. The relatively low rates of increase in Belgium, France, Norway and Sweden were due to the low natural growth of the population of working age. In the United Kingdom, where the population of working age was increasing no faster than in France, the more rapid increase in the labour force was achieved by means of a rise in the proportion of the economically active. The unusually high rates of increase in the labour force in Canada, western Germany and the Netherlands were due to a high natural rate of growth in the population of working age, coupled with substantial immigration in the cases of Canada and western Germany.

The greater increase in the non-agricultural labour force than in the total labour force shown in all countries in chart 7 reflects the fact that the demand for labour in agriculture was generally not increasing, and, except in Italy, agriculture therefore absorbed no part of the over-all increase in the labour force. On the contrary, in several countries reductions in the existing labour force in agriculture provided an important source for expansion in other sectors. In general the incentives to such transfers have been much stronger than for corresponding transfers from one sector of industry to another because earnings in the towns are generally much higher than in agriculture and in some countries there has been, and continues to be, a problem of surplus labour on the land. The scope for drawing labour from agriculture into industry depends to some extent on the proportion of the total labour force engaged in agriculture, which, as the following percentages for 1950 or 1951 indicate, varies widely among the countries under consideration:[20]

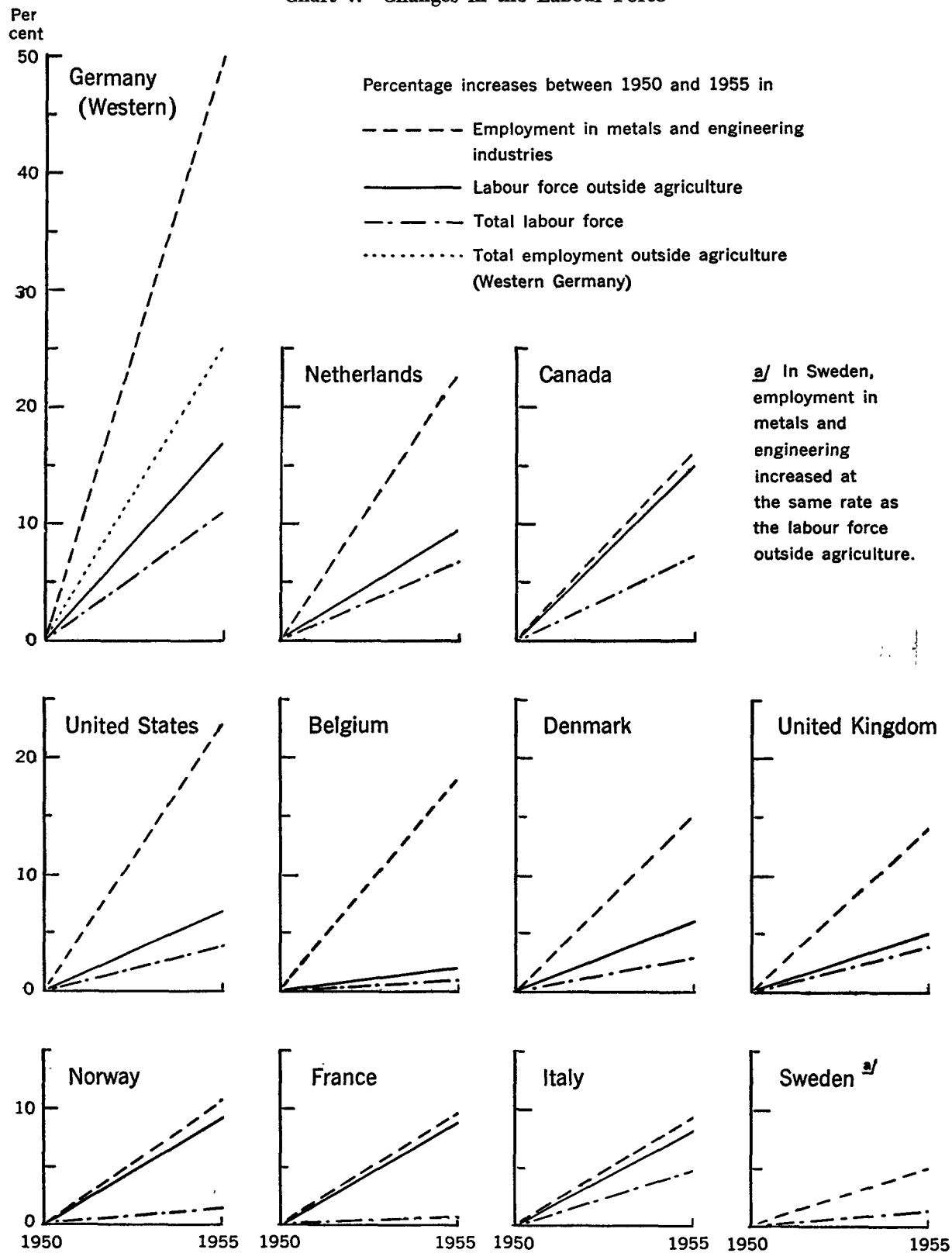
Italy	40	Sweden	20
France	31	Netherlands	14
Norway	30	United States	13
Denmark	25	Belgium	11
Germany, western	23	United Kingdom	5
Canada	22		

The importance of a large reserve of manpower in agriculture is most clearly revealed in the cases of France and Norway, where the non-agricultural labour force increased considerably from 1950 to 1955 despite the fact that the total labour force grew only slightly. Conversely, the agricultural labour force in Belgium, the Netherlands, the United Kingdom and the United States had already, by 1950, been compressed to the point at which it was not likely to provide new recruits for non-agricultural employment on the scale reached in France and Norway. The shift from agriculture was also of relatively little importance during the period under review in Denmark, western Germany and Italy. In Denmark and Italy this was mainly due to the failure of employment opportunities outside agriculture to expand sufficiently, while in western Germany other more accessible reserves of unemployed manpower were available in the industrial areas. The retention of manpower in agriculture in western Germany and Italy is all the more striking in view of the rapid advance of industrial output in these countries, and of the fact that as late as 1955 the agricultural labour force in both countries was nearly as large as before the war, whereas in the other leading industrial countries there had been relatively large reductions.

The growth of employment outside agriculture was generally in line with the expansion in the non-agricultural labour force. Western Germany was the only country in which non-agricultural employment increased much faster than the non-agricultural labour force owing to a reduction in unemployment from the high level of 1950. On the other hand, the demand for labour outside agriculture increased significantly more slowly than the supply in Denmark and Italy, so that unemployment rose. Elsewhere differences between the trends in non-agricultural employment and the non-agricultural labour force were small.

[20] United Nations Bureau of Economic Affairs.

Chart 7. Changes in the Labour Force



Source: United Nations Bureau of Economic Affairs.

It is now possible to see how far different rates of growth of employment in the relatively hard-pressed sector of metals and engineering have been associated with different rates of growth in the non-agricultural labour force and how far with other factors, including shifts of labour within the non-agricultural sector. From chart 7 it appears that, in five countries out of eleven, percentage increases in employment in metals and engineering from 1950 to 1955 corresponded fairly closely to percentage increases in the non-agricultural labour force; these countries are Canada, France, Italy, Norway and Sweden. In a sixth country, Belgium, the picture is obscured by abnormally low employment in metals and engineering in 1950; from 1948 to 1955 employment in this industry group increased only about 5 per cent, compared with a 4 per cent rise in the labour force outside agriculture.

In the remaining five countries—Denmark, western Germany, the Netherlands, the United Kingdom and the United States—the rise in the non-agricultural labour force accounts for only part of the total advance in employment in metals and engineering from 1950 to 1955. Not all of the difference, however, is attributable to transfers of labour. In the United States, as in Belgium, employment in metals and engineering was lower in 1950 than in 1948, so that part of the increase from 1950 to 1955—corresponding to about 5 per cent of employment in 1950—simply represented the reabsorption of labour previously employed. On the other hand, in Denmark the relatively large transfer of labour suggested in chart 7 mainly reflects a decline in the demand for labour in manufacturing sectors other than metals and engineering.

The magnitude of the shift towards metals and engineering in western Germany reflects the relatively low level of output and employment in this industry at the beginning of the period, especially by comparison with countries in which employment in metals and engineering in 1950 was little lower than the war-time peak. The share of metals and engineering in total manufacturing employment in western Germany did not exceed that of pre-war until 1954; by that time the corresponding proportions in Canada, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States were between 20 and 50 per cent higher than before the war.

What distinguishes the Netherlands and the United Kingdom from the other three countries in which the rise in employment in the capital goods industries from 1950 to 1955 was proportionally greater than in the non-agricultural labour force is that they were experiencing significant over-all pressure on labour supplies during much of the period.[21] The advantage lay with the Netherlands in so far as the labour force was increasing about twice as fast as that of the United Kingdom—so that the rate of increase in employment in the metal and engineering industries of the Netherlands could have kept up with the expansion in the United Kingdom, without any very marked shift in the pattern of employment. Of all the countries listed in chart 7 it was the United Kingdom that was compelled to rely most upon the incentives to shifts within the non-agricultural labour force in meeting the labour requirements of the capital goods industries.

The effect of marked differences in the over-all position in the labour market of different countries even on a highly specialized bottleneck sector is strikingly revealed in the case of the underground labour force in the coal mines.

The shortage of manpower for the mines has been much more pronounced in the United Kingdom than in any of the other western European countries. The number of miners has been consistently lower than before the war, unlike all the other industrial countries over most of the post-war period. A principal reason for this was the loss of manpower from the pits during the war, which did not occur in any of the other countries. This had the consequence of raising the average age of British miners (since it was the younger men who left to join the armed forces) so that after the war there was a relatively greater need for new entrants simply to replace men retiring on account of age. But despite the relatively low level of the labour force in mining at the end of the war, Britain has been unable to increase employment in the mines appreciably during the post-war period—while western Germany and the Netherlands managed to increase the underground labour force by 28 and 21 per cent, respectively, from 1947 to 1955.

It is noteworthy that recruitment to the mines in all the five countries shown in table 26 seems to have been affected by the general level of activity. The rate of expansion slackened (or the rate of decline increased) in each case with the rise in activity at the time of the outbreak of hostilities in Korea (between 1949 and 1950) and again with the rise in activity since 1953.

The rise in the west German mining labour force took place under conditions of heavy unemployment, and as a result of relatively high wages and special benefits for miners. The recent general decline in un-

[21] Although the Netherlands Government, in its reply dated 26 May 1952 to the United Nations questionnaire on full employment (document E/2232), spoke of the difficulty of increasing employment opportunities sufficiently quickly to absorb the current growth in the labour force, labour supplies were much tighter both in 1950-1951 and 1954-1955, and these were the periods in which most of the shift of labour towards the metal and engineering industries took place. Emigration rose to a peak during the intervening years of somewhat heavier unemployment, and significantly lessened the rate of growth of the labour force over the whole period 1950 to 1955. But for emigration the increases in the total labour force, and in the labour force outside agriculture would have been 9 and over 11 per cent respectively, instead of 7 and 9.5 per cent as shown in chart 7.

Table 26. Underground Workers in Western European Coal Mines

Item	Belgium	France	Western Germany[a]	Netherlands	United Kingdom
Number on books at end of 1954 (in thousands)	150	220	329	31	558
Percentage change:[b]					
1937 to 1947	13	42	−4[c]	24	−11
1947 to 1955[d]	−3	−34	28	21	1
1947 to 1949	4	−13	18[c]	8	2
1949 to 1950	−4	−7	1[c]	—	−4
1950 to 1953	4	−9	11	11	4
1953 to 1955[d]	−6	−10	−2	1	−1

Source: United Nations Economic Commission for Europe, *Quarterly Bulletin of Coal Statistics for Europe* (Geneva). Data relate to end of period.

[a] Excluding maintenance workers.

[b] Minus sign indicates percentage decline.

[c] Figures for changes between 1937 and 1950 are based on effective employment—average per day of underground workers.

[d] September.

employment in western Germany has been accompanied by a fall in the labour force in the mines.

Among the smaller western European producers, special factors have influenced changes in manpower in the coal mines. In the Netherlands the growth in the small mining labour force has been associated with a rapidly increasing total labour force, and may therefore not have entailed any recruitment of young workers from outside the mining communities. In Belgium and France, there is a long tradition of employment of foreign workers in the coal mines, and many Italian workers have been successfully employed since the war, whereas in the United Kingdom their employment gave rise to considerable friction and was not therefore possible on a very large scale. The labour supply available to the Belgian mines in particular has fluctuated according to the number of Italian miners willing to work there. In France, the number of miners was increased immediately after the war, by specially favourable conditions offered to German war prisoners willing to work in the mines.[22] Despite the continued decline in the French mining labour force, it was appreciably higher than before the war until 1954.

It follows from the above discussion that the mobility and adaptability of a country's total resources in response to the changing pattern of demand depends very largely upon the rate at which fresh, uncommitted resources become available, whether in the form of new investment or of new entrants into the labour force. Among the least adaptable countries, therefore, have been those which are characterized by relatively low rates of investment and recruitment into the labour force; and among the most adaptable have been countries with high rates of investment and intake of labour.

However, such flexibility as is derived from high rates of unemployment, which also contributed importantly to the process of adaptation in western Germany as well as in certain of the other countries examined, is obviously secured only at the sacrifice of a corresponding volume of output. Moreover, it is important to note that the data considered here do not imply that mobility is greater at a high level of unemployment than at a low level; the reverse may well be true. What was shown was that mobility depends upon *the rate of increase* in employment. Clearly, in so far as this rate of increase depends upon the absorption of unemployment, it cannot be an enduring element in the mobility of a country's resources.

On the other hand, the availability of excess capacity in key sectors of the economy is a most important element in the short-run mobility of capital resources. This advantage is possessed *par excellence* by underemployed economies, though again at the cost of corresponding output forgone. In a constantly growing economy operating at or near full employment, on the other hand, the difficulty is to find the resources with which to provide for spare capacity and, having done so, to prevent the existence of such capacity from depressing subsequent new investment. The solution of the latter problems might require the introduction of special tax incentives or other devices.

[22] A part of the increase in the west German labour force between 1947 and 1949 consequently reflected the return of workers from the French mines.

Price Effects and the Balance of Payments

Impact of price changes on foreign trade

The foregoing analysis has been confined to the direct effects upon import requirements and export availabilities of changes in the pressure of demand upon supply—whether aggregate or sectoral—without regard to any effect upon prices. Changes in demand pressures may, however, also exert an influence upon the balance of payments through their effects on the prices of any given country in relation to world market prices. For

example, a rise in the prices of a given country at a time when world prices were stable would tend to reduce the volume of world demand for that country's exports and to increase the volume of that country's demand for imports. The effect on the current value of the external balance would depend on the relevant elasticities. If the proportional decline in the volume of world demand for the country's exports turned out to be less than the proportional rise in export prices, the value of exports would increase—possibly enough to offset or more than offset the increase in the value of imports. In this case the balance of trade might remain unchanged or even improve as a result of the relative rise in prices. On the other hand, if the responsiveness of volume changes was proportionally greater than the price changes giving rise to them, the balance of trade would deteriorate. While a substantial literature has developed since the war devoted to attempts to measure the responsiveness of volume changes to price changes in world trade, the statistical obstacles have proved very great, and views continue to differ widely regarding elasticities in international trade. This is not an area, therefore, in which dogmatic conclusions are possible.

The extent of the divergence between price movements in the various industrial countries during the past few years is remarkable. From 1950 to 1955 increases in the cost of living in the countries listed in table 27—leaving aside Austria, where the exchange rate changed during this period[23]—ranged from 8 per cent in Switzerland to as much as 36 per cent in Norway in terms of national currency and hence also in terms of dollars. This divergence is, however, no greater than was experienced during the inter-war period. During a corresponding five-year span from 1923 to 1928, for example—a period during which several exchange rate adjustments occurred—changes in the cost of living in terms of dollars in the same group of countries varied from zero in France to a rise of 28 per cent, again in Norway.

The price movements from 1950 to 1955 were not accompanied by increased disequilibrium in international trade and payments. On the contrary, the intervening period saw a great increase in the strength of balance of payments positions generally, side by side with major reductions in the extent of exchange and trade controls in western Europe.

Whether the changes from 1950 to 1955 were in the direction of a greater or lesser equalization of absolute price levels depends, of course, upon the relationships between those levels in 1950. Little is known in this area, but the special study cited earlier[24] makes it possible to provide some indications of the relationships between the absolute price levels of five countries in 1950 and 1955. It will be seen from table 28 that the percentage difference between the prices of four European countries and of the United States was greater for the total output of goods and services than for the two product groups, textiles and clothing, and producer durables, both in 1950 and 1955.[25] This is primarily because the prices of services in the European countries are proportionally lower in relation to United States prices than the prices of goods, such as normally enter into international trade. With respect to the two groups of manufactures for which data are available it seems clear that United Kingdom prices were relatively lowest both in 1950 and in 1955. There had been some improvement in the relative positions of western Germany for textiles and of Italy and the United States for producer durables. France's competitiveness, in so far as these data are indicative, would appear to have deteriorated, especially in the field of producer durables.

Table 27. Indices of Cost of Living and Export Unit Value, Selected Industrial Countries, 1955
(In national currencies; 1950 = 100)

Country[a]	*Cost of living*	*Export unit value*
Austria	148	139
Norway	136	128
Sweden	132	135
United Kingdom	131	120
France	130	113
Italy	123	105
Denmark	123	112
Netherlands	116	106
Canada	113	109
Belgium	111	109
United States	111	113
Germany, western	110	120
Switzerland	108	99

Source: Statistical Office of the United Nations.
[a] In descending order of the increase in the cost of living from 1950 to 1955.

One of the principal obstacles to an adequate evaluation of the effects of price changes on the exports of particular countries lies in the very nature of the indices of export prices—or, more strictly, of export unit values—which are available. Most of such indices relate to the prices, or average unit values, of the goods actually sold at a particular time. Clearly, if they were sold, they were, in the broadest sense, competitive—except

[23] The 48 per cent increase in cost of living shown in national currency for Austria in table 27 corresponds to a 14 per cent increase in terms of dollars (the change in the exchange rate being estimated on the basis of the average of the effective import and export rates in 1950). Owing to appreciation in Canada, the 13 per cent increase in the cost of living shown for that country in table 27 corresponds to a 24 per cent increase in terms of United States dollars.

[24] Organisation for European Economic Co-operation, *An International Comparison of National Products and the Purchasing Power of Currencies*, by Milton Gilbert and Irving B. Kravis (Paris, 1954).

[25] The relationships in table 28 are, as indicated, based upon European quantity weights. The price advantages of the European countries are generally less, or the disadvantages greater, in terms of United States quantity weights.

in so far as other goods were precluded from entering particular markets by quota restrictions or discriminatory tariffs. Outside protected markets, if the price of a product sold abroad were higher than that of a comparable product available from another exporting country, the reason would have to be sought either in more successful non-price competition or in some imperfection in the market. Of course, a buyer in an imperfect market who was prepared to pay a certain percentage premium for the product of a particular country might cease to prefer that product if the premium widened. But the difficulty, so far as pinning down such a development in the statistics is concerned, is that in each period of time it is only the prices of the goods sold that are recorded, not those of goods remaining unsold. Thus the fact that the unit value of exports of one country rises 30 per cent during a given period while that of another country rises only 10 per cent does not necessarily involve any particular presumption about the competitiveness of the two countries in general; it may simply mean that the first country is most competitive in those goods which *in both countries* have risen most in price, while the second country is competitive in those products whose prices have risen least.

Table 28. Relative Prices of Total Output and of Textiles and Producer Durables[a]

(In terms of dollars; United States prices in the given year = 100)

Country and year	Total output[b]	Textiles and clothing	Producer durables
France:			
1950	64	102	111
1955	78	116	142
Germany, western:			
1950	60	107	105
1955	60	96	115
Italy:			
1950	52	106	132
1955	56	114	130
United Kingdom:			
1950	61	88	85
1955	67	95	97

Source: Organisation for European Economic Co-operation, *An International Comparison of National Products and the Purchasing Power of Currencies*, by Milton Gilbert and Irving B. Kravis (Paris, 1954).

[a] Relative prices in 1950 refer to market prices and are based on the special calculations made in the source mentioned above, in terms of European quantity weights. Relative prices in 1955 were obtained by multiplying the indices shown for 1950 by the percentage changes from 1950 to 1955, for each country, in the implicit market price of total output, of consumption of textiles and clothing, and of fixed capital investment other than construction, from the national income and product accounts in current and constant prices. In the absence of implicit price indices for consumption of textiles and clothing in the United States, and of fixed capital investment other than construction in Italy, consumer prices for clothing in the first, and wholesale prices for metals and mechanical products in the second, were used.

[b] Gross national product at market prices.

Nor can this difficulty be readily overcome by examining the prices of homogeneous products in various countries. In the field of manufactures, of main concern in this context, such products are extraordinarily few in number and therefore not necessarily typical of total exportable supplies. Product differentiation and the use of special marketing techniques may make it possible to create virtual monopolies or semi-monopolies in international trade just as much as in the domestic trade of the industrial countries—quite apart from monopolies which are the result of special protection. For all these reasons it is necessary to examine the export price movements of the period under review with considerable caution.

It is true that there is a substantial correspondence shown in table 29 between the percentage increase from 1950 to 1955 in domestic wholesale prices and in export unit values for manufactures in all countries except Italy. But this correspondence does not hold good throughout the period in at least three countries other than Italy—namely, Belgium, France and western Germany. How far such divergencies are due to variations in composition, how far to differential pricing of goods for the domestic and export markets and how far to different coverage and methods of calculation cannot be established from the data available.[26]

With these reservations in mind, one may proceed to inquire what effect export price changes appear to have had on the volume and value of exports during the period under review. In table 30 increases in the average unit value, quantum and value of exports of manufactures by nine countries from 1950 to 1955 are expressed as percentages of the corresponding average changes for the whole group of countries. It will be seen that, on the whole, price changes in individual countries relatively greater or less than the average have been associated very roughly with relative quantum changes in the opposite direction. The picture is somewhat obscured by the exceptional expansion of western Germany's exports which were at a much earlier stage of post-war recovery in 1950 than those of the other countries. The degree of association of relative price and quantum changes is somewhat improved by the exclusion of western Germany in the lower half of table 30.

[26] Price differentials would result, *inter alia*, from the introduction of export incentives. Remission of turnover or sales taxes on goods exported is common practice, and some governments go further by providing direct fiscal incentives to exporters. In western Germany since 1951, for example, tax concessions not only apply to final sales for export, but also take the form of a refund of turnover tax paid on intermediate transactions. Certain income tax concessions also accorded to exporters since 1951 were eliminated in two stages in 1955 and the beginning of 1956. The latter benefits were equivalent to about one per cent of the total value of exports in 1955. Again, in France producers receive *pro rata* refund of production taxes as well as of social security and similar contributions paid by them in respect of goods exported to countries outside the franc area. These refunds together with special assistance for the export of agricultural products were equivalent in 1955 to 12 to 13 per cent of the value of French exports to non-franc area countries.

Table 29. Wholesale Prices, Export Unit Values and Wage Cost Per Unit of Output: Total Manufactures, Engineering Products and Textiles, Selected Industrial Countries

(1950 = 100)

Country and year	*All manufactures*			*Engineering products*			*Textiles*		
	Domestic wholesale price[a]	*Export unit value*[b]	*Wage cost per unit of output*[c]	*Domestic wholesale price*[d]	*Export unit value*[e]	*Wage cost per unit of output*[c]	*Domestic wholesale price*[f]	*Export unit value*	*Wage cost per unit of output*[c]
Belgium:									
1951	118	133	101	123	108	102	128	...	...
1952	115	131	108	130	115	114	96	...	...
1953	109	112	106	125	118	118	89	...	...
1954	110	105	102	122	107	115	88	...	...
1955	112	109	97	127	112	107	87	...	...
France:									
1951	135	117	119	124	112	116	136	125	129
1952	139	129	137	153	130	120	111	117	145
1953	131	122	137	159	131	128	104	107	138
1954	128	120	132	149	132	136	102	105	136
1955	128	122	130	153	136	128	95	104	143
Germany, western:									
1951	120	121	106	116	116	99	129	127	108
1952	120	131	110	122	131	99	100	124	111
1953	114	122	108	119	136	102	91	108	108
1954	112	117	106	117	136	98	89	110	107
1955	115	120	104	117	138	96	88	111	109
Italy:									
1951	113	120	98	113	118	103	135	130	102
1952	104	112	101	111	120	101	112	107	106
1953	108	106	94	106	123	96	104	93	98
1954	111	104	90	104	126	99	104	92	102
1955	111	101	90	104	120	97	100	88	107
Netherlands:									
1951	123	...	104	127	...	109	122	122	99
1952	116	...	106	128	...	110	101	105	96
1953	114	...	102	121	...	100	98	94	93
1954	116	...	112	119	...	97	99	92	103
1955	118	...	111	128	...	96	101	91	105
Sweden:									
1951	129	136	118	120	110	120	144	...	...
1952	133	138	140	144	126	143	124	...	...
1953	127	127	141	139	131	145	119	...	...
1954	125	122	141	128	126	142	119	...	...
1955	128	127	147	131	123	147	118	...	...
United Kingdom:									
1951	117	117	107	...	111	105	136	130	111
1952	120	125	118	...	122	120	104	122	120
1953	117	119	120	...	122	124	99	110	122
1954	117	118	122	...	122	121	99	111	128
1955	121	120	128	...	125	126	96	111	134
United States:									
1951	110	113	108	109	...	112	112	...	107
1952	108	114	109	112	...	113	101	...	108
1953	108	113	113	113	...	113	98	...	107
1954	109	112	114	115	...	114	96	...	103
1955	111	115	115	118	...	115	96	...	99

Source: United Nations Bureau of Economic Affairs.

[a] Finished and semi-finished products except for Belgium, Italy, the Netherlands, for which semi-finished products are excluded; for western Germany including energy.

[b] Finished and semi-finished products. Not always consistent with data basic to calculations of indices of unit value and volume appearing quarterly in United Nations, *Monthly Bulletin of Statistics.*

[c] In view of limitations in the basic data, these indices should be taken to indicate no more than orders of magnitude of changes.

[d] Belgium, France, the Netherlands: finished metal products; all other countries: engineering products.

[e] Machinery and transport equipment. Belgium: investment goods.

[f] Belgium, Sweden: including raw materials.

However, it might have been expected that a better inverse correlation between relative price and quantum changes would emerge for textiles and engineering products separately than for manufactures as a whole. In fact the data in tables 31 and 32 suggest, if anything, a lesser degree of correlation for the two product groups separately than for total manufactures.

Table 30. Exports of Manufactures:[a] Relative Changes in Export Unit Value, Quantum and Value for Nine Countries, from 1950 to 1955

Country	Change in unit value relative to average change for group	Country	Change in quantum relative to average change for group	Country	Change in value relative to average change for group
		TOTAL INCLUDING WESTERN GERMANY			
Sweden	108	Germany, western	211	Germany, western	216
France	103	Denmark	139	Denmark	132
United Kingdom	102	Netherlands	127	Netherlands	127
Germany, western	102	Belgium	112	Belgium	104
Netherlands	100[b]	Italy	104	Sweden	94
United States	97	United States	92	France	93
Denmark	95	France	89	United States	90
Belgium	92	Sweden	87	Italy	89
Italy	86	United Kingdom	77	United Kingdom	78
Average for group	118	Average for group	142	Average for group	167
		TOTAL EXCLUDING WESTERN GERMANY			
Sweden	108	Denmark	155	Denmark	148
France	103	Netherlands	142	Netherlands	142
United Kingdom	102	Belgium	124	Belgium	116
Netherlands	100	Italy	115	Sweden	105
United States	97	United States	102	France	104
Denmark	95	France	99	United States	100
Belgium	92	Sweden	97	Italy	99
Italy	86	United Kingdom	85	United Kingdom	88
Average for group	118	Average for group	128	Average for group	150

Source: Statistical Office of the United Nations for export data. Unit values are based on national statistics.

[a] Standard International Trade Classification, sections 5 to 8.
[b] Based on wholesale prices.

Table 31. Textile Manufactures:[a] Relative Changes in Export Unit Value, Quantum and Value for Seven Countries, from 1950 to 1955

Country	Change in export unit value relative to average change for group	Country	Change in quantum relative to average change for group	Country	Change in value relative to average change for group
United Kingdom	110	Germany, western	258	Germany, western	280
Germany, western	108	Japan	160	Japan	159
France[b]	103	Netherlands	151	Netherlands	136
Japan	99	United States	112	United States	102
United States[c]	91	Italy	82	France	83
Netherlands[b]	90	France	80	United Kingdom	76
Italy	87	United Kingdom	71	Italy	72
Average for group	101	Average for group	112	Average for group	113

Source: Statistical Office of the United Nations for export data. Unit values are based on national statistics.

[a] Standard International Trade Classification, division 65.
[b] Derived from quantum index as published, and value.
[c] Wholesale prices.

Table 32. Machinery and Transport Equipment:[a] Relative Changes in Export Unit Value, Quantum and Value for Eight Countries, from 1950 to 1955

Country	Change in export unit value relative to average change for group	Country	Change in quantum relative to average change for group	Country	Change in value relative to average change for group
Germany, western	110	Germany, western	265	Germany, western	294
France	109	Denmark	144	Denmark	136
United Kingdom	100	Belgium	125	Belgium	112
Sweden	98	Italy	103	France	100
Italy	96	France	93	Italy	99
United States[b]	94	United States	89	Sweden	86
Denmark	94	Sweden	87	United States	84
Belgium	90	United Kingdom	79	United Kingdom	79
Average for group	125	Average for group	142	Average for group	177

Source: Statistical Office of the United Nations for export data. Unit values are based on national statistics.

[a] Standard International Trade Classification, section 7.
[b] Wholesale prices.

Trade in textiles has probably been more affected by the vagaries of import restriction and liberalization than trade in capital goods or other essential products. The expansion in the exports of particular countries since 1950 has therefore depended a good deal on the severity of controls in importing countries both in 1950 and 1955. By and large there were fewer restrictions on imports in western Europe in 1955 than in 1950. On the other hand, some primary producing areas were restricting textile imports in 1955 no less than in 1950, and in some cases restrictions were even greater. The effects of these changes on particular exporting countries depended to a considerable extent upon the geographic distribution of their exports. Moreover, the dominant position of the United Kingdom as a supplier of textiles to overseas sterling counries was considerably affected by the relaxation of restrictions against imports from Japan. It therefore seems likely that an explanation of the price and quantum changes shown in table 31 would have to take into account many elements other than changes in price competitiveness. In particular, it appears that part of the large relative increase in United Kingdom export prices, and corresponding relative reduction in volume, is the counterpart of the loss of markets at the lower end of the price range to Japan. To the extent that this is so, it reflects a shift in the composition of sales rather than an increase in United Kingdom prices, relative to the prices of other countries, for any given product. This is consistent with the considerable decline in United Kingdom domestic wholesale prices for textiles relative to export unit values from 1950 to 1955 shown in table 29.

The interpretation of relative changes in the price and volume of exports of engineering products presents difficulties of a different sort. The products in this group are substantially less homogeneous than in the textile group, ranging from massive specialized industrial and transport equipment to durable consumer goods of all types. Moreover, the heavy industrial and transport equipment consists largely of long-lead items in which delivery may take place up to two years or more after the original order. If the average lag between orders and deliveries differs appreciably between countries this will obviously affect the comparability of the goods exported by these countries in any given period of time from the point of view of price competitiveness. In fact, the data in table 32 do not make it possible to establish how important relative price changes have been in affecting the demand for engineering products from particular countries. Since there was a seller's market for investment goods during much of the period under review, it is likely that the price factor was less important in this area than in other product groups. It was certainly possible for countries in a position to furnish quick deliveries to charge premium prices for so doing. This may account for the fact that western Germany showed the largest increase in unit value as well as in volume of exports of machinery and transport equipment. It is true that, in line with the qualification indicated above, the relative increase in west German prices shown in table 32 would be overstated to the extent that the average west German delivery period for engineering products was less than in other countries. It seems doubtful, however, whether this factor could account for more than a part of the greater rise in export prices in western Germany than elsewhere. As shown in table 29, export prices for engineering products in western Germany increased 38 per cent from 1950 to 1955 while domestic wholesale prices for comparable goods rose only 17 per cent and wage costs per unit of engineering output actually dropped. These data suggest that by virtue of its rapid delivery schedule western Germany was in the position of being able to increase its export prices more rapidly than other countries.

The third column in tables 30, 31 and 32 shows the relative export value changes from 1950 to 1955, representing the combined effect of the price and quantum changes. Generally speaking, the countries with the largest export volume increases were also those reporting the greatest value increases. If the relationships indicated in these tables were simply the result of price effects, this would suggest that the changes in the volume of exports were proportionally greater than the changes in prices occasioning them. Some outstanding exceptions would have to be noted, particularly Italy, where the responsiveness of exports to a large relative decline in prices was very low. In any case, reasons have already been given above for thinking that many factors other than the pure price element are involved in the relationships shown in tables 30 to 32.

No attempt will be made to isolate the effect of relative price changes upon the imports of industrial countries during the period under review. A major part of the imports of these countries consists of foodstuffs and raw materials for which domestic substitutes are not available or which are not produced at home in adequate quantities. In addition, for almost all countries, the effect of changing import and exchange controls has been such as to dominate all other factors affecting the volume of imports during the period under review. Any analysis of this type which might have been made for such countries as Switzerland and the United States, where modifications of trade restrictions from 1950 to 1955 were relatively minor, would not necessarily be valid for all other industrial countries.

Factors in differential price developments, 1950-1955

It seems evident from the foregoing discussion that a variety of factors limited the influence exerted by price changes on balances of payments from 1950 to 1955, especially since many other and probably more powerful changes were occurring at the same time. This, however, does not mean that large price differen-

tials, if they persisted, would not profoundly affect balance of payments positions in the longer term. For this reason it is important to examine the factors underlying price movements during the period under review. In doing so, it will be necessary to bear in mind once again the point made previously to the effect that not all the divergencies in price movements between countries have necessarily been movements away from equilibrium; many of them may well have been in the direction of greater equalization of absolute prices.

The principal phases of post-war price developments were briefly as follows: the inflationary surge of the early post-war years was in most countries arrested in 1948 and prices tended to be stabilized or to decline in 1949. This stability was of comparatively short duration: prices in western Europe and Canada began to move up once more after the devaluations of 1949, the movement gathering momentum during the commodity boom of 1950-1951. United States prices, unaffected by devaluation, also advanced fairly rapidly in 1950-1951. In the course of 1952 the advance slowed down, and prices tended to level off or decline in 1952-1953. Since 1954, or in some cases the beginning of 1955, prices have again been moving up.

Table 33 shows for the major industrial countries changes from 1950 to 1955 in the total market price level and in its components. From 1950 to 1955 labour costs per unit of output increased more than any other factor cost elements, and consequently more than the prices of final output, in nine out of the ten countries for which data are available. Only in Austria did import prices rise more than factor costs. Import prices were, it is true, a dominant element in the price advances of 1950 to 1951 in many countries (chart 8), as they had been also from 1948 to 1950, at any rate in the devaluing countries. But from 1952 to 1954 import prices declined while labour costs continued to rise in the majority of countries, though much less rapidly than in earlier years. The decline in import prices was halted in 1954, and some recovery in primary product prices was reflected in import prices in 1955. As labour cost continued to advance—in some instances rather more rapidly than in the two preceding years—the rate of price increase was somewhat accelerated.

Other factor costs, which represent, broadly speaking, remuneration of ownership of property, including income accruing to farmers, increased less than labour cost or final prices over the period 1950 to 1955 as a whole, offsetting in some degree the effect on final prices of other cost increases. The rise in property incomes, did, however, enhance price increases during the period of rising demand in 1950/51 in Canada, western Germany, Norway, Sweden and probably also Italy. In 1952 and 1953 these incomes tended to fall or rise less than labour cost, except in France and the United Kingdom, but from 1953 or 1954 to 1955 their increase in the majority of countries again exceeded that of labour cost. Exceptions in the latter period were France, western Germany, Sweden and the United Kingdom.

In the majority of countries the effect of changes in indirect taxes and subsidies on domestic prices was in the direction of raising prices.[27] With the sole exception of France, subsidies declined in relation to the total national product. These reductions in subsidies were not offset by corresponding reductions in indirect taxes except in the Netherlands and the United Kingdom, and in several countries the ratio of indirect taxes to the gross national product increased.

The rise in import prices

In western Europe increases in import prices provided considerable impetus to price rises, first after the devaluations of 1949, which were preceded in most countries by a period of stable or declining domestic and import prices, and again in the second half of 1950, when the commodity price boom got under way.

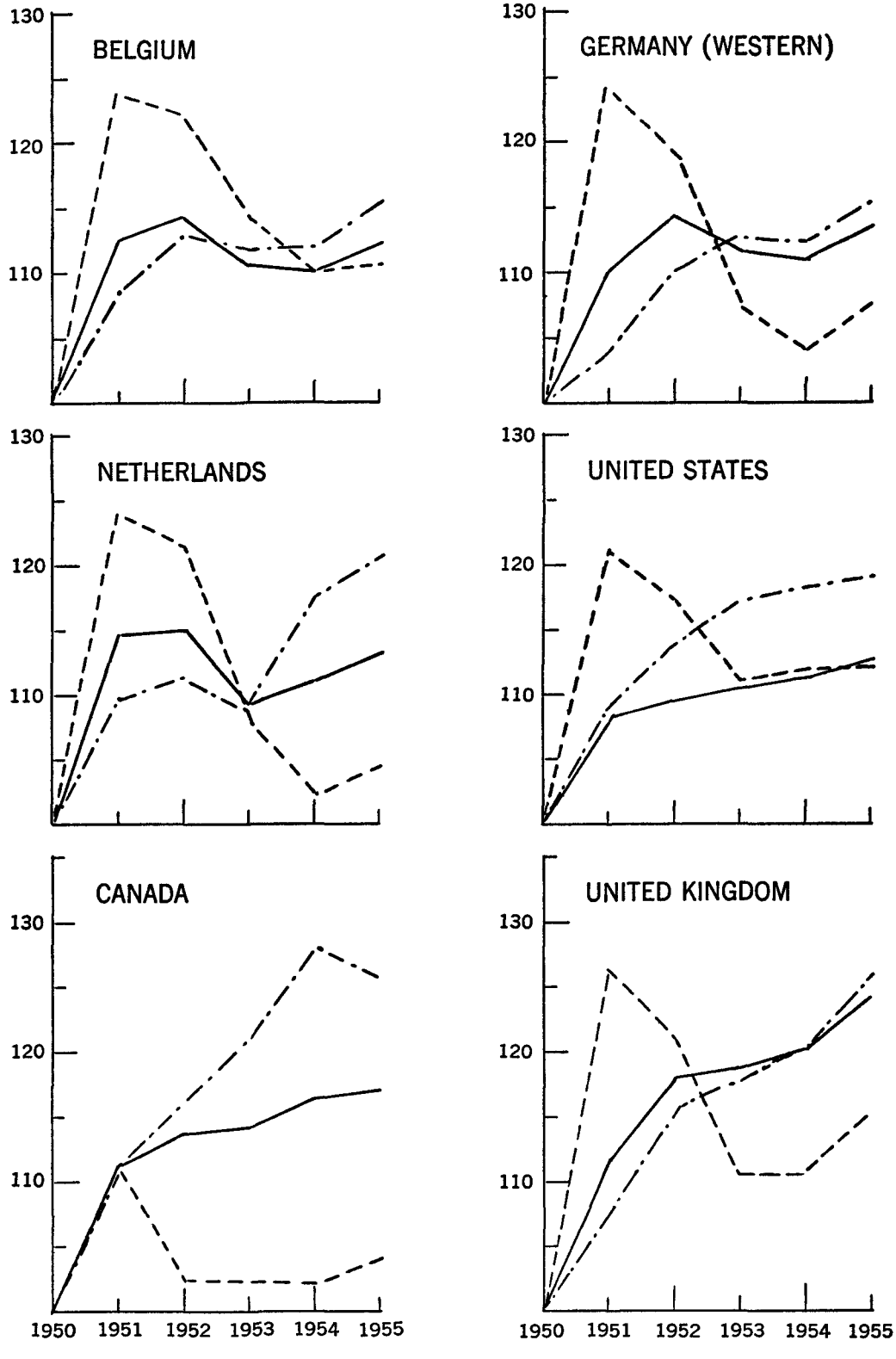
The devaluation was followed by increases in import prices of the order of 10 per cent in those countries that had devalued by 30 per cent, as well as in France, and by substantially lesser increases in Belgium, Canada and western Germany, where the degree of devaluation was smaller. In Italy, which devalued only 8 per cent, import prices declined.

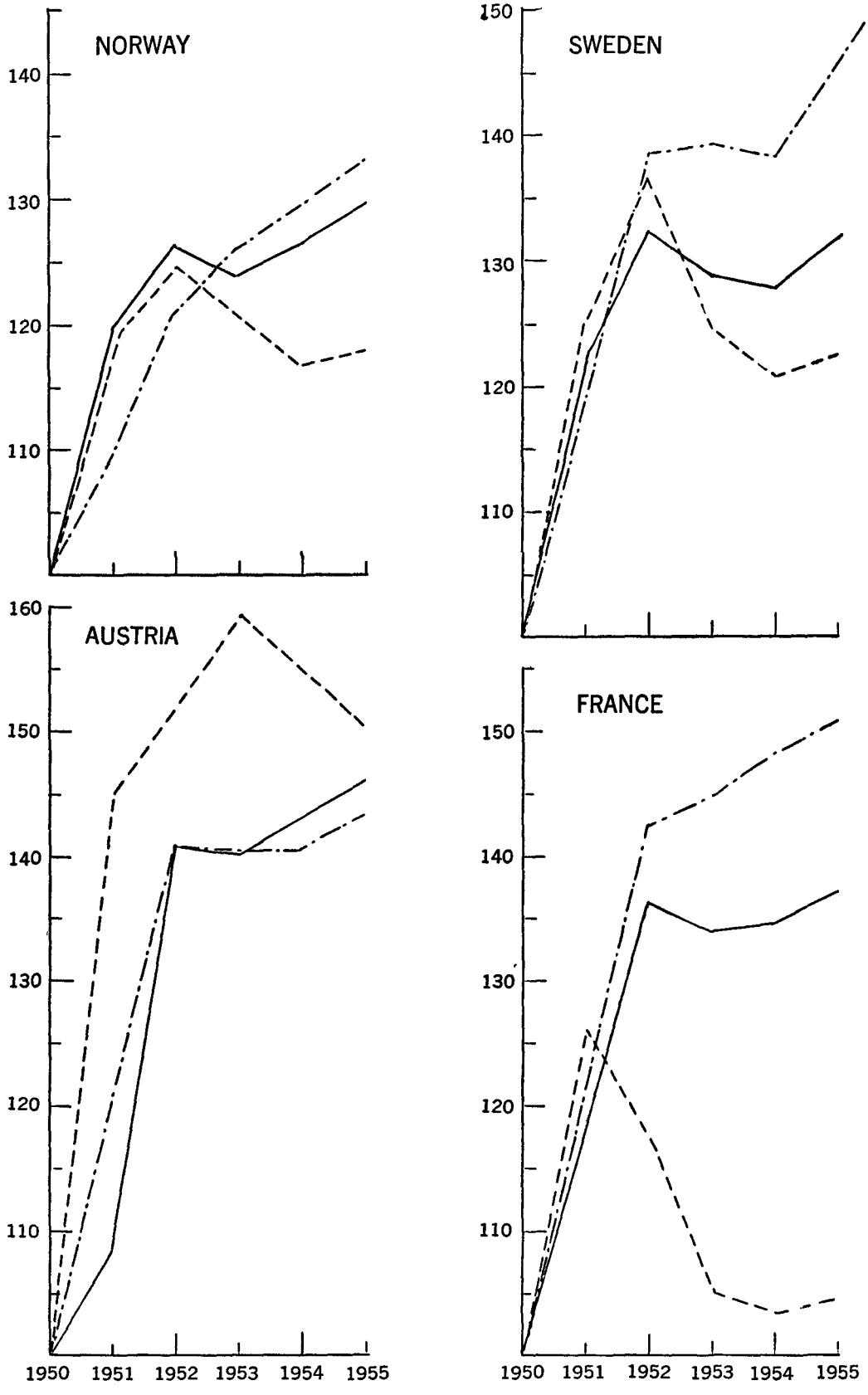
The immediate effect of devaluation on domestic prices and costs was less than had been anticipated, partly because the effect on import prices was also less unfavourable than expected, owing largely to the reduction of imports from dollar countries. A significant advance in consumer prices during the nine months following September 1949 occurred only in Denmark and the Netherlands (5 and 12 per cent, respectively) and in both cases wages increased, though less than prices in the case of the Netherlands. In Sweden, where subsidies were increased, and in the United Kingdom, consumer prices and wages increased relatively little. In France wage increases occurred in consequence of an initial rise in consumer prices that proved to be temporary. The full effect of the devaluation on domestic costs and prices had probably not been felt by mid-1950. The United States was little affected by the devaluations, especially since import prices scarcely dropped. This was because of the sustaining effect on raw material import prices exerted by the recovery in business activity from the recession.

The second rise in import prices in western Europe was much larger than that directly following on devaluation, and its impact on domestic prices was also greater. Increases were at first largely confined to raw materials and certain foodstuffs, and experience in par-

[27] This statement holds true for the period 1950 to 1955 as a whole. In 1955 and 1956, as shown in chapter 4, certain countries reduced indirect taxes or increased subsidies with the aim of restraining price inflation.

Chart 8. Indices of Prices and Costs
(1950=100)





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

Table 33. Components of Price Change, Selected Industrial Countries, 1950-1955

Item	Austria	France[a]	Sweden	Norway	United Kingdom	Denmark	Italy	Canada	Western Germany	United States	Netherlands	Belgium
Index, 1955 (1950 = 100):												
Price of total supplies[b]	146	139	132	130	124	120	118	117	114	113	113	112
Import price[c]	150	107	123	118	115	113	118	104	108	112	104	111
Labour cost per unit of gross national product	143	151	150	133	126	...	...	126	115	119	120	115
Other domestic factor cost per unit of gross national product[d]	132	128	108	126	116	...	...	105	103	96	119	112
Indirect taxes less subsidies per unit of gross national product	199	143	163	194	123	151	129	128	131	113	110	118
Percentage change, 1950–1952:												
Price of total supplies[b]	41	36	32	26	18	15	13	14	14	9	15	14
Import price[c]	52	17	37	25	21	25	26	3	19	17	21	22
Labour cost per unit of gross national product	41	42	39	21	15	16	...	16	10	14	11	13
Other domestic factor cost per unit of gross national product[d]	27	26	22	25	12	8	...	14	13	—	10	6
Indirect taxes less subsidies per unit of gross national product	68	47	20	88	14	14	17	18	25	8	18	12
Percentage change, 1952–1955:												
Price of total supplies[b]	4	2	—	3	5	4	4	3	−1	3	−2	−2
Import price[c]	−1	−9	−11	−5	−5	−10	−6	2	−10	−4	−14	−10
Labour cost per unit of gross national product	2	6	8	10	9	...	...	8	5	5	8	2
Other domestic factor cost per unit of gross national product[d]	4	2	−12	1	3	...	...	−8	−9	−4	8	6
Indirect taxes less subsidies per unit of gross national product	18	−3	36	3	8	32	10	8	5	4	−7	5

Source: Statistical Office of the United Nations and Bureau of Economic Affairs. Countries are arranged in descending order of the indices of price of total supplies.

[a] Based on data from National Institute of Statistics and Economic Studies, *Rapport sur les comptes de la nation, 1949–1955* (Paris); data for the year 1955 are provisional.

[b] Gross national product at market prices plus imports.

[c] Price of imported goods and services as defined in national accounts.

[d] Adjusted for change in stock valuation.

ticular countries depended to some extent, therefore, on the proportion of the volatile primary products in total imports.

It is difficult to distinguish between the primary effect of rising import prices on domestic prices and costs, which depends on the ratio of imports to total output[28] and secondary effects in promoting an upward spiral of wages and prices. It should also be observed that the relative magnitudes of increases in import prices and in labour costs in a given period provide no indication, necessarily, of the degree to which each element is causally responsible for the ultimate advance in final prices. A relatively modest increase in import prices may provide the occasion for a wage-price spiral which acquires a momentum of its own, pushing the index of final prices much further than the initial import price rise appeared to require.

Soaring import prices associated with the commodity boom of 1950-1951 and rising domestic farm prices led to primary increases in the cost of living soon after mid-1950. Additional factors tending to raise the cost of living were increases in indirect taxes or reductions in subsidies, which were especially significant in the Scandinavian countries and the Netherlands.

Although import prices began to decline during 1952, the wage-price spiral continued. Wage rates increased considerably in response to the previous upsurge in the cost of living while productivity did not advance appreciably, if at all, owing to the levelling off in total activity and the declines in industrial production in several countries. Considering the period 1950 to 1952 as a whole, however, labour costs did not rise more than import prices and prices of total supply except in Canada,[29] France and Sweden, although wages generally kept abreast or even ahead of the cost of living. In several countries the cost of living itself rose less than the price of total supplies, either because of government policy regarding subsidies, or because domestic farm prices increased less than other prices. Furthermore, despite the setback in 1952, productivity rose appreciably from 1950 to 1952, thereby offsetting part of the effect of wage increases on labour cost per unit of output.

From 1952 to 1954 import prices generally fell, re-

[28] The ratio of imports to gross national product, as shown in table 16, ranges in western Europe from only 14 per cent in Italy to nearly 50 per cent in the Netherlands, with the majority of countries in the 20 to 30 per cent range; in the United States imports correspond to only about 5 per cent of gross national product.

[29] The smallness of the rise in import prices shown for Canada from 1950 to 1952 was due to a 10 per cent appreciation of the Canadian dollar in September 1950.

covering somewhat in 1955. In all except four countries increases in final prices from 1952 to 1955 were limited to 3 per cent or less, while in Belgium, western Germany and the Netherlands prices dropped slightly. Labour costs advanced rather more than final prices and in the majority of countries other costs were squeezed. Part of the further rise in wages and costs of living after 1952 no doubt represented a continuation of the upward pressures originally set in motion by the rise in primary commodity prices in 1951. More recently, however, increases in labour costs seem to have assumed the initiative in forcing prices up.

The rise in labour costs

Increases in the prices of primary products, operating for many countries through the medium of import prices, have in large measure determined the phasing of the price inflation of the nineteen fifties, and have to some extent set its pace. The rise in labour costs has, in general, ultimately determined the extent of the total price advance, and has thus largely accounted for the appearance of price differentials between countries. This does not necessarily imply that wages have in all cases been an autonomous or active factor in the inflation. Experience with regard to the role of wages in the price inflation has varied from country to country according to the degree to which other factors offset or enhanced the effect of wage increases on final prices.

Increases in hourly earnings in manufacturing from 1950 to 1955 ranged from 20 per cent in Belgium, 28 per cent in the United States and 29 per cent in Italy to as much as 68 per cent in Sweden and 74 per cent in France, as shown in table 34. Although these advances primarily reflect increases in basic wages, other factors are also involved. Over the period as a whole average hourly earnings seem to have risen more than

Table 34. Consumer Prices and Hourly Earnings, Output per Man-hour, and Wage Cost per Unit of Output in Manufacturing, Selected Countries

(1950 = 100)

Country and year	Consumer prices		Hourly earnings in manufacturing	Output per man-hour in manufacturing	Wage cost per unit of output in manufacturing
	All items	Food			
Austria:					
1952	150	146	151[a]	112	...
1955	148	146	165[a]	134	...
Belgium:					
1952	110	110	116[b]	107[c]	108
1955	111	113	120[b]	123[c]	97
Canada:					
1952	113	114	125	101	124
1955	113	110	139	113	123
Denmark:					
1952	115	118	120	...	...
1955	123	131	136	...	...
France:					
1952	131	127	148[d]	108	137
1955	130	123	174[d]	133	130
Germany, western:					
1952	110	115	123	112	110
1955	110	117	140	135	104
Italy:					
1952	114	111	115	114[e]	101
1955	123	120	129	144[e]	90
Netherlands:					
1952	110	111	110[a]	104[c]	106
1955	116	119	137[a]	124[c]	111
Norway:					
1952	127	134	127	...	...
1955	136	145	148	...	...
Sweden:					
1952	124	132	144	103[c e]	140[f]
1955	132	142	168	115[c e]	147[f]
United Kingdom:					
1952	120	128	118	100	118
1955	131	149	143	112	128
United States:					
1952	110	113	114	101	109
1955	111	109	128	112	115

Source: United Nations Bureau of Economic Affairs; based on national and international sources.

[a] Gross weekly earnings; for Austria, Vienna only.

[b] Daily earnings.

[c] Output per man.

[d] Hourly rates.

[e] Of manual workers only.

[f] Not adjusted for changes in hours.

wage rates owing to such factors as increased work at overtime and at piece rates.[30] Shifts in the distribution of manpower have also tended to raise average earnings. Employment in heavy industry, where wages are generally higher, has increased more than in light industry, particularly in view of the widespread drop in employment in textiles. Furthermore, wages in the expanding sectors have usually risen more rapidly than in the stable or contracting sectors. To some extent therefore, differences in the rates of increase in average hourly earnings between countries may reflect differences in the relative rates of increase in employment in the expanding sectors. Clearly, in so far as advances in hourly earnings are the reflection of such factors as greater utilization of piece-rate systems, or changes in the structure of employment, they do not represent corresponding additions to labour costs.

In addition to wages, labour cost also includes various obligatory and voluntary social charges, payable by the employer, such as social security contributions and taxes, various social benefits, and in some instances family allowances. Total charges of this kind vary considerably in importance from country to country. It has been estimated[31] that in 1953 social charges (including also vacation pay, which many countries include in their published data on average hourly earnings) ranged from 9 per cent of gross average earnings excluding these charges, in the United Kingdom and 14 to 16 per cent in Sweden and the United States, to 42 per cent in France and as much as 62 per cent in Italy. These additional costs to employers tend to be high where wages are relatively low and *vice versa*. Consequently, country-to-country differences in the average cost of an hour's labour are considerably smaller if measured in terms of wages and social charges together than in terms of wages alone.

Social charges have generally advanced more in post-war years than wages themselves. The effect of such increases between December 1949 and December 1954[32] on the average hourly cost of labour in manufacturing industry is indicated by the following indices (December 1949 = 100):

Country[a]	Average hourly earnings	Average hourly earnings and social charges
France	178	181
Sweden	156	157
Germany, western	140	144
United Kingdom	136	135
Netherlands	132	136
United States	128	132
Belgium	126	129
Italy	123	129

Source: National Institute of Statistics and Economic Studies, *Etudes et Conjoncture*, May 1955 (Paris).

[a] In descending order of the increase in average hourly earnings.

There is no evidence that proportional increases in wage rates have varied with the degree of slack in the economy. Of the four countries with comparatively high rates of unemployment, Belgium, Denmark, western Germany and Italy, two—Belgium and Italy—had more moderate wage increases from 1950 to 1955 than the majority of industrial countries, and the other two recorded increases as large as those in countries with low rates of unemployment. On the other hand, none of the countries with very low average percentages of unemployment recorded wage increases as small as those of Belgium and Italy.[33]

Differential wage increases seem to have been largely related to country-to-country variations in the extent of consumer price increases. In large measure, of course, the rates of increase in wages and the cost of living were interdependent. But other factors also affected consumer prices, not the least being import prices, as noted above. Much also depended on rates of increase in productivity, and it is here that some of the economies which were under-employed in 1950 gained relative to the fully employed countries in the period which followed. For even where the rate of increase in wages in the former countries was as rapid as in the latter, the mere fact of raising production and reducing excess capacity made it possible for large productivity gains to be secured offsetting much of the effect of the wage advances on labour costs, and hence on final prices.

Government policy was also a powerful factor affecting wage increases, especially through its influence on the cost of living. In general, those countries which still had significant rationing or other direct economic controls over the economy in 1950, or which were holding down the cost of living by means of subsidies, were bound to experience much greater price advances when they abandoned their controls or reduced their subsidies than those countries which had gone through the whole of their post-decontrol inflation from 1946 to 1948. Important instances of the former group were Sweden and the United Kingdom. In the United King-

[30] A number of countries include vacation pay in annual estimates of average hourly earnings; in such cases an extension of paid vacations would be a further factor raising average hourly earnings.

[31] National Institute of Statistics and Economic Studies, *Etudes et Conjoncture*, May 1955 (Paris).

[32] Comparable data for 1955 are not available, but calculations made for the iron and steel industry in countries belonging to the European Coal and Steel Community indicate that total social charges increased no more than gross wages from 1954 to 1955 in Belgium, France and western Germany and that they did not increase at all in Italy. In the Netherlands, on the other hand, they rose by over 25 per cent—more than twice the rate of increase in earnings. This, together with the advance in wages in 1955, reduced substantially the differential between Dutch wages and those of other countries in the Community. Employers' social security contributions in the United Kingdom, which have tended to decline in relation to total wages, were increased in 1955 by 20 per cent on the average.

[33] In 1956, however, Belgian wage increases were proportionally the highest in western Europe.

dom food consumption was still subsidized in 1950, price control applied to a wide range of foodstuffs and food purchases were largely in the hands of the Government. Subsequent reduction of subsidies, the handing over of trade to private hands and decontrol of prices caused price movements independent of the course of domestic demand, or of food prices in world markets. In Sweden farm price and wage fluctuations had been kept within narrow limits until 1950, and imports had been subsidized. The unfreezing of the price and income structure and simultaneous abolition of import subsidies resulted in substantial advances in consumer prices as in the United Kingdom. In both cases the consequential price increases were superimposed upon increases resulting from a variety of other factors. Norway and the Netherlands also reduced subsidies after 1950. Table 34 shows that, apart from Austria and France, where the inflation of 1950-1952 was acute, the total rise up to 1955 in consumer prices was largest in the three countries—Norway, Sweden and the United Kingdom—where consumer subsidies had still been important in 1950 and where, in the case of Sweden, the Government's price policy was revised. Even in Austria and France, it should be added, major upward adjustments in official prices for certain farm products played an important part in accelerating price inflation in 1950-1951.

The contrasting experience of western Germany and the United Kingdom with regard to consumer prices illustrates the effect of these differences in government policy. From 1950 to 1955 consumer prices increased by 31 per cent in the United Kingdom and by only 10 per cent in western Germany. The food component of the United Kingdom consumer price index rose by almost 50 per cent, that of western Germany by only 17 per cent, despite the fact that prices paid to farmers in the two countries increased in about the same proportion. This extraordinary disparity certainly accounts, at any rate in large measure, for the fact that wage demands in the United Kingdom pushed much farther ahead of the rate of increase in productivity than in western Germany. In western Germany food subsidies were of minor importance in 1950, and there was, in fact, a high excise tax on coffee and tea; in the United Kingdom, on the other hand, the effect of the reduction in subsidies from 1950 to 1955 was to raise the price of food consumed by an average of 7 per cent over and above the increase resulting from other factors. The total effect of changes in subsidies and indirect taxes in the United Kingdom from 1950 to 1955 was to raise consumer prices by only about one per cent, since indirect taxes were reduced approximately in line with subsidies. However, the incidence of subsidies was probably greatest, and of indirect taxes least, at the lower end of the income scale. The wage demands of the lowest paid workers would be bound to be especially sensitive to food prices; and while higher paid workers may not have lost, on balance, from the reduction of subsidies and indirect taxes, their wage demands would inevitably be geared to those of the lower paid workers.

Furthermore, British import prices in 1950 under bulk purchasing agreements were considerably lower than those paid by Germany (for example, some 9 per cent lower for wheat, 15 per cent lower for meat, one-third lower for butter). Since the expiration of these agreements and cessation of government trading, the United Kingdom has been paying world market prices, with the result that United Kingdom food import prices rose by 20 per cent while western Germany's import prices declined by 2 per cent.[34] Finally, costs in the British food processing industry increased substantially more than those in the west German industry, and resumption of private trading in food added importers' profits to costs, probably increasing profits at the distribution level as well, where they had been limited while food prices were controlled. Western Germany's consumer prices were not affected by any of these factors.

An examination of costs and prices in manufacturing alone yields conclusions broadly in harmony with those recorded above for the economy as a whole. It will be seen from table 34 that very large differences between countries in the trend in wage costs per unit of manufactured output occurred from 1950 to 1955.[35] In fact the dispersion between countries in wage[36] cost per unit of output in manufacturing was greater than in labour cost per unit of the national product. This was largely the result of greater differences from country to country in rates of increase in productivity in the manufacturing sector alone than in the economy as a whole. The range of price increases, on the other hand, was narrower for manufactures than for total supplies. Where labour cost remained stable or declined, as in Belgium and Italy, domestic and export prices for manufactures increased moderately; where labour costs rose most, as in France, Sweden and the United Kingdom, domestic and export prices tended to lag behind. Labour costs per unit of output and prices in west German manufacturing industry followed a general pattern similar to that noted in Belgium and Italy, but the rise, especially in export prices for manufactures, exceeded substantially the very moderate increase in

[34] The share of imports in total food consumption is 27 per cent in western Germany and 30 per cent in the United Kingdom.

[35] Although the different methods of computation of published wage data (see footnotes to tables 29 and 34) may account for some part of inter-country differences, their effect is nowhere large enough to modify the general trends.

[36] However, as indicated above, estimates of wage costs per unit of output understate the actual rise in labour cost by virtue of the varying importance of social charges. These would add to the wage cost indices for 1955 as shown in table 34 approximately one point in the United Kingdom, three points in Belgium, France and western Germany, four points in Italy, and possibly as much as seven points in the Netherlands. These estimates refer to the average in manufacturing, but increases of the same order of magnitude may be assumed to have occurred in its various branches.

labour cost,[37] being as large as that in the United Kingdom.

The development of labour costs per unit of output and of prices of manufactures suggests that profits may have risen from 1950 to 1955 in countries with comparatively stable labour costs, while falling in some of the countries experiencing a substantial advance in labour costs. To the extent that this has been the case, countries like Belgium or western Germany would find it easier to reduce prices in the event of a slackening in demand than, for example, Sweden or the United Kingdom.

[37] The large differential between the rise in labour cost per unit of output in manufacturing and in prices of manufacturers' sales was partly accounted for by a particularly marked productivity advantage in manufacturing in relation to other sectors as a whole. Consequently, advances in productivity offset the effect of wage increases on labour cost per unit of output to a much greater extent in manufacturing than in the rest of the economy. In so far as the manufacturing sector uses the products of other sectors, the prices of manufactures were bound to reflect the relatively much greater cost and price increases in such sectors. Another factor widening the gap between labour costs per unit of output and prices in manufacturing was the comparatively large rise in import prices for raw materials. Profit margins in manufacturing probably also increased.

The Problem of Short-term Fluctuations

The greater general economic stability in the developed countries since the Second World War has not resulted in the elimination of short-term fluctuations in the balance of payments. Indeed, for some countries so persistent have the short-term fluctuations been that they have in themselves taken on the character of a long-run problem. The United Kingdom, for example, experienced balance of payments difficulties in every odd post-war year up to 1956, with the sole exception of 1953.

One of the main sources of such fluctuations—namely inventory movements—has already been discussed, and is illustrated in chart 9. Mention was also made of the part played by exchange and trade controls in generating or intensifying fluctuations in inventories of imported goods. Where, for example, a rise in the demand for imports has resulted in pressure on the balance of payments, as in France and the United Kingdom in 1951, the expectation of more rigorous import licensing has frequently prompted importers to seek a much larger increase in their inventories of imported goods than would otherwise have been necessary. The fact that many countries have, in the past few years, dismantled much of the apparatus of trade controls has not removed this particular source of balance of payments instability, as was shown by the significant speculative component in the rise in United Kingdom imports in 1955. For any deterioration in the balance of payments which goes far enough to raise questions of confidence is bound to create the fear that trade controls which were established in the past could, if necessary, be restored; and even if such a step were considered to be out of the question for any reason, the possibility of devaluation would still have to be taken into account. Moreover, inventory fluctuations have been of substantial importance in developments in the balance of payments of countries not relying significantly on quantitative import controls, such as the United States, as was shown above.

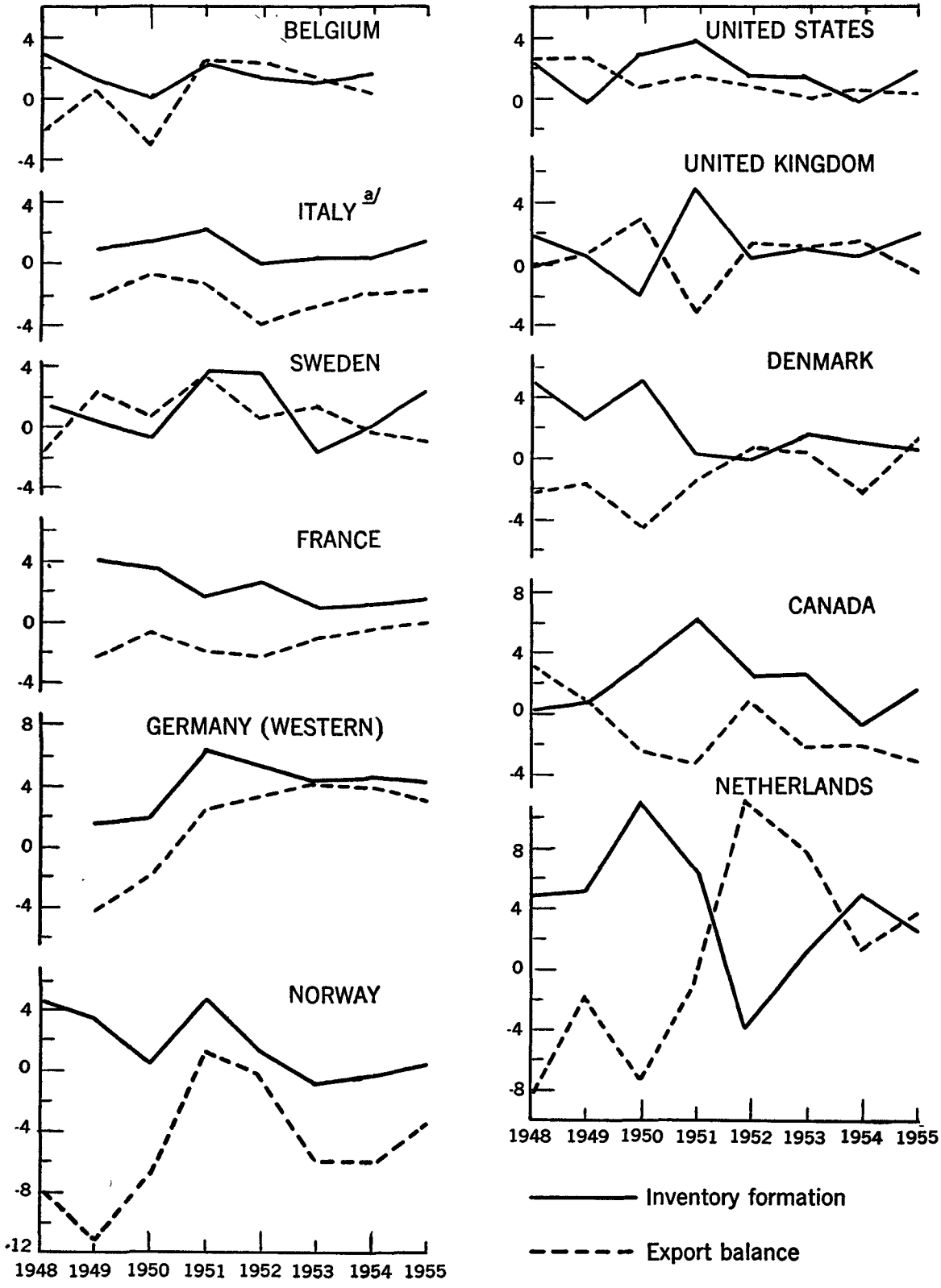
Changes in confidence have also been of critical importance in affecting short-term capital movements; and such movements have in some instances created difficulties almost as great as all other sources of pressure on the balance of payments, if not greater. This has occurred notwithstanding the use of exchange controls by the authorities to frustrate large-scale international transfers of "hot money". Among the more common forms taken by short-term speculative capital movements during the post-war period have been changes in the normal lag between deliveries of goods and the payments made in respect of them. For example, whenever uncertainty has arisen regarding the ability of a country to maintain the exchange value of its currency, importers in that country have attempted to accelerate their external payments, and exporters have sought to delay the repatriation of the foreign exchange proceeds of their exports. It should be borne in mind that such changes in credit terms are normally quite legal,[38] so that the capital transfers accompanying them are quite distinct from any clandestine movements that may occur at the same time. For any country an increase of, for example, two weeks in the average period of credit granted by exporters to their foreign customers, and a corresponding two-week average reduction in the lag between deliveries to and payments by importers would involve a short-term capital outflow equivalent to about one month's imports or exports. Since, as may be seen from table 35, the foreign exchange reserves of several of the western European countries are equivalent to three months' imports or less, it is obvious how great a pressure can be brought on balance of payments positions by relatively small changes in commercial credit.

It is, however, difficult to obtain accurate statistical indications of the extent to which short-term capital movements have actually affected balance of payments fluctuations in recent years. This is not only because of the general inadequacy of data on short-term capital movements, but also because a considerable proportion of the transfers involved, especially those evading the

[38] The authorities may, of course, in times of stress restrict the period of credit to be granted by exporters and prohibit advance payments for imports.

Chart 9. Relationship between Inventory Formation and the Export Balance

(As percentage of gross private income after tax)



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

[a] As percentage of gross national product.

Table 35. Ratio of Gold and Foreign Exchange Reserves to Imports[a]

(In percentages)

Country	1928	1938	1948	1950	1951	1952	1953	1954	1955
Austria	28	...	13	19	16	23	59	63	40
Belgium-Luxembourg	23	100	46	39	42	44	45	41	40
Canada	7	29	35	55	44	42	38	43	37
Denmark	17	22	12	11	12	10	17	12	11
France:[b]									
A	121	210	...	44	20	23	24	32	45
B				51	22	25	27	36	50
Germany, western	23[c]	...	...	10	15	31	52	58	53
Italy	50	33	35	59	46	39	39	43	46
Netherlands	24	125	19	30	25	47	52	45	40
Norway	19	44	19	18	17	17	16	14	15
Sweden	26	98	17	24	27	26	32	27	24
Switzerland	30	209	143	150	119	138	151	141	125
United Kingdom:[b]									
A	13	63	24	47	22	20	27	30	20
B				42	19	17	27	28	18
United States	85	592	303	237	191	200	187	196	176

Source: International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

[a] C.i.f. except f.o.b. for Canada and the United States.

[b] For France and the United Kingdom, line *A* relates gold and foreign exchange reserves to their imports; line *B* relates the same holdings to the imports of the franc and sterling areas, respectively, from the rest of the world.

[c] Data refer to the whole of Germany.

exchange controls, are included only in the residual balancing items in the balances of payments—items which are affected by a great variety of factors. Table 36 provides evidence of substantial short-term capital transfers affecting the balances of the franc and sterling areas with the European Payments Union in certain years, without, however, making it possible to obtain anything more than a rough impression of the size of these transfers. In that table the column headed "Balance on non-trade items" with the EPU area has been calculated as the residual of the total net balance requiring to be settled by appropriate proportions of credit and gold payments, and the corresponding payments on merchandise trade alone. This residual is, of course, composed of a great many items other than capital transfers. However, very large short-term changes in the residual in the years indicated were probably the result of capital movements. Thus the $215 million shift in the non-trade balance of the franc area from the third quarter of 1951 to the fourth quarter is almost certainly indicative of the capital flight which accompanied the deterioration in the balance of payments at that time and the expectation of a tightening of controls. Once import restrictions were intensified, and the situation was brought under control, the non-trade balance shifted back. Similar fluctuations may be observed in the course of 1953, and, for the sterling area, in 1951-1952 and 1955-1956.[39]

A further source of short-term balance of payments fluctuations has been natural catastrophes, particularly harvest failures from time to time. In France, for example, the deterioration in the trade balance from 1951 to 1952 was entirely accounted for, as shown in table 37, by increased net food imports rendered necessary by crop failure. The balance of trade in wheat alone shifted from an export balance of $13 million in 1951 to an import balance of $86 million in 1952. In Denmark likewise, increased cereal imports (chiefly feedstuffs) required to make good the shortfall of domestic production in 1954 reduced the export balance in foodstuffs, thereby accounting for nearly half of the deterioration in the trade balance in 1954. The effect on trade of the poor 1954 harvest in the United Kingdom was not felt until 1955, owing to the existence of substantial food stocks, but in the latter year the rise in net food imports was an important contributory factor in growing pressures on the balance of payments. In Sweden in 1952 and in Austria in 1955 sharp deteriorations in trade balances were likewise partly accounted for by increased net food imports made necessary by poor domestic crops.

Finally, short-term fluctuations in balances of payments may be due to sharp changes in export prices such as have been encountered principally by Belgium-Luxembourg (for exports of steel) and by Norway and Sweden (for exports of wood products). Countries with

[39] A significant complicating factor in the case of the sterling area arises from the changes in the total balance with the European Payments Union due to net transfers of sterling from non-EPU countries. These transfers accounted, for example, for $150 million of the total change of $454 million in the non-trade balance from the first half of 1951 to the second half, and for $90 million of the change of $288 million from the first half of 1955 to the second half.

Table 36. Franc and Sterling Areas: Balances with the European Payments Union, Selected Periods

(Millions of dollars)

Area and period	Trade balance[a]	Balance on non-trade items[b]	Total payments balance[c]
Franc area:			
1951			
First quarter	39	20	59
Second quarter	−87	12	−76
Third quarter	−197	90	−107
Fourth quarter	−161	−125	−286
1952			
First quarter	−248	−13	−261
Second quarter	−145	170	24
1953			
First quarter	−127	65	−62
Second quarter	−94	−52	−146
Third quarter	−125	81	−45
Sterling area:			
1951			
First half	−32	164	132
Second half	−787	−290	−1,077
1952			
First half	−298	−134	−432
Second half	85	129	213
1954			
Second half	107[d]	−90	17
1955			
First half	250[d]	−142	108
Second half	91[d]	−430	−339
1956			
First half	279[d]	−277	2

Source: Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series I (Paris).

[a] Exports f.o.b. to all countries in the European Payments Union (excluding countries in the franc or sterling area, respectively) less imports c.i.f.

[b] Equals column 3 less column 1.

[c] The net surplus or deficit with the European Payments Union.

[d] Based on incomplete data.

large merchant shipping fleets have also experienced the effects of relatively volatile freight rates during the post-war period. Thus, from 1950 to 1951 Belgian and Norwegian export prices rose by one-third or more, on the average, and Swedish export prices increased no less than 56 per cent. These were later followed by steep price declines, although Sweden did hold on to most of the improvement in its terms of trade, because of falling import prices. Considerable problems of adjustment are obviously involved in price gyrations of such orders of magnitude—problems which are shared in common with primary producing countries in general.

Speaking generally, the extent of the difficulties raised in particular countries by short-term fluctuations in their balances of payments depends largely upon the adequacy of their foreign exchange reserves. Problems arising from excess inventory accumulation and speculative capital movements of the type considered above are self-liquidating in the sense that, given time, they are bound to resolve themselves. For once the occasion for the inventory accumulation or the flight of capital passes, inventories will be reduced to more normal levels, and the traders who have gone short of particular currencies will have to replenish their holdings. The real question is how to bridge the time interval that is involved before normal conditions are restored. Even where difficulties are the result of natural catastrophes or sudden changes in the terms of trade, the smoothness of adjustment will depend in large measure on the margin of time made available through the ability to draw temporarily upon foreign exchange assets.

Table 37. Changes in Total Trade Balances and in Net Trade in Food, Selected Countries and Years

(Millions of dollars)

Country and year	Changes[a] in years stated: Total trade balance	Net trade in food
Austria (1954 to 1955)	−145	−47
Denmark (1953 to 1954)	−101	−49
France (1951 to 1952)	−126	−186
Sweden (1951 to 1952)	−165	−31
United Kingdom (1954 to 1955)	−733	−264

Source: Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series IV (Paris).

[a] Minus sign indicates increased import balance or reduced export balance.

It is in this sense that the adequacy of foreign exchange reserves is crucial. Indeed, in many cases, speculative inventory or capital movements would not occur at all if it were known that the reserves were entirely sufficient to meet all emergencies. The wide disparities prevailing in the relationship between foreign exchange reserves and imports are suggested in table 35. The detailed interpretation of that table is far from straightforward. For example, although the reserves of France and the United Kingdom may be related to the imports of the two countries, those reserves constitute in practice a pool for the franc and sterling areas[40] as a whole and might therefore, from some points of view, be better compared with the imports of the two areas from the rest of the world. It is for this reason that a second relationship has been shown for the franc and sterling areas—namely the ratios of their pooled foreign exchange reserves to the imports of the two areas as a whole from the rest of the world.[41] An additional difficulty arises from the fact that the foreign exchange holdings are recorded gross; indeed, if they were recorded net of corresponding claims by other countries, the United Kingdom would emerge with large negative foreign exchange reserves due to the high level of sterling balances held by other countries.

[40] Excluding the Union of South Africa.

[41] Additional ratios have not been calculated for Belgium and the Netherlands because the affiliated areas of these countries are relatively small.

The indications in the table are nevertheless sufficient to make it clear that while United States gold holdings are equivalent in value to twenty-one months' imports, most other countries have a very much smaller margin of resources available to them in the form of exchange assets; and that in the extreme cases gross foreign exchange reserves may be the equivalent of less than two months' imports (as in Denmark and Norway in 1954-1955).

Discussions of the adequacy or otherwise of foreign exchange reserves in particular countries frequently seem to assume that the present distribution of the world's reserves has no relation to the "requirements", in some sense, of the various countries and areas for reserves, and that the currently inadequate exchange assets of some countries could be raised to adequate levels by the stroke of a pen—that is, through a rise in the price of gold. It is not necessary to take a position for or against the latter proposal to see that the view set forth above constitutes a serious over-simplification of the problem. It is true that the events of the nineteen thirties and the circumstances of the Second World War and early post-war period led to a drastic redistribution of the world's gold supply, so that by the end of 1948 the United States held over 70 per cent of the world's gold reserves,[42] while most other countries were left with an insufficiency of reserves in relation to the current value of their trade. But ten years have now passed since the end of the war and the net reserve position[43] of the United States has declined from $16.7 billion at the end of 1948 to $7.1 billion at the end of 1956. As a result, some countries have greatly improved their reserve positions while others have not. The present level of reserves is the product of policies pursued by countries during that period as well as of the distribution prevailing at the beginning of the period. There is no reason to suppose that the relative valuation by individual countries of various types of assets, including foreign exchange reserves, would change drastically simply on account of a rise in the price of gold. It is much more likely that if such a once-and-for-all increase in reserves took place, in many countries they would soon tend to decline once more, with the acquisition of other assets considered to be of relatively greater importance to the economy than the additional reserves.

To put the matter in another way, a rise in the price of gold would represent a windfall gain in the purchasing power over foreign goods of all countries possessing or mining gold in significant amounts. Many of these countries, however, have been large-scale recipients of foreign aid in the course of the post-war period. Some of them have employed part of this aid as a means of adding substantially to their reserves while others have regarded other uses of the aid as being of greater priority. There seems little reason to suppose that countries would view the additional resources provided by a rise in the price of gold differently from the resources obtained in the form of aid.

In this sense, therefore, the adequacy or otherwise of the foreign exchange reserves of the various industrial countries—and the consequent degree of vulnerability to short-term balance of payments fluctuations—cannot be regarded as the outcome solely of forces outside the control of the countries concerned. To a considerable extent these conditions are the result of the particular constellation of policies pursued by these countries. This does not, of course, gainsay the fact that some countries may, and have at times been apt to, siphon off reserves continually from others by following insufficiently expansionist economic policies in the midst of a world generally committed to maximum employment. Equally, however, it seems clear that the problem of inadequate foreign exchange reserves cannot be dealt with by purely mechanical solutions.

[42] Excluding holdings of the centrally planned economies.
[43] That is, official gold holdings less short-term liabilities to foreigners reported by banks in the United States.

Conclusions

The most important long-term development in the balance of payments of the industrial countries in the course of the post-war period consisted in the revival of western Europe's ability to pay its own way on external account, and a corresponding reduction in the need for special economic aid from North America. Economic aid to western Europe was nevertheless continued in various forms even after the end of the recovery period, thereby permitting a progressive lowering of trade barriers, a relaxation of discriminatory trade restrictions and a rebuilding, by some countries, of gold and dollar reserves. However, while balance of payments positions had been greatly strengthened by the end of the first post-war decade, special outlays abroad of the United States Government remained a fundamental element in the balancing of the dollar account of western Europe.

Within the context of this general trend towards better balance in the transactions of industrial countries, the external balance of each country for which data were examined has been surprisingly sensitive during recent years to the course of its domestic demand, and has varied inversely with it. This has been possible only because of the general stability of economic activity, at any rate compared with the inter-war period. In this respect the position of the United States is unique. Through its sheer economic size in

relation to other countries the United States exerts an influence upon its own balance of payments and upon those of other countries which is far greater than any corresponding influence from abroad upon its domestic economy or external balance. No other country outside the centrally planned group is in this position: for all countries other than the United States external conditions are of vital significance for the foreign balance, and developments in the United States economy constitute the most important of these conditions. But post-war fluctuations in the United States economy have been relatively small, and could therefore be partly or largely offset by compensating movements elsewhere. It is against this background of stable or steadily expanding economic activity in the industrial world as a whole that the close relationship between domestic demand and external balance in each country individually must be considered. Had there been continuous and extreme fluctuations in business activity in one or more of the major trading countries, such fluctuations would undoubtedly have dominated the entire post-war balance of payments experience of other countries in the manner of the commodity boom of 1950/51. As it was, even countries as small and as dependent upon external influences as Denmark, the Netherlands and Norway found that their foreign balances were remarkably responsive to changes in their internal economies.

Thus, the external balance is found to provide a safety valve for the economy of each country, whereby any rise in internal inflationary pressures tends to be mitigated through a reduction in net exports, while declines in internal demand are offset, at least in part, by higher net exports. Moreover, the sensitivity with which the safety valve operates is proportional to the pressures with which it is designed to deal. Countries employing their capital and labour resources fully have experienced relatively pronounced fluctuations in their external balances in response to corresponding changes in internal demand. On the other hand, where the average level of employment has been proportionally lower, the competition for output between the various sources of internal and external demand has been less acute; and in some cases it has even been possible to raise internal demand and exportable supplies at the same time by absorbing unused resources into employment.

Balance of payments experience has depended not only on the pressure of internal demand upon supply in the various countries in relation to corresponding pressures elsewhere, but also on the degree of structural adaptation of each country to changing conditions of world supply and demand, both in the long term and in the short term. Much has depended on whether the markets in which each country specialized in its export trade happened to be those whose import demand was registering the greatest advances. On the whole, much greater flexibility has been shown in the adaptation of the commodity composition of trade than of geographic distribution. The falling world market in textiles naturally forced those countries for which textiles had been a principal export to expand their production and exports of other goods. Had any of the industrial countries been confronted with an actual decline in the import demand of their traditional trading partners, a similar shift in the geographic distribution of trade could not have been avoided. In fact, however, import demand rose almost everywhere in absolute terms, so that the incentive to open new channels for exports in the more rapidly growing, but unfamiliar markets—a process requiring substantial investment as well as building up of goodwill over time—was to that extent less compelling. Moreover various forms of discrimination or market imperfection operated to limit the geographic flexibility of exports while controls on the commodity composition of trade by importing countries tended to promote rather than impede the secular changes in composition that were taking place.

Structural factors have also been frequently involved in certain short-term balance of payments problems. Even where there has been no over-all excess demand, countries operating at or close to full employment have often experienced bottlenecks in one or more fields of industry, notably in coal, steel and certain of the engineering sectors. This has necessitated abnormally high imports, or significant reductions in net exports, of the items in short supply. This type of problem arises basically from the short-term immobility of the plant, equipment and labour force of a country; and even the countries with relatively high unemployment have experienced immobility of this sort in some measure. It appears that the degree of mobility both of the capital structure and of the labour force of the industrial countries is mainly a function of their intake of new capital and labour resources; it is generally easier to encourage the use of fresh resources for whatever purposes are most urgent at the time than to promote the transfer of resources already employed—an operation which is difficult enough for labour, and is generally impossible or virtually impossible for equipment.

Differences between countries in the extent of pressure of internal demand upon supply may affect balances of payments either directly through the demand for imports and the supply of exports at existing prices or indirectly through the effect on price relationships. It appears, however, that most of the increase in prices in industrial countries since the end of the immediate post-war inflation in 1948 has been cost-induced rather than demand-induced. It is important to stress the difference between these two types of upward pressure on prices because the methods of dealing with them are not necessarily the same. It cannot be taken for granted that rising prices are always symptomatic of excess demand. Past history shows that there have been many periods in which prices have risen without demand pressing against capacity in general, but simply because of some inelasticity in the system such as that

which arises from the fact that the supply of agricultural products cannot be increased in the short term, or, even more simply, because of a change in exchange rates. Prices have also come under pressure where wage increases have exceeded the growth in productivity. None of these sources of upward movements in prices would necessarily be eliminated by measures to reduce domestic demand. Even the rate of increase in wages might not be significantly slowed down unless the deflationary measures went so far as to create a scale of unemployment sufficient to diminish the vigour of trade union bargaining; post-war experience does not make it clear how great such unemployment would have to be in particular countries to ensure this result, but it seems doubtful whether it would lie within the ranges generally regarded as acceptable in the developed countries.

The most important initiating causes in the price increases since 1948 were the devaluations of 1949 and the commodity price boom of 1950/51. These developments set off wage-price spirals which continued long after the prices of primary commodities had begun declining. The intensity of the wage-price spirals was conditioned in part by the extent of governmental controls in operation at the beginning of the period. Countries which decontrolled their economies completely, or nearly so, by 1948 or 1949, went through their resulting price inflation in a correspondingly short period. On the other hand, in those countries in which controls were removed only gradually over a long period, the price inflation may have been less steep in the first instance but was much more extended in time. Governments have also operated on prices through their policies with respect to indirect taxes and subsidies, and the centralized purchasing of imported food and raw materials.

The evidence does not suggest that the increases in money wages demanded or given have been sensitive to the extent of slack in the economy or the percentage of unemployment. However, where countries with substantial unemployment at the beginning of the period recorded relatively large increases in wages, more than normal productivity gains could be secured as employment rose, thereby offsetting much of the effect of increases in wage rates on wage costs per unit of output. Consequently increases in final prices were smaller than in countries starting from a position of full employment. Any productivity gains obtained simply by taking up slack in the economy, however, are clearly a once-for-all affair.

The spectrum of price increases in the industrial countries since 1950 is relatively wide—the maximum spread being of the order of 30 per cent. This spread is similar to that experienced in the same countries during the nineteen twenties. It has not prevented the countries recording the largest price increases from going quite far in the liberalization of their external transactions. Available export data are consistent with the proposition that those countries whose export prices have risen least have been able to achieve the largest increases in the volume as well as in the value of exports. But this result is highly uncertain and subject to many qualifications, owing to statistical shortcomings in the data; and such information as is available on absolute prices suggests that some of the divergencies in price movements between countries since 1950 may have tended to produce a greater equalization of absolute prices rather than the opposite.

Some of the industrial countries have experienced considerable difficulty in dealing with short-term fluctuations in the balance of payments resulting from such factors as inventory movements, abrupt changes in terms of trade or harvest failures—frequently intensified by short-term capital transfers. These fluctuations have generated problems out of all proportion to their real significance, and have thereby prompted doubts about the fundamental soundness of the balance of payments positions of certain countries even at times when any basic analysis of the situation would have made it clear that no enduring element of disequilibrium was present; the real problem here is the inadequacy of foreign exchange reserves in most industrial countries to absorb the temporary swings in external balances which are bound to occur from time to time even within a context of general economic stability. No mechanical solution of this problem, such as an increase in the price of gold, would really strike at the root of the difficulty. The lines of credit automatically available within the framework of the European Payments Union have provided some relief to member countries not already in debt to the limit of their quotas. But, for one reason or another, it has not been common for countries to have recourse to other international sources of short-term credit in recent years, though the accommodation lately furnished by the International Monetary Fund to a number of countries may perhaps provide the starting point for a new approach to this problem.

The priority attached to the acquisition of larger foreign exchange reserves, in relation to other objectives, has varied greatly from country to country. While all countries except Switzerland and the United States have been compelled to regard any substantial loss of reserves as a danger signal requiring adequate counter-measures, not all have been prepared to tailor their domestic economies to the needs of a growing gold reserve, at any rate until recently. So long as countries were able to fall back upon direct controls to protect their reserves, they no doubt felt able to limit the scope of other policy measures which might adversely affect the growth of the economy. In this sense direct controls, in so far as they were effective, constituted an alternative to fiscal and monetary restraints upon the level of activity, or to devaluation.

With the progressive elimination of controls and, indeed, of the administrative apparatus with which the controls were operated—so that they can no longer be restored at short notice—the burden placed upon indirect measures is very great. Moreover the consequences of any under-estimation of the degree of fiscal or monetary correction required in a given situation may be catastrophic. Any government faced with a serious balance of payments deficit in relation to its reserves would therefore be apt, quite naturally, to try to err on the side of over-correction rather than under-correction.

Where the evidence clearly suggests that the primary source of balance of payments difficulties in a country lies in an excess of total demand, there is everything to be said for as strong a restraint upon the forces of expansion as the situation requires. But such situations are much less common than is frequently supposed, and there is consequently a danger of resorting to deflationary policies at times when a quite different and, in the long run, more decisive sort of action is required in the form, say, of measures to accelerate structural change. In several of the industrial countries, for example, it seems clear that post-war investment has been inadequate to change the productive structure of the economy sufficiently rapidly in the light both of domestic requirements and of changes in the world at large. The result has been that the countries concerned have shown themselves to be particularly vulnerable to pressure on the balance of payments. This has been just as true of a country like Denmark, where substantial slack has existed in the economy in recent years, as of the United Kingdom, where demand has pressed much more firmly against the limits set by capacity. The discouragement of productive investment in such countries, while it may offer a short-term solution to immediate problems, has the disadvantage that it may delay the structural adjustments which are necessary if long-run equilibrium is to be achieved and recurrent balance of payments crises avoided. Moreover, the very expectation that capital formation will be the first element of demand to be curbed in the event of external difficulties may tend to act as a deterrent to investment in structural change even at other times, when the balance of payments situation seems sound.

Still more important, perhaps, is the fact that governments have not been in the habit of entering into consultation with one another regarding the international impact of measures to restrain domestic demand. It has, of course, become widely accepted that governments should engage in such consultation whenever they wish to take action of major concern to other countries in the field of exchange rate policy or of tariffs and other trade restrictions.

In dealing with the general level of economic activity, however, each government acts on the assumption that the external environment will not change and gives relatively little consideration to the secondary international repercussions of its actions. This is in spite of the fact that fiscal and monetary measures may have just as great an impact on other countries as changes in exchange rates, tariffs or direct controls. Competitive deflation holds dangers no less grave than competitive depreciation. Even on the most favourable assumptions regarding the employment objectives of each country, taken individually, the average level of employment emerging from the unco-ordinated actions of individual governments, under the prompting of their balance of payments situations, can hardly fail to be substantially lower than the level which could prevail if international agreement were possible. It is of little use for a particular country faced with a balance of payments deficit to deflate on the assumption that other countries are maintaining the existing level of their demand if in fact they too are doing precisely the same thing because they wish, for example, to forestall any effect which deflation in the first country may have on their external balance. In that event the all-round drop in economic activity can only be mutually frustrating since the imports of all countries will decline and resources freed for export on all sides will in fact not be used to produce either for the home market or for export but will remain idle.

The fact that declines in internal demand in the industrial countries in recent years have invariably been accompanied by improvements in balance of payments positions does not, therefore, warrant the conclusion that any country can solve its balance of payments problem by sufficient deflation. For the essential condition of that experience was the basic economic stability which prevailed, as was stressed above. In the absence of such stability, deflation can succeed as a remedy for the balance of payments deficit of a particular country only in so far as it is greater than the corresponding deflations undertaken by its trading partners. It is hardly necessary to dwell on the potential dangers of such a situation. Nor can there be much question but that the level of economic activity which would be consistent with international equilibrium if governments consulted one another on the broad outlines of their economic policies would be higher than if they continue to act as if the external environment were a given datum, unaffected by their own actions.

Appendix

Table A. Components of Gross Private Income after Tax[a]

(In current prices)

Country and item	*1948*	*1949*	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*
Belgium (billions of Belgian francs):								
Export balance	−6.9	1.7	−9.9	8.9	8.9	4.4	1.5	12.6
Budget deficit or surplus (−)	−1.9	3.4	0.8	−2.3	7.9	13.1	10.2	...
Gross domestic fixed capital formation	48.3	50.4	57.5	58.9	61.1	64.0	70.4	77.0
Inventory formation	9.3	4.0	0.1	7.9	5.3	3.8	5.9	6.3
Private consumption	257.3	254.0	268.8	284.3	295.3	296.7	305.7	314.3
Gross private income after tax	306.1	313.5	317.3	357.7	378.5	382.0	393.7	...
Canada (millions of Canadian dollars):								
Export balance	417	148	−362	−545	164	−439	−431	−671
Budget deficit or surplus (−)	−1,125	−893	−1,031	−1,501	−927	−778	−577	−830
Gross domestic fixed capital formation	3,171	3,490	3,787	4,452	5,015	5,610	5,497	6,259
Inventory formation	43	105	497	1,049	493	530	−205	351
Private consumption	10,107	10,965	12,038	13,275	14,366	15,113	15,814	16,880
Gross private income after tax	12,613	13,815	14,929	16,730	19,111	20,036	20,098	21,989
Denmark (millions of kroner):								
Export balance	−338	−272	−829	−273	153	106	−511	233
Budget deficit or surplus (−)	−760	−608	−813	−722	−695	−957	−846[b]	−1,041[b]
Gross domestic fixed capital formation	2,545	3,064	3,600	4,055	4,465	4,775	5,165	4,900
Inventory formation	756	411	935	40	−18	340	275	175
Private consumption	12,445	13,394	15,545	16,734	16,928	17,881	19,088	19,602
Gross private income after tax	14,648	15,989	18,438	19,834	20,833	22,145	23,171	23,869
France (billions of francs):								
Export balance	...	−170	−60	−200	−270	−130	−50	—
Budget deficit or surplus (−)	...	114	20	11	159	189	181	166
Gross domestic fixed capital formation	...	1,460	1,557	2,037	2,377	2,375	2,571	2,816
Inventory formation	...	300	313	180	298	137	150	185
Private consumption	...	5,670	6,430	8,090	9,440	9,750	10,310	11,000
Gross private income after tax	...	7,374	8,260	10,118	12,004	12,321	13,162	14,167
Germany, western (millions of Deutsche marks):								
Export balance	...	−2,592	−1,407	2,041	3,068	4,208	4,243	3,553
Budget deficit or surplus (−)	...	−3,610	−4,360	−6,470	−7,890	−10,740	−11,800	−14,380
Gross domestic fixed capital formation	...	14,819	18,008	22,545	24,680	27,735	30,630	38,100
Inventory formation	...	894	1,316	5,569	4,940	4,270	4,967	5,147
Private consumption	...	51,731	57,239	65,062	70,740	75,652	81,660	91,900
Gross private income after tax	...	61,242	70,796	88,747	95,538	101,125	109,700	124,320
Italy[c] (billions of lire):								
Export balance	−209	−170	−70	−158	−409	−340	−245	−236
Public consumption	903	806	859	1,047	1,287	1,355	1,512	1,627
Gross domestic fixed capital formation	1,374	1,370	1,520	1,835	2,120	2,254	2,454	2,735
Inventory formation	[d]	69	123	223	−10	30	35	190
Private consumption	5,341	5,715	6,186	7,062	7,645	8,317	8,653	9,213
Gross national product	7,409	7,790	8,618	10,009	10,633	11,616	12,409	13,529
Netherlands (millions of guilders):								
Export balance	−1,150	−260	−1,120	−100	1,840	1,420	280	840
Budget deficit or surplus (−)	−500	−1,080	−1,470	−2,140	−2,670	−2,250	−2,010	−1,750
Gross domestic fixed capital formation	3,130	3,400	3,870	4,290	4,930	5,030	5,780	6,690
Inventory formation	630	730	1,680	1,080	−750	200	1,180	570
Private consumption	10,970	11,420	12,440	13,460	13,610	14,070	15,460	16,700
Gross private income after tax	13,080	14,210	15,400	16,590	16,960	18,470	20,690	23,050
Norway (millions of kroner):								
Export balance	−804	−1,245	−867	181	−81	−1,005	−1,076	−706
Budget deficit or surplus (−)	−741	−788	−1,006	−1,414	−1,603	−1,373	−1,356	−1,562
Gross domestic fixed capital formation	3,400	3,800	4,131	4,567	5,468	6,091	6,686	6,995
Inventory formation	469	385	62	725	198	−155	−50	60
Private consumption	8,157	8,931	10,009	11,275	12,580	13,120	14,156	14,829
Gross private income after tax	10,841	11,083	12,329	15,334	16,562	16,678	18,360	19,616
Sweden (millions of kronor):								
Export balance	−400	480	170	960	220	410	−100	−310
Budget deficit or surplus (−)	−930	−1,140	−690	−1,630	−2,160	−2,160	−2,400	−2,890
Gross domestic fixed capital formation	4,570	4,510	5,320	6,400	7,240	8,140	8,730	9,070
Inventory formation	330	110	−180	1,030	1,060	−390	10	790
Private consumption	17,800	18,040	19,490	22,180	24,380	25,150	26,530	27,990
Gross private income after tax	21,370	22,000	24,110	28,940	30,740	31,150	32,770	34,650

Table A. Components of Gross Private Income after Tax *(continued)*

Country and item	*1948*	*1949*	*1950*	*1951*	*1952*	*1953*	*1954*	*1955*
United Kingdom (millions of pounds):								
Export balance	−19	57	313	−379	166	107	217	−82
Budget deficit or surplus (−)	−350	−384	−413	−281	—	112	47	−180
Gross domestic fixed capital formation	1,406	1,552	1,668	1,823	2,006	2,255	2,491	2,816
Inventory formation	175	65	−210	575	50	125	75	300
Private consumption	8,505	8,905	9,348	10,060	10,562	11,210	11,970	12,757
Gross private income after tax	9,717	10,195	10,706	11,798	12,784	13,809	14,800	15,611
United States (billions of dollars):								
Export balance	5.83	6.16	1.82	3.74	2.37	0.28	1.32	1.18
Budget deficit or surplus (−)	−15.72	−7.40	−15.27	−13.41	−4.63	−4.11	−2.24	−11.52
Gross domestic fixed capital formation	41.46	41.35	50.43	54.38	55.14	58.76	59.85	66.90
Inventory formation	5.33	−0.71	6.97	10.16	4.29	4.20	−0.27	5.74
Private consumption	176.18	178.96	192.17	206.36	216.08	227.73	233.55	250.60
Gross private income after tax	213.08	218.36	236.12	261.23	273.25	286.86	292.21	312.90

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

[a] Gross private income after tax is defined as gross national expenditure less current government revenue plus current government transfer and interest payments. It is identically equal to the sum of the export surplus, budget deficit (government deficit on current account), gross domestic fixed capital and inventory formation and private consumption (import and budget surpluses being treated as negative items). Except for Belgium and France, the data for the years 1950 to 1955 have been largely obtained from replies of governments to the United Nations questionnaire on national accounts, which are published in United Nations, *Statistics of National Income and Expenditure*, Series H, No. 10. For 1948 and 1949, data are based upon official national statistics or OEEC sources, adjusted as appropriate.

[b] Estimated.

[c] Data for Italy relate to gross national product and components.

[d] Included in gross domestic fixed capital formation.

Chapter 3

THE BALANCE OF PAYMENTS EXPERIENCE OF PRIMARY PRODUCING COUNTRIES

Characteristics of Post-war Balance of Payments Experience

During the post-war period, viewed as a whole, the balance of payments experience of the primary producing countries has been determined primarily by the manner in which they have been affected by the economic growth of the industrial countries as well as by the magnitude and direction of their own economic development. In comparison with the industrially advanced countries, however, external circumstances have commonly assumed greater importance in determining the trends in their external balances. A fundamental reason for this is that the export earnings of almost every primary producing country are derived from a very limited range of commodities; and this dependence upon a few commodities renders the long-term trend in the external balance of each country vulnerable to structural changes in world import demand for primary products.

In fact, over the post-war years, there have been substantial changes in world demand for the various primary products. While the rising level of activity in the industrially advanced countries has assured an expansion of world trade in primary products as a whole, the individual primary producing countries have not all been drawn into this upsurge in activity to an equal extent. Economic growth in the industrially advanced countries has been associated with changes in their demand and production that have modified both the level and the composition of their import demand for primary products; and, as a consequence, some primary producing countries have experienced sharp increases in foreign demand for their exports whereas others have been faced with stagnant markets.

This diversity in external demand conditions, however, has a significance for the primary producing countries that extends beyond its effects upon their external balances, since the trends in their export earnings have commonly assumed a dominant role in setting the pace of internal economic growth. Typically, in countries which have been slow in developing, domestic income and output have been equated at levels which left little margin for economic growth. Low rates of saving and investment within the economy have arrested the growth of domestic demand, and the stagnation of domestic demand has, in turn, provided little inducement to invest. In such circumstances, rising foreign demand for the output of the export sector has been of major importance in generating economic growth since the increased expenditure from rising export incomes has accelerated the growth of income and output in the domestic sectors of the economy.

It would, of course, be erroneous to suppose that economic growth in the primary producing countries has been responsive solely to external circumstances. It must not be forgotten that there are many primary producing countries where the process of self-sustaining growth had begun to take root in earlier decades. Moreover, an outstanding characteristic of the post-war period has been the widespread determination among governments of under-developed countries to initiate, or sustain, accelerated rates of growth. Yet, powerful though these internal stimuli have sometimes been, the trend in export earnings of each country has continued to assume major importance for its growth, since its rate of capital formation has continued to be heavily dependent upon its ability to import capital equipment.

It can thus be seen that the share of each country in expanding world trade has partly determined its internal economic growth. Economic growth in turn has sometimes reacted upon the share of a country in expanding world trade through its effect on exportable supplies. And it is within this framework of their shares in expanding world trade and of their growing income and output that the balance of payments experience of the individual primary producing countries has been shaped. For most countries, disparities in the development of internal growth and external circumstances have, in fact, been such that their external balances have been subject to persistent, or mounting, pressure over the post-war years.

Evidence of the presence or absence of pressure upon the balance of payments of selected countries is presented in chart 10.[1] This chart, which traces the annual

[1] Any selection of countries naturally involves great difficulties. The selection here made is designed to achieve the widest possible representation of the many different types of primary producing countries, consistent with the availability of data adequate for the analysis undertaken.

changes between 1948 and 1955 in the ratios of the balance on current account and of reserves to merchandise imports, both in current prices, provides some indication of whether pressure on the balance of payments has tended to intensify or diminish. Declining trends suggest that there may have been mounting pressure on the balance of payments, and *vice versa*.[2] However, the movement of these ratios can serve as no more than a partial indicator, which, taken by itself, may be misleading. If, for example, a country persistently records a deficit on current account but, through tightening its exchange and import controls, it progressively reduces this deficit, these ratios will show an upward trend. It is nevertheless plain that such a country may be continuing to experience acute pressure upon its balance of payments. This becomes manifest in such evidence as the stringency of exchange and import controls or the weakness of the exchange rate. But it may also be revealed by the level of reserves in relation to imports, which is shown for each country in table 38. Broadly, this table indicates the relative strength of the international accounts of the various countries in recent years. A relatively low ratio of reserves to imports, for instance, places a country in a weak position, since this ratio broadly determines the magnitude of the temporary deficits on current account which a country can absorb without interrupting the flow of imports.

While, in the post-war years, almost all countries have experienced sharp, short-term fluctuations in their external balances, there have clearly been longer-term trends underlying these fluctuations. It is evident from chart 10 that, over the period, most of the countries represented have experienced either persistent deficits on current account or a marked deterioration in their current account ratios. Further, receipts of foreign investment capital or grants have commonly not been of such a magnitude as to prevent a parallel downward trend in reserve ratios. Over the post-war years, only a comparatively few countries have experienced a strongly positive, or rising, balance on current account and a high, or rising, reserve ratio.

The above changes in the current account balance are, of course, the combined result of changes in both the price and volume of imports and exports. For analysis of the specific forces affecting the external balance it is useful, as a first step, to isolate these two sets of factors. This has been done in table 39, where exports, imports and the current account balance have been shown in both current and constant prices; these data are related through the terms of trade.

Since the individual countries have experienced widely different trends in their terms of trade over the post-war period, it would be natural to consider that this may have been a major reason for the divergent trends in their external balances in current prices. Table 39 does show that, for certain countries, the movement in the terms of trade has been so strong as to cause contrary movements in their external balances in current prices and in constant prices. In Ceylon, for example, a favourable movement in the terms of trade was sufficient to produce an improvement over the post-war period in its external balance in current prices despite a deterioration in its real balance. Conversely, in Cuba and Egypt, adverse trends in the terms of trade produced a deterio-

[2] The two ratios need not, however, move in the same direction, since the reserve ratio may rise or fall in response to capital movements other than those induced by surpluses or deficits on current account. If, for example, a large loan or grant is received from abroad, the reserve ratio may temporarily rise although the current account ratio is undergoing continuous deterioration. Allowance must therefore be made for capital movements in interpreting these ratios.

Table 38. Ratio of Official Reserves[a] to Merchandise Imports,[b] by Country, 1953-1955

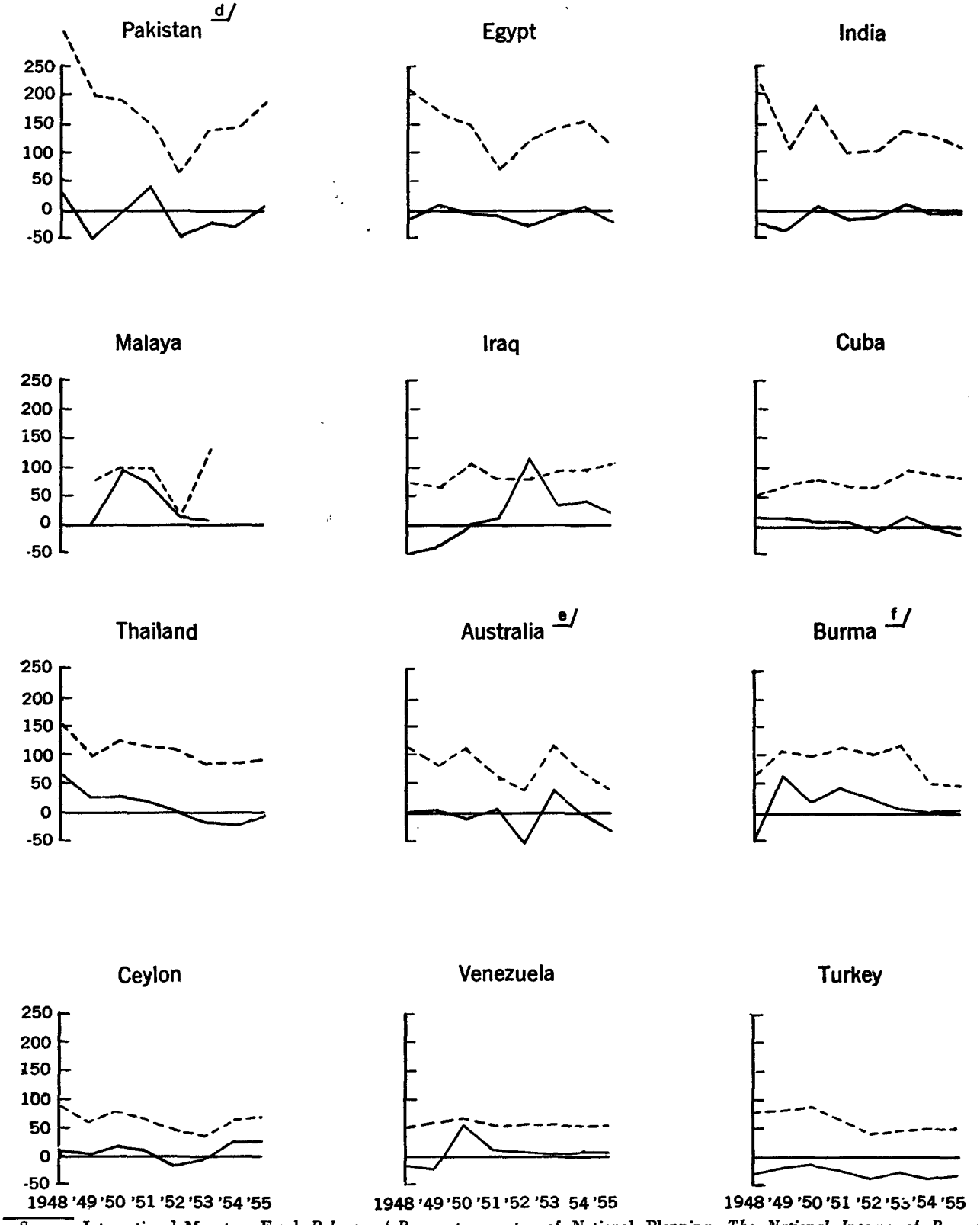
Import equivalent of reserves	*Latin America*	*Middle East and Asia*	*Oceania and Union of South Africa*
Over 12 months' imports		Pakistan Egypt India Malaya	
6 to 12 months' imports	Cuba Venezuela	Iraq Thailand Burma Ceylon	Australia
Under 6 months' imports	Brazil Mexico Colombia Peru Chile	Turkey Indonesia Philippines	New Zealand Union of South Africa

Source: See chart 10. Countries in each column are ranked in descending order.

[a] Gross reserves only; a more accurate measure would make allowance for official short-term liabilities also. For a discussion of the definition and measurement of reserves, see International Monetary Fund, *International Financial Statistics* (Washington, D.C.), June 1953.

[b] Merchandise imports are valued f.o.b. by some countries, but correction for this would not materially alter the grouping.

Chart 10. Ratios of Current Account Balance[a] and

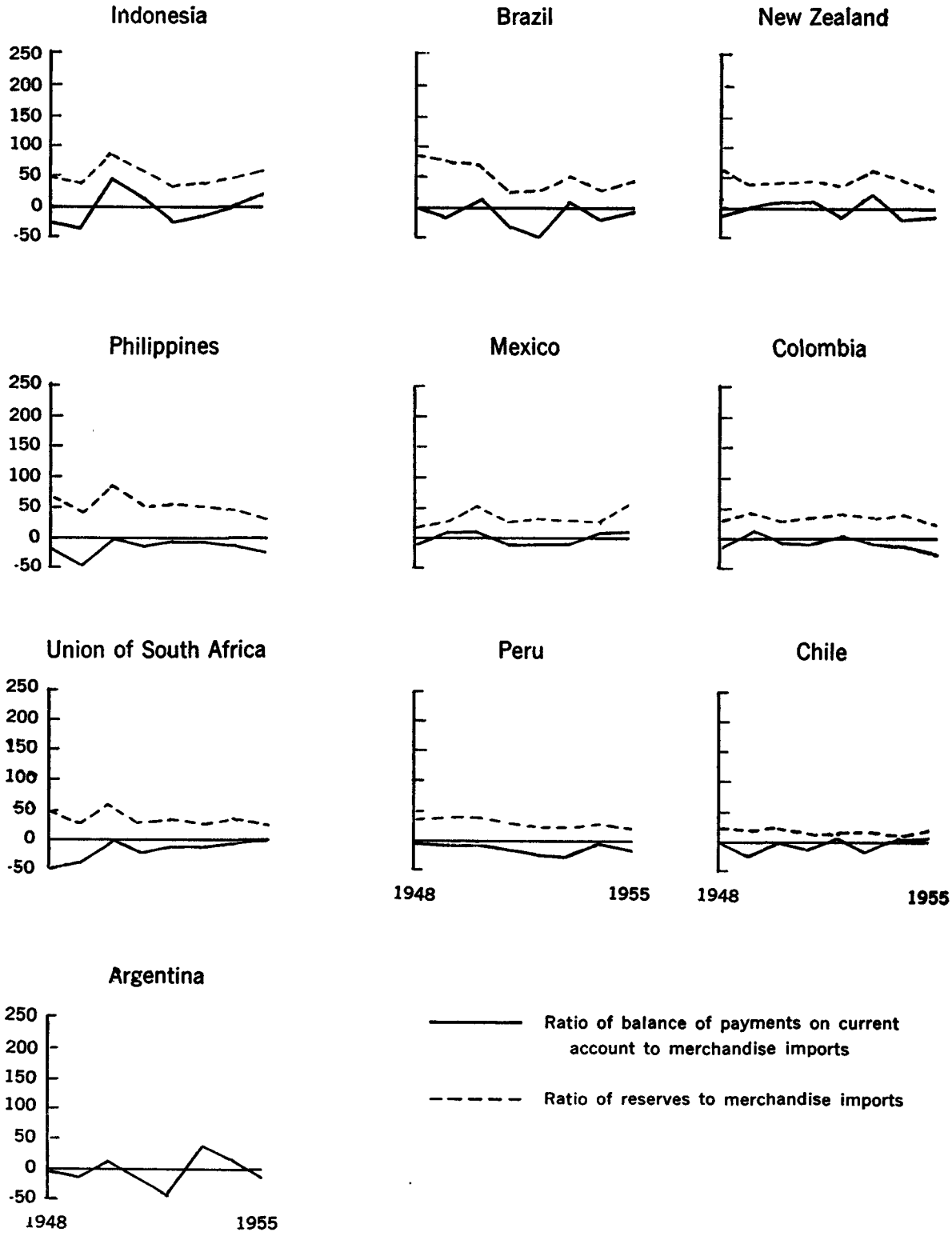


Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 5 and vol. 7, and *International Financial Statistics*; International Bank for Reconstruction and Development, *Economic Development of Malaya* (Baltimore, 1955); Burma: Ministry of National Planning, *The National Income of Burma* (Rangoon, 1951).

[a] Net goods and services only.

[b] Valued f.o.b. by some countries.

Reserves to Merchandise Imports,[b] by Country[c]



[c] In descending order of the ratio of reserves to imports in 1953-1955, reading across each row from the top left-hand corner.

[b] Balance of payments data for 1948 to 1950 exclude transactions with India and other border States. Figure for ratio of reserves to merchandise imports, 1948, is 721.

[e] Fiscal years ending in June.

[f] Fiscal years commencing October 1947 for 1948, and October 1948 for 1949.

Table 39. Balance of Payments on Current Account: Annual Averages, in Current and Constant Prices, 1948-1949 and 1953-1955

(Millions of dollars)

Country and period	Merchandise exports[a] and net services		Merchandise imports[b]		Current account balance	
	Current prices	1953 prices	Current prices	1953 prices	Current prices	1953 prices
Argentina:						
1948–1949	1,172	935	1,282	1,467	−110	−532
1953–1955	1,062	999	1,003	990	59	9
Brazil:						
1948–1949	848	1,530	926	964	−78	566
1953–1955	1,147	1,149	1,208	1,325	−61	−176
Chile:						
1948–1949	246	360	293	298	−47	62
1953–1955	356	378	367	376	−14	2
Colombia:						
1948–1949	286	439	303	292	−17	147
1953–1955	549	491	620	616	−71	−125
Cuba:						
1948–1949	578	532	490	498	88	34
1953–1955	533	533	520	453	13	80
Mexico:						
1948–1949	542	597	570	670	−28	−73
1953–1955	832	850	827	868	5	−18
Peru:						
1948–1949	131	142	141	131	−10	11
1953–1955	201	185	243	242	−42	−57
Venezuela:						
1948–1949	583	595	731	734	−148	−139
1953–1955	997	892	930	921	67	−29
Burma:						
1948/49[c]	179	208	107	96	72	112
1953–1955	197	249	187	187	10	62
Ceylon:						
1948–1949	308	298	291	257	17	41
1953–1955	357	325	308	333	49	−8
Egypt:						
1948–1949	620	518	638	613	−18	−95
1953–1955	455	422	499	507	−44	−85
India:[d]						
1948–1949	1,214	962	1,668	1,611	−454	−649
1953–1955	1,342	1,307	1,356	1,365	−14	−58
Indonesia:[e]						
1948–1949	327	327	527	503	−200	−176
1953–1955	551	510	575	585	−24	−75
Iraq:						
1948–1949	92	98	171	153	−79	−55
1953–1955	320	305	230	...	67	...
Pakistan:[f]						
1948/49	367	324	514	467	−147	−143
1952/53 to 1954/55	405	379	367	346	58	33
Philippines:						
1948–1949	367	346	591	595	−224	−249
1953–1955	407	452	507	522	−100	−70
Thailand:						
1948–1949	246	257	183	182	63	75
1953–1955	288	308	337	343	−49	−35
Turkey:						
1948–1949	184	202	254	225	−70	−23
1953–1955	299	292	445	435	−146	−143
Australia:[g]						
1948/49 to 1949/50	1,288	1,442	1,327	1,480	−39	−38
1953/54 to 1955/56	1,408	1,572	1,759	1,750	−351	−178

Table 39. Balance of Payments on Current Account: Annual Averages, in Current and Constant Prices, 1948-1949 and 1953-1955 *(Continued)*

(Millions of dollars)

Country and period	Merchandise exports[a] and net services		Merchandise imports[b]		Current account balance [e]	
	Current prices	1953 prices	Current prices	1953 prices	Current prices	1953 prices
New Zealand:						
1948–1949	403	475	415	405	−12	70
1953–1955	519	507	567	569	−48	−62
Union of South Africa:						
1948–1949	725	793	1,309	1,393	−584	−600
1953–1955	1,169	1,219	1,255	1,238	−86	−19

Source: United Nations, *Statistical Yearbook, 1955* (sales number: 1956:II.C.1) and *Monthly Bulletin of Statistics;* International Monetary Fund, *Balance of Payments Yearbook*, vols. 6 and 7 and *International Financial Statistics* (Washington, D.C.). Where no price indices were available for deflation of current values, these were constructed from index numbers of partner trading countries.

[a] Including non-monetary gold.

[b] Valued c.i.f. by some countries.

[c] Fiscal year commencing October 1948.

[d] Large government service payments to the United Kingdom in 1948 overstate the increase in merchandise exports and net services between 1948/49 and later years.

[e] The balance of payments data do not agree with the customs data which are used in other tables and charts.

[f] Merchandise trade only; fiscal years ending June.

[g] Fiscal years ending in June.

ration in external balances in current prices despite improved real balances. Nevertheless, it remains true that, for most countries, an improvement or deterioration in the balance in current prices has been associated with a like movement in the real balance, although differences in the magnitude of change in the two balances have frequently occurred. Thus, although trends in the terms of trade have commonly accentuated or moderated the tendencies towards mounting or diminishing pressure upon the balance of payments, these have not generally been a primary reason for the presence or absence of pressure.

Since world import demand has expanded at widely varying rates for different primary products, external demand conditions might be assumed to have been a predominant reason for the divergent trends in the real balances of individual countries. To a limited extent, this is borne out by the evidence. Countries like Venezuela, whose exports have risen steadily during the post-war period, have been far better situated with respect to their external balances than countries such as Cuba, Egypt or Pakistan, whose exports have fallen or, at best, showed little growth. Yet in between, there has been a large group of countries whose exports have risen considerably but which have nevertheless experienced mounting pressure on their external balances.

In most of these countries a major element in balance of payments difficulties has been the tendency for domestic economic growth to intensify the demand for imports. It might consequently be inferred that the differing rates of economic growth among individual countries have determined the trends in their real external balances. Rates of growth have not, however, been correlated in any simple way with changes in external balances. On the contrary, some countries which have shared substantially in the growth of world import demand for primary products have recorded high rates of domestic growth without suffering an intensification of pressure on the balance of payments. And other countries which have benefited little from the expansion of world trade have experienced rising pressure on their external balances despite moderate rates of internal growth. At the same time, in between these two groups, there have been a considerable number of countries which, like the first group, have experienced both high rates of domestic economic growth and significant increases in exports or markedly improved terms of trade, but which have nevertheless given every indication of experiencing mounting pressure on their external balances.

These types of experience indicate that the effect of domestic economic growth upon the external balance has been determined, not solely by its rate, but also by its pattern. In a few countries, for which external demand conditions have been particularly favourable, domestic growth has been export-biased. But, among most countries, the outstanding feature has been the rise in imports, not only absolutely, but also in relation to their total output. A principal reason for this rise has been the growth in importance of investment in relation to total output, since investment in the primary producing countries calls for a high proportion of imported merchandise. It is true that, to some extent, this has been offset by a reduction in the import content of consumption as countries have expanded their own production of consumer goods. The effect of this factor has not, however, been as great as might be expected. Partly, this has been because expanding domestic production has required increasing imports of raw mate-

rials. But also, in some countries, it has proved difficult to expand domestic production of food in line with the growth in domestic demand, and dependence on foreign sources of supply has increased. Thus, on balance, it is only in a minority of countries that the post-war changes in the level and pattern of domestic demand and production have been associated with an increase in imports less than the increase in total output. Nor has post-war growth been without its repercussions upon exports. The nature of these repercussions has depended predominantly upon the pattern of resource allocation accompanying growth in each particular case, and particularly on the extent to which increases in consumption have impinged upon the supply of goods for export.

These general tendencies have been greatly reinforced where domestic growth has been accompanied by inflation. Not infrequently, inflationary developments have been symptomatic of the efforts of governments to sustain an accelerated rate of growth or to raise levels of living in the post-war years. But, whatever the causes, inflation has invariably had immediate effects in intensifying import demand or reducing exportable supplies; and, where a general inflation of prices and costs has ensued, increased imports have also been induced by the changing price relationship between imports and domestic goods, while exports have been depressed by their uncompetitive prices and reduced profitability. Furthermore, where the inflationary process has persisted, this has induced fundamental structural changes, such as changes in the pattern of expenditure and domestic production, which, in turn, have heightened its effect on the external balance. But even apart from domestic inflation, changing price relationships between domestic and foreign goods resulting, for example, from governmental price controls or exchange policy, have sometimes operated similarly to heighten demand for imports or depress exports.

The rise in imports relative to total output which most countries have experienced as a result of all these developments has often been accompanied by a deterioration in their real external balances. This consequence could only be avoided where exports also rose in relation to total output. However, such a relative expansion of the export sector has occurred only in a comparatively few instances. Although growth in the primary producing countries has generally been less than in the industrially advanced countries, the exports of the primary producing countries have frequently not kept pace even with their own domestic rates of growth. In some cases, it is true, this has been partly an outcome of the absorption of exportable supplies by the home market. But for the primary producing countries generally, it has reflected the long-term trend in industrially advanced countries for their import demand for primary products to lag behind the growth of their income and output.

It is true that, for many primary producing countries, there has been some improvement in the terms of trade so that, while exports have usually lagged behind the growth of domestic output, import capacity has not. Nevertheless, the rise in import capacity has frequently been less than the increase in imports that has been generated by the rate and pattern of domestic economic growth. Only a few countries have experienced both an expansion in foreign demand for their exports and a transformation of domestic demand and production that have combined to raise import capacity as rapidly as import demand, and have therefore prevented the emergence of pressure upon the external balance.

Exports and the Financing of Imports

The setting of world demand

The strength of demand in the industrial countries for food and raw materials is paramount in determining the magnitude of the export receipts of primary producing countries as a whole; and, with high levels of activity being sustained in the industrial countries, these receipts have been buoyant during the post-war years. Through their impact in stimulating the pace of economic growth, these increased export receipts have indirectly affected the import demand of the primary producing countries. But, in the first instance, the expansion of export receipts has represented an increase in the ability of the primary producing countries to finance larger imports.

However, although expanding appreciably, the volume of exports of the primary producing countries during the post-war years has not risen in step with the increases in output recorded by the industrial countries. As chart 11 shows, these exports as a whole have lagged behind both the rise in industrial production of North America and western Europe, and total world physical output. Nor were the prices of primary products as a whole any higher in 1955 than in 1948, although they fluctuated strongly in intervening years (see table 40).[3] These trends are indicative of the fact that the demand of importing countries for primary products has increased more slowly than the growth in their income and output. For the industrial countries, technological changes leading to economies in use of raw materials and to substitution of synthetic for natural raw materials, shifts in the structure of production towards industries less dependent on imported raw materials, the increase in the degree of fabrication of manufactures, the income inelasticity of demand for foods and the greater protection of domestic agriculture, have all

[3] All prices in this section are expressed in dollars.

contributed to weaken the demand for imported primary products relative to income and output.[4] And in trade among primary producing countries, the demand of importing countries has similarly been moderated by the development of domestic production of primary products.

However, not all primary products have been affected in the same way by these factors. On the contrary, the forces of economic change have greatly magnified the growth in world import demand for some commodities, while the demand for others has lagged.

Post-war changes in the composition of world import demand for primary products, as between the broad commodity groups, may be inferred from tables 40 and 41. The greatest increase in the volume of trade between 1948 and 1955 occurred in fuels, but this was accounted for chiefly by petroleum. Other mineral exports have also shown a stronger upward trend than agricultural raw materials or foodstuffs, while the least expansion in the volume of trade occurred in beverage crops. Except for the beverage crops, these relative trends in export quantum of the different commodity groups are broadly indicative of the divergences in growth of world import demand, since the price relationships between these commodity groups remained approximately the same. Prices of beverage crops, on the other hand, have shown a strong upward movement in recent years, indicating an expansion in world demand relative to supply.

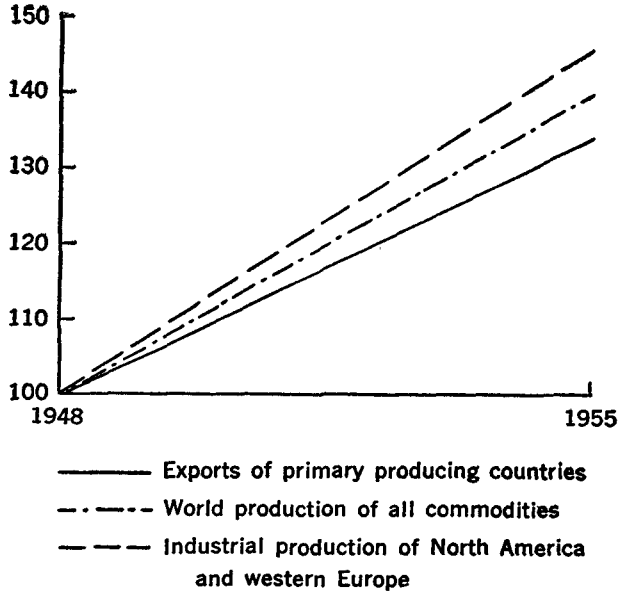
Throughout the period, however, prices of agricultural raw materials and minerals have oscillated much more widely than those of foodstuffs, reflecting the greater magnitude of variation in world demand for industrial raw materials. For countries exporting such raw materials, inventory fluctuations in the industrial countries have rendered export prices highly unstable. Such instability has often had a major impact upon the evenness of the pace of economic expansion in a number of countries, as well as upon the magnitude of the fluctuations in their balance of payments.

It may broadly be said that over the post-war period as a whole the growth in world import demand for the exports of the primary producing countries has been weakest in the field of staple foods and certain agricultural raw materials, such as natural fibres. Accordingly, it is among countries exporting such commodities that export receipts have exhibited the least favourable trends in the period under review (see chart 12). Particularly for countries such as Egypt and Pakistan, whose exports consist primarily of textile raw materials, merchandise export receipts were depressed by declines in export prices over the period that were accompanied

[4] *World Economic Survey, 1955* (sales number: 1956.II.C.1), pages 31 to 40 and pages 53 to 57.

Chart 11. Change in Export Quantum[a] of Primary Producers, World Commodity Output, and Industrial Production from 1948 to 1955

(1948 = 100)



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

[a] Based on twenty-eight principal commodities.

Table 40. World Export Price Indices of Primary Products, by Category

(In dollars; 1950 = 100)

Category	*1948*	*1955*
Foods	109	108
Beverages	...	122
Agricultural raw materials	98	94
Minerals	110	115
TOTAL	104	104

Source: United Nations, *Statistical Yearbook, 1955* and *Statistical Yearbook, 1956* (sales number: 1956.XVII.5).

Table 41. Indices of Quantum of Exports, by Commodity Classes

(1950 = 100)

Category	*1948*	*1955*
Food, oils and tobacco[a]	93	108
Beverages[b]	102	109
Agricultural and mineral raw materials[c]	83	108
Agricultural raw materials[d]	82	105
Fuels[e]	79	181
TOTAL	86	116

Source: Statistical Office of the United Nations. All primary exporting countries are included.

[a] Maize, rice, sugar, wheat, butter, copra, ground-nuts, palm kernels, palm oil, coconut oil, olive oil and tobacco.

[b] Cocoa, coffee and tea.

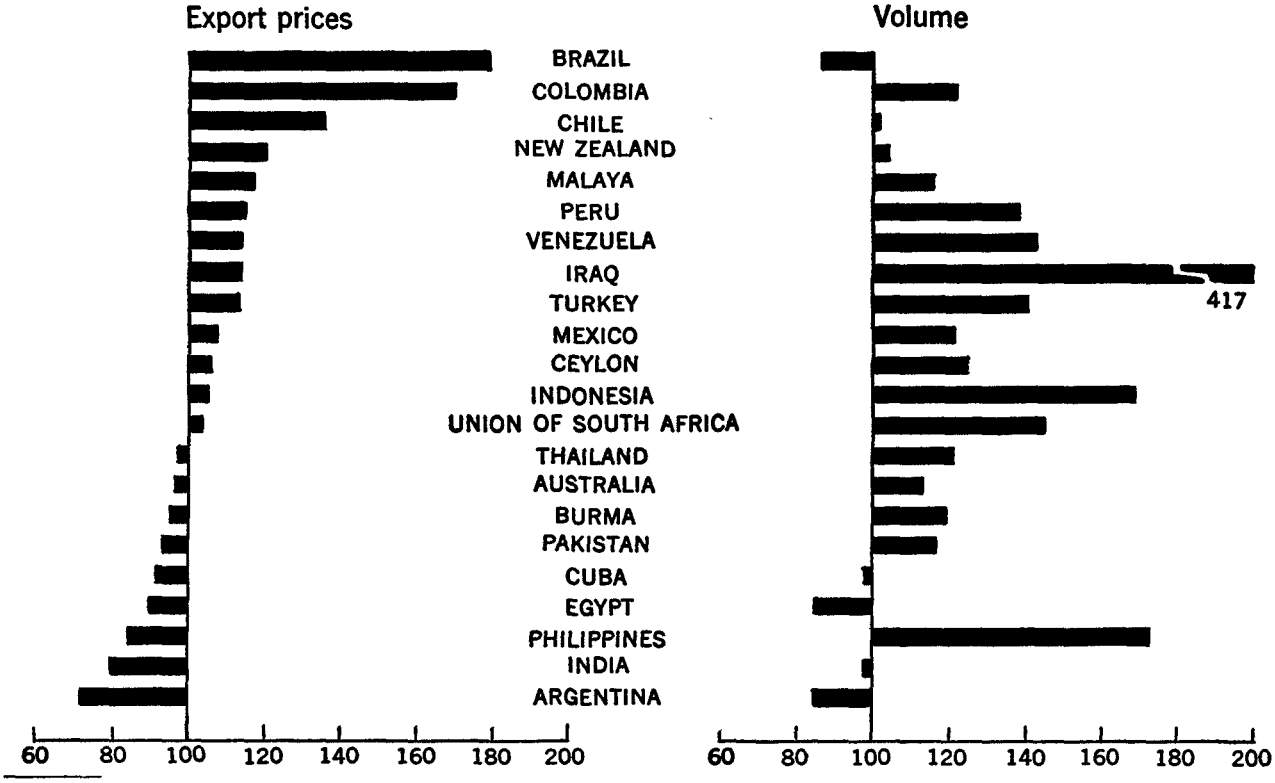
[c] Cotton, jute, wool, wood-pulp, lumber, rubber, bauxite, copper ore, iron ore, tin ore and zinc ore.

[d] Commodities listed in footnote *c*, excluding minerals.

[e] Coal and crude petroleum.

[5] India, though primarily an exporter of textile manufactures, experienced similar trends in its export receipts.

Chart 12. Indices of Price and Volume, Merchandise Exports, 1953-1955[a]
(1948-1949 = 100)



Source: United Nations Bureau of Economic Affairs; United Nations, *Statistical Yearbook, 1946;* International Monetary Fund, *International Financial Statistics,* February 1956 and February 1957. Where no official indices were available, estimates have been made on the basis of national trade returns and other data. For Australia, the period is 1947/48-1948/49 to 1952/53-1954/55; for Pakistan, 1948/49 to 1952/53-1954/55.

[a] Annual average of the three years, with annual average of 1948-1949 as base.

by only moderate increases, or by declines, in export quantum.[5] Argentina likewise experienced a decline in export receipts, but the explanation lay more in a contraction of exportable supplies than in unfavourable demand conditions abroad. Beef prices have risen substantially in the post-war years, but a contraction in exportable supplies restricted the country's export trade largely to other agricultural products, whose prices showed weakness. Other agricultural producers which, as exporters of commodities such as food grains, sugar and wool, have experienced price declines, are Australia, Burma, Cuba and Thailand. But the weakness of their export prices has generally been accompanied by moderate increases in export volume, and these have raised their total export receipts. The Philippines, an exporter principally of sugar and coconut products, also experienced sagging export prices, but its export volume increased substantially. However, the reason for the marked rise in its exports lay more in the delayed recovery of production from war-time destruction than in the growth of world demand.

The stagnation or slow growth in world demand for some agricultural products has not, however, been true of all such commodities. The countries exporting beverage crops, for example, have experienced relatively large increases in export receipts. In fact, the export prices of the coffee producers, such as Brazil and Colombia, rose more steeply than those of any of the other countries under study during the post-war years; but this sharp rise was partly the converse of the decline in supplies from Brazil, which is the world's major producer of coffee. Again, the rise in tea prices was a main reason underlying the increase in Ceylon's export earnings, although it also benefited from increases in rubber prices. This latter rise was especially important for Malaya and Indonesia, both of which also recorded a substantial increase in export volume. However, the rapid rise in rubber prices between 1948-1949 and 1953-1955 partly arises from their greater volatility, compared with most other raw materials, over the cycle of activity in industrial countries. Rubber prices fell heavily during the minor United States recession in 1948/49 and underwent a strong rise during the expansion of activity in the industrial countries in the more recent period. New Zealand is another agricultural exporter which has experienced rises in its export price and volume over the post-war years; this has primarily reflected the favourable external demand for meat and dairy products.

The increases in export receipts of these agricultural

exporters have generally been equalled or exceeded by the mineral exporters. Petroleum producing countries, such as Iraq and Venezuela, have been favoured by the continuing expansion in world demand for liquid fuels. For Chile, a sharp rise in export prices was produced by the strength of world demand for copper relative to supply; and, although the country's export quantum showed little expansion, the rise in price resulted in a marked increase in export receipts.

By and large, it may be said that external conditions have provided a more favourable environment for the growth of export receipts among the mineral, rubber and beverage crop producers than among producers of other primary products. It is therefore not surprising that countries which have experienced the least pressure on their external balances over the post-war years have belonged in the former group. Conversely, it is among countries in the latter group that external demand conditions have weighed most heavily as a cause of stringency in the balance of payments.

But there remains a third group of countries, namely, Mexico, Peru, Turkey and the Union of South Africa, whose exports generally have a more diversified composition than those mentioned in previous paragraphs. Though only moderate increases have been recorded in the average prices of their exports, the rise in the volume of their exports has generally been comparatively high. The increase in their export receipts has, on the whole, been somewhat lower than that of many of the mineral, rubber or beverage exporters. Depending upon developments in import demand, some have experienced a lessening of pressure in the balance of payments, while others have shown evidence of increasing pressure.

Shifts in supply

While world demand conditions in general have been a major determinant of the trend in export receipts for most countries, it is clear that other factors have also been of importance in expanding or contracting export receipts among a number of them. Some have achieved a rising share of world trade in their traditional exports, while others have sustained a decline. Sometimes this has reflected a lack of exportable supplies from traditional sources, because domestic economic developments have led to a relative reduction in the resources available for export production. In other instances, it has been occasioned by shifts in foreign demand to alternative sources of supply for a variety of reasons other than the lack of supplies from traditional sources. Finally, there have been a few countries which, although the volume of their traditional exports has stagnated or been slow to increase, have achieved an expansion of total export receipts through diversification of their exports towards commodities for which they have had expanding foreign markets. Such shifts

Table 42. World Trade in Selected Primary Products:[a] Shares of Major Primary Producing Countries, 1948-1950 and 1953-1955

(Percentage)

Commodity and country	*1948–1950*	*1953–1955*
Wheat:		
Argentina	12	14[b]
Australia	13	7[b]
Turkey	—	4[b]
Rice:		
Burma	30	26
Thailand	29	26
Sugar:		
Cuba	39	34
Philippines	3	7
Australia	4	5
Coffee:		
Brazil	53	41
Colombia	16	18
Mexico	2	4
Tea:		
India	46	40
Ceylon	33	32
Beef:		
Australia	14	26[b]
Argentina	44	21[b]
Mutton and lamb:		
New Zealand	64	66[b]
Australia	14	15[b]
Cotton:		
Egypt	15	12
Mexico	5	10
Brazil	7	10
Pakistan	9	8
Jute:		
Pakistan	80	98
Wool:		
Australia	42	41
Argentina	12	11
New Zealand	16	11
Union of South Africa	4	7
Rubber:		
Indonesia	33	41
Malaya	43	34
Copper:[c]		
Chile	41	32
Lead:[d]		
Mexico	32	24
Peru	9	12
Tin:		
Malaya[e]	36	54
Indonesia[f]	30	34
Petroleum:[g]		
Venezuela	15	15[b]
Iraq	1	5[b]

Source: Food and Agriculture Organization, *Yearbook of Food and Agricultural Statistics* (Rome) and monthly bulletins; Metallgesellschaft Aktiengesellschaft, *Metal Statistics, 1946–1955* (Frankfort am Main), International Tin Study Group, *Statistical Bulletin* (The Hague), September 1956; and Statistical Office of the United Nations.

[a] Excluding trade of eastern Europe, USSR, mainland China.
[b] 1953–1954 only.
[c] Smelter production as percentage of total smelter production in less developed areas.
[d] Mine production as percentage of total mine production in less developed areas.
[e] Percentage of world trade in tin metal.
[f] Percentage of world trade in tin concentrates.
[g] Percentages of world production.

are broadly indicated in table 42, showing changes in the shares of countries in world trade of major commodities over the post-war years.

Broadly, inflexibility in the supply of traditional exports has not been an important factor in depressing the export receipts of countries outside Latin America; but, in certain of the latter countries, it has had a pronounced impact on the magnitude of export receipts. In the case of Argentina, for example, the decline in exportable supplies reduced its share of world trade in beef from 44 per cent in 1948-1950 to 21 per cent in 1953-1954. While its share of world trade in wheat was about the same in these two periods, it had fallen in the intervening period and continued to remain substantially below pre-war levels. Only in wool was its share maintained both in the post-war years and as compared with pre-war years. The immediate cause of the decline in exportable supplies was the withdrawal of factors of production from the export sector. Total agricultural output was some 8 per cent lower in 1953-1954 than in 1947-1948, and, in the intervening years, it had fallen to still lower levels. This was associated with an inflationary situation in which the prices paid by the Government to farmers for major agricultural commodities lagged behind the rise in the general price level. Government policy was also instrumental in depressing the level of agricultural investment, restricting imports of agricultural equipment, and inducing a large outflow of labour from the rural areas.[6] In recent years, however, agricultural price policy has been considerably modified; also, greater preference has been given to imports of agricultural equipment and domestic production of such equipment has been begun. Particularly since 1954, the impact of these changes upon the volume of exports has begun to be evident.

A not dissimilar set of circumstances has contributed to restricting the volume of exports in Chile, where output of the three major foreign-owned copper mines showed a downward trend over most post-war years. Heavy taxation of export receipts and the multiple exchange rate system contributed to this situation. Thus, until the recent adoption of a single fluctuating exchange rate for trade transactions, the spread between the rates for principal and minor exports widened continuously. In 1948, for example, the rates for agricultural and industrial products, and for the products of small mining companies, were about twice as high as the rate for the copper and iron ore exports of the large mining companies. By 1952, rates for the former categories of exports were about three to seven times greater than for the latter.

In Brazil, technical and economic considerations combined to produce a lag in export volume of coffee behind world demand in the post-war period. Although world demand for coffee has exhibited an upward trend in post-war years, Brazil's export volume has tended to decline. The explanation lies partly in the fact that, although production was insufficient to meet demand in the early post-war years, the huge Brazilian stocks accumulated in the nineteen thirties and the war years assured adequate supplies. Hence, when these stocks were finally depleted in 1949, Brazil's export volume declined. It was not until these surplus stocks had been moved that the gap between current production and consumption caused prices to rise and large-scale replanting was commenced. However, since a period of five years must elapse before new trees bear fruit, there has been no early expansion in supply.

The deficiencies in supplies from such countries have undoubtedly provided other countries with the opportunity to expand their exports of similar commodities more rapidly than would otherwise have been possible. The stagnation in exports from Argentina and Brazil partly accounts, for example, for the expansion of Australia's beef exports and Mexico's coffee exports. But, as already suggested, there have been a number of other reasons accounting for changes in the relative shares of countries in world trade in specific commodities. A decline in a country's share may have occurred because import demand in its traditional markets has lagged behind world import demand. This, for example, has been a factor tending to depress Egypt's exports of raw cotton relative to world trade, since the cotton textile industry in its principal, traditional market—the United Kingdom—has shown little expansion in post-war years. Again, a country's share may have declined because importing countries have preferred, for one reason or another, to shift their demand to alternative sources of supply. A simple instance is the decline over the post-war years in Cuba's share of world trade in sugar, which occurred largely because of the delayed recovery in exports from the Philippines. Another, more general, reason has been the widespread currency inconvertibility of the post-war years, which has induced importing countries to shift from hard to soft currency sources of supply. Conversely, the easing of the dollar problem partly accounts for the decline in the share of Australian wheat exports from early pre-war years, since the preference among European countries for hard winter varieties has induced a shift in demand to dollar sources of supplies.

Changes in export composition

As already noted, a decline in a country's share of world trade in its traditional exports does not necessarily imply a lag behind world demand in its total export volume, since such a decline may be associated with a change in the composition of its aggregate exports. If the shift in composition is towards exports for which foreign demand is expanding rapidly, the country's total export receipts may, in fact, benefit

[6] The active population engaged in agriculture declined by 18 per cent from 1945 to 1951; thereafter, following the emergence of considerable urban unemployment, this decline was arrested and reversed.

markedly. Moreover, the diversification of exports—as is noted in a later section—may yield other advantages in the form of greater stability in export proceeds.

In practice, however, important changes in the composition of exports during the post-war years have occurred only in a few instances (see chart 13). Such are the limitations in natural resources, and lack of capital and skilled labour that, in most primary producing countries, appreciable changes in the composition of exports cannot be easily wrought, except over a long period of years.

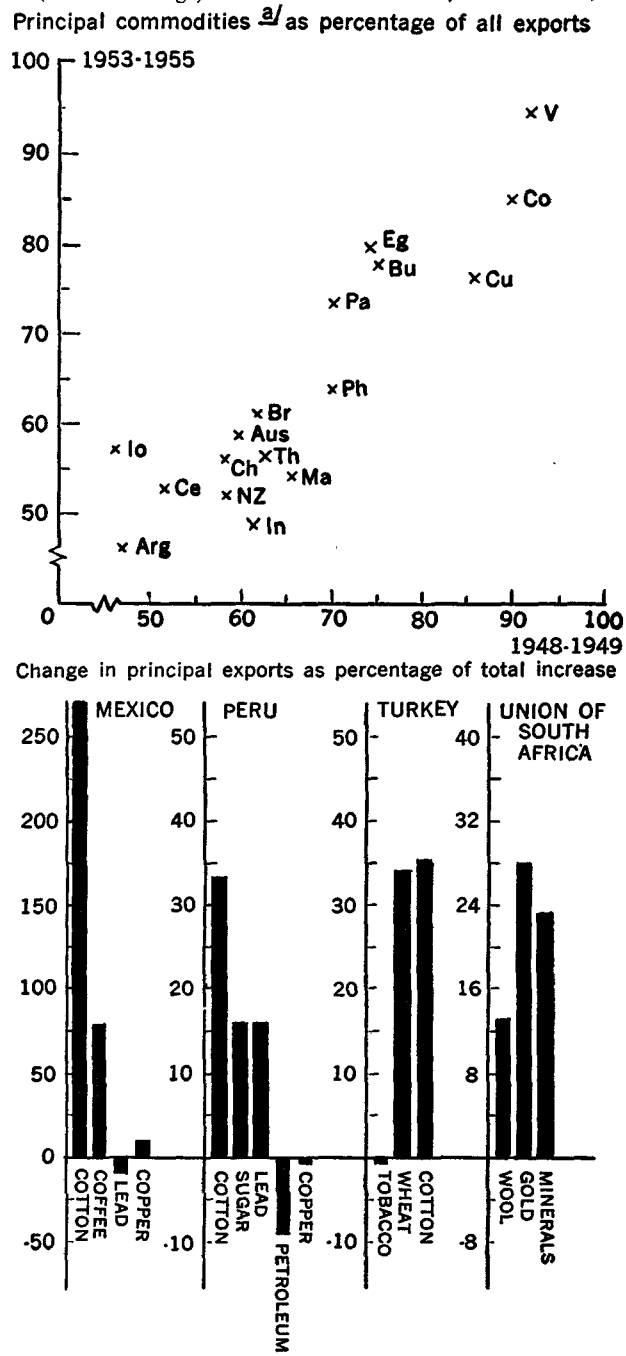
Of the twenty-two countries under study, appreciable changes in the composition of exports have been observable during the post-war years only in Mexico, Peru, Turkey and the Union of South Africa. It is true that the composition of exports from Indonesia and the Philippines also underwent change between early post-war years and recent years, but this has reflected primarily the delayed recovery of production from war-time destruction in the traditional export sectors.

In the first four countries, the change in composition of exports over the post-war years has been associated with substantial increases in the total quantum of exports. Generally, the shift in composition and the rising quantum of exports did not simply mark the addition of new products to their lists of traditional exports. It also arose, in part, from the substitution of new for traditional exports, reflecting a relative contraction in exportable supplies of the latter. In Mexico, for example, the shift in export composition from traditional mineral exports to cotton and coffee was due partly to the long-run depletion of certain mineral resources. In Peru, the relative decline in petroleum exports and the associated shift to other products, such as sugar and lead, are partly explained by rising domestic consumption of petroleum. In the Union of South Africa, the relative decline in the value of gold since pre-war years has decreased its importance as an item for financing imports, and, although gold output has risen over the post-war years, new mineral exports, such as copper and fissionable materials, have been assuming increasing importance in total exports. In Turkey, it may be noted, the emergence of wheat, along with cotton, as a principal export in 1953-1955 resulted in part from the exceptionally large harvests experienced in earlier years.

But, while the contraction in traditional exports has generally been important in explaining such shifts in export composition, the sharp expansion in supplies of the newer exports would not have been possible without a rapid reallocation of resources towards these new sectors of production. It is notable that, in all these countries, the share of the agricultural or mining sectors in total investment has been comparatively high; in Peru and the Union of South Africa, the movement of capital into the export sector has been facilitated by

Chart 13. Shifts in Composition of Exports, by Country

(Annual average, 1948-1949 and 1953-1955; in real terms)



Source: United Nations Bureau of Economic Affairs; International Monetary Fund, *International Financial Statistics*, February 1956 and March 1957. Countries showing substantial changes in composition of exports during post-war years are shown in the lower part of the chart, but not in the upper part.

Abbreviations used are as follows: Arg, Argentina; Aus, Australia; Br, Brazil; Bu, Burma; Ce, Ceylon; Ch, Chile; Co, Colombia; Cu, Cuba; Eg, Egypt; In, India; Io, Indonesia; Ma, Malaya; Me, Mexico; NZ, New Zealand; Pa, Pakistan; Pe, Peru; Ph, Philippines; SA, Union of South Africa; Th, Thailand; Tu, Turkey; V, Venezuela.

[a] Commodities accounting for 50 per cent or more of total exports in recent years. For the Union of South Africa, data for gold refer to production.

substantial inflows of foreign capital for investment in certain branches of the mineral industry. The agricultural price or exchange rate policies pursued in some of these countries have also favoured the expansion of production for export. In Peru, depreciation of the currency after 1949 and reductions in export taxes raised the profitability of the export sector. High agricultural price supports in Turkey and devaluations of the currency in Mexico have had similar effects in these two countries. In addition, expansion of the new exports of these countries has generally been favoured by external demand conditions. Either world demand in general for their new exports has been expanding, as in the case of South African minerals, or, as in the case of agricultural exports from Mexico, Peru and Turkey, there have been shifts in foreign demand from traditional sources of supply induced by reasons such as those previously noted.

Service and capital transactions

To complete this review of the foreign exchange receipts available to primary producing countries for the financing of imports, mention should be made of receipts from services and transfers of foreign capital. For most of the primary producing countries, gross receipts from services are, at best, marginal in amount. Services such as banking, insurance and shipping continue to be supplied predominantly by the industrial countries. However, certain countries—for example, Argentina and India—have developed such services as merchant fleets or film industries, which earn appreciable amounts of foreign exchange. But, relative to total export earnings, the largest earners on service account are Mexico and Egypt, the former because of its tourist trade, the latter because of dues from shipping through the Suez Canal. Only in such exceptional instances do gross receipts from services exceed gross payments. In most countries, a net debit on service account is recorded, primarily because of payments on account of shipping and of profits, interest and dividends accruing to foreign investors.

For some countries, exchange receipts generated by export earnings have also been substantially supplemented by receipts of foreign, long-term capital. Countries endowed with large mineral resources, such as petroleum, have been the major recipients of private foreign long-term capital in post-war years. Some of the larger countries in Latin America, however, together with Australia and the Union of South Africa, have also attracted substantial sums of foreign capital for investment in manufacturing. Apart from the petroleum producing countries, foreign direct investment in Asian countries has generally been small; in some instances, the net movement over the post-war years as a whole has been outward. In recent years, though, official grants—exclusive of military supplies and services—have been made primarily to Asian countries and to Turkey. Official loans have been of varying importance to individual countries for the financing of long-term investments or for commercial intermediate credits. An increasing volume of loans has also been made by the International Bank for Reconstruction and Development to primary producing countries.[7]

Exports and import capacity

Because of the varying effects of the demand and supply factors described above, the relationship of exports to total real product has undergone differing degrees of change in the various countries.

In a few, as may be seen from table 43 export have expanded more rapidly than the growth in real product; in several others, they have kept pace with it. A relative shift in resources towards the export sector has been evident in Mexico, the Union of South Africa and Venezuela, and has probably also occurred in Iraq. In Mexico and the Union of South Africa, this relative shift in resources has been associated—as was noted

[7] For detailed studies of long-term capital movements in the post-war years, see United Nations, *International Flow of Private Capital, 1946-1952* (sales number: 1954.II.D.1) and *International Flow of Private Capital, 1953-1955*, Economic and Social Council, *Official Records, Annexes*, twenty-second session (document E/2901).

Table 43. Ratio of Exports of Goods and Services to Total Real Product,[a] [b] Annual Averages, 1948-1949 and 1953-1955[c]

(Percentage)

Country	1948–1949	1953–1955	Change
Mexico	13	17	4
Union of South Africa	27	30	3
Venezuela[d]	35	37	2
Thailand[e]	17	17	—
Pakistan[d]	7	7	—
Turkey	7	7	—
India	6	6	—
Australia	22	21	−1
Peru[d]	21	20	−1
Argentina	8	7	−1
Burma	33	31	−2
Chile	18	16	−2
Malaya	36	33	−3
Colombia	18	15	−3
Philippines	17	14	−3
New Zealand	31	27	−4
Brazil	13	8	−5
Cuba	36	30	−6
Ceylon	45	38	−7

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

[a] Real gross national product or real gross domestic product. The countries are ranked according to the changes in the ratio.

[b] Data on gross national product are not available for Egypt and Iraq. A comparison between exports and total physical production shows that the former has risen less than the latter in Egypt, but more in Iraq.

[c] For Australia and New Zealand: fiscal years 1948/49 to 1949/50 and 1953/54 to 1955/56, commencing in July; for Burma: fiscal years 1948/49 and 1952/53 to 1954/55, commencing in October; for India, fiscal years 1948/49 to 1949/50 and 1953/54 to 1954/55, commencing in April; for Malaya: 1949 and 1953; for Peru: 1948–1949 and 1953; and for Thailand: 1948–1949 and 1953–1954.

[d] Merchandise exports only.

earlier—with some diversification in the composition of total exports.

Turkey is one of several countries in which the share of exports in total product has remained practically constant over the post-war years. However, unlike the other countries, it has increased its real product at an exceptionally rapid pace, and this constancy in the share of exports has thus denoted a sharp absolute increase in the output of the export sector. Again, this has been associated with some shifts in the composition of total exports.

In most of the countries shown, however, although exports have commonly risen, they have not increased as rapidly as has total real product. In certain instances, as already noted, this has partly been attributable to the absorption of exportable supplies, or of productive resources by the home market. But, in general, it has reflected primarily the relatively slow growth noted earlier of world import demand for primary products as a whole during the post-war years. It is this which explains why the exports of the primary producing countries as a whole have lagged, not only behind growth in the industrial countries, but even frequently behind their own rates of growth.

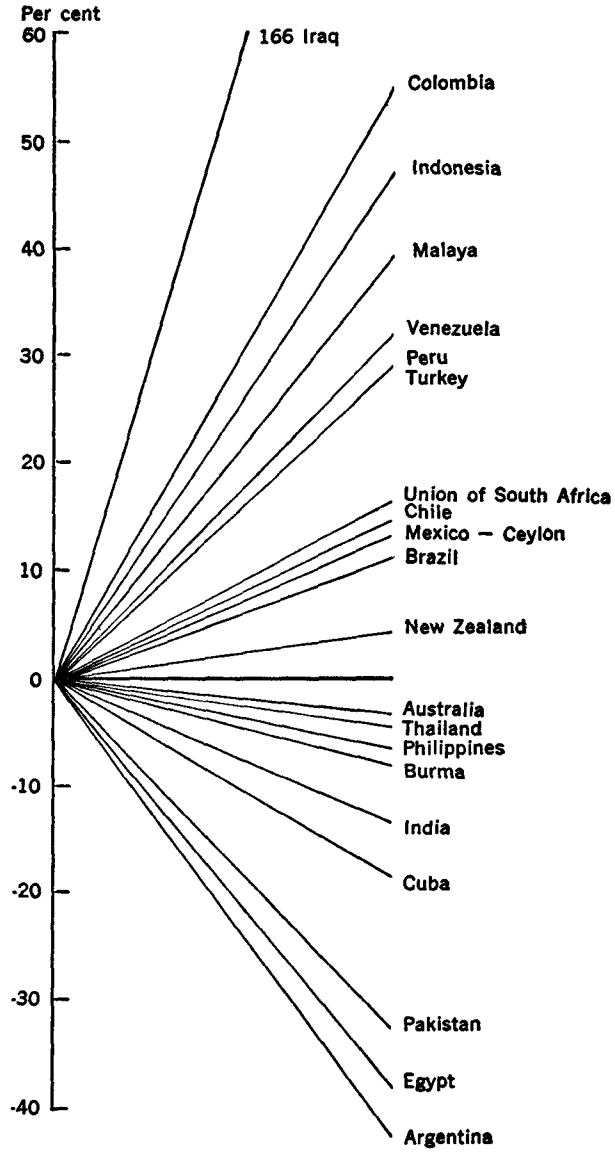
What is important for the external balances of the primary producing countries, however, is not solely the trends in the volume of their exports but also the volume of imports which these exports are able to finance. And this depends not only upon the volume of exports but also upon the movement in the prices at which exports and imports exchange. When world prices of primary products as a whole are compared with those of manufactures in 1948 and 1955, it is found that there was little change in their relationship between the two years. The average price of primary products as a whole remained about the same, while prices of manufactures were only slightly lower. Hence, the increase in the volume of exports of primary products—amounting to about a third—which took place over the period, also broadly measures the increase in the capacity of the primary producing countries to finance imports.

However, this over-all estimate of the change in capacity to import of the primary producing countries as a whole hides a great diversity of experience among individual countries. As has been seen above, wide differences have emerged, both in the growth of world import demand for the various primary products and in the relative shares of individual countries in world markets for their principal exports. Thus, the extent to which each country has shared in the increase in import capacity of the primary producing countries as a whole has varied greatly. This is illustrated in chart 14, where the increase in import capacity of the twenty-two countries under study is compared against the weighted average increase for the group as a whole.

These divergences in import capacity have been a principal factor accounting for the differing balance of payments experience of the primary producing coun-

Chart 14. Import Capacity of Individual Countries, 1948-1949 to 1953-1955

(Percentage variation from average increase for group)[a]



Source: United Nations Bureau of Economic Affairs. Estimates based, wherever available, on data from national accounts. In other instances, estimates have been made on the basis of balance of payments data, in which case exports were defined as merchandise exports plus net services. For Australia and New Zealand the period is 1948/49-1949/50 and 1953/54-1955/56; for Burma, 1948/49 and 1952/53-1954/55; for India, 1948/49-1949/50 and 1952/53 1954/55; for Peru and Thailand, 1953-1954 only.

[a] Change in import capacity between 1948-1949 and 1953-1955 for each country expressed as a percentage of the weighted average increase in the import capacity of the group. Thus, a minus percentage does not necessarily mean that import capacity fell, but simply that it increased less than than of the group as a whole.

tries. As might be expected, countries such as Argentina, Egypt, India or Pakistan, where import capacity has risen less than the average, have experienced continuing, or increasing, pressure on their external balances. However, it does not necessarily follow that countries whose import capacity has risen more than the average have always had strong, or improving, balance of payments positions. Countries whose external balances have shown improvement or continuing strength have, it is true, invariably experienced relatively high rates of increase in import capacity. But there are numerous countries with relatively high rates of increase in import capacity whose external balances have been subject to mounting pressure, because import demand has risen more strongly than import capacity. It is, in other words, not external demand conditions alone, but also internal economic growth that has determined balance of payments experience.

Rates and Patterns of Economic Growth

Rates of growth

While the course of import demand in the primary producing countries has been shaped predominantly by internal economic growth, it must not be forgotten that economic growth has been heavily influenced by export experience. The great diversity between countries in the trends in their export receipts has been an underlying reason for the diversity in their rates of domestic economic growth. It is no accident that countries whose exports have been sluggish have generally experienced only moderate rates of economic growth, while the relatively high rates of growth of other countries have frequently been associated with rising shares of world trade in primary products. But the impact of external circumstances on domestic growth during the period under review has, of course, often been modified by other factors.

In most Latin American countries, the large foreign exchange reserves accumulated during the war were utilized to supplement the expansion of export earnings; together with improved terms of trade, these have permitted not only increases in domestic consumption but also substantial additions to the stock of capital. The increased investment, in turn, has made possible a major expansion of domestic production, particularly industrial production. It was mainly because of such favourable circumstances that real product in Brazil, Colombia, Mexico, Peru and Venezuela recorded an average annual rate of increase of 5 to 7 per cent between 1948 and 1955. But where stagnation or an actual decline in exports has occurred, this has acted to depress the rate of growth in real product. In Cuba, real product increased by only about 2.5 per cent annually, and Argentina experienced an even lower rate of growth over the same period.

Similarly, in Asian and Middle Eastern countries, rates of domestic economic growth have been strongly responsive to external demand conditions for their exports. The importance of exports in affecting domestic economic activity was particularly evident during the Korean boom, when sharply increased export earnings permitted marked increases in consumption and investment. In many Asian countries, however, the rate of growth, as well as the timing of expansion within the full period, has been significantly affected by factors other than changes in exports. In some instances, the completion of post-war reconstruction was important in accounting for the slackening in the rate of growth after a very rapid expansion in the earlier years. In others, a quickened pace of growth in more recent years has resulted from a vigorous expansion of public investment. Among the countries under study, high annual rates of growth between 1948 and 1955, in excess of 4 per cent, were experienced by Ceylon, Iraq, Malaya, the Philippines, Thailand and, possibly, Indonesia.[8] Much lower annual rates were achieved by the other countries. Burma, Egypt, India and Pakistan had rates of 2 to 3 per cent; it is noteworthy that exports of these countries were generally sluggish.

Even in Australia, New Zealand and the Union of South Africa, where the process of self-sustaining growth was already relatively well established, the expansion of export earnings in the post-war period has provided an additional impetus to the growth in real product. In these three countries, post-war growth has proceeded at a relatively high rate, ranging from an annual average of 3.5 per cent in Australia to 4 per cent in New Zealand and about 5 per cent in the Union of South Africa. Among these countries, the latter has had the most favourable export experience, its export volume increasing at an average annual rate of more than 7 per cent.

The rising levels of economic activity within the primary producing countries which these rates of growth signify, have, in themselves, been a sufficient reason for the marked changes which many of them have experienced in their external balances. Through its impact in raising demand for investment and consumption goods, economic growth has commonly led to an intensification of import demand; and, in some instances, it has likewise resulted in a relative reduction of exportable supplies. But, in addition, the expansion of aggregate domestic demand, accentuated by the drive towards industrialization, has sometimes given rise to pressure upon capacity. Inflation and the alteration of price relationships have frequently ensued; and these have magnified any actual, or incipient, pressure upon the external balance.

[8] For Egypt, Indonesia and Iraq, physical production data were utilized in the absence of data on gross national product.

In these several ways, the rate of economic growth has generally exerted an important influence upon the external balance of each country. But the relation between the rate of growth and the external balance is not as simple as it might appear. As was noted earlier, in some countries relatively high rates of growth have not been associated with persistent, or increasing, balance of payments difficulties in the post-war years. On the other hand, countries with only moderate rates of growth have commonly experienced continuing, or rising, pressure upon their external balances.

The lack of any such simple relation between rates of growth and balance of payments pressure arises from the distinctive differences in the pattern of domestic growth which have emerged. The relationship between changes in the rate and pattern of growth and the external balance has depended upon the interplay of forces which, although related, can, nevertheless, be distinguished in their effect on exports and imports. On the side of exports, the effect of domestic growth has depended upon the extent to which domestic demand has competed with foreign demand for exportable supplies or the productive resources of the export sector, while on the side of imports it has depended upon the extent to which domestic production of goods and services has been adapted to meet the changes in level and composition of domestic demand. Description of the precise impact of these factors upon the external balance would call for a more detailed analysis than can be undertaken here. At the present level of generality, only the salient features of the changes in the distribution of expenditure and in the composition of total output can be described.

Patterns of internal growth

The patterns of post-war growth in the three groups of primary producing countries, namely, the Latin American countries, the Asian and Middle Eastern countries and Australia, New Zealand and the Union of South Africa, though sharing common characteristics, have each exhibited certain distinctive features; and it is therefore useful to discuss the developments in these groups separately.

In the Latin American countries, some striking changes occurred during the period under review in the allocation of resources between consumption and investment and in the structure of domestic production. One of the outstanding features has been the sharp increases in consumption, as shown in chart 15. Annual rates of increase ranged from about 5 to 10 per cent in the countries with high rates of growth in total product, while in such countries as Cuba and Argentina the increase in consumption, though more moderate, was rapid relative to the expansion in total product. A number of factors have contributed to the large absolute and relative increases in consumption. The expansion of domestic production and export proceeds generated high rates of growth in incomes, while low levels of taxation permitted high rates of increase in spending out of income. At the same time the extremely rapid growth of population and such social changes as increased internal mobility and urbanization, strengthened the demand for consumer goods. Moreover, the fiscal, credit and social welfare policies of governments in some countries contributed to the inflation of domestic demand.

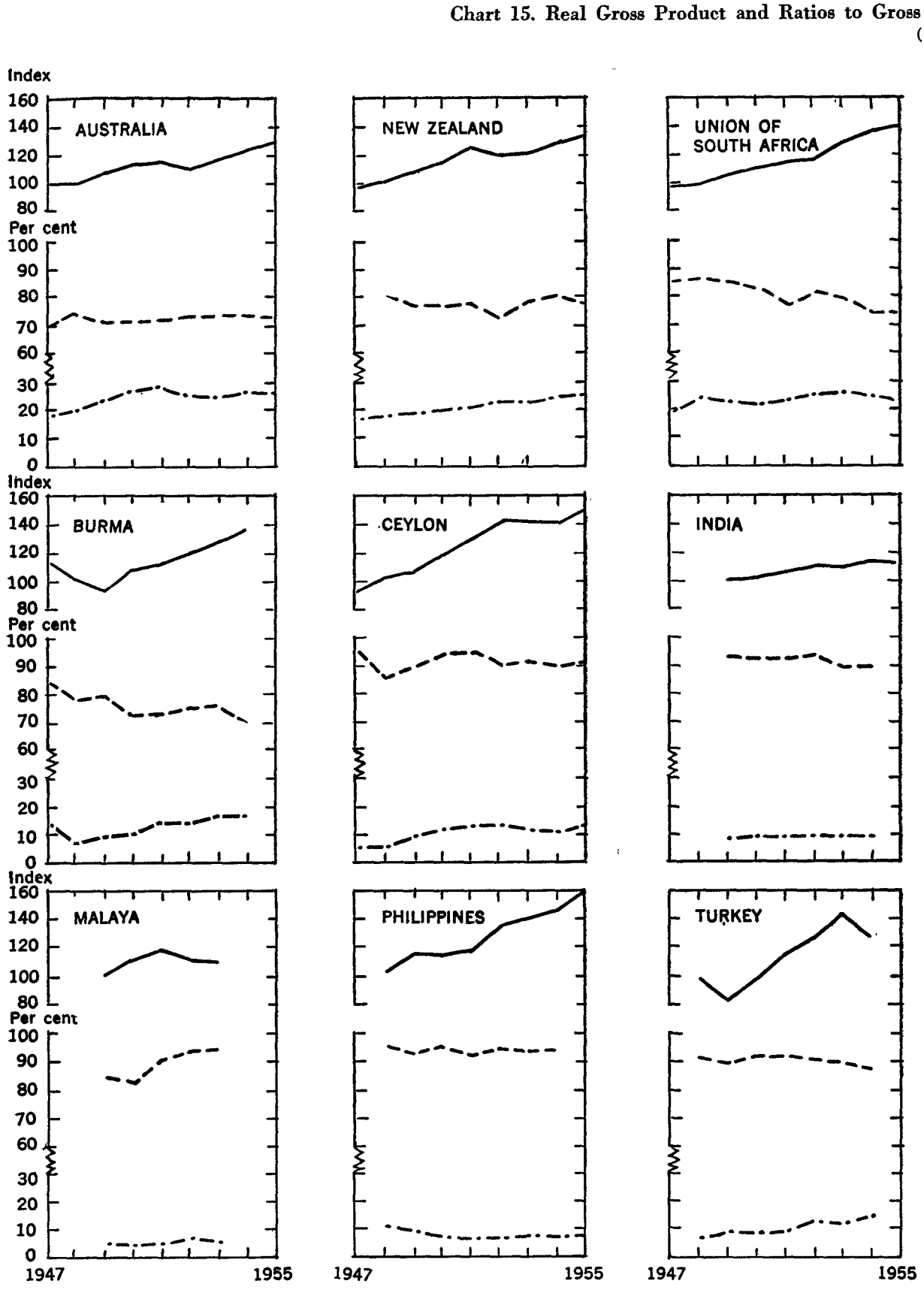
Generally, public consumption has kept pace with or grown faster than private consumption. Only in Colombia did it fall below the very high rate at which private consumption expanded; but, despite this lag, government current expenditure grew very rapidly.

Compared with investment levels in most other primary producing countries, the Latin American countries in the post-war years have added to their capital stock at a high rate. The foreign exchange reserves accumulated during the war, the large increases in export proceeds and the rapid income growth, along with domestic bank credit, provided the domestic sources of investment funds, and, in some instances, private and public foreign capital swelled this flow. The growing consumer market, coupled in some cases with inflation, provided the inducement of large profits to private entrepreneurs, while governments played a key role, both in encouraging private investment in a variety of ways and by undertaking construction of basic economic facilities. Yet it should be pointed out that the variation between countries has been wide. The share of fixed investment in the gross product varied from about 10 per cent in Cuba to 24 per cent in Colombia. The rate of expansion of investment also varied widely. In Mexico, for example, the rate amounted to 5 per cent per annum, and in Peru it was probably even greater; but in Argentina the rate declined on the average by 2 per cent annually. In addition to these differences between countries, the variation in the investment of individual countries from year to year has been considerable.

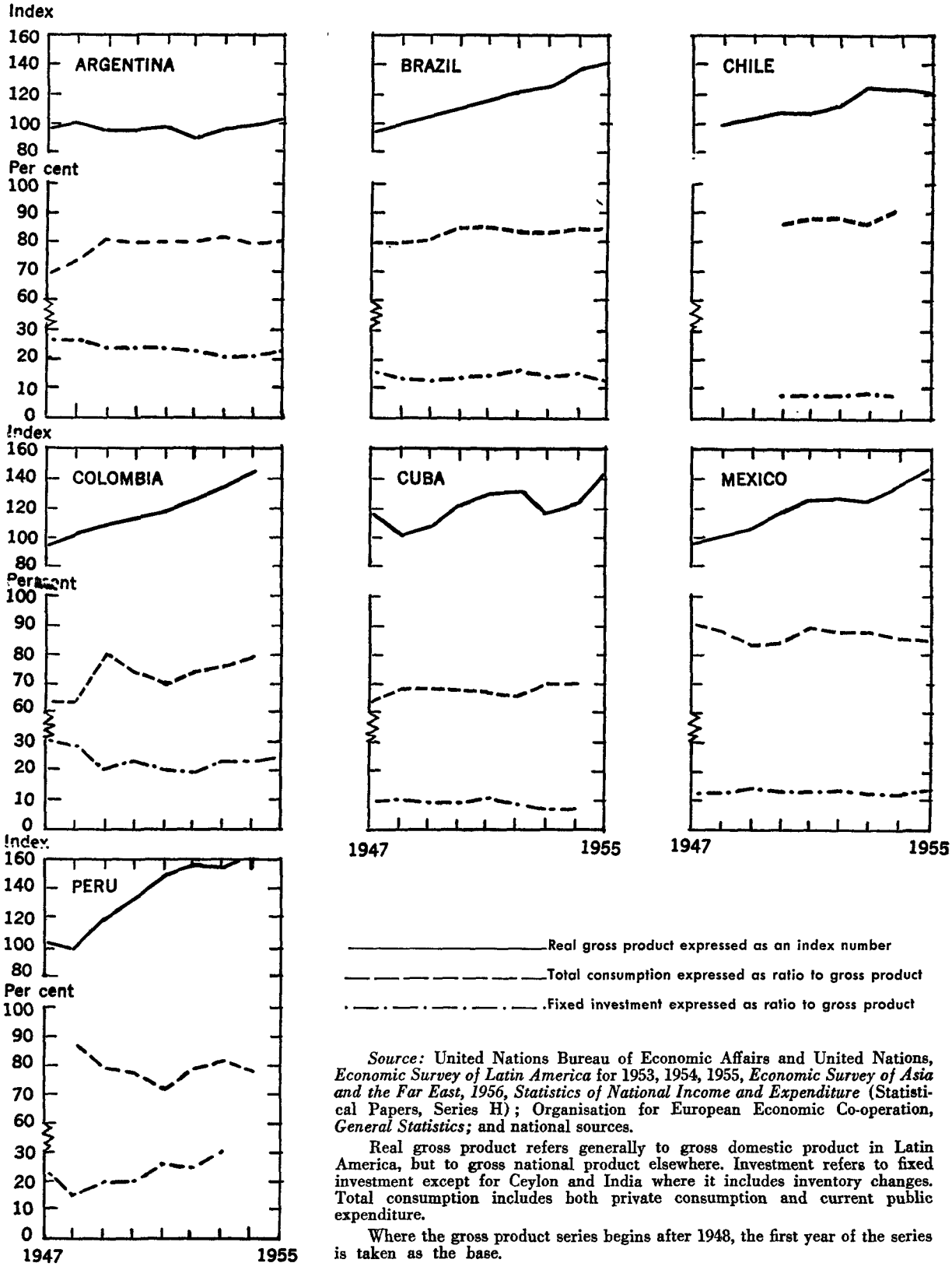
In Argentina, Brazil and Chile, building and construction appear to have accounted for an increased proportion of gross fixed investment over the post-war years, while expenditure on machinery, transport and other equipment underwent a relative decline. Data on the distribution of gross fixed investment are not available for other Latin American countries, but, in Colombia and Mexico, the rising import content of investment over the post-war years suggests that the pattern of investment shifted towards such sectors as industry, transportation and public utilities and away from construction or building.

In four instances, namely, Argentina, Brazil, Chile and Colombia, consumption grew much faster than investment and total product, particularly before 1950.

Chart 15. Real Gross Product and Ratios to Gross Product of
(Gross product,



Total Consumption and Gross Fixed Investment, 1947-1955
(1948 = 100)



Source: United Nations Bureau of Economic Affairs and United Nations, *Economic Survey of Latin America* for 1953, 1954, 1955, *Economic Survey of Asia and the Far East, 1956, Statistics of National Income and Expenditure* (Statistical Papers, Series H); Organisation for European Economic Co-operation, *General Statistics;* and national sources.

Real gross product refers generally to gross domestic product in Latin America, but to gross national product elsewhere. Investment refers to fixed investment except for Ceylon and India where it includes inventory changes. Total consumption includes both private consumption and current public expenditure.

Where the gross product series begins after 1948, the first year of the series is taken as the base.

The resultant rise in the ratio of consumption to total product, where offset by a contraction in the export balance, did not necessarily lead to a decline in the proportion of resources flowing into fixed capital formation. But this latter proportion did, in fact, fall in both Argentina and Colombia. In Brazil, however, the proportion remained practically constant, while in Chile a rising share of real product absorbed into domestic fixed capital formation seems to have accompanied the increasing ratio of consumption to real product. By contrast, investment grew faster than consumption and total product in Cuba and Peru, the trend being more pronounced in the case of Peru.[9] While Cuba also experienced a rising ratio of consumption to total product, the share of Peru's total product allocated to consumption declined sharply after 1949. Mexico represents a case intermediate between the two patterns described. Consumption and fixed capital formation both grew at about the same rate, but at somewhat less than the rate of expansion in total product.

These absolute and relative shifts in the allocation of resources to consumption and investment were reflected in pronounced changes in the volume and structure of domestic production (see table 44). In fact, one of the most striking of the post-war economic developments in Latin America has been the exceptional growth in industrial production. For the area as a whole, manufacturing and construction had already begun, in the early post-war period, to contribute a larger proportion than agriculture to total product; and, throughout the post-war period, these sectors have continued to expand rapidly. In the countries experiencing considerable economic growth, manufacturing production grew at high rates: the increases in manufacturing in some instances appear to have exceeded the rate of increase in total product or farm output by substantial amounts.

On the other hand, there was little or no increase of manufacturing production in countries with low rates of economic growth, such as Argentina and Cuba. Industrial development in Argentina was seriously hampered by the stagnation of the transport and energy sectors, under the influence of government policy; it was also impeded by the inability to purchase needed industrial raw materials and capital goods from abroad.

The marked expansion in the industrial sector reflected primarily the growth of domestic markets and the changing pattern of consumer expenditure that was

[9] In Cuba and Peru, investment refers to gross capital formation, inclusive of inventories, whereas, in other cases, it refers to fixed investment.

Table 44. Indices of Volume of Output in Agriculture, Mining and Manufacturing, 1953-1955 Averages
(1948-1949 = 100)

Country and sector	*Index*	*Country and sector*	*Index*
Argentina:		*India:*	
Agriculture	108	Agriculture	120
Mining	125	Mining	121
Manufacturing	103	Manufacturing	124
Brazil:		*Malaya:*	
Agriculture	123	Agriculture	93
Mining	127	*Pakistan:*	
Manufacturing	151	Agriculture	105
Chile:		*Philippines:*	
Agriculture	113	Agriculture	142
Mining	93	Mining	233
Manufacturing	142	Manufacturing	196
Colombia:		*Thailand:*	
Agriculture	112	Agriculture	120
Cuba:			
Agriculture	97	*Egypt:*	
Mexico:		Agriculture	112
Agriculture	132	*Turkey:*	
Mining	108	Agriculture	150
Manufacturing	130	Mining	153[a]
Peru:		Manufacturing	144[a]
Agriculture	121		
		Union of South Africa:	
Burma:		Agriculture	123
Agriculture	113	*Australia:*	
Ceylon:		Agriculture	110
Agriculture	126	*New Zealand:*	
Indonesia:		Agriculture	113
Agriculture	140	Manufacturing	128[a]

Source: United Nations Bureau of Economic Affairs, based on data published by the Food and Agriculture Organization of the United Nations and the Statistical Office of the United Nations, except for the Philippines (indices based on national sources).

[a] Average of 1953 and 1954.

associated with the rise in per capita incomes well above subsistence levels. But government policies have also been important. Credit, tax, price, foreign exchange and other policies have been frequently directed towards providing special encouragement to industrial growth. Accordingly, resources, both domestic and imported, have been drawn into manufacturing. In some, though not all instances, production for export was adversely affected.

The industrial expansion did not proceed at an even pace in the period under review. For many countries, the years 1950-1952 represented the high-water mark of the industrial boom, while in the years from 1953 to 1955 a slackening in the rate of manufacturing expansion generally occurred. But there were some exceptions. A continuously high rate of growth was recorded throughout the period in Mexico and Venezuela, whereas industrial activity in Argentina began to recover only during the latter part of the period.

Although agricultural production, partly as a consequence of the forces noted above, has expanded more slowly than industrial production, its aggregate rate of growth generally equalled or exceeded the growth of population. For the period between 1948 and 1955 agricultural output in the faster growing economies expanded at annual rates ranging from 2 per cent in Venezuela to about 6 per cent in Mexico. However, in some countries, notably Brazil, Chile and Peru, output of cereals, though increasing at not inconsiderable rates, failed to match the growth in consumption. Contrary to this general trend, agricultural production in Cuba and Argentina actually fell during all or part of the period. The decline in Cuba largely reflected developments in the world sugar market. Output in Argentina, partly as a result of government policies, declined substantially in the first two-thirds of the period; thereafter, a considerable recovery ensued. Among the factors contributing to this fall in output were foreign exchange and domestic price policies, such as the fixing of artificially low food prices.

External and internal circumstances have combined to determine the development of mining production. In Venezuela, for example, the strong growth of world demand for petroleum and the heavy foreign direct investment in the petroleum industry increased mining output at the high rate of 9 per cent per annum. By contrast, in Chile and Mexico, which are other major mineral producers, mining output showed little or no growth, partly because of the effects of governmental policies in the former and the long-run depletion of resources in the latter.

The post-war experience of the Asian and Middle Eastern countries presents a somewhat different pattern. Although, as in Latin America, rising levels of consumption and investment have been evident, investment expenditure has generally continued to absorb a smaller proportion of total product than in Latin America. With the outstanding exception of Burma, where, in 1955, the proportion reached the level of over one-fifth, investment has generally absorbed about one-tenth of total product. This low rate of saving and investment has been the result of a number of factors. A principal reason is, of course, the exceedingly low per capita incomes. But tax structure, political instability, and, until recently, the lack of development plans have also contributed to limit capital formation. The increasing role of government in recent years, however, has begun to have important effects in raising the level of investment.

Since 1948, investment has risen faster than both consumption and total product in five of the six countries for which data on real product and its components are available; these five countries are Burma, Ceylon, India, Malaya and Turkey. In the sixth country, the Philippines, consumption has grown faster than investment and total product. The trends in the first five countries have been largely shaped by the central role of the public sector. Between 1953 and 1955, the share of public capital formation in total gross investment varied from an annual average of about 30 per cent in India to about 60 per cent in Burma and Ceylon. It appears that public investment grew faster than total product in Burma, India and Ceylon, and probably also in Malaya. Agriculture, transport, communications, irrigation and power were among the sectors to which public investment was particularly directed. Expansion of output in the coal, steel and cement industries has also received emphasis in the public investment programmes of some of these countries. In several instances, public current expenditure, some of which has been similar in purpose to investment expenditure, has reinforced the contribution of the public sector. At the same time, increased private investment has accompanied the rising levels of public investment.

In most countries in Asia and the Middle East, the degree of growth which has been achieved has largely mirrored agricultural activity. While the rise in agricultural output was often stimulated by increased foreign demand for agricultural raw materials, a more important reason has been the expansion of food production for domestic consumption. This has been facilitated in many countries by government agricultural policies aimed at achieving greater self-sufficiency in food production. Of the countries studied, four have been net exporters of cereals in recent years. Burma and Thailand are, it is true, traditional exporters, but Iraq and Turkey have also become net exporters in recent years following large advances in domestic production. In a number of the remaining countries, especially Ceylon and India, rising consumption was satisfied from increased domestic production without a long-term shift to foreign sources of supply.

Judged by the trends in production of individual commodities, manufacturing activity has expanded at

a rapid rate in the post-war years. Moreover, manufacturing has generally grown much faster than agriculture; only in Turkey, where the investment programme was apparently focused on agriculture, did manufacturing develop at a slower pace than agriculture. In some instances, the rapid growth in manufacturing reflected specialized developments, such as the refining of crude petroleum in Iraq and Indonesia, but rapid development of the textile industry was common to many countries, and, as a result, a growing proportion of textile consumption was met from domestic supplies.

Petroleum and tin constitute the two most important minerals produced in the Asian and Middle Eastern countries. The expansion in production of these commodities over the post-war years has been primarily for export markets. Of the countries under review, only Iraq and Indonesia are more than self-sufficient in petroleum.

In contrast to most of the primary producing countries discussed above, the post-war growth in Australia, New Zealand and the Union of South Africa has represented an expansion from an industrial base already well established before the Second World War. While common elements are evident in the post-war economic growth of these three countries, important differences also are to be found; and in reviewing the changes in the allocation of resources, it is helpful to take as a reference point the differing degrees of industrialization and per capita income in the three at the outset of the period.

Relative to population, the Union of South Africa produced a smaller output of investment goods, such as cement, ferro-alloys and crude steel, than Australia or New Zealand, and its manufacturing industry had less installed power and fewer workers than the other two. The differing degrees of industrialization contributed to the wide gap in levels of living between the Union of South Africa and the others. Per capita incomes in 1952-1954 were estimated to be more than three times as high in Australia and New Zealand as in the Union of South Africa.

An important contribution to economic growth in these countries has been the substantial growth in fixed investment. The average annual rate of increase in investment has amounted to 7 per cent for the Union of South Africa, 8 per cent for Australia and 9 per cent for New Zealand over the post-war years, though the growth in each case was greatest in the years prior to 1950. As a result of these sharp increases, the share of total product absorbed by investment has risen in each instance. In Australia and New Zealand, where the increased share of investment has been the more pronounced, the shift in allocation of resources has been strongly influenced by the large flow of European immigrants. The differing patterns of consumption of these immigrants and the need to provide housing and other facilities for them have had important effects both upon the level and distribution of investment and upon imports.

The distribution of investment in the Union of South Africa underwent a perceptible change in the course of the post-war period. Between 1946-1948 and 1952-1954, there was a marked decline in the proportion of fixed capital devoted to residential building, agriculture, public works and other construction, and an offsetting increase in the proportion devoted to private manufacturing, mining and public-owned industrial enterprises; whereas the former declined from three-fourths to three-fifths of total fixed investment, the latter increased from one-fourth to two-fifths. By contrast, in Australia, residential construction has maintained its share of total private fixed investment in the post-war years. Among other components of private investment in Australia, the most striking change has been the relative increase recorded by investment in motor vehicles.

Expenditure on consumption in all three countries has expanded at a much slower rate than investment. As in the case of investment, the largest increase has been experienced in New Zealand and the smallest in the Union of South Africa. The rate of increase slackened appreciably in the 1950-1952 period, but recovered thereafter. There has, however, been a basic difference between these countries in the changes in consumption, reflecting the differences in per capita income. While in the Union of South Africa the increase in consumer demand has been mainly directed towards basic consumer goods, in Australia and New Zealand the increase has been associated with a shift in the pattern of consumption towards consumer durables. Among these countries, the Union of South Africa alone has experienced a marked decline in the share of total output devoted to consumption.

The share of the government sector in total output has remained fairly stable in both the Union of South Africa and New Zealand, but it rose in Australia, where government current expenditure expanded by over 8 per cent per annum.

The allocation of resources in favour of investment has inevitably produced changes in the structure of production in these countries; and it has been especially evident in the case of the Union of South Africa. The substantial growth in the Union of South Africa's total physical production between 1948 and 1955 was compounded of an extremely rapid increase in manufacturing output in the period prior to 1952, which reflected the high rate of increase in investment before 1950, and a substantial growth of agricultural and mining production in the years after 1952. Over the post-war period as a whole, the relative contributions to total product of both the agriculture, forestry and fishing

sector and the manufacturing sector rose substantially. Manufacturing production, however, increased considerably more than agricultural output. The expansion of manufacturing production has permitted greater self-sufficiency not only in textiles and other consumer goods but also in such industrial products as steel and the less complex types of engineering goods. Likewise, the rise in domestic food production of 4 to 5 per cent annually has been sufficient not only to restrict the absolute level of food imports but to permit a rise in exports. In New Zealand, manufacturing output also expanded much more rapidly than agricultural production, the rate of increase being about twice as great. In Australia, manufacturing output, by contrast, appears to have grown only slightly faster than agricultural output, and the expansion of heavy industry appears to have been more rapid than that of light industry.

Although the foregoing discussion shows that the structure of production in primary producing countries has responded in some measure to changes in the pattern of demand, substantial rigidities have remained. Thus, the economic structure of the under-developed countries has proved much less adaptable, in the face of shifts in demand accompanying the process of economic growth, than that of the industrially advanced countries. To the extent that changes in the pattern of supply have therefore lagged behind corresponding changes in demand, they have inevitably affected both the supply of exports—which has been considered above—and the demand for imports, which must now be examined.

The Impact on Imports

The changing relationship between internal demand and production, in conjunction with the rising level of aggregate demand, has induced important changes in the import demand of the primary producing countries during the post-war period. Not only has there been a general tendency for the volume of imports to rise, but the composition of imports has also undergone substantial changes.

In most of the countries under study, during the period between 1948-1949 and 1953-1955, there was a rising volume of merchandise imports; only in Argentina, Cuba, Egypt, India, Pakistan and the Philippines did such imports decline.[10] In almost all the countries where imports have risen, there was a strong tendency for the rise to exceed that of total product, Ceylon, the Union of South Africa and Venezuela being the only exceptions (see table 45). These changes in the ratio of imports to total product in the individual countries over time, as well as the differences among countries at the same point of time, have been the result of many complex, and sometimes conflicting influences. One of the most important factors contributing to the rise in this ratio was the growth in importance of investment relative to total output, since investment in the primary producing countries has a high import content. The increase in imports was also reinforced in some countries by a larger rise in domestic prices than in import prices. Moreover, in many instances the rise in imports was stimulated and sustained by a substantial growth in the purchasing power of exports or an improvement in the terms of trade, or both. In some cases, the ability to import was further enhanced by an inflow of foreign investment capital or various forms of international economic aid. Counterbalancing these forces, however, were several developments which acted to reduce the absolute and relative size of imports. The rise of domestic production in general and the

Table 45. Ratio of Merchandise Imports to Total Real Product,[a] Annual Averages, 1948-1949 and 1953-1955[b]

Country	*1948–1949*	*1953–1955*	*Change*
Thailand	11	19	+8
Malaya	43	47	+4
Burma	15	19	+4
Turkey	8	9	+1
Ceylon	34	33	−1
India	7	5	−2
Pakistan	8	6	−2
Philippines	10	6	−4
Colombia	14	20	+6
Peru	19	22	+3
Brazil	9	11	+2
Chile	14	15	+1
Mexico	10	11	+1
Venezuela	22	20	−2
Argentina	11	8	−3
Cuba	24	18	−6
New Zealand	20	25	+5
Australia	16	17	+1
Union of South Africa	29	24	−5

Source: United Nations Bureau of Economic Affairs.

[a] Real terms in the case of the Latin American countries refer to 1950 prices; in all others to 1953 prices.

[b] Both the number of countries and the years included are limited by the availability of data on the gross national product. The years referred to in each case thus differ slightly. For Australia, from 1948/49 to 1954/55; for Burma, from 1947/48 to 1954/55; for India, from 1948/49 to 1954/55; for Malaya, from 1949 to 1953; for Pakistan, from 1949/50 to 1954/55; for Thailand, from 1948 to 1954; for Turkey, from 1949 to 1954; and for Peru, from 1948 to 1954.

[10] In this section, the discussion is confined to merchandise trade only. In almost all the countries, service payments during 1948-1955 have moved together with merchandise imports and thus their inclusion would not generally affect the direction of change in the ratio of imports to total product, calculated on the basis of merchandise trade alone. In the Philippines, merchandise and service imports moved in the opposite direction; but the fall in merchandise imports was more than offset by the sharp rise in service payments, mainly payments on foreign investment.

expansion of production of import substitutes in particular diminished the relative dependence of domestic consumption upon some traditional imports of consumer goods. Furthermore, the tightening of import controls in some countries during this period tended to moderate the rate of increase, or to cause a fall, in some specific groups of imports. Although it is difficult to attempt any quantitative measurements of the effect of each of these factors upon the changes in imports of a particular country, it is nevertheless possible to provide some broad indication of their relative importance.

Among the Asian and the Middle Eastern countries, Burma, Malaya, Thailand and Turkey experienced a rise in the ratio of imports to total product during the period under review, while in Indonesia the ratio probably remained constant. By contrast, a fall in this ratio occurred in Ceylon, Egypt, India, Iraq, Pakistan and the Philippines.[11] Among the countries in the first group, in Malaya and Turkey a continuous expansion in investment was the dominant reason for the rise in the ratio, while in Thailand it was primarily consumption that occasioned the increase in imports. Burma and Indonesia were intermediate cases, the expansion of both investment and consumption being important in inducing increases in imports. The rising trends in the imports of these countries were also favoured by their export experience, but, except for Malaya and Indonesia, the rise of imports tended to outstrip that of import capacity, leading to increased pressure on the balance of payments.

By contrast, in India, Pakistan and the Philippines, while total product rose moderately during this period, the level of imports declined. This was largely the result of stringent controls on imports, but imports were also held down by increases in domestic production of substitute goods. In India, for example, rising domestic production of food grains and textile materials lessened demand for imports of these commodities, while in Pakistan the expansion of textile manufactures had the same effect. In Ceylon, despite rapid economic growth and a favourable trend in export receipts, imports failed to rise in line with total product during this period, mainly because of the increased self-sufficiency in food grains. Likewise, the expansion of output of food and textiles in Iraq restrained demand for imports.

It should also be noted that, in some countries, the special circumstances prevailing in the early post-war years affected, in varying degree, their import demand both at that time and subsequently. The need for increased imports to make good the war-time damage and destruction of productive facilities and to satisfy pent-up demand resulted in a large increase in imports relative to total product in the early post-war years. The fall in the import ratios in later years marked, to some extent, the recovery of domestic production and the abatement of pent-up demand.

In Latin America, experience was more uniform. Among the countries recording a rising level of imports, imports rose as a proportion of total product in Brazil, Chile, Colombia, Mexico and Peru; the only exception was Venezuela. The continuing expansion of domestic demand for investment and consumption in the former countries raised their import requirements in spite of a substantial expansion in output of import substitutes. In some countries, inflation inevitably exerted additional pressure on the demand for imports. The rise in imports was associated with varying degrees of expansion of import capacity; but in Brazil, Chile, Colombia and Peru imports rose more than import capacity, thus generating pressure on their external balance. In Venezuela, while the expansion of petroleum exports accelerated the rate of growth, demand for merchandise imports failed to follow suit, partly because of the very rapid increase in domestic manufacturing output. But increased foreign investment in the petroleum industry entailed a sharp rise in service payments, and as a result total imports of goods and services rose as a proportion of total product. By contrast, the fall in the import ratio in Argentina and Cuba reflected an absolute decline in imports, necessitated by unfavourable trends in export receipts.

In Australia and New Zealand, the import ratio showed a substantial rise between 1948-1949 and 1953-1955. This was in sharp contrast to the experience of the Union of South Africa, where imports rose at a slower rate than total product. In the latter case, the increased ability to substitute domestic products for imports of basic commodities, such as food, textiles and some products of heavy industry, together with stringent import controls, acted as a check on the volume of imports. In Australia and New Zealand, the expansion of industrial production, though important in replacing imports in certain fields, was apparently inadequate to meet the increased demand generated by rising investment and consumer expenditure; this was especially true of demand for machinery and durable consumer goods. In both countries, however, the rise in the import ratio tended to slow down after 1952, largely because of the combined effects of declining import capacity and the tightening of import controls.

The shifts in the structure of domestic demand towards goods having a higher import content and increased ability to produce domestic substitutes for traditional imports have resulted in important shifts in the composition of imports in the primary producing countries. In table 46, estimates of such changes in the composition of imports are presented. In this table,

[11] There is no continuous series of total product for Egypt, Indonesia and Iraq. However, a comparison of the trends of total physical output and of imports over the period suggests that, while they showed a parallel movement in Indonesia, imports tended to rise at a slower rate than output in Egypt and Iraq.

imports are divided into three broad groups; capital goods, including machinery, base metals and transport equipment; industrial materials, including fuels; and consumer goods, consisting of food, textiles and other manufactured consumer goods.

Changes in the pattern of import demand among the individual countries have shown broadly similar characteristics. In most cases, there was a tendency for imports of capital goods to increase in relative importance. This generally occurred in countries where total imports fell as well as in those where they increased. The shift was closely linked to the widespread intensification of investment activity in the primary producing countries during the post-war period; and, in many countries, governments gave priority to the importation of capital goods.

Imports of food, although often showing a decline relative to total imports, were in many countries at a substantially higher level in 1953-1955 than in 1948-1949. In some cases, despite a fairly rapid expansion of domestic production of basic foodstuffs, this proved insufficient to meet the increased demand generated by rising incomes and growing populations; in addition, demand for non-staple foods sometimes magnified total imports of foodstuffs.[12] In other cases, it was the stagnation of domestic agriculture that was responsible for the sharp increase in food imports. Wherever such lags in domestic agricultural production occurred, governments were forced, in the face of increasing imports of foodstuffs and the rising demand for imports of capital goods, to curtail imports of manufactured consumer goods.

The methods of import restriction employed by individual governments in the post-war period have been varied. But the main emphasis of their policies has been to give preference to the import of capital goods. The most severe restrictions have generally been imposed on consumer durables or luxuries, and those goods whose domestic production governments have sought to stimulate. The most common restrictive tech-

[12] This factor was responsible for the increase in food imports in some net food exporting countries, where the exportable surplus of food had already tended to decline because of rising domestic demand.

Table 46. Changes in Total Imports and their Components,[a] from 1948-1949 to 1953-1955[b]

(Change in volume[c] as percentage of total imports in 1948)

Country	Total imports	Capital goods	Industrial materials and fuels	Consumer goods		
				Food	Textiles	Other
Burma	71	7	9	14	27	14
Ceylon	34	7	5	10	5	7
Egypt	−23	—	—	−4	−10	−9
India	−22	−1	−9	−7	−5	
Indonesia	55	12	21	5	5	11
Iraq	34	22	−1	9	—	4
Malaya	30	5	13	1	−2	13
Pakistan	−11	19	5	−2	−33	...[a]
Philippines	−19	3	4	−7	−8	−12
Thailand	184	46	22	21	20	75
Turkey	78	48	26	—	—	4
Argentina	−29	−12	−5	−2	−10	
Brazil	23	1	12	8	−3	4
Chile	7	3	5	12	−12	
Colombia	81	36	20	5	−4	24
Cuba	−5	−2	−2	−1	—	
Mexico	44	22	20	3	−1	
Peru	75	42	12	13	3	5
Venezuela	14	−3	10	3	4	
Australia	42	15	14	1	1	11
New Zealand	50	19	9	5	2	15
Union of South Africa	10	2	6	—	−1	3

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

[a] Estimates are highly provisional. 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 equipment, divisions 68 and 71 to 73; industrial materials and fuels, sections 2, 3, 4 and 5; food, sections 0 and 1; textile manufactures, divisions 65 and 84; manufactured consumer goods, all remaining sections and divisions. However, where possible passenger cars have been included with other consumer goods. Components do not always add to stated total because of rounding.

[b] The base period for Colombia and Peru is 1948, and for Australia, 1947/48 to 1949/50. The end period years for Brazil, Chile, Cuba, Iraq and Thailand relate to 1953–1954. For Australia and Pakistan they relate to the two fiscal years ending in 1954/55.

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

nique employed has been the system of import quotas, the quotas being changed from time to time to meet varying needs. In some cases, multiple exchange rates have been used to restrict certain types of imports; and, in such instances, less essential imports have been subject to penalty rates of exchange while imports of capital goods have been accorded favourable rates. Imports of the latter have been further encouraged through the extension of favourable credit terms. Differential tariff rates have also been widely used to the same end.

As restrictions have applied mainly to imports of less essential manufactured goods, it is not surprising to find that their relative share in total imports has generally fallen; but, in some cases, there was also a fall in the absolute level between 1948-1949 and 1953-1955. It should be noted, however, that the expansion of domestic manufacturing production, especially of import substitutes, has in many instances lessened the demand for imports of these commodities. A striking example is the widespread decline in imports of textiles. Partly counterbalancing such favourable developments has been the need to import more industrial materials and fuels for domestic industry. Indeed, in a number of countries, these imports have bulked large in the total increase in imports.

As might be expected, because of the differences in the pattern of change in demand and domestic production, as well as in government policies regarding imports, changes in imports took different courses in the various countries. In the Asian and Middle Eastern countries under study, a shift of imports in favour of capital goods and industrial materials, including fuels, was the common experience between 1948-1949 and 1953-1955. In all the countries except India and Turkey, the relative share of these imports in the total ranged from about 25 to 30 per cent in 1948-1949. In the case of India, because of its heavy dependence upon imported textile materials in the earlier period, industrial materials alone accounted for about 40 per cent of total imports, while in Turkey about 40 per cent of total imports was devoted to capital goods only. Among the countries with rising imports, Ceylon and Thailand devoted more than 35 per cent of the total increase between 1948-1949 and 1953-1955 to capital goods and industrial materials; for Indonesia, Iraq and Malaya, the comparable figure ranged from 55 to 65 per cent; and for Turkey, it was about 95 per cent. In Burma, the relatively slow rate of recovery made it necessary to continue imports of consumer goods on a large scale; in recent years, however, a shift towards capital goods and industrial materials has also become evident. In the remaining countries, the level of total imports fell, but imports of capital goods and industrial materials generally did not follow suit. While these imports remained practically stable in Egypt, substantial increases were recorded in Pakistan and the Philippines. In India, the rise in domestic production of textile raw materials was the main reason for the continuous fall in imports of industrial materials.

Another striking feature of the shifts in the pattern of import demand was the considerable decline in the relative share of food imports in net food importing countries. The outstanding examples were Malaya and Ceylon, where food imports in 1948-1949 amounted to 47 per cent and 57 per cent, respectively, of total imports. Between 1948-1949 and 1953-1955, the large expansion of domestic food production in these two countries limited the rise in food imports; over the period, in Malaya food imports accounted for only 5 per cent of the increase in total imports, and in Ceylon they accounted for 30 per cent. Egypt, India, Pakistan and the Philippines experienced an absolute decline in food imports between these two periods. In Indonesia, there was only a moderate decline in the proportion.

The experience of individual countries with regard to imports of manufactured consumer goods was somewhat less uniform, although in the majority of cases the rate of increase in these was smaller than the change in total imports. Within this class of imports, there was a general tendency for textiles to decline. Where domestic production was still too low to meet domestic needs, imports increased, but they generally did not increase as rapidly as total imports. Changes in imports of other manufactured consumer goods in these countries reflected, to a larger extent, the effects of government policies on imports. While the tightening of import controls after 1952 generally had the effect of moderating the rate of increase, it caused an absolute decline in Egypt, the Philippines and probably also in India and Pakistan. In contrast to this general development, imports of these goods rose substantially in Burma, Malaya and Thailand.

In the Latin American countries, shifts in the pattern of import demand took a somewhat different form. As compared with the Asian and Middle Eastern countries, imports of capital goods in the Latin American countries not only showed more violent year-to-year fluctuations, but in many cases declined in importance. Thus, in Brazil and Chile their relative share in total imports fell, while in Argentina, Cuba and Venezuela there was an absolute fall during the period. One of the principal reasons was the shift in the pattern of investment towards projects requiring less imported capital equipment. For example, in Argentina, Brazil and Chile there was a rise in construction relative to total investment activity. Conversely, the greater increase in imports of capital goods relative to total imports in Colombia, Mexico and Peru reflected the changes in the pattern of investment towards industry or transport and utilities. In the latter two countries, moreover, the rise in the ratio of investment to total product was an additional factor.

The existence of a more developed manufacturing industry in the Latin American countries, as compared

with Asian and Middle Eastern countries, coupled with strict import restrictions, contributed to the absolute fall in imports of manufactured consumer goods in many cases; the only instance where imports of these goods rose substantially—both in absolute terms and relative to total imports—was Colombia. Generally, however, the rapid expansion of manufacturing production brought about a concurrent and marked increase in the demand for imported industrial materials. Moreover, in a few instances, notably Brazil and Chile, the acute shortage of fuels from domestic sources led to a large increase in their importation.

In contrast to the experience in Asian and Middle Eastern countries, an additional factor contributing to the increase in total imports of a number of Latin American countries was the demand for food imports. Either because of the stagnation of agriculture or because of rising consumer demand generated by growing money incomes and population, food imports showed substantial increases in many countries. In Brazil, Chile, Peru and Venezuela, their relative share in total imports also rose.

In Australia, New Zealand and the Union of South Africa, a shift in imports in favour of capital goods and industrial materials also occurred. In 1953-1955 the proportion of the total increase in imports devoted to these groups of goods was about 70 per cent in Australia, 55 per cent in New Zealand and 75 per cent in the Union of South Africa. Moreover, the rapid development of domestic manufacturing industry has apparently affected the composition of imports of industrial materials. For example, an increasing proportion of such imports has consisted of more simply processed materials than before, because the industrial structure

Table 47. Ratio of Import Groups to Components of Internal Demand, in 1948-1949 and 1953-1955

(In real terms)

Country and year	*Capital goods* (*As percentage of gross fixed investment*)	*Consumer goods*			
		Total	*Industrial materials and fuels*	*Food*	*Manufactures*
		(*As percentage of consumer expenditure*)			
Burma:					
1948–1949	21	16	4	3	9
1953–1955	16	27	5	5	17
Ceylon:					
1948–1949	51	41	7	25	10
1953–1955	36	37	6	21	10
India:					
1948–1949	20	6	3	2	1
1953–1955	14	4	2	1	1
Philippines:					
1948–1949	33	17	2	5	10
1953–1955	41	11	2	4	5
Turkey:					
1948–1949	34	6	3	1	2
1953–1955	22	6	4	—	2
Argentina:					
1948–1949	11	11	4	1	5
1953–1955	7	7	3	1	3
Brazil:					
1948–1949	32	9	4	3	2
1953–1955	20	9	4	3	2
Colombia:					
1948–1949	14	15	5	2	9
1953–1955	24	14	5	1	8
Mexico:					
1948–1949	36	7	3	1	3
1953–1955	44	7	4	1	2
Australia:					
1948–1949	36	15	5	2	8
1953–1955	34	18	7	2	9
New Zealand:					
1948–1949	34	22	6	3	13
1953–1955	34	27	7	4	16
Union of South Africa:					
1948–1949	29	30	7	3	21
1953–1955	23	29	8	2	19

Source: United Nations Bureau of Economic Affairs. See footnotes to tables 45 and 46. Components do not always add to total because of rounding.

has become increasingly capable of producing a wider range of intermediate products.[13] Furthermore, imports of manufactured consumer goods other than textiles showed substantial increases in all three countries. This mainly reflected shifts in the pattern of consumer expenditure towards high-income goods and consumer durables, particularly in Australia and New Zealand, where per capita income, already high, rose continuously during this period.

Changes in import composition have so far been described in relation to the trends in total imports. The true significance of such shifts, however, can be judged only by relating the changes in the individual groups of imports to the appropriate components of internal demand. In table 47, the ratios of imports of capital goods to gross fixed investment and the ratios of other groups of imports to consumer expenditure are calculated for selected countries for 1948-1949 and 1953-1955.[14]

There have been wide variations in the import content of investment, as shown in table 47, both between countries and for a given country over time. But in almost all cases, investment expenditure has had a higher import content than consumption expenditure. This was to be expected from the industrial structure of the primary producing countries, where heavy industry exists only on a limited scale. Thus, the increases in domestic fixed capital formation in these countries between 1948-1949 and 1953-1955 have imposed a heavy burden upon their balances of payments. Moreover, where the rise in investment has been accompanied by a shift in its pattern towards projects requiring a higher content of imported capital goods—as in Colombia, Mexico and the Philippines, where there have been shifts towards industry, transport or public utilities—the impact upon the balance of payments has been heightened. In many countries, however, notably Burma, Ceylon, India and Turkey, the recent shift in the pattern of investment has generally been towards less import-biased projects, such as agriculture and public construction; and this has resulted in significant reductions in the import content of investment. The favourable effect of this upon the balance of payments has, however, been more than offset by the sharp increase in total demand for imported capital goods, following the rise in the ratio of investment to total product. For the same reason, the level of imported capital goods has risen in Australia and the Union of South Africa despite the fact that considerable increases in productive capacity in domestic capital goods industries had already reduced the relative dependence of these countries upon foreign sources of supply. Thus, the share of imports of capital goods in total imports has risen in these countries. By contrast, the stable ratio of investment to total product in Brazil, in conjunction with a shift in investment pattern towards less import-biased projects, has prevented imports of capital goods from rising faster than total imports. In Argentina, an actual fall in imports of capital goods was related to a decline in the ratio of investment to total product.

In most countries, imports of consumer goods have also risen but not by as much as the increase in capital equipment. In a number of countries, this has been due in part to the rise in the ratio of investment to total product; more generally, however, it is attributable also to the lower import content of consumption. In some countries, moreover, increasing domestic production of consumer goods, inclusive of raw materials and foods, has reduced the import content of consumption in the course of the post-war years, as shown in table 47. But, in the majority of countries, despite rising domestic output, the import content of consumption has remained stable or has risen. Where imports of food or manufactured consumer goods have fallen relative to domestic consumption, as in Mexico or Turkey, these declines have been offset by increases in imports of industrial raw materials or fuels. In some other countries, rising domestic output of consumer goods has been associated not only with an increase in imported industrial raw materials or fuels, but also with an increase in imports of manufactured consumer goods; this occurred, for example, in Australia and New Zealand, where it was indicative of a shift in the pattern of consumption towards durable goods imported from abroad. In most countries, consequently, growing domestic production of consumer goods has not been sufficient to offset the effect of other factors, particularly the advance in imports of capital goods, in raising the ratio of total imports to total product.

[13] Data for Australia may be used as an example. According to calculations made by the Dominion Bureau of Statistics, in 1945/46 to 1949/50, 36 per cent of imported "producers' materials" consisted of "crude and simply transformed" materials, whereas 64 per cent consisted of "elaborately transformed" materials. In 1954/55 the proportions had changed to 45 and 55 per cent, respectively.

[14] The calculations attempted here should be regarded as rough approximations intended only for illustrative purposes. Because of lack of data, it is not possible to provide a more detailed breakdown of the various categories of domestic expenditure and corresponding imports than that given in table 47. Since imports of industrial materials and fuels in these countries are chiefly used for making consumer goods, they may be regarded, together with food and manufactured consumer goods, as imports for direct consumption.

Price Developments and Foreign Trade

In a number of countries, the effects of economic growth in intensifying demand for imports and restricting exportable supplies have been accentuated by domestic inflation. Inflation has, in itself, often been a manifestation of attempts to hasten the pace of economic growth; it has ensued in great part from efforts to raise the rate of investment or consumption faster than the rate of increase in total output has permitted.

Whenever this has occurred, the external balance has been subject to a new source of pressure. The demand for imports and the effect upon exportable supplies have been heightened, both directly and through the effects of increases in domestic prices relative to foreign prices.

Inflation, and the associated changes in domestic prices relative to foreign prices, have not always exerted their full impact upon imports, since the demand generated by these forces has been restrained by import restrictions. Such restrictions have not, however, prevented the absorption of exportable supplies by the home market. Nor has it been possible to avoid growing pressure upon the import controls which has been generated by the rise in domestic prices relative to import prices. Persistent inflation has therefore invariably necessitated adjustment of the exchange rates sooner or later. However, the policies which individual Governments have adopted in regard to exchange rates have varied greatly, both in their form and as regards the frequency with which adjustments have been made to changing price relationships.

Of the countries whose experience is examined in this chapter, more or less sustained inflation developed in Argentina, Brazil, Chile, Indonesia and to a lesser extent in Australia, Colombia, Mexico and Peru. In the Latin American countries, as a result of sustained inflationary pressure, there were large and continuous rises in domestic prices. As reflected in cost of living indices,[15] these increases, expressed as average annual changes, ranged from 8 to 12 per cent in Brazil, Colombia, Mexico and Peru to the extreme cases of 20 per cent in Argentina and over 30 per cent in Chile.

Until 1953, at least, one of the principal sources of continuing inflationary pressure in these countries was deficit financing by Governments; as shown in table 48, the magnitude of budget deficits in relation to total output was large in Argentina and Chile, and in the latter case it tended to increase over time. In some years, Colombia also experienced large budget deficits. Though data are not available for most of the countries after 1953, available estimates suggest that the increased momentum of the Brazilian inflation since 1953 has also been marked by a sharp increase in the budget deficit. In some cases, the rise in inflationary pressure from this source was aggravated by rising export surpluses or reduced import deficits. Moreover, the stagnation, or declines, in per capita availabilities of food and other consumer goods gave a strong upward im-

[15] Although cost of living indices have been used to show domestic price developments, wholesale price indices would have given the same results; in nearly every case where a wholesale price index exists the nature of the price change has been similar.

Table 48. Government and Balance of Payments Deficits and Surpluses, Selected Countries

(Ratio to gross product,[a] in current prices)

Country and item	1947	1948	1949	1950	1951	1952	1953	1954	1955
Argentina:									
Budget balance[b]	...	...	...	+++	+++	+++	+++	++	0
Foreign balance	++	−	+	+	−−	−−−	++	+	0
Australia:[c]									
Budget balance	...	...	+++	+++	++	+++	+	++	++
Foreign balance	++	+++	0	+++	−−−	+++	+	−−−	−−−
Brazil:									
Budget balance	0	0	++	++	0	++	...	...	...
Foreign balance	−−	0	−	+	−−	−−−	0	−	...
Chile:									
Budget balance	+	−	0	++	++	+++	+++	...	...
Foreign balance	+	++	0	+	+	++	0	0	...
Colombia:									
Budget balance	+++	+++	+	0	+	+	...	...	...
Foreign balance	−−−	−−	++	++	+	+	0	−	...
Mexico:									
Budget balance	+	+	0	+	...	...	...	...	...
Foreign balance	−−	−	+	++	...	0	−	0	0
Peru:									
Budget balance[b]	++	0	0	0	−	0	+	0	...
Foreign balance	...	...	...	...	...	...	...	...	...

Source: United Nations Bureau of Economic Affairs; Statistical Office of the United Nations, *Statistical Papers*, Series H, Nos. 8, 9, 10; Brazil: *Revista Brasileira de Economia* (Rio de Janeiro), December 1955; Argentina: *Producto e Ingreso de la República Argentina* (Buenos Aires, 1955); Peru: *Renta Nacional del Perú, 1942–1954* (Lima).

[a] Gross domestic product except for Brazil, Mexico and Peru, where it is gross national product.

[b] Central government deficit.

[c] Fiscal year beginning 1 July.

Key:	*Budget deficit or export surplus as per cent of gross product*	*Symbol*
From 0.0 to 0.5		0
From 0.6 to 1.5		+
From 1.6 to 3.0		++
3.1 and above		+++

Minus signs (−, −− and −−−) are used to indicate a budget surplus or an import surplus.

Table 49. Indices of Cost of Living and Money Wage Rates, and Ratio of Money Supply to Real Gross Product, Selected Countries
(1948 = 100)

Country	Cost of living			Money wage rates			Ratio of money supply to real gross product		
	1950	1953	1955	1950	1953	1955	1950	1953	1955
Argentina	165	322	377	163	278	353	156	261	337
Australia	121	179	186	122	222	193	128	134	123
Brazil	105	169	241	124	161	313	143	179	221
Chile	136	256	774	138	222	284[a]	100[c]	217[c]	550[c]
Colombia	129	147	160[a]	168	154	...	115	150	195
Indonesia	113[b]	213[b]	300[b]	...	...	...	...	...	...
Mexico	111	141	170	117	141	183	121	157	179
Peru	130	167	183	...	...	...	112	92	85[a]

Source: Prices from United Nations, *Monthly Bulletin of Statistics;* wage rates from United Nations, *Statistical Yearbook* and *Monthly Bulletin of Statistics;* money supply from International Monetary Fund, *International Financial Statistics;* gross product from United Nations Bureau of Economic Affairs and Statistica Office, *Statistical Papers*, Series H, Nos. 8, 9, 10.

[a] 1954.
[b] Food only.
[c] 1950=100.

petus to retail prices. Increases in the latter gave rise to demands for higher wages which, when realized, provoked further price increases (see table 49). Inflation thus, in part, reflected the persistent efforts of the various sectors to maintain their shares of rapidly increasing aggregate money income. Wage-price spirals started, and inflation to some extent became self-generating. This was evident in Argentina, Brazil and Chile.

Increased bank credit was a major source of government deficit financing, higher wages and salaries, and expanded private spending. Moreover, the magnitude of the inflation was in several instances related to the scale of the credit and monetary expansion relative to the change in output. The money supply increased up to twice as much as real product in those countries where prices rose 8 to 12 per cent annually; it rose four times as much in Argentina and by even more in Chile. Changes in money supply were thus of considerable significance in the inflationary processes which developed in these countries. The data do not, however, involve any particular presumption as to how far, in individual countries, credit was a passive factor, responding to inflationary forces having their origin elsewhere; or how far it may have been an active stimulus, itself tending to promote higher expenditure. Moreover, great care is necessary in the interpretation of the data, since increases in the ratio of money supply to real output are to be expected not only because of inflationary developments but also as a result of shifts in the structure of production and, particularly, owing to any increase in the share of the market economy in total output.

The exchange rate policies adopted to cope with the effects of inflationary pressures on the balance of payments differed considerably among countries. In Argentina, Chile and Colombia, reliance was placed upon multiple exchange rate systems throughout the post-war period. A characteristic of such systems is that the effective average rate applicable to exports is lower than that applicable to imports in terms of national currencies. Over the years the spread between these

Table 50. Structure of Selected Multiple Exchange Rate Systems, 1949 and 1955

Country	End of 1949			End of 1955		
	Rate spread[a]	Number of rates[b]		Rate spread[a]	Number of rates[b]	
		Buying	Selling		Buying	Sellin
Argentina[c]	270	3+0	3+1	418	5+1	1+2
Brazil[c]	107	1+0	2+0	1,860	6+1	4+6
Chile	670	5+2	2+2	3,350	3+3	3+3[d]
Colombia	192	1+1	12+2	266	1+1	4+5
Peru	110	0+2	0+2	103	0+2	0+2
Indonesia	101	1+0	1+0	505	3+3	6+0
Thailand[c]	185	2+3	2+1	101	0+1	0+1

Source: United Nations Bureau of Economic Affairs; International Monetary Fund, *Annual Report on Exchange Restrictions* (Washington, D.C.) and *International Financial Statistics.*

[a] Highest rate expressed as percentage of lowest effective rate.
[b] Number of classes of goods subject to different exchange rates; first number of each pair refers to fixed rates, second number to fluctuating rates.
[c] Effective average rate.
[d] Excluding effect of surcharges and stamp taxes.

two average rates tended to increase (see table 50). In Brazil a multiple rate system was introduced only in 1953 involving an implicit devaluation of the cruzeiro. In Peru, on the other hand, the multiple rate system which had been established at the end of the war was abandoned in 1949 in favour of fluctuating rates. Since 1953, the rates have been fairly stable as a consequence of an increased inflow of foreign capital and of some intervention in the foreign exchange market by the Central Bank. In Mexico, the response to internal inflation took the form of devaluation of its fixed single exchange rate in 1948, 1949, and again in 1954.

Different types of price developments accompanied these changes in exchange rates. The movements between 1948-1949 and 1953-1955 in both domestic prices and foreign trade prices, measured in national currencies, are compared in table 51.

In Mexico and Peru, the exchange rate measures helped to keep the rate of increase in domestic prices lower than that of foreign prices. By contrast, Argentina experienced a larger rise in domestic prices than in foreign prices, the lag in export prices being especially great in relation to domestic prices. The experience of Brazil and Colombia lay in between these two opposites. While export prices rose more rapidly than domestic prices, domestic prices increased faster than import prices. In Chile, domestic and import prices have shown parallel movements.

When the experience of Asian and Middle Eastern countries is compared with that of Latin America, a decided contrast emerges. On the whole; the countries of Asia and the Middle East enjoyed a higher degree of monetary stability in the post-war decade, with the cost of living rising less than 5 per cent annually. It is true that Thailand, during the 1950-1952 period, experienced annual price increases of 9 per cent, but thereafter, the rate of increase subsided to less than 6 per cent. Only Indonesia experienced substantial inflation; in the six years following 1949, the Indonesian food price index tripled.[16]

A major factor in the Indonesian inflation was deficit financing. This has been evident throughout the period since 1950, except in 1951. A substantial proportion of the total public spending has been current expenditure, and this has been especially directed towards security or defence. Financed to a great extent by an expansion of bank credit, an increase in the money supply of two and one-half times occurred between 1951 and 1955. Inflation constantly exerted pressure upon the balance of payments in the post-war years. It is true that the recovery and expansion of export volume from the early post-war low, combined with favourable external demand conditions for rubber, raised import capacity substantially. But the pressure of excess demand magnified the effect of rising export receipts upon import demand. In addition, the pronounced lag in the restora-

[16] However, other countries in the region also experienced large temporary price rises as, for example, during the Korean boom period. Several countries, notably Ceylon, India and Pakistan, adopted measures such as export duties and subsidies on food imports, intended to insulate their external economies from the impact of rising world prices.

Table 51. Price Indices, 1953-1955 Average, Selected Countries[a]
(Based on domestic currency units; 1948-1949 = 100)

Country	*Cost of living*	*Import unit value*	*Export unit value*	*Ratio of cost of living to import unit value*	*Ratio of cost of living to export unit value*
Argentina	301	216	140	139	216
Brazil	205	157	265	131	77
Venezuela	113	89	111	127	102
Turkey	118	95	110	125	107
Australia	172	139	139	124	124
Malaya	130[b]	112	159	116	82
Pakistan	110	96[b]	70[b]	115	156
New Zealand	138	125	148	110	93
Colombia	150	139	213	108	71
Chile	450	435	...	104	...
Ceylon	110	108	147	102	75
Cuba	95	93	96	102	99
Peru	163	162	225	101	73
Philippines	97	98	86	99	113
Mexico	150	169	165	89	91
Union of South Africa	130	154	159[c]	85	82
India	102	121	107	84	96
Egypt	103	129	116	80	89
Indonesia	249	375	451	66	55
Thailand	140	...	129	...	109
Burma	87	...	136	...	64

Source: United Nations, *Statistical Yearbook, 1956;* International Monetary Fund, *International Financial Statistics.*

[a] Arranged in descending order of the ratio of cost of living to import unit value.
[b] 1949=100.
[c] Export price of wool.

tion and development of domestic production, particularly of food, added significantly to import demand. Per capita food production by the end of the post-war decade had failed to reach the 1934-1938 level; output per person advanced slowly from 73 per cent of the pre-war figure in 1948/49 to only 88 per cent in 1955/56. Indonesia introduced a system of fixed multiple rates soon after the end of the war. Since it was heavily dependent on trade with the sterling area and western Europe, it followed sterling when that currency was devalued. Thereafter, repeated adjustments of the country's multiple rates occurred, most of which involved effective depreciation of the currency. By means of these measures Indonesia succeeded in keeping its domestic prices from rising as fast as its export or import prices during this period.

Thailand devalued immediately after the end of the Second World War in order to compensate for war-time inflation and soon thereafter established a multiple rate system. Since the devaluation of 1949 the country has made repeated adjustments in its multiple rate system as domestic prices were rising more rapidly than foreign trade prices. In 1955, it abandoned fixed multiple rates in favour of a single freely fluctuating rate.

In Australia and New Zealand the pressure of demand upon the flow of goods and services was also manifested in a rise in the cost of living, averaging about 12 per cent and 7 per cent per annum, respectively. In the Union of South Africa the cost of living increased about 5.5 per cent annually. In each of the three countries, there was a marked weakening of inflationary tendencies after 1952.

All three countries devalued their rates of exchange in 1949. While in the Union of South Africa domestic prices rose less rapidly than foreign trade prices between 1948-1949 and 1953-1955, in Australia domestic prices rose higher than foreign trade prices. In New Zealand, domestic prices rose more than import prices but lagged behind export prices.

Among the other countries, where relative monetary stability was experienced, Burma, Ceylon, Egypt, India and Malaya devalued their currencies in 1949 along with the pound sterling. The dependence of the trade of these countries on the sterling area and on the western European countries was an important consideration in their decision to devalue in 1949. In fact, in most instances, there was no significant balance of payments deficit at that time, and up to the devaluation the changes in domestic prices were more or less in line with those in foreign trade prices. Following devaluation, domestic prices changed in relation to foreign trade prices. Between 1948-1949 and 1953-1955, domestic prices in Burma, Egypt and India rose less rapidly than both import and export prices. However, in Ceylon and Malaya, domestic prices rose less than export unit values but more than import unit values. Pakistan did not devalue until late in 1955; its policy of maintaining the exchange rate in the face of devaluation of the pound sterling in 1949 was motivated by a desire to take advantage of a high demand for cotton and jute from soft currency areas. After the Korean boom, Pakistan's balance of payments came under increasing pressure, and its currency was devalued in the same proportion as other sterling currencies in 1955.

By contrast with these countries, Cuba, the Philippines, Turkey and Venezuela have maintained a stable exchange rate throughout the post-war period. In Turkey and Venezuela, exchange stability was associated with an increase in domestic prices relative to foreign trade prices. In the Philippines domestic prices rose more than export prices, and in Cuba domestic prices moved approximately in line with foreign trade prices.

It follows, as may be seen from table 51, that in most countries the cost of living rose at least as much as, and in many countries substantially more than, import prices. This suggests that the large rise in import demand which has been characteristic of primary producing countries in the post-war period may have been reinforced in many instances by price and exchange policies which tended to make import goods relatively cheaper than domestic goods.[17] Outstanding examples of countries with larger increases in internal than in import prices are Argentina, Australia, Brazil, Turkey and Venezuela, in all of which the cost of living rose about one-fourth or more above import prices. In Australia, Brazil and Turkey this change in relative prices was in fact accompanied by a rise in imports in relation to domestic output, but in Venezuela imports rose less than output and in Argentina they even declined in absolute terms.

In striking contrast to this group are Egypt, India, Indonesia, Mexico and the Union of South Africa, where the cost of living rose from 15 per cent to one-third less than import prices. In Indonesia and Mexico, devaluation succeeded in raising import prices in relation to domestic prices despite considerable inflationary pressure; in Egypt and India, on the other hand, the moderate rates of increase of internal economic activity were associated with considerable internal price stability despite rising import prices. Except in Mexico the volume of imports in these countries rose only in line with or significantly less than domestic output.

[17] The use of all three price series—the cost of living, export unit values and import unit values—in the analysis of foreign trade developments is subject to numerous qualifications, not only on account of inherent deficiencies in the data but also on analytical grounds. It is difficult, for instance, to determine the extent to which the cost of living may be used as a guide to internal prices and costs generally. Moreover, in view of the basic differences in composition of domestic goods on the one hand, and import and export goods on the other, it is difficult to judge how far substitution between foreign trade goods and domestic goods either on the demand or on the supply side might, in principle, be influenced by relative price movements. It is not unreasonable to assume, however, that very large changes in relative prices would probably give rise to some substitution effect.

As compared with export prices, the cost of living in most countries appears to have risen much less rapidly —in Indonesia by somewhat over one-half, in Burma by about two-thirds, and in several other countries, including Brazil, Ceylon, Colombia and Peru, by about three-fourths. In so far as the cost of living may be taken as indicative of internal prices and costs, this would suggest that production of export goods was generally not less profitable than domestic goods; there is thus no evidence that the supply of export goods was adversely affected by price and exchange policies in most countries. Even Cuba and India, whose exports rose relatively little and Egypt, whose exports fell during the post-war period, did not show any higher rise in the cost of living than in export prices. Pakistan, on the other hand, showed a very large rise in the cost of living in relation to export prices; this reflected the weakness in jute prices together with Pakistan's postponement of devaluation in line with the pound sterling until 1955, rather than any significant rise in domestic prices.

The most striking example of a more rapid increase in domestic than in export prices is Argentina, where the rise in the cost of living was more than twice as high as in export unit values. There can be little doubt that such a disparity between internal and export prices contributed to the stagnation of Argentine exports. To a much lesser degree, relative price changes may also have contributed to discourage exports in Australia and Thailand, where export unit values rose about 20 per cent and 10 per cent less, respectively, than the cost of living, and also in the Philippines, where export unit values fell by about one-seventh while the cost of living declined slightly.

Patterns of Balance of Payments Experience

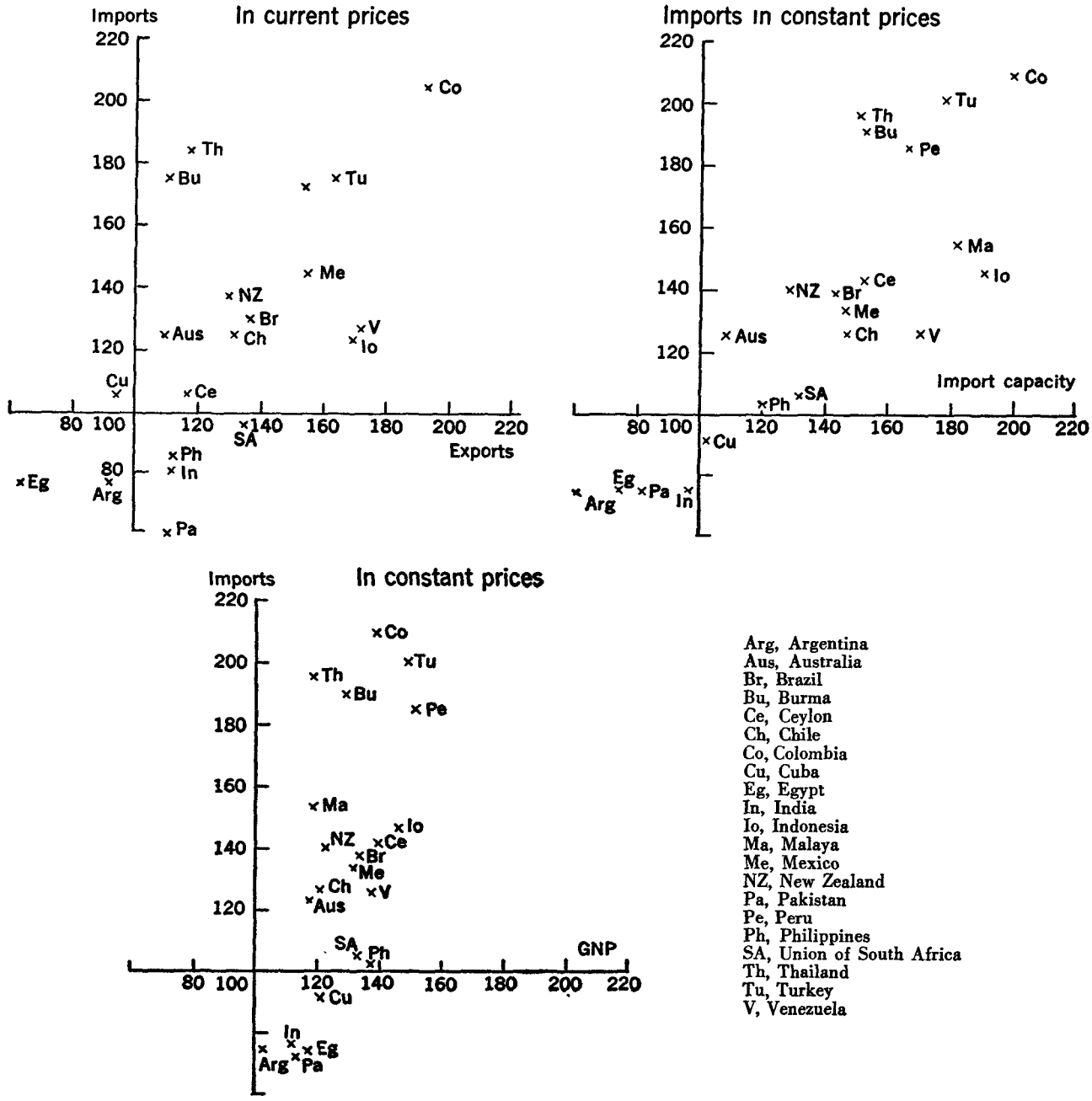
The trends in foreign demand for primary products, the rates and patterns of domestic growth, the presence or absence of inflation—and its extent—and the changing relationship between domestic and foreign prices, have variously combined to mould the balance of payments experience of the individual primary producing countries over the post-war years. While foreign demand has favoured a strong expansion in export receipts of some countries, it has limited the growth in the receipts of others. Rising foreign demand has sometimes been associated with a relative shift in resources towards the export sector, but, more often, the rates of domestic growth have outpaced the increase in exports. Increasing domestic output of import substitutes has sometimes matched the rising levels of domestic consumption, but, more commonly, the adaptation of the domestic structure of production has not been sufficient, in the face of increased investment, to prevent a rise in the proportion of imports to total output. In several countries, inflation has intensified the demand for imports or reduced exportable supplies, and increases in domestic, in relation to foreign, prices have been an additional force accentuating the trend towards mounting pressure on external balances. In special instances, although exports have declined relative to total output, a strong favourable movement in the terms of trade combined with a moderate increase in import demand has raised import capacity as rapidly as imports. But more generally, though import capacity has usually risen, it has not shown as strong a rise as import demand.

For each country, these determinants of the external balance have combined in differing proportion to shape the trend in its external balance, but three broadly different types of experience can be discerned. This is borne out by the data in chart 16, which shows the interrelationships between some of the principal elements affecting the external balance of each country. What is of particular interest is that the relative positioning of countries remains practically the same with respect to each of the determinants of the balance of payments in all of the diagrams. Thus, by and large, those countries which experienced an increase in imports greater than the increase in exports, both measured in current prices, also experienced an increase in real imports which was greater than the rate of increase both in their import capacity and their domestic economic growth. Again, those countries whose exports, in current prices, declined or rose only moderately, sustained reductions in both real imports and import capacity, while their rates of domestic economic growth tended to be lower than those of other primary producing countries. Finally, those countries which experienced an increase in exports greater than imports, both in current prices, also recorded rates of increase in import capacity and domestic economic growth that exceeded the rise in real imports. While the first two groups of countries are those which generally experienced persistent, or increasing, pressure on the balance of payments, countries in the latter group had continuously strong balance of payments positions or recorded some diminution in pressure.

Countries with pronounced pressure and rising imports

The first group of countries comprises Australia, Brazil, Burma, Chile, Colombia, New Zealand, Peru, Thailand and Turkey. In these countries, increasing or continuing, pressure on the external balance has generally been associated with substantial economic growth (see chart 17). Pronounced changes have taken place in the structure of the internal economies of these countries, and an increase in the proportion of imports to

Chart 16. Phincipal Components affecting the External Balance, 1948-1949 to 1953-1955



Source: United Nations Bureau of Economic Affairs, based on data from table 38, and charts 14 and 15. Data for imports in constant prices based on national accounts or on balance of payments accounts. For certain countries, years differ: see chart 14. For Peru, the index number for imports in current prices is 172; for exports 153. For Argentina the import capacity is 53.

total product has generally occurred. An appreciable expansion of exports has commonly been a major influence in the growth of real product. Where this has not been the case, and export volume has stagnated or declined, a favourable movement in the terms of trade has generally been sufficiently strong to raise import capacity. But, although import capacity has frequently risen, not only absolutely, but also in relation to total product, pressure on the balance of payments has nevertheless mounted, or remained acute. This combination of forces suggests that the pressure has had its origin primarily in the vigorous growth of internal demand. The high rates of domestic growth and the associated structural changes have led to an intensification of import demand exceeding the rise in import capacity. In addition, however, inflation has aggravated these circumstances in a number of countries within this group. Symptomatic of this is the fact that, in several

countries, domestic prices have risen more than export or import prices. These relative price changes have provided, in themselves, an additional possible source of pressure on the balance of payments through the discouragement of exports or stimulation of imports.

In most of these countries, the sharp rise in the demand for imports was the result of an intensification of investment activity in the post-war period. The level of fixed investment generally rose in these countries, but its share in total product showed particularly large increases in Australia, Burma, New Zealand, Peru and Turkey.

In Turkey the rate of growth in real product between 1948-1949 and 1953-1955 was higher than in most other primary producing countries, and this increase in real product was associated with a sharp rise in the ratio of investment to total product from about 9 per cent to about 14 per cent between these two periods. Such a relatively rapid transformation of the economy was made possible through a pronounced rise in imports of capital goods and industrial materials. Though the expansion of agricultural production, particularly after 1950, maintained the share of the export sector in rising total product, the related rise in import capacity was not, in itself, sufficient to finance the increase in imports. Persistently large deficits in the current account were, in fact, recorded throughout the period, while the ratio of reserves to imports showed a downward trend. The otherwise restrictive force which such circumstances would have exerted upon the country's imports and, through these, upon the rate of domestic growth, was greatly offset, however, by receipts of official grants on a large scale.

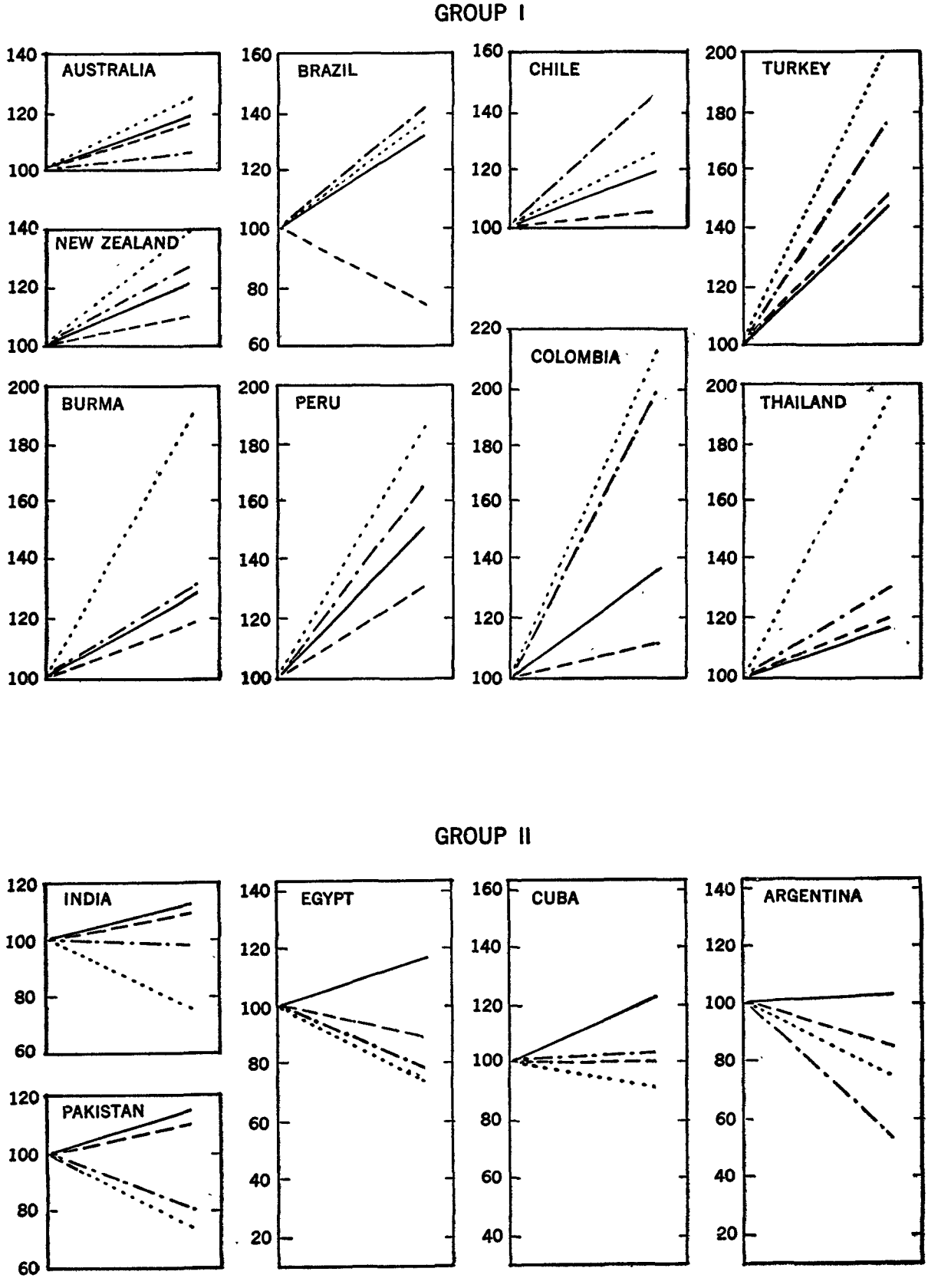
In some respects, this also typified the experience of Peru. In Peru, the high rate of growth was accompanied by a substantial increase in exports. But this increase, together with improved terms of trade, was not sufficient to meet the increased import requirements induced by economic development as well as by domestic inflation. The associated deterioration in the balance of payments on current account was, however, partly offset by the inflow of foreign long-term capital for investment in some branches of the mineral industry.

In both Australia and New Zealand, imports also rose more than import capacity between 1948-1949 and 1953-1955. An intensification of investment activity again contributed strongly to the increase in imports. In addition, pressure on the balance of payments was heightened by a strong upward movement in consumer demand for imported durable goods. This latter component of import demand has been of greater importance for the external balances of these two countries than for other primary producing countries, since the per capita incomes of the former are substantially higher than elsewhere. In both Australia and New Zealand, strong pressure on the balance of payments became evident only after the collapse of the Korean boom. Up to that time, in Australia, rising wool prices were a primary reason for a buoyant balance of payments position. But after the Korean boom, export prices deteriorated while the shift in consumer demand to imported durable goods became manifest and served to reinforce the continuing growth in import demand for investment goods. New Zealand exhibited similar tendencies, except that its terms of trade remained more stable.

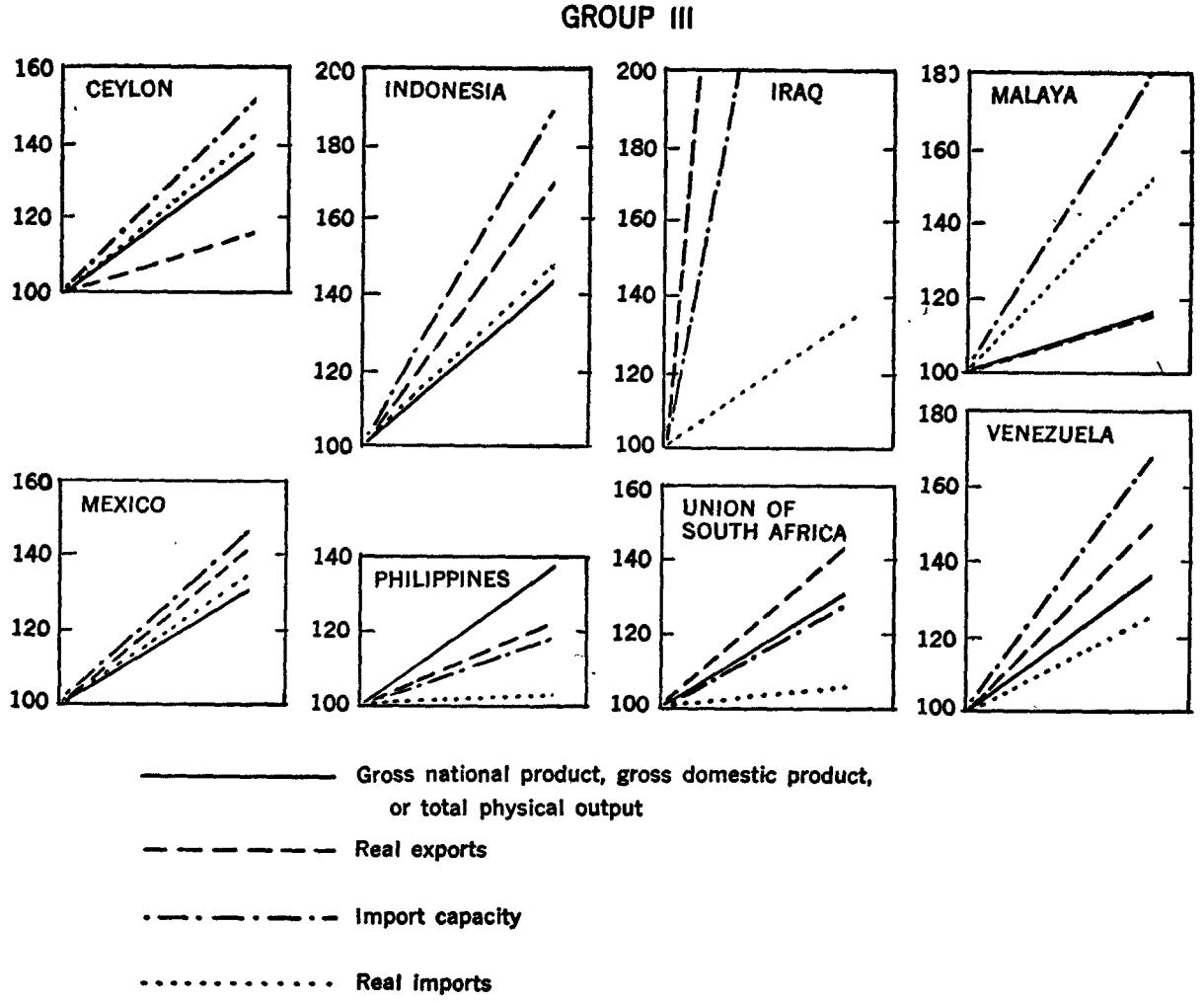
Improved terms of trade greatly enhanced the import capacity of Colombia, while for Burma the rise was only moderate. The rise in imports of both countries, however, was also greatly in excess of that in real product. Particularly in Burma, pressure on the balance of payments has become progressively more acute in recent years. While post-war reconstruction necessitated rising imports in the earlier post-war years, the intensification of investment activity under the development programme has sustained the rising trend in demand for imports in more recent years. In contrast to the other countries so far mentioned, Colombia recorded some decline in the share of fixed investment in real product, but, with its large rise in real product, the absolute magnitude of fixed investment increased. There is, moreover, evidence that, in recent years, the pattern of investment has changed towards projects requiring a higher content of imported capital equipment. Thus, despite the decline in the ratio of fixed investment to real product, the intensification of import demand was primarily generated by domestic investment activity. However, the growth in demand for imported consumer goods and industrial raw materials, which was stimulated by the rise in consumption relative to real product, has exerted additional pressure on the balance of payments.

Among the remaining countries within this group, Brazil, Chile and Thailand, the strong pressure of demand on imports was generated, not so much by an increase in investment activity as by a rise in consumption. In Brazil and Chile, and probably also in Thailand, consumption accounted for an increasing share of the growing real product. A corresponding shift in the composition of imports took place. In Thailand, the proportion of manufactured consumer goods to total imports rose, while in Brazil, the change in composition took the form of an increase in the share of industrial raw materials, including fuels. The difference between the two countries was due to the relatively developed state of the consumer goods industries in Brazil. The increase in the share of industrial materials in Brazil was also heightened after 1953 when more stringent import restrictions and multiple rates were introduced, since these accorded more preferential treatment to such imports than to others. In Chile, because of the slow growth in agricultural production, which was adversely affected by government investment and price policies, rising imports of food became an additional source of pressure upon the balance of payments.

Chart 17. Interrelationship between Real Product, Real Exports



Real Imports and Import Capacity, 1948-1949 to 1953-1955



Source: United Nations Bureau of Economic Affairs, based on data from charts 14, 15 and 16. Years differ for certain countries: see chart 14. For Iraq, in group III, real exports were 417 and import capacity 340.

The export experience of these three countries was not, however, uniform. In Thailand, there was a substantial expansion of the export sector, reflecting the strong demand for rice in the south-eastern Asian markets. This expansion was also facilitated by government investment in agriculture. The rise in the volume of exports, together with a moderate increase in the terms of trade, was not sufficient, however, to meet the increased demand for imports. By contrast, the policies pursued in Brazil and Chile discouraged allocation of resources to the export sector; and, in fact, the absolute volume of exports changed little or declined.

In both Brazil and Chile, pressure upon the balance of payments arising from the changes in the structure of demand and production was reinforced by the persistence of an excess of aggregate expenditure over current output. The inflationary process in these countries not only directly intensified demand for imports, but was also instrumental in fostering a redistribution of resources from the export sector and import-substitute sectors into other sectors not competing with imports. Furthermore, in Chile in particular, the distortion of the structure of production was aggravated by the heavy taxation of export profits and the complementary subsidy of food and raw material imports. Since Brazil and Chile account for major shares of world trade in coffee and copper, respectively, and world demand for these commodities has strengthened during the post-war period, the decline or stagnation in the export volume of these two countries was partly instrumental in occasioning sharp rises in their export prices in more recent years. Brazil's coffee prices rose steeply after 1949, while Chile's copper prices increased after 1951. The consequent improvements in terms of trade raised the import capacity of these countries; in fact, import capacity rose more than imports from

1948-1949 to 1953-1955. Nevertheless, both countries continued to experience pronounced pressure on their external balances as was indicated by stringent import controls, deficits on current account and the continuing low levels of reserves.

Countries with pronounced pressure and stagnant exports

In the preceding group of countries, while external demand conditions generally favoured some expansion of import capacity, high rates of growth and the associated changes in the pattern of domestic demand and production generated an intensification of import demand that outpaced the increase in import capacity. By contrast, in the second group of countries, namely, Argentina, Cuba, Egypt, India and Pakistan, rates of growth in the post-war period have been moderate (see chart 17). At the same time, however, import capacity exhibited little expansion or actually contracted over the period. Generally, these countries have been faced with sluggish external markets for their exports. Especially for the smaller countries, such as Cuba, Egypt and Pakistan, the effect of external circumstances in restricting the growth of incomes in the export sector was undoubtedly a preponderant reason for the slow rates of increase in total incomes and output. In India, however, it should be noted that, since the export sector plays a smaller role in the economy, the stimulus to growth has arisen more from internal sources. Growth was deterred in the early post-war years by war-time events, the disruptive effects of partition and unfavourable harvests. Similar events adversely affected growth in Pakistan. But, in the post-Korean period, both countries have made moderate advances in output.

While for Cuba, Egypt, India and Pakistan, the decline of exports or their failure to rise substantially was mainly a consequence of external demand conditions, the fall in exports from Argentina was primarily engendered by the adverse effects of government policies upon the export sector. Inflation, combined with the agricultural price policy of the Government, contributed to a shift in resources away from the export sector, and—at least until the recent reforms—depressed the volume of exports. Cuba, on the other hand, was confronted with growing competition from other sugar exporters, while Egypt, India and Pakistan have been faced with a stagnant foreign demand for textile raw materials or textile manufactures, particularly in the years since the Korean boom.

The contraction or slow rate of increase in the import capacity of these countries, in the face of some growth in domestic income and output, has been a major source of pressure upon their balances of payments. In India, the balance of payments problem has not come to the fore until recently, largely as a result of the drawing down of sterling balances; nevertheless, stringent import controls have also been resorted to during the post-war period. In all countries, pressure has been alleviated to some extent by the development of import-substituting sectors of production. In Egypt, for example, the stagnation in foreign demand for cotton induced the Government to foster the extension of acreage of wheat for domestic consumption in place of cotton for export. In India, the agricultural policy of the Government, by increasing the production of cotton, jute and food grains, has been instrumental in reducing imports of these commodities in more recent years. The rise of the textile industry in Pakistan affords another example of the development of import-substituting sectors of production.

Such adaptation has conserved the supply of foreign exchange available for the purchase of capital equipment and other imports necessary to sustain economic growth. Despite a decline in the total volume of imports, the volume of imports of capital equipment in Cuba, Egypt and India was about the same in recent years as it had been in early post-war years, while in Pakistan, there was an increase. In Argentina, however, imports of capital equipment fell substantially. In India, the change in import composition was achieved mainly through reduced dependence upon imports of food and industrial raw materials, while in Egypt and Pakistan the principal reduction was in textiles. In Cuba, imports of industrial raw materials and consumer goods declined.

Countries with diminishing pressure

In contrast to the above two groups, the experience of the third group of countries was typified by substantial internal economic growth combined with a diminution of pressure on the external balance or a continuously strong balance of payments position. In this group are included Ceylon, Iraq, Malaya, Mexico, the Union of South Africa and Venezuela; and the principal elements shaping their external balances are illustrated in chart 17.

Generally, among these countries, export volume grew considerably; and, owing to strong world demand for their principal exports, this rise was accompanied by an improvement in the terms of trade. As a consequence, import capacity commonly increased at a greater rate than national product. At the same time, either because of the recovery of output from war-time destruction or because of a pronounced expansion in the import-substituting sectors of production, the growth in import demand was, on the whole, moderate. Imports did not, in fact, generally rise as fast as national product. Thus, external demand conditions and the pattern of domestic economic growth both combined to permit substantial rates of growth without persistent, or mounting, pressure on external balances. The favourable effect of these structural changes on the balance of payments was, in addition, frequently reinforced by other factors. Inflation was, with one or two exceptions,

a less common occurrence among these countries than among countries in the first group; and, either because of this or for other reasons, domestic prices frequently rose more slowly than export or import prices.

Before considering the experience of these countries in more detail, it should be noted that the relative rates of increase in output, import capacity and imports in Indonesia and the Philippines also corresponded broadly to the pattern described above. But it has to be remembered that their experience was distinctive, since recovery from war-time destruction was particularly slow in both countries. In the earlier post-war years, production both for export and for domestic consumption was at exceptionally low levels. The high rates of increase in output and exports over the post-war years therefore largely reflect the depressed levels of the earlier years. The enhancement in Indonesia's import capacity has, however, been magnified by the strength of world demand for rubber in recent years; this has induced a favourable shift in its terms of trade. But despite the increased import capacity and the restoration of production for domestic consumption, tight import restrictions to protect the balance of payments nevertheless have proved a continuing necessity. In the Philippines, a substantial part of the heavy import volume of early post-war years was financed by official grants and other special receipts from abroad. Though import volume has not, in recent years, risen above the level of early post-war years while import capacity has risen appreciably, pressure on the balance of payments has persisted as foreign aid and special receipts from abroad have declined.

Among the countries within this group, expansion of the export sector was particularly rapid in Iraq, Mexico, the Union of South Africa and Venezuela, as is shown in chart 12. In all these countries, the ratio of exports of goods and services to total product rose.[18] Favourable demand conditions for exports, as, for example, for petroleum products from Iraq and Venezuela and for minerals from the Union of South Africa, were an important contributory factor. On the supply side, the expansion of the export sectors in Iraq, the Union of South Africa and Venezuela was considerably facilitated by the flow of foreign long-term capital into the mineral industry, especially in the two oil-exporting countries. Mexico has likewise enjoyed particularly favourable circumstances, its proximity to the United States having permitted a considerable expansion of the tourist trade. Internal developments have, however, also had a favourable impact upon exports in Mexico and the Union of South Africa, where there has been rapid diversification of the economy.

In Ceylon and Malaya, exports failed to expand as rapidly as real product. But, like most of the countries in this group, they experienced a favourable movement in their terms of trade. Mexico, the Philippines and the Union of South Africa were, however, exceptions, since their terms of trade weakened over the period.

In most of these countries, post-war growth or recovery was characterized by a rise in the ratio of investment to total product; and this was reflected in a shift in the composition of imports towards capital goods and industrial raw materials. But, while substantial increases in total imports occurred, it is notable that, in all the countries except Malaya and Mexico, they did not rise as fast as the increase in real product.

This general decline in the import ratio was usually the counterpart of expanding domestic supplies of those goods that were in growing demand. In countries such as Indonesia and the Philippines, this largely reflected recovery from war-time destruction or early post-war civil disturbances. But in most others, it was associated with substantial changes in the domestic structure of production. Generally, this took the form of expansion in supplies of foodstuffs and light manufactures, such as textiles. But in some instances, as, for example, the Union of South Africa, the rapid development of heavy industry also had considerable effect in minimizing the import content of investment.

The adaptation of production to the changing structure of demand has not, however, occurred without delays; and in the short periods of maladjustment, import demand has been intensified. Together with fluctuations in external demand conditions, this has sometimes generated periods of mounting pressure on the balance of payments in these countries. In Ceylon, for example, the adverse movement in the terms of trade following the Korean boom and the unfavourable grain harvest in 1952/53 led to a deterioration in the balance of payments. This was countered by measures to expand food production and by the cessation of deficit financing by the Government. With the subsequent expansion of domestic production and the recovery of export prices in 1954, the balance of payments again recorded a surplus. In Mexico, pressure on the balance of payments was generated intermittently, not only by short-period structural maladjustments, but also by inflation. Immediately after the war, pent-up demand for consumer goods resulted in very heavy imports and a sharp deterioration in the balance of payments. Import controls and devaluation of the currency in 1948 and again in 1949 brought down the volume of imports and stimulated expansion of the export sector. But continuing inflation once again exerted pressure on the balance of payments; and an increased demand for consumer durables, together with some lag in food production, led to a tightening of import restrictions and a further devaluation in 1954. Since then, the fruition of government investment programmes in agriculture has produced a sharp fall in food imports, and this has contributed to an improved balance of payments position.

[18] Data on the total product are not available for Iraq; but it seems safe to assume that the importance of the export sector increased in relation to other sectors.

Short-term Fluctuations

Attention has thus far been focused primarily on changes in the degree of pressure on the balance of payments of individual countries over the post-war years as a whole. It remains to consider the short-term fluctuations in the balance of payments of the individual countries.

The forces giving rise to short-term fluctuations in the balance on current account have had both external and internal origins; and they have not only differed as between countries but have also varied over time for the same country. A principal external source has been short-term fluctuations in the demand of industrial countries for primary products; particularly for industrial raw materials, such fluctuations in demand arising from changes in industrial activity have been magnified by sharper changes in the level of inventories. A separate, but closely connected, factor has been the instability in terms of trade between the industrial and primary producing countries. Short-term fluctuations in the balance on current account have, moreover, often been exaggerated by delays in the adjustment of import controls to variations in export earnings. The expectation that import controls would shortly be tightened has also sometimes given rise to speculative accumulation of imports. A further important internal source of fluctuations has been natural calamities, such as crop failures, which have necessitated exceptional imports from abroad.

Differences among primary producing countries in the degree of short-term instability in their balances on current accounts are reflected in both the frequency with which movements in these balances have changed direction and the magnitude of these changes. In the first instance, the most unstable balance of payments situation in the nine years between 1947 and 1955 may be regarded as having occurred in those countries in which movements in the external balance changed direction a maximum of seven times. In addition, however, since the magnitude of change in the balance of payments is recorded in absolute terms, its true significance cannot be readily evaluated unless it is related to the level of imports or exports. The ratio of the balance on current account to imports has therefore been calculated for the years between 1947 and 1955. This provides a measure of the balance in terms of its equivalent in months of imports. When the sum of all the changes in the ratio of each year from the ratio in the preceding year have been averaged, the result provides a measure of the magnitude of year-to-year fluctuations expressed as the equivalent of months of imports.

As can be seen from table 52, a marked degree of instability in the balance of payments has been the

Table 52. Short-term Changes in the Balance on Current Account and in Reserves, at Current Prices, from 1947 to 1955

Country	*Changes in balance on current account*		*Changes in reserves*	
	Frequency of changes in direction	*Magnitude of changes in terms of months of imports*	*Frequency of changes in direction*	*Magnitude of changes in terms of months of imports*
Brazil	6	2.5	4	1.8
Chile	6	1.9	5	0.6
Pakistan[a] [b]	5	5.4	1	13.6
Australia	5	4.2	5	4.6
Venezuela	5	2.2	4	0.6
Philippines	5	1.9	5	2.3
India	5	1.8	4	5.2
Turkey	5	1.3	3	1.6
Iraq	4	4.4	3	2.2
Burma[a]	4	4.1	5	2.8
Argentina	4	3.1	...	...
Thailand	4	2.9	4	2.4
Ceylon	4	1.9	4	1.9
New Zealand	4	1.7	4	1.3
Indonesia[a]	3	3.5	3	2.3
Egypt	3	1.4	2	5.6
Colombia	3	1.3	6	1.0
Peru	3	1.0	3	0.6
Cuba	2	1.3	4	1.1
Mexico	2	1.2	5	1.4
Union of South Africa	2	1.2	6	2.2

Source: Calculated from International Monetary Fund, *Balance of Payments Yearbook*. Countries are ranked in accordance with the frequency of direction of changes in the balance on current account. Malaya is omitted, because the series of balance of payments data is too short for the present purpose.

[a] Refers to 1948–1955.

[b] Imports on private account only.

dominant experience among primary producing countries in the post-war years. In fourteen of the twenty-one countries listed in this table, changes in the direction of the balance on current account have occurred four or more times. Extreme cases are Brazil and Chile, where short-term fluctuations have been present in almost all the years under study. As regards the magnitude of change in the balance, this has varied from an average of one month's imports to over five months' imports. In a few countries, such as Australia and Pakistan, where the frequency of fluctuation in the balance has been relatively high, the average magnitude of fluctuation has also been large. But, in many countries, the average magnitude of fluctuation has not exceeded the equivalent of two months' imports. Even fluctuations of this magnitude, when in the form of a rising deficit, have been sufficient to precipitate acute, temporary crises in the external transactions of numerous countries, since the ratios of their reserves to imports have been correspondingly low. Thus, as was seen earlier in table 38, reserves in 1953-1955 averaged less than the equivalent of six months' imports in about half the countries under study; and in some of these countries, the level of reserves was actually equivalent to no more than three months' imports, as for example, in Peru, or was even less than two months' imports, as in Chile.

A low level of reserves has no doubt been the underlying reason why, in some countries, the average magnitude of fluctuation in the balance has exceeded the average magnitude of fluctuation in reserves[19] (see table 52). In Brazil, for example, a rising deficit in the balance on current account in some years has been financed, less by a drawing down of reserves, than by an accumulation of short-term, foreign debts. This was made unavoidable by the inadequacy of the reserves available to meet temporary deficits. But divergencies between the average magnitude of fluctuation in the current account and reserve ratios have also arisen because of capital movements other than those induced by changes on current account. This is clearly shown in the cases of Venezuela, Iraq and Peru, for example, where post-war capital flows are known to have been on a significant scale. In these three countries the inflow of foreign capital for investment in oil or mineral industries has reduced the frequency or the magnitude of fluctuations in their reserves, or both, as compared with those in the current account. In some countries, notably India and Pakistan, the opposite has been the case, because of the liquidation of sterling balances, particularly in the early post-war years.

These short-term fluctuations in the balance on current account have, of course, been compounded of variations in both export earnings and payments for imports. As may be seen from table 53, the export earnings of most primary producing countries have been subject to frequent and intense short-term fluctuations in the post-war period; and these have undoubtedly been a primary source of fluctuations in the balance on current account. A broad correspondence is, in fact, evident between the frequency with which the balance on current account and export earnings have changed

[19] The average magnitude of fluctuation in reserves in terms of imports has been calculated in the same way as for the current account balance.

Table 53. Short-term Changes in Exports and Imports of Goods and Services, at Current Prices, from 1947 to 1955

Country	*Changes in exports*		*Changes in imports*	
	Frequency of changes in direction	*Magnitude of average changes (percentage)*	*Frequency of changes in direction*	*Magnitude of average changes (percentage)*
Australia	5	27	4	33
Egypt	5	18	4	18
Philippines	5	15	3	16
Brazil	5	13	6	23
Thailand	4	31	2	16
Argentina	4	27	3	22
Chile	4	21	5	12
Burma	4	19	4	21
Ceylon	4	13	3	10
New Zealand	4	13	2	12
Union of South Africa	4	8	4	18
Peru	4	11	3	13
Cuba	3	13	4	12
India	3	13	5	24
Mexico	3	11	3	14
Pakistan	2	39	3	43
Indonesia	2	31	3	31
Venezuela	2	17	2	13
Turkey	2	15	4	14
Iraq	1	30	2	21
Colombia	1	14	2	16

Source and notes: See table 52.

direction. Countries whose export earnings have been subject to a high degree of fluctuation have also experienced relatively greater instability in their balances on current account, and *vice versa*. The diversity among countries in the degree of fluctuation in their export earnings reflects primarily the degree of instability in foreign markets for their principal exports. Only for a few primary products has the growth in world import demand maintained a continuous upward trend, uninterrupted by short-period variations. This, for example, accounts for the relative absence of fluctuation in the export earnings of such oil producing countries as Iraq and Venezuela; and, similarly, the steady growth in world demand for coffee partly explains the continuous rise in the export earnings of Colombia. But certain other countries, including Mexico, Peru, Turkey and the Union of South Africa, have also been distinguished by the relative infrequency or small magnitude of their fluctuations in export earnings. As has been noted earlier, these countries have been remarkable for the diversification in the composition of their exports which has occurred in the post-war years; and it is this process of diversification which appears to have been important in minimizing short-term fluctuations in their export earnings.

Experience regarding short-term fluctuations in imports among the individual countries has reflected, to a large extent, the divergencies in the aim and the operation of government import policies. However, in many cases, the short-term fluctuations in imports have tended to be less frequent than those in exports. The fact that imports, in the face of a fall in exports, have not always been reduced quickly or to a sufficient degree, has often been important in accounting for short-term fluctuations in the balance of payments.

These short-term fluctuations in imports, exports and current balances among countries do not yield distinctive patterns which are exactly similar to the types of longer-term experience distinguished above. But, in numerous cases, the short-term fluctuations and longer-term patterns have shown a close relationship. Broadly speaking, in the countries which have experienced increasing, or persistent, long-term pressure on their balances of payments, difficulties have been aggravated by frequent and large short-term fluctuations. As reflected in table 52, the countries having these characteristics generally stand at the top of the table. Conversely, countries with favourable trends in their balances of payments over the post-war years may be said to have had also relatively more favourable experience as regards short-term fluctuations.

Conclusions

With the acceleration of economic expansion in the primary producing countries since the Second World War, the maintenance of long-period equilibrium in the balance of payments has become a focal point in the problem of economic growth. While in some countries there has been a visible trend towards better balance in transactions with other countries, the dominant post-war experience of the primary producing countries has been one of growing difficulty, though varying in the degree of severity, in balancing their international accounts. Such increasing difficulty was at first disguised by a combination of favourable external factors which existed during the early part of the post-war period. At that time, world-wide shortages of food and raw materials, the post-war needs for reconstruction and restocking, and the high levels of activity in the industrial countries created a strong demand for almost every type of primary product. This increased demand stimulated a rise in the terms of trade in favour of the primary producing countries. Further, in many instances, large foreign exchange reserves had been accumulated during the war, which it was possible to draw on for a time to meet rising domestic demand for consumption and investment. Although these favourable factors had generally weakened or disappeared by 1948 or 1949, such difficulties in the balance of payments as began to emerge at that time were, once again, temporarily submerged in the boom associated with the outbreak of hostilities in Korea.

With the collapse of the Korean boom, the problems of maintaining a long-term equilibrium in the balance of payments in the primary producing countries came to the fore. While world demand for primary products in the post-Korean period expanded only at a moderate rate, the acceleration of economic growth in these countries continued to raise their import demand. An increase in the pressure on the balance of payments was, in the majority of cases, the inevitable consequence.

In many countries, in fact, the over-all foreign exchange reserve position is now worse than it was during the immediate post-war years. Obviously, in some cases, especially in certain countries in the sterling area, the drawing down of foreign exchange reserves was for the most part intentional since the large sterling balances which they had accumulated during the war were purposely released to them for financing larger imports. But it must be recognized that the general phenomenon of low reserves and stringent exchange and import controls in recent years points to a persistent tendency towards disequilibrium that has been inherent in the process of economic growth in these countries. Even in the countries where there has been some contrary tendency towards an easing of the balance of payments position in recent years, the level of foreign exchange reserves frequently remains low in relation to imports. This makes for extreme vulnerability to any sharp short-period fluctuations in the balance of payments.

The evidence reviewed above—highly provisional as it is in view of the length of the period covered and the inadequacy of the available data—reveals certain underlying facts in post-war economic growth which have had a significant bearing on the balance of payments. In most countries, the development of resources has not been sufficiently flexible, in response to shifts in the pattern of demand, to prevent the emergence of persistent balance of payments difficulties. Changes in the allocation of resources, while strengthening the demand for imports arising from certain sectors of the economy, have not at the same time led to an expansion of output in the import-substituting sectors sufficient to weaken the intensity of import demand as a whole relative to total real product; nor, in the face of the changing world import demand for primary products, have they resulted in an expansion or diversification of the export sector sufficient to raise the capacity to import in line with rising demand. To put the matter in its simplest terms—post-war balance of payments experience in the primary producing countries has been characterized predominantly by a more than proportional rise in imports in relation to total real product side by side with a less than proportional rise in exports.

Many examples have been found where domestic polices have played a significant role in shaping the course of exports. On the one hand, in some instances sustained efforts to expand exports, sometimes by diversification, have contributed towards relieving pressure on the balance of payments and promoting a fairly steady rate of growth in the economy. On the other hand, it is not difficult to find cases where internal policies have contributed to a decline in exports. In some instances, domestic inflation, by raising the domestic cost of production, has led to a decrease in the competitive power of exports in world markets. In other instances, declines in exports could be traced to the adverse effect of government taxation and price policies upon the export sector.

While differences in policies affecting the export sector have profoundly influenced the distribution of export receipts between primary producing countries, the paramount factor in determining the total magnitude of such receipts has been the character of structural change in the demand of industrial countries. It is true that to some extent such structural change itself represents a reaction to limitations on the supply of particular commodities from primary producing countries. But this is only one of the many elements contributing to the economic transformation of the industrial countries since the Second World War. For some primary producing countries, particularly the mineral and rubber exporters, such changes in the industrial countries have created rapidly expanding markets for their exports; and, indeed, for a few countries, the post-war rise in their income is attributable mainly to the relative expansion of their export sectors and the strength of foreign demand. But the significant fact is that the demand of the industrial countries for primary products *as a whole* has increased less rapidly than the growth of their total output and income.

The response to pressure on the balances of payments of primary producing countries has often been an attempt to achieve a pattern of economic development involving a reduction in import requirements—at least in relative terms. Experience suggests, however, that up to the present this aim has generally fallen short of attainment. Expansion of domestic production, while serving in part the purpose of meeting rising home demand, has not substituted for imports on a scale sufficient to reduce the total volume of imports either absolutely or even in relation to output. Only in a few countries have the post-war changes in the pattern of domestic demand and production permitted the maintenance of high rates of domestic growth without intensification of pressure upon the balance of payments.

The economic logic confronting the great majority of primary producing countries is consequently a severe one. The pace of economic advance which they can set for themselves depends to a great extent upon their ability to import the raw materials, capital equipment and other goods required for raising levels of output and capacity. Their ability to import is in turn closely determined by their exports, and these have, by and large, risen much less rapidly than the output of the industrial countries which use them. It follows that many primary producing countries are confronted with an inescapable dilemma—whether to accept a rate of growth consistent with external equilibrium in the full knowledge that that rate is likely to involve a widening of the gap between their levels of living and those of the industrial countries; or whether to seek to promote a more rapid rate of growth, running the risk of persistent disequilibrium in their economic relations with other countries. The acuteness of this dilemma depends in part, at least, on the extent to which the primary producing countries must rely upon their own resources for their future economic development or on how far they may be able to draw upon a larger flow of resources from abroad than has been available to them thus far in the post-war period.

Part II

CURRENT ECONOMIC DEVELOPMENTS

Chapter 4

RECENT TRENDS IN INDUSTRIAL COUNTRIES

Economic activity in the industrial countries continued to rise to new highs in 1956. The expansion entered its third year in North America and its fourth year in western Europe; in broad perspective it may be looked upon as the first peace-time expansion dominated neither by the pent-up demand of the immediate post-war period nor by the pressure of war activities during the Korean boom. The 1953/54 recession in North America proved to be minor and did not spread to western Europe, which managed instead to continue its expansion. The levelling off in 1956, particularly in those countries which had led in the current upswing, has thus far not gathered any cumulative recessionary tendencies.

The process of current expansion initially derived much of its impetus from investment activities in housing, partly stimulated by government policies. As the expansion gathered momentum, the rise in expenditure on consumer durables and investment in industry became the dominant expansionary forces. By 1956 housing had ceased to be a factor in expansion, and expenditure on consumer durables generally slowed down, reflecting, in particular, the reaction from the automobile boom of the previous year. Nonetheless, investment activities in industry continued to be a dynamic force although at a less vigorous pace. To date one expansionary force has thus been replaced by another, and deficiencies in one sector have been compensated by buoyancies in another.

Although continued expansion of economic activity in 1956 did not encounter significantly greater shortages of supply than in 1955, upward pressures on prices loomed larger. Pressure on supplies was indeed partly eased by a slowing down of the rate of expansion of economic activity. The unevenness of developments in different industries even created some pockets of excess capacity as well as of unemployment. Moreover, the maturing of investment in some industries discouraged inventory accumulation as enlarged capacity dispelled fears of shortages. Even the disruption of normal oil supplies to western Europe following the Suez crisis did not result in a serious shortage; the gap was largely filled by emergency supplies from North America and by reallocation of available European resources. As a result, no appreciable repercussions on industrial activity ensued, except that automobile demand was adversely affected on account of petroleum rationing.

Supply shortages were primarily limited to specific factors and materials, such as certain steel and engineering items, and to skilled labour, apart from problems of fuel just mentioned. These shortages undoubtedly deterred expansion in particular industries. Some downward revision of anticipated investment plans might have been partly due to such shortages.

Absence of acute shortages of supply in 1956 does not indicate that supply conditions had ceased to constitute an effective ceiling on the pace of expansion. In effect, the general anticipation at the beginning of 1956 of a slowing down of expansion on the basis of limitations of manpower and industrial capacity[1] was borne out by subsequent events. The slackening in the pace of economic expansion, however, reflected a slowing down in the rate of increase not so much of employment as of productivity. The declining rate of advance in average output per man may have been due in some industries to the fact that full utilization of capacity was being approached or had already been reached. In other industries, however, productivity was apparently affected adversely by developing slack in output, especially where overhead was an important factor, or where weaknesses in particular industries were interpreted as more or less temporary phenomena and there was thus incentive to retain workers in order to avoid the risk of future difficulties of recruitment.

Though the pressure on resources does not appear to have increased over that of a year earlier, the advance in prices and wages became more striking. The appearance of inflationary symptoms was in contrast with the relative stability of the early phase of the current expansion. In contrast to previous inflationary spurts, import prices did not provide a major stimulus and there was no marked speculative boom in commodity prices in spite of the Suez crisis. The main stimulus to prices was largely domestic in origin. There was a significant rise in costs in most countries as productivity began to lag behind the rise in wages.

Developments in foreign trade and in the balance of payments in 1956 continued to be sensitive to changes in internal demand. The balance of payments position deteriorated in countries where the pressure of domestic demand increased, and—though other factors also

[1] See, for example, United Nations, *World Economic Survey, 1955* (sales number: 1956.II.C.I.), pages 152 to 154.

contributed to the outcome—it generally improved in those countries where domestic demand pressures were reduced. The improvement in international payments in countries with inadequate reserves was, however, insufficient to make it unnecessary for further attempts to build up reserves.

The keynote to economic policy of industrial countries in 1956 was restraint. The chief objectives were, first, to moderate the vigour of expansionary forces so that they would not sow the seeds of inevitable reaction; secondly, to correct any imbalance in the international payments situation—mainly by restraining domestic demand; thirdly, to promote price stability by curbing demand or by slowing down the wage-price spiral. A variety of measures were introduced, depending partly on the specific problems faced and partly on the acceptability of the measures in a given institutional setting. Symbolic of the intent of policy were monetary restraints, which represented in some cases a continuation of policies introduced in the previous year. There was also a general tendency to increase budget surpluses or to keep deficits in check, although it is not always certain how far the fiscal outcome was actually intended. As the pace of expansion has slowed down in 1957, however, the choice of direction of policy has become more difficult and is now under active consideration by most governments.

Supply Factors as a Limitation to the Current Expansion

Limitations of capacity and manpower had already become apparent in the industrial countries in the course of 1955, signalling a retardation of growth for 1956. Some retardation in the rate of expansion was noticeable already during the second half of 1955 but it gradually became more pronounced during 1956 (see tables 62 and 63 below). In western Europe the rate of increase in industrial production amounted to 4 per cent in 1956 as contrasted with 9 per cent in 1955. In the United States the 3 per cent rise in 1956 was less than a third of that achieved in the preceding year in spite of the fact that the upturn started a year later than in western Europe. Japan was the only major exception, as its industrial production increased by a fifth in 1956, far surpassing the increase attained in any other industrial country. The relatively high rate achieved in Norway was aided by unusually favourable conditions of foreign demand as well as by relatively large additions to its productive capacity resulting from its consistently high rate of capital formation in the post-war period.

Supply factors undoubtedly played a major role in the slowing down of the boom, not so much through their direct physical effect in limiting output as through their indirect influence in inducing governments of many countries to adopt or reinforce restrictive economic measures in 1955 when the pressure of demand began to generate inflationary tendencies. Owing chiefly to the effects on demand of the more restrictive economic policy, shortages of supply actually eased in many cases in 1956. Where some reserve capacity had still been available in 1955, however, and where consequently economic policy tended to be less restrictive in 1956, a tendency towards increasing pressures of demand did develop in the course of the year. The relative absence of global shortages in 1956 should furthermore not obscure the fact that sectoral imbalances still were serious in most countries.

Utilization of Capacity

Investment goods industries, particularly the engineering industry, were generally considered to be working at capacity limits in 1955. To the extent that changes in the inflow or backlog of orders in relation to deliveries are indicative of changes in pressure of demand on capacity, there appears to have been some easing in pressure on metal and engineering industries in 1956 in western Germany and the United Kingdom and a slight increase in Belgium and North America in the machine building industry, as shown in table 54. In western Germany the decline in the inflow of orders in relation to turnover was apparent for the year as a whole in the capital goods industries, including machine building. In the United Kingdom, where engineering output experienced a general fall mainly on account of a sharp decline in the production of automobiles, the increase in unfilled orders in the machine tool industry nevertheless more than kept pace with the increase in deliveries until the third quarter of 1956, and the backlog of orders still amounted to about a year's production by the end of the year. In Sweden an increase in unfilled orders in the iron and steel and engineering industries was probably mainly due to the boom in shipbuilding. Indices of the value of unfilled orders in the Dutch metals and engineering industries showed some increase although no comparison with deliveries can be made. In the United States the ratio of unfilled orders to deliveries in the machinery industry, despite a slowing down in the inflow of new orders, was at a higher level in 1956 than in 1955. New orders for machinery in Japan in 1956 almost doubled the 1955 figure, those for machine tools increasing particularly rapidly.

In France and western Germany, where direct inquiries about the degree of capacity utilization in a large number of enterprises are undertaken periodically,[2]

[2] For France by the Institut national des études économiques and for western Germany by the IFO–Institut für Wirtschaftsforschung.

Table 54. Ratio of Unfilled or New Orders to Deliveries in Engineering Industries, Selected Countries

Country and industry	1955 First quarter	1955 Second quarter	1955 Third quarter	1955 Fourth quarter	1956 First quarter	1956 Second quarter	1956 Third quarter	1956 Fourth quarter
Ratio of unfilled orders to deliveries:[a]								
Sweden:[b]								
Iron and steel and engineering industries[c]	9	...	9	...	10	...	11	...
United Kingdom:								
Metal-working machine tools	14.0	14.4	15.5	14.5	15.2	16.7	14.7	12.8
United States:								
Machinery (including electrical)	4.2	3.9	4.5	4.4	4.4	4.5	5.0	4.6
Ratio of new orders to deliveries:[a]								
Belgium:								
Metal products industries	1.0	1.0	0.9	1.0	1.2	1.0	1.1	1.1[d]
Germany, western:[e]								
Machine building industry	1.3	1.1	1.1	1.2	1.2	1.0	1.0	1.1
Canada:								
Capital goods industries	0.9	1.1	1.1	1.2	1.0	1.0	1.1	1.4

Source: Belgium: National Institute of Statistics, *Bulletin de statistique* (Brussels); western Germany: Bank Deutscher Länder, *Monthly Report* (Frankfurt); Sweden: Konjunkturinstitutet, *Konjunkturjournalen* (Stockholm); United Kingdom: Central Statistical Office, *Monthly Digest of Statistics* (London); Canada: Dominion Bureau of Statistics, *Canadian Statistical Review* (Ottawa); United States: Department of Commerce, *Survey of Current Business* (Washington, D. C.).

[a] Ratio of average monthly value of orders to deliveries.
[b] February and August.
[c] Including shipbuilding.
[d] October–November.
[e] Ratio of value indices of orders and turnover.

opposing trends were clearly indicated by the 1956 surveys. In France, the degree of capacity utilization rose continuously throughout 1956. The number of firms reporting more than 90 per cent of capacity used was less than 30 per cent of all reporting firms in November 1955 compared with almost 40 per cent in November 1956. The proportion of firms with a capacity utilization of less than 70 per cent decreased correspondingly, from 23 per cent in November 1955 to 13 per cent in November 1956. The largest increase in the average degree of capacity utilization occurred in the base metal, textile, food and paper industries; in mining, engineering and construction materials industries capacity utilization was generally high already in the fall of 1955 and the 1956 increase relatively smaller. By contrast, the average degree of capacity utilization in the investment goods industries in western Germany fell by more than 5 per cent from October 1955 to October 1956; for consumer goods industries the decline for the corresponding period was only about 2 per cent. The distribution of firms according to the degree of capacity utilization reflects the same development, as indicated below:

	Capacity utilization in investment goods industries		*Capacity utilization in consumer goods industries*	
	Higher than optimum	*Lower than optimum*	*Higher than optimum*	*Lower than optimum*
	(Per cent of all replies)			
October 1954.	13	25	8	33
July 1955.....	9	17	5	25
October 1955.	6	17	7	17
July 1956.....	3	27	3	24
October 1956.	3	31	5	28

It is interesting to note that a more balanced situation was indicated in October 1955 than in the corresponding month a year earlier, as a drop in the proportion of firms working at more than optimum capacity was accompanied by a drop in the proportion considering themselves as operating below optimum capacity.

The decline in capacity utilization in western Germany reflected largely additions to industrial capacity in 1955 as indicated by the data in table 55. On the whole, industries—notably capital goods industries—which had a lower capacity utilization in 1956 than in 1955 experienced a higher rate of increase in capacity than production.

Supply of Steel

The demand for steel in western Europe continued to increase in 1956 although at a decidedly slower rate than in 1955 when the iron and steel industry was generally working at capacity limits. Data on new orders and deliveries of steel for the first three quarters of 1956 in the European Coal and Steel Community indicate no further increase in the pressure on capacity; a slight decline in the inflow of orders was actually noticeable while deliveries remained at the high level reached towards the end of 1955.

Apparent consumption of steel[3] in the European Coal and Steel Community increased only by 6 per cent during the first three quarters of 1956 compared with over 20 per cent during the corresponding period of 1955. In the United Kingdom deliveries of steel to consumers increased at a lower rate than on the continent in both years, with deliveries for December 1956 actually falling below the figure a year earlier. In the

[3] Production plus imports minus exports plus variations in stocks in the hands of dealers and certain final users.

Table 55. Western Germany: Changes in Capacity and Production
(Percentage of change)

Industry	Change in capacity utilization[a]	Increase in capacity during 1955[b]	Increase in production: First half of 1956 compared with first half of 1955	Increase in production: 1956 compared with 1955
Paper making	About the same	11	4	6
Rubber	Lower	13	4	−1
Machinery	Lower	16	15	9
Vehicles	Lower	28[c]	14	9
Electrotechnical	Lower	21	14	10
Textile	Higher	6	8	6
Clothing	About the same	14	14	13
Shoe	Lower	12	10	7
Ceramics	Lower	11	5	4
Paper processing	About the same	12	14	11

Source: IFO, *Schnelldienst*, No. 35, 1956 (Munich); Federal Statistical Office, *Wirtschaft und Statistik* (Stuttgart).

[a] First half of 1956 compared with first half of 1955.

[b] Compared with capacity at end of 1954.

[c] Commercial vehicles only. Production of passenger cars increased more rapidly than production of commercial vehicles during the first half of 1956.

United States apparent consumption was slightly lower in 1956 than in 1955 due to the fall in steel production, reflecting the steel strike in July 1956. As the strike was widely anticipated and losses due to it had to be replenished, the steel industry was working at capacity rates during most of 1956.

Except in the United States, steel production in 1956 increased in all countries listed in table 56. In spite of a sharp decline in the rate of growth compared with 1955, the increase was nevertheless considerable in most countries. The decline in the United States for the year as a whole was about 2 per cent, but output was at record levels towards the end of the year. The rate of increase for the European Coal and Steel Community as a whole was about 8 per cent compared with a 20 per cent increase in 1955. In Norway, which is in the process of establishing its own iron and steel industry, new investments matured and yielded an increase in production of more than 70 per cent, following an increase of between 35 and 40 per cent in 1955. In Sweden the high rate of increase of 15 per cent for 1955 was almost maintained in 1956, when production increased another 13 per cent.

The trade data in table 56 indicate that the shortage in supplies of steel eased in 1956 in most countries in spite of the more moderate rate of increase in production than in 1955. Among the exporting countries only France, which had by far the highest rate of increase in apparent consumption of steel among the western European countries during the first three quarters of 1956, cut its net exports, while the importing countries in western Europe on the whole became less dependent on foreign supplies. Western Germany resumed its role as a net exporter of steel after being a net importer in 1955, and Italy also was an exporting country during the first three quarters of 1956 although normally a net importer. The position of the United Kingdom and the United States remained on the whole unchanged from 1955 to 1956 although United States net exports actually increased in the latter year if the stepped-up exports of scrap are taken into account; these increased from 1.3 million tons in 1954 to 4.4 million in 1955 and to 5.3 million in 1956. Canada, on the other hand, increased its imports of primary iron and steel products considerably, both absolutely and in relation to output.

The disappearance of the over-all shortage of iron and steel did not, however, prevent the development of an increasing shortage of certain finished products—above all heavy steel plate for the shipbuilding industry but also structural shapes, particularly oil pipe in the United States. The shortage of plate developed regardless of the fact that production of plate in the European Coal and Steel Community, for example, increased almost as fast in 1956 as in 1955 and at a considerably higher rate than total steel production in both years.

Supply of Energy

The Suez crisis in the fall of 1956 dramatically focused the world's attention on western Europe's energy problem. The immediate impact of the blocking of the Suez Canal and of the damage done to one of the major oil pipelines was an acute shortage of oil in most western European countries. More important, in a longer perspective, was probably the exposure of the high degree of vulnerability of one of Europe's major sources of supply of energy.

A fundamental difference in western Europe's situation during the post-war period compared with pre-war, in regard to energy, lies in its rapidly increasing dependence on oil, indigenous production of which is negligible. This shift in consumption is the result of changes in demand on the one hand, and of the fact

Table 56. Steel Production and Trade, Selected Countries

(Millions of metric tons)

Country and year	Crude steel production	Net exports or imports[a]	Net exports or imports as percentage of production
Net exporting countries:			
Belgium:			
1954	5.0	4.2	84.0
1955	5.9	5.2	88.1
1956	6.4[b]	5.7[c]	89.1
France:			
1954	10.6	3.3	31.1
1955	12.6	4.3	34.1
1956	13.4	3.6	26.9
Germany, western:			
1954	17.4	0.7	4.0
1955	21.3	−0.1	−0.5
1956	22.6	1.0[d]	4.4
United Kingdom:			
1954	18.8	1.8	9.6
1955	20.1	1.0	5.0
1956	21.1	1.0[d]	4.7
United States:			
1954	80.1	1.5	1.9
1955	106.2	2.6	2.4
1956	104.5	2.6	2.5
Net importing countries:			
Italy:			
1954	4.2	−0.5	−11.9
1955	5.4	−0.2	−3.7
1956	5.9	0.1[c]	1.7
Netherlands:			
1954	0.9	−1.0	−111.1
1955	1.0	−1.3	−130.0
1956	1.0	−1.3[d]	−130.0
Denmark, Norway and Sweden:			
1954	2.2	−1.4	−63.6
1955	2.6	−1.6	−61.5
1956	3.0	−1.2[d]	−40.0

Source: United Nations, *Monthly Bulletin of Statistics;* Economic Commission for Europe, *Quarterly Bulletin of Steel Statistics for Europe* (Geneva); United States Department of Commerce, *Total Export and Import Trade of the United States* (Washington, D. C.).

[a] Minus sign indicates net imports.
[b] Eleven months at annual rate.
[c] Nine months at annual rate.
[d] Ten months at annual rate.

Table 57. Distribution of Primary Energy Consumption[a] in the OEEC Area and in Canada and the United States

(Percentage of total)

Area and year	Coal and lignite	Hydro-power	Natural gas	Crude oil
OEEC area:				
1948	83.2	6.5	0.1	10.2
1950	80.6	6.8	0.2	12.4
1955	74.3	7.8	0.7	17.2
Canada:				
1955	24.8	35.7	4.7	34.8
United States:				
1955	28.9	5.0	28.1	38.0

Source: Organisation for European Economic Co-operation, *Europe's Growing Needs of Energy* (Paris, 1956) and *General Statistical Bulletin*, No. 1, 1957 (Paris).

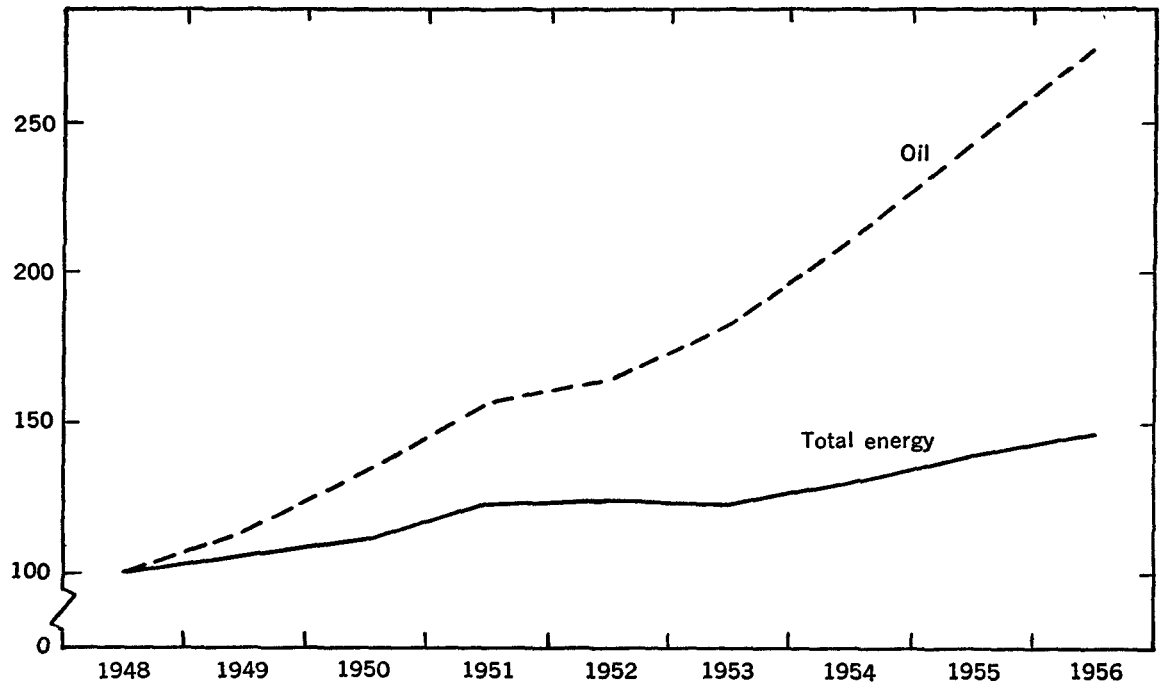
[a] Expressed in hard coal equivalent. Data for the OEEC area refer to inland consumption only; those for Canada and the United States include bunkers.

that domestic production of energy, mainly from coal mining, is reaching capacity limits. The increasing demand for oil thus resulted not only from the expansion of activities, such as road transport, which consume oil, but also from the substitution of oil for coal as a source of energy owing to the relative advantages of oil, such as ample supply, attractive price and convenient handling. The growing importance of oil for western Europe is indicated in chart 18, which compares total consumption of energy and that of oil. While total energy consumption increased by slightly more than 25 per cent from 1950 to 1955, oil consumption went up by more than 80 per cent.

The effect of this shift on the pattern of energy consumption in western Europe is shown in table 57. The share of coal and lignite went down from 83 per cent in 1948 to 74 per cent in 1955 while oil increased its share from 10 to 18 per cent, with the balance falling on an increased consumption of hydroelectricity and natural gas. The share of oil in western Europe is still low judged by the consumption pattern prevailing in Canada and the United States. In spite of the relative decline of coal in western Europe's energy balance, consumption of coal nevertheless increased more than coal production between 1950 and 1955, or by 15 per cent compared with an 8 per cent increase in production. Consumption and production of hydroelectric power, which on the whole coincide, both increased considerably more than total energy consumption—over 40 per cent between 1950 and 1955—but the share of hydroelectricity in total energy consumption was less than 8 per cent in 1955 and the possibilities of further expansion are limited. Consumption—and production—of other sources of energy are at present only of minor importance.

The stagnant coal-mining industry, which emerges as a main factor behind the widening gap between production and consumption of energy in western Europe, has been a problem besetting the western European economy throughout the post-war period. The weight of the problem is indicated by the fact that coal production in the OEEC area barely reached, in 1956, for the first time, the same level as in 1937. A number of factors account for this. Although conditions vary greatly from country to country, production increases have in general met with great difficulties either because of the exhaustion of the more productive mines or because of a serious lag in modernization of mining equipment, or probably more frequently, because of the combination of high capital and operating costs of collieries with a relatively low yield. Because of the availability of more attractive and less hazardous employment in other fields, the recruitment of labour has,

Chart 18. Internal Consumption of Primary Sources of Energy* in Western Europe, 1948-1956
(1948 = 100)



Source: Organisation for European Economic Co-operation, *Europe's Growing Needs of Energy* (Paris, 1956); *General Statistical Bulletin*, January 1956.

* In hard coal equivalents.

moreover, been found exceedingly difficult in spite of great improvements in working conditions and remuneration in most countries.

Although great efforts are presently being made towards developing atomic energy as a source of commercial energy in western Europe, imports of conventional sources of energy will for several years remain practically the only means of filling the gap between production and consumption of energy in this area. The growing dependence on imports is clearly indicated in table 58, which shows that net imports accounted for 22 per cent of total energy consumption during the first half of 1956, twice as much as in 1950; this represents a sharp reversal of the situation that still prevailed in the late nineteen twenties, when western Europe was a net exporter of energy. The degree of dependence on imported fuel, however, varies greatly among countries. At one extreme is Denmark, which has practically no domestic energy production at all, and at the other, Belgium and western Germany, which on balance imported only 5 and 3 per cent, respectively, of their total energy consumption (expressed in coal equivalent in 1955). Italy, the Netherlands and Sweden imported about half of their energy requirements during the same year, Norway and France less than a third and the United Kingdom about 12 per cent.

It might be expected that the increasing degree of dependence on fuel imports has represented an increas-

Table 58. OEEC Countries: Indices of Volume of Production, Consumption and Imports of Primary Sources of Energy*
(1950 = 100)

Year	*Production*	*Consumption*	*Net imports*	*Net imports as percentage of total supply*
1950	100	100	100	11.1
1951	107	111	162	16.0
1952	110	112	153	14.9
1953	110	112	143	14.0
1954	113	118	163	15.4
1955	115	126	219	19.4
1955, first half, at annual rate	116	126	202	17.9
1956, first half, at annual rate	118	133	262	21.7

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin*, No. 1, 1957.

* Expressed in hard coal equivalent.

ing burden on the balance of payments of western European countries. In recent years there has, in fact, been a tendency for the value of fuel imports to increase relatively more than total imports, with net imports of mineral fuels constituting 6.5 per cent of total imports in the OEEC area in 1954, 7.6 per cent in 1955 and 8.4 per cent during the first half of 1956 compared with 7.1 per cent during the same period of 1955. The ratio, however, was as high in 1951 and 1952 as during the first half of 1956 but fell considerably in 1953 and 1954. These fluctuations would seem to be due to variations in the composition of fuel imports. On the one hand, western Europe's refining capacity increased more than fivefold between 1948 and 1955 and has since 1952 been large enough to meet all of western Europe's demand for refined products.[4] This has led to a considerable reduction in the relative cost of oil imports. On the other hand, western Europe's fuel imports have not been limited to oil but have also included coal during most of the post-war period.

[4] Owing to the need for specialty products and the difficulties in balancing refinery "throughput" to meet exact demand requirements, a certain amount of trade in refined products with non-European areas is still necessary.

Both during the Korean boom and particularly in 1955 and 1956 coal imports were large. The annual increase of such imports at a rate of almost $400 million in the past two years has contributed to the rising share of fuels in total imports. The cost of the coal imports has furthermore been high since the United States has emerged as almost the sole supplier of coal. Not only is the share of freight in the price of American coal landed in Europe very high but freight rates rose very sharply in 1955 and 1956 while at the same time the price of coal itself increased considerably; from the first quarter of 1955 to the first quarter of 1956 the price of American coal landed in Europe increased by about 25 per cent, an upward trend which was more than maintained during the following quarters of 1956. The rising freight rates also applied to tanker haulage and thus affected oil imports as well.

As far as coal was concerned the increasing dependence of western Europe on United States supply was evident before the Suez crisis, as shown in table 59. This dependence was occasioned by heavy demand for coal on the one hand and stagnant European production on the other. The heavy demand for coking coal was

Table 59. Supply of Hard Coal, Selected Countries
(Millions of metric tons)

Country	Production	Imports[a]	Exports[a]	Total supply	Imports of coal from the United States, as percentage of total coal imports
United Kingdom:					
1954	227.9	3.1	16.5	214.5	16.1
1955	225.2	11.5	14.5	222.2	47.8
1956	225.6	6.4	10.1	221.9	56.2
Germany, western:					
1954	128.0	8.3	16.1	120.2	21.7
1955	130.7	15.9	12.6	134.0	44.0
1956	134.4	18.0	12.2	140.2	60.0
France:					
1954	54.4	11.3	2.8	62.9	0.5
1955	55.3	10.8	5.8	60.3	7.4
1956	55.1	16.2	2.2	69.1	34.6
Belgium:					
1954	29.2	3.7	5.7	27.2	6.8
1955	30.0	3.6	7.1	26.5	22.2
1956	29.5	4.0	4.7	28.8	37.5
Netherlands:					
1954	12.1	6.9	1.1	17.9	17.4
1955	11.9	7.6	0.9	18.6	19.7
1956	11.8	8.2	0.9	19.1	43.9
Italy:					
1954	1.1	9.6	—	10.7	31.3
1955	1.1	10.3	—	11.4	54.4
1956	1.1	10.7	—	11.8	58.9
Denmark, Norway[b] and Sweden:					
1954	0.2	8.3	—	8.5	8.4
1955	0.2	9.2	—	9.4	14.1
1956	0.3	6.4	—	6.7	27.1

Source: United Nations, *Monthly Bulletin of Statistics*, and Economic Commission for Europe, *Quarterly Bulletin of Coal Statistics* (Geneva).

[a] 1956 trade; eight or nine months at annual rate.
[b] Excluding Spitzbergen.

especially outstanding in 1955 as more than two-thirds of the increase in the consumption of coal and coke[5] in the European Coal and Steel Community consisted of coke,[6] with more than four-fifths of the increase in coke consumption being accounted for by the iron and steel industry. The continued increase in the consumption of coal in 1956 was of a more general character and was partly due to a replenishment of stocks. Despite a slower increase in consumption of coal in 1956, coal imports from the United States were higher than in 1955 in all countries except the United Kingdom, and the share of such imports in total coal imports increased everywhere, even in the United Kingdom, where imports from the United States fell less than total coal imports. All the coal exporting countries also reduced such exports considerably in 1956, thereby increasing their domestic supplies.

In North America the situation as to supply of energy is, of course, quite different from the one in western Europe. It is true that United States net imports of petroleum, including those from the Middle East, are tending to increase, but such a development hardly points towards a critical situation in that country, as reserves within it or elsewhere in the western hemisphere are still ample. However, production costs, which already are very high compared with those in the Middle East, may be expected to increase in the future as the tapping of less productive wells becomes increasingly necessary. Coal production, though still below post-war records, has recovered in the past two years from a depressed state, owing partly to the rising demand in western Europe and partly, perhaps of longer-term significance, to a reversal of the declining trend in domestic consumption. In Canada the relative increase in consumption of oil during the post-war period has been rather similar to developments in western Europe. Owing to the discovery of rich oil fields within the country, however, its degree of dependence on imported fuels has tended to fall continuously; in terms of coal equivalent, net imports accounted for 44 per cent of total energy consumption in 1950 compared with only 28 per cent in 1955 and 25 per cent during the first half of 1956. The importance of this development for Canada's balance of payments position is indicated by a fall in the share of net imports of fuels in total imports from 15 per cent in 1950 to 9 per cent in 1955. In Japan, where the relative share of coal in energy supply declined in the post-war period, as in western Europe, a sharp increase in imports of petroleum was also evident. A recent drought caused considerable shortage in hydroelectric power and may become a limiting factor in industrial expansion.

Impact of the Suez crisis

Initially, the outbreak of hostilities in the Middle East at the end of October 1956, the consequent closure of the Suez Canal to all shipping and damage to the major Mediterranean pipeline caused apprehension in western Europe: fears of a general decline in industrial production and of widespread unemployment resulting from an anticipated serious shortage of oil were expressed in many quarters. In the spring of 1957 it seems clear that, although the blocking of the Suez Canal has indeed caused a number of difficulties in western Europe, and its impact will be felt for some time to come, the over-all effect has nevertheless been much less serious than was originally feared.

Normally, four-fifths of western Europe's oil supply is derived from the Middle East. If no alternative source of supply had been available, the disruption of Middle Eastern shipments would have caused a decline in oil supply of about 40 per cent due to the insufficient shipping space available for the longer haul around the Cape of Good Hope. Shipment of the same amount of oil from the Middle East to Europe via the Cape route requires about twice the tanker capacity that is required for shipment through the Suez Canal, and four to five times the capacity needed for shipment from the pipeline in Lebanon.

As reserve pumping capacity and large stocks existed in the western hemisphere, such a drastic cut in supply could, however, be avoided. If reserves in the western hemisphere had been large enough to meet all of western Europe's demand, no cut in supply would in fact have been necessary, as the average length of the shipping route from America would have been about the same as that from the Middle East during normal conditions. Actually, during the Suez crisis increased shipments from the western hemisphere, together with shipments from the Middle East via the longer Cape route and from the smaller, unimpaired pipeline to the Mediterranean, have on the average supplied western Europe with about 80 per cent of its normal requirements of oil; the cut has, however, been somewhat unevenly distributed, with gasoline consumption in January 1957 running at a level of about 10 per cent below normal, gas and diesel oil consumption about 15 per cent below and fuel oil consumption between 25 and 30 per cent below normal.

Initially, large stocks of petroleum products in the Mexican Gulf area were used for emergency shipments to Europe, the main problem being a shortage of shipping space, but as these stocks became depleted, available supplies were found insufficient even for the tanker tonnage that could be rerouted to the western hemisphere. This was chiefly owing to the difficulty of raising production in some of the oilfields with limited pipeline facilities, mainly in Texas, which possesses the largest pumping reserves. As the emergency arose during the cold part of the year, European demand for fuel oil, of which the shortage was most critical, had to compete with the high seasonal demand for fuel

[5] Deliveries of coal and coke for internal consumption.
[6] One ton of coke is considered the equivalent of 1.3 tons of coal.

Table 60. Share of Oil in Total Energy Consumption and Consumption of Oil Products by End-use Sectors in Western Europe, 1955

Country	Oil consumption as percentage of total energy consumption	Consumption of oil by end-use sectors (percentage of total)				
		Transport	Energy production	Domestic and commercial lighting and heating	Industry	Other uses[a]
Sweden	44	20.0	5.9	31.0	37.5	4.1
Denmark	37	29.0	16.4	12.9	36.8	4.8
Italy	33	33.2	5.4	14.6	39.2	7.5
Netherlands	26	39.7	2.7	12.3	38.0	7.3
Norway	25	32.9	1.2	13.2	44.0	8.7
France	20	45.8	5.2	9.9	28.3	10.9
Belgium[b]	16	39.2	0.9	16.3	35.0	8.6
United Kingdom	13	49.7	4.1	7.7	23.9	14.6
Germany, western	9	64.9	1.6	6.0	16.4	11.1

Source: Organisation for European Economic Co-operation, *Oil, the Outlook for Europe* (Paris, 1956). Countries arranged in descending order of the ratio of oil consumption to total energy consumption.

[a] Agriculture, other power uses and unspecified uses.

[b] Estimated.

oil in the United States. Owing to the uncertainty of the situation, the oil companies were also somewhat reluctant to increase their fuel oil output as this would further increase the already record high gasoline stocks. In February and particularly in March 1957, the rate of production was, however, increased while at the same time the composition of the refinery "throughput" was changed in favour of the heavier products by many oil companies. Meanwhile, the flow of oil through the damaged pipelines was partly resumed so that by the end of the first quarter of 1957 supplies of oil were coming into western Europe at almost the same rate as before the Suez crisis. There is, however, a great and urgent need for the replenishment of stocks of the heavier products, which have fallen to a precarious level in many countries.

Owing to the wide variation in degree of dependence on oil among the western European countries, a common scheme of allocation was called for to secure equitable distribution of available resources. This was arranged under the auspices of the Organisation for European Economic Co-operation through collaboration of its Oil Committee with the Petroleum Emergency Group, which consisted of representatives of the major European and American oil companies. When deemed necessary, emergency shipments to countries with special difficulties were also authorized.

Shortages of commodities other than petroleum did not become serious in spite of the fact that between one-half and three-quarters of the value of world trade in certain raw materials, such as jute, wool, tin, rubber and tea, normally passes through the Suez Canal. This is mainly due to the relatively small physical volume of this trade compared with that of petroleum shipments, a fact which makes the extra shipping space required for the route around the Cape much less of a problem. Whereas in 1955 more than three-quarters by volume of the northbound traffic through the Suez Canal consisted of petroleum products, minerals and metals accounted for only 6 per cent, cereals for 3 per cent and rubber and textile fibres for about 1.5 per cent each of total traffic.[7] In the case of shipments from Oceania, furthermore, the Cape route only represents a delay of a day or two in shipping time; for Asia and the Far East the delays are longer but, with the exception of Pakistani jute, still not as serious as for petroleum products from the Middle East. The delays in supply that did take place could be met by drawing on stocks.

Impact on production

For western Europe as a whole oil consumption accounted for about 18 per cent of total energy consumption in 1955. Variations among countries were considerable, as indicated in table 60, ranging from 9 per cent in western Germany to 44 per cent in Sweden. Other countries with a relatively high consumption of oil are Denmark, Italy, the Netherlands and Norway, with ratios from 25 to 37 per cent. Like western Germany the remaining countries—the United Kingdom, Belgium and France—with a large domestic coal production have a relatively low consumption of oil.

Variations among countries in the pattern of consumption of oil products are also indicated in table 60. It may be noted that a relatively high proportion of the oil is consumed by industry in a majority of countries. In western Germany and the United Kingdom the share of transport is relatively large.

Naturally the curtailment of oil supplies aroused considerable concern for industrial output, especially in those countries where oil is a major source of energy for industry. Difficulties were also feared because of disruption of goods transport, which to a large extent takes place by road in countries such as the United Kingdom and Denmark, among others. The emergency shipments and allocations together with an unusually

[7] United Nations, *Monthly Bulletin of Statistics*, December 1956.

mild winter, however, helped to minimize the impact on production. Rationing of gasoline and diesel oil for road transport, aimed at restricting private motoring and to a lesser extent commercial traffic, was introduced immediately in most countries. The reduction in consumption of the heavier petroleum products seems mostly to have been achieved through substantial savings in the use of oil for domestic and commercial heating, which were greatly facilitated by the mild weather.[8] Substitutes, such as tar for the steel industry, were successfully used.

The only major exception to the unexpectedly mild impact on industry was the automobile industry, which was directly affected by gasoline rationing. The fall in automobile production, between October and December in 1956 in all the major producing countries in western Europe, appeared to be more than seasonal. In the United Kingdom the slack conditions existing in the automobile industry became aggravated, whereas in France, western Germany and Italy the temporary fall contrasted with a general rise in production for the year as a whole. The shipbuilding industry, on the other hand, was favourably affected by the shipping shortage, which sent orders for new tankers to an all-time high. Practically all the larger shipyards are fully booked until 1960 or later. The shipbuilding boom has also acted as a stimulus in the steel industry, particularly for the production of heavy steel plate. Another stimulus to production is likely to come from the desire to expand storage facilities for petroleum products in most western European countries.

Impact on prices[9]

The effect of the Suez crisis on commodity prices was on the whole limited. Tendencies towards speculative buying and price advances were noted initially in a few cases but soon subsided. For a number of commodities, such as copper, which had been falling earlier in the year, the effect might have been to retard the rate of decline. In any case, the situation was markedly different from that prevailing at the outbreak of the Korean conflict, which led to extensive stockpiling programmes; in the fall of 1956 stocks of strategic materials were at a high level in the United States and elsewhere.

The shortage of shipping space was reflected in sharp increases in freight rates, which in some cases even rose above the record levels noted during the Korean boom. For dry cargo, both trip and time charter rates rose in December 1956 above the average 1951 rates but with the release of a number of ships from the American "mothball" fleet the shortage of dry cargo space decreased somewhat in 1957 and freight rates have also dropped. Trip charter rates for tankers, like all other freight rates, had shown a rising trend during 1955 and the first ten months of 1956 but shot up another 70 per cent between October and December 1956 according to Norwegian quotations, compared with increases of about 15 to 20 per cent for trip and time charter rates for dry cargo. The trip charter rate is, however, indicative of the rates paid for only a marginal part of all oil shipments since most oil exports are time chartered. A quarterly index based on data compiled by the London Tanker Brokers' Panel,[10] reflecting the average tanker freight rate, shows a more moderate increase of 13 per cent from the third to the fourth quarter of 1956; the high levels of 1951 and 1952 have not yet been reached but further increases will no doubt occur in 1957, reflecting higher average rates in more recent agreements.

The rising freight costs will have a considerable effect on c.i.f. prices in western Europe of certain bulky imports, such as fuels, ores and grain, but for primary commodities with a high value per ton, such as rubber, tin and tea, the freight content in the European c.i.f. price does not even now exceed 5 per cent. The effect of the increases in freight rates and commodity prices on the general price level in western Europe has on the whole been very limited.

Impact on the balance of payments[11]

The over-all effect of the Suez crisis on the balance of payments of western European countries varied a great deal from country to country. The net exporters of shipping services, notably Norway and possibly Sweden and the Netherlands, benefited, while most net importers of shipping services suffered a deterioration in their foreign balance.

More important than the effect on the over-all balance may be the increase in the dollar deficit which has occurred as a result of the large increase in oil imports from the western hemisphere, even though the increase in dollar expenditure is less than proportional to the increase in American oil imports because a fairly high proportion of Middle Eastern oil is also paid for in dollars. A part of such dollar earnings would in turn normally have accrued to western Europe, chiefly to countries such as the United Kingdom with extensive investments in Middle Eastern oil. The loss of dollars to those countries was thus much larger than the increase in dollar imports would indicate. Furthermore, the United Kingdom also lost a substantial amount of foreign exchange owing to speculation against sterling. Both the United Kingdom and France have drawn on their quota in the International Monetary Fund in support of their foreign exchange reserves and have ob-

[8] It might be observed that a country like the United Kingdom, although not heavily dependent on oil for industrial purposes, may have relatively less manoeuvring room for shifts in the consumption of fuel oil from less to more essential uses, since the consumption of oil for heating purposes is rather negligible.

[9] For a general survey of price movements see the latter part of this chapter.

[10] United Nations, *Monthly Bulletin of Statistics*, March 1957.

[11] See also payments developments outlined in a later section.

tained loans from official or private sources. The weakness of the French balance of payments position has, however, been mainly the result of developments that were unconnected with the Suez crisis.

Western European merchandise exports, with the possible exception of British exports, probably did not suffer any considerable curtailment as a result of the closure of the Suez Canal, as the southbound traffic through the canal mostly consists of goods with a high value per ton.

Supply of labour

The declining rate of increase in production was due more generally to a lower rate of growth in average output per man than to a lower rate of increase in employment. In some countries the lower rate of expansion achieved in 1956 even helped to alleviate pressures on the labour market.

The slowing down of advances in productivity in 1956 is evident from a comparison of changes in employment (table 61) with changes in industrial production (table 62) and in total output (table 63). Whether the comparison is for the economy as a whole or for manufacturing, the tendency is evident in most cases. In a majority of countries for which data are available, the rate of increase in productivity for the economy as a whole in 1956 was no more than half of that in 1955. This phenomenon, moreover, appears not only in those countries where the expansion had been continued for a number of years, such as Sweden and the United Kingdom, but also in those where the expansion was comparatively recent, such as Canada and the United States; similarly, it is found in countries with a relatively high rate of expansion such as western Germany and in those with practically no expansion, such as the United Kingdom. The picture in manufacturing productivity is also striking. Norway appears to be a notable exception, owing probably to the maturing of past investment activities. In Japan, although manufacturing productivity increased at a somewhat higher rate in 1956 than in 1955, the proportion of increase in output contributed by higher productivity was less in 1956 than in the previous year.

Table 61. Changes in Employment and Unemployment, by Country
(Percentage change from previous year)

Country and year	Total civilian employment	Employment in manufacturing			Percentage unemployed[a]
		Total	Engineering industries	Textile industries	
	(Percentage change from previous year)				
Belgium:[b]					
1954	...	—	—	—	6.7
1955	...	3	5	−2	4.7
1956	...	3	5	−2	3.7
Denmark:					
1954	...	4	4	−9	8.0
1955	...	−1	2	−10	9.7
1956	...	−4	1	−6	11.1
France:[c]					
1954	1	0.5	2	−2	1.9
1955	1	1	4	−5	1.7
1956	1	1	3	−2	1.1
Germany, western:[d]					
1954	5	5	9	1	7.0
1955	5	8	16	3	5.1
1956	5	9	11	3	4.0
Italy:					
1954	...	1	2	−3	10.0
1955	...	1	4	−6	9.8
1956	...	2	5	−3	9.9
Netherlands:					
1954	2	4	6	2	1.9
1955	2	2	5	—	1.3
1956	1	2	4	—	0.9
Norway:[d]					
1954	2	2	...	−2	1.3
1955	1	3	...	−5	1.2
1956	—	1	2	−1	1.4
Sweden:					
1954	—	1	1	−5	2.6
1955	1	2	6	−5	2.5
1956	1	1	2	—	2.8

Table 61. Changes in Employment and Unemployment, by Country (*continued*)

Country and year[a]	Total civilian employment	Employment in manufacturing			Percentage unemployed
		Total	Engineering industries	Textile industries	
	(Percentage change from previous year)				
United Kingdom:					
1954	2	3	3	2	1.5
1955	1	2	6	−4	1.2
1956	—	1	1	−2	1.3
Canada:					
1954	−1	−5	−9	−15	4.6
1955	3	1	1	5	4.4
1956	4	6	8	3	3.4
United States:					
1954	−1	−7	−10	−2	5.4
1955	3	3	4	1	4.2
1956	3	2	4	−2	4.0
Japan:					
1954	1	3	...	...	1.4
1955	4	3	...	...	1.6
1956	3	13	...	...	1.5

Source: United Nations, *Monthly Bulletin of Statistics*; International Labour Office, *International Labour Review* (Geneva); Organisation for European Economic Co-operation, *General Statistical Bulletin*; Belgium: National Institute of Statistics, *Bulletin de statistique*; Denmark: The Economic Secretariat, *Okonomisk Arsoversigt* (Copenhagen), March 1957; France: National Institute of Statistics, *Bulletin mensuel de statistique* (Paris); western Germany, Federal Statistical Office, *Wirtschaft und Statistik*; Italy: General Confederation of Italian Industry, *Rassegna di statistiche del lavoro* (Rome); Netherlands: Central Bureau of Statistics, *Sociale maandstatistiek* (Zeist) and Central Planning Bureau, *Centraal Economisch Plan, 1956* (The Hague) and reply of the Government of the Netherlands to the United Nations questionnaire of 18 November 1955 on full employment and balance of payments; Norway: Central Statistical Office, *Statistiske Meldinger* (Oslo); Sweden: Reply of the Government of Sweden to the United Nations questionnaire of 7 November 1956 on full employment and balance of payments, and Department of Finance, *Nationalbudget för år 1957* (Stockholm); United Kingdom: Central Statistical Office, *Monthly Digest of Statistics*; Canada: Dominion Bureau of Statistics, *Canadian Statistical Review*; United States: Department of Labor, *Monthly Labor Review* (Washington, D.C.); Japan: Bureau of Statistics, *Monthly Report on the Labour Force Survey* (Tokyo).

[a] For definition see original source.

[b] Wholly unemployed as percentage of civilian labour force available for hire in 1954.

[c] Civilian employment refers to the over-all index of employment published by the Ministry of Labour. Unemployment represents registered unemployed as a percentage of non-agricultural wage and salary earners in October 1952.

[b] Civilian employment refers to wage and salary earners only.

General shortages in labour supply were, on the whole, less prevalent than in 1955, but sectoral imbalances persisted in most countries, including those where the over-all pressure on the labour market diminished. Changes in the number of applicants for work or of unemployed in relation to unfilled vacancies indicate an easing in the pressure of demand in countries such as Norway, Sweden and the United Kingdom, but there was an opposite tendency in France, western Germany and the Netherlands. In the United Kingdom the number of unemployed in December 1956 exceeded that of unfilled vacancies for the first time since the spring of 1954. In the Netherlands, a serious shortage of labour in 1956 is indicated by the fact that the number of applicants for work was as low as 25 per cent of unfilled vacancies, during the month with the lowest ratio. Similar data by industry or occupation are available only in a few cases; these suggest a shortage of certain types of skilled labour regardless of the over-all situation. This is evident for workers in construction and the metal industries, particularly in France and also in western Germany, for skilled iron and metal workers in Norway and, to a smaller extent, in Sweden.

Heavy demand for labour was also reflected in Belgium, France, western Germany and the Netherlands in a decline of unemployment to levels lower than those existing at any time since the period of extreme labour shortages during the early post-war years. In the Netherlands unemployment in 1956 averaged less than one per cent, as compared with a ratio of about 2 per cent during the Korean boom. The west German unemployment ratio fell to the unprecedentedly low level of 2.2 per cent in September 1956 but later rose to the same level as in the fall of 1955, with the average for the year at about 4 per cent, or one per cent below the 1955 average. The unemployment ratio in Belgium, at more than 4 per cent during the months with least unemployment in 1956, was still higher than in other western European countries where labour has been in short supply in recent years. Canada and the United States also experienced a fall in unemployment, with the percentage of unemployed in the former falling to a level of about 2 per cent during the summer months of 1956 while in the United States it remained at a level of about 3 to 4 per cent. In the United Kingdom total employment declined toward the end of 1956, but a

parallel increase in unemployment did not occur as many of the workers laid off left the labour force rather than seek new employment. The percentage of unemployed increased but insignificantly in the United Kingdom, Norway and Sweden. In Denmark and Italy the main problem remained the high rate of unemployment, and in Japan the persistent problem of underemployment remains paramount in spite of increased demand for labour and a low rate of visible unemployment.

Table 62. Changes in Industrial Production and its Major Components, by Country
(Percentage change from previous year)

Country and year	Industrial production	Manufacturing production					
		Total	Basic metals	Engineering	Passenger cars	Textiles	Chemicals[a]
Belgium:							
1954	6.0	7.0	9.0	7.0	...	5.0	17.0
1955	9.4	12.1	16.5	17.8	...	3.8	1.7
1956	5.2	6.7	7.9	7.1	...	5.5	8.4
Denmark:							
1954	9.0	9.0	...	17.0	...	−4.0	9.0
1955	2.8	0.9	...	4.3	...	−5.2	−0.9
1956	−0.9	−1.8	...	−3.3	...	−1.1	2.7
France:							
1954	9.0	12.0	14.0	4.0	18.6	6.0	16.0
1955	11.0	9.8	16.7	20.2	26.4	−3.8	13.8
1956	9.9	8.9	5.3	17.6	17.6	8.8	9.1
Germany, western:							
1954	12.0	12.0	16.0	18.0	40.3	7.0	14.0
1955	15.2	16.1	21.6	22.9	36.1	8.4	13.2
1956	7.8	8.5	6.4	9.0	20.2	6.0	9.3
Italy:							
1954	9.0	9.0	16.0	5.0	25.6	2.0	20.0
1955	8.3	8.3	23.3	12.4	29.3	−10.8	10.8
1956	7.6	7.6	9.8	10.2	21.2	5.5	9.8
Netherlands:							
1954	10.0	11.0	17.0	20.0	...	7.0	10.0
1955	7.3	7.2	13.7	11.7	...	1.9	6.4
1956	5.1	5.0	−1.5	6.0	...	2.8	5.1
Norway:							
1954	9.0	10.0	4.0	8.0	...	3.0	23.0
1955	3.7	2.7	20.2	0.9	...	−4.9	−2.4
1956	5.3	5.3	31.2	4.6	...	6.1	4.2
Sweden:							
1954	4.0	5.0	10.0	6.0	...	−1.0	1.0
1955	6.7	5.7	14.5	8.5	...	−2.0	5.0
1956	2.7	2.7	10.3	3.5	...	14.3[b]	...
United Kingdom:							
1954	7.0	8.0	8.0	10.0	29.2	2.0	9.0
1955	5.6	6.5	8.3	10.0	16.7	−2.9	6.4
1956	—	−0.9	2.4[c]	−11.4[b]	−21.2	−0.6[c]	3.8[c]
Canada:							
1954	−2.0	−4.0	−6.0	−8.0	−22.4	−14.0	1.0
1955	9.2	7.3	18.1	1.1	32.8	15.1	5.9
1956	7.5	6.0[c]	9.7[c]	5.1[c]	—	0.7[c]	6.8[c]
United States:							
1954	−7.0	−7.0	−18.0	−10.0	−9.1	−9.0	—
1955	11.8	10.8	29.3	10.0	42.5	12.1	12.0
1956	2.9	2.9	−1.9	4.0	−26.6	−2.0	5.5[c]
Japan:							
1954	7.6	8.8	4.8	−3.4	20.3	7.1	23.4
1955	8.3	9.0	13.7	−3.0	56.3	4.9	19.2
1956	21.3	22.1	21.6	59.0	77.5	16.4	15.5

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin*, No. 6, 1956; United Nations, *Monthly Bulletin of Statistics*; Bank of Japan, Statistics Department, *Economic Statistics Monthly* (Tokyo).

[a] Including manufacture of products of petroleum and coal.

[b] Nine months.

[c] Eleven months.

Factors affecting the labour supply are primarily of a long-term character; these have already been analysed in chapter 2 for the period 1950-1955. The importance of the agricultural labour force as a potential source of supply for non-agricultural employment further contributed to the relatively high rate of increase in such employment in Canada in 1956. In Norway and Sweden, although the rate of increase in non-agricultural employment was low, the contribution by the agricultural sector was significant. On the other hand, although agricultural labour in western Germany is a high proportion of the labour force, this sector released no significant labour to the rest of the economy —a fact which was also evident in previous years. The labour released by agriculture in western Germany in 1956 was not much larger than that in the United Kingdom, although the agricultural labour force in the former was several times larger than that in the latter.

Although immigration was a decisive factor for the employment situation only in Canada and western Germany, migration of labour within Europe was nevertheless of great importance in several western European countries in 1956, particularly in relief of acute shortages in certain key sectors of the economy, such as construction in France and mining in Belgium. Sweden was the recipient of a considerable number of immigrant workers who for the most part came from the other Scandinavian countries, a movement which has been facilitated by the creation of a free Nordic labour market. The United Kingdom also had a fairly large net immigration, about 27,000, probably mostly from the West Indies. Apart from the Scandinavian labour migration, most European immigrants came, as in previous years, from Italy, although at a lower rate in 1956, and from eastern Europe.

Changes in the Volume and Pattern of Demand

Notwithstanding certain obstacles to the expansion of output discussed above, the gross national product continued to rise in industrial countries in 1956. The rate of increase was, however, lower in most countries than the high rates attained in the earlier years of the current economic expansion. It was relatively small—under 2 per cent—in Denmark, Sweden and the United Kingdom, and only a little higher—about 2.5 per cent —in the United States. In the other industrial countries, despite the slowing down in the course of the year, the rate of increase remained relatively high. It ranged from about 4 per cent in France, Italy, the Netherlands and Norway to 7 per cent in Canada and western Germany (see table 63).[12]

The slowing down in the over-all rate of expansion largely reflected a similar movement in industrial production (table 62), although the bad harvest of 1955/56 in some countries of western Europe also contributed to this development. It has already been noted that the rapid increase in industrial production and employment in western Europe in the course of three successive years and in North America since the middle of 1954 had resulted in a considerable reduction in the unemployed labour reserves and a gradual exhaustion of spare productive capacity in many branches of industry. The rate of growth in industrial production could not, therefore, in most countries be maintained at the high levels obtaining in the earlier years of the present upswing even had there been no slackening in the growth of aggregate demand. As it was, however, the easing in domestic demand was also instrumental in slowing down the pace of industrial expansion and the growth in total product in some countries, notably in western Germany, Norway, Sweden, the United Kingdom and the United States.

[12] To facilitate reference to tables, countries have been grouped in tables 63 to 67 in accordance with the discussion in the text.

Table 63. Real Gross National Product and its Major Components, by Country

(At 1954 prices;[a] as percentages of total 1955 gross national product)

Country and year	Gross national product	Personal consumption	Government expenditure	Fixed investment	Change in inventories	Exports and imports of goods and services		
						Balance	Exports	Imports
Denmark:								
1954	100.2	69.3	13.0	18.8	1.0	−1.8	31.4	−33.2
1955	100.0	68.0	13.1	17.4	0.7	0.7	34.0	−33.2
1956	100.6	68.7	13.3	17.5	1.7	−0.6	34.6	−35.3
Norway:								
1954	97.0	56.2	10.6	34.5	0.2	−4.6	34.8	−39.4
1955	100.0	58.2	10.2	36.0	1.0	−5.3	36.4	−41.7
1956	103.9	60.1	10.2	36.2	1.8	−4.5	40.0	−44.4

Table 63. Real Gross National Product and its Major Components, by Country (*continued*)

(At 1954 prices;[a] as percentages of total 1955 gross national product)

Country and year	Gross national product	Personal consumption	Government expenditure	Fixed investment	Change in inventories	Exports and imports of goods and services		
						Balance	Exports	Imports
Sweden:[b]								
1954	96.2	56.2	20.5	20.0	−0.3	−0.3	19.3	−19.6
1955	100.0	58.1	20.9	20.3	2.0	−1.4	20.3	−21.7
1956	101.6	59.5	21.5	20.8	0.7	−0.9	22.1	−23.0
United Kingdom:								
1954	97.2	62.7	18.8	15.0	0.4	0.3	25.1	−24.8
1955	100.0	64.6	18.5	15.9	1.7	−0.8	26.6	−27.4
1956	101.4	65.0	18.8	16.4	1.1	0.1	28.2	−28.1
Belgium:								
1954	96.8	66.8	13.0	15.4	1.3	0.3	30.4	−30.0
1955	100.0	67.5	12.6	16.5	1.4	2.0	35.3	−33.3
France:								
1954	93.5	63.2	13.2	15.1	0.9	1.0	15.1	−14.1
1955	100.0	68.4	12.6	17.1	0.8	1.2	16.0	−14.8
1956	104	72	14	18	1	−1	...	...
Germany, western:								
1954	90.4	50.8	14.9	19.0	3.1	2.6	19.7	−17.0
1955	100.0	56.6	15.2	22.7	2.9	2.6	23.2	−20.6
1956	107.1	61.6	...	23.8	...	3.9	...	...
Italy:[c]								
1954	93.2	65.0	11.4	18.4	0.3	−1.8	10.8	−12.6
1955	100.0	68.0	11.6	20.3	1.4	−1.3	12.3	−13.7
1956	104.0	70.7	11.9	21.6	1.0	−1.2	14.0	−15.2
Netherlands:								
1954	93.2	54.1	13.7	20.1	4.2	1.1	47.3	−46.2
1955	100.0	58.0	14.9	22.8	1.9	2.5	52.4	−49.9
1956	104.4	63.0	15.4	25.5	2.6	−2.1	53.9	−56.0
Canada:[b]								
1954	92.1	60.3	16.8	17.7	−1.0	−1.6	19.5	−21.1
1955	100.0	64.8	17.2	19.4	1.5	−3.0	20.8	−23.9
1956	107.3	69.2	18.0	23.1	2.4	−5.4	22.3	−27.7
United States:[d] [c]								
1954	93.3	61.0	19.3	13.0	−0.6	0.5	4.6	−4.2
1955	100.0	65.4	18.8	14.4	1.1	0.4	5.1	−4.7
1956	102.5	67.3	18.6	14.9	0.9	0.8	5.8	−5.0

Source: Statistical Office of the United Nations and Bureau of Economic Affairs; Replies of Governments to the United Nations questionnaire of 7 November 1956 on full employment and balance of payments; Organisation for European Economic Co-operation, *General Statistical Bulletin;* Canada: Dominion Bureau of Statistics, *National Accounts, Income and Expenditure* (Ottawa); Denmark: Ministry for Foreign Affairs, *Economic Survey of Denmark, 1956* (Copenhagen) and Economic Secretariat, *Okonomisk Arsoversigt*, March 1957; France: National Institute of Statistics and Economic Studies, *Rapport sur les comptes de la nation, 1949–1955* (Paris) and National Assembly, *Projet de loi de finances pour 1957* (Paris); western Germany: Bank Deutscher Länder, *Monthly Report* and Federal Statistical Office, *Wirtschaft und Statistik;* Norway: Department of Finance and Customs, *Nasjonalbudsjettet, 1957* (Oslo), Central Bureau of Statistics, *Statistiske Meldinger* and *Okonomisk Utsyn Over Aret 1956* (Oslo); Sweden: Department of Finance, *Nationalbudget för år 1957;* United Kingdom: *Economic Survey, 1957*, Cmnd 113 (London) and Central Statistical Office, *National Income and Expenditure, 1956* (London); United States: *Economic Report of the President* (Washington, D.C., January 1957) and Department of Commerce, *Survey of Current Business.*

Figures for 1956 are preliminary estimates of governments or of the United Nations Bureau of Economic Affairs.

[a] For the United Kingdom at 1955 factor cost.

[b] Government expenditure includes all public investment other than investment in government business enterprises, which is included in fixed investment.

[c] The value of services rendered to the private sector by public administration has been added to the government expenditure component.

[d] Adjustments have been made in three of the components of gross national product: "net foreign investment" was replaced by the balance of exports and imports of goods and services, to make it comparable with the concept used in the national accounts of other countries included in this table; the balance was obtained by adding economic aid and private remittances to net foreign investment, the corresponding items being omitted from government expenditure on goods and services and personal consumption, respectively.

[e] Government expenditure includes all public investment.

In Norway, Sweden and the United Kingdom, which had embarked on the present expansion with relatively low levels of unemployment, the strains of the rapid growth in internal demand were felt relatively early in the period. Strong measures designed to restrain the expansion of internal demand and to improve the balance of payments position had already been taken by these countries in 1955. These measures were maintained, and in some instances even strengthened, during 1956. In these countries the highest rates of growth in gross national product during the present upswing, ranging from 4 to 5 per cent, were recorded in 1954. The moderate decline in this rate during 1955 in all three countries was followed by a more pronounced fall in Sweden and the United Kingdom in 1956. In Norway, on the other hand, the good harvest and fish catch in 1956 and the rapid growth in foreign demand for basic metals and shipping services were accompanied by a small increase in the rate of growth in gross national product. It is believed, however, that, but for the restrictive economic policies, a higher rate of expansion could have been attained during the year. In Denmark, where gross national product remained broadly unchanged in 1955 and 1956, rigorous measures to restrict domestic demand had been taken as early as the middle of 1954, despite the relatively high level of unemployment in the country. The primary purpose of these measures, which were generally further reinforced in 1955 and 1956, was to deal with the balance of payments difficulties encountered during that year. They were accompanied by an actual decline in investment and consumption demand in 1955 from which only a modest recovery was made in 1956.

In the Scandinavian countries the restrictions in 1955 and 1956 affected primarily the growth in fixed investment and consumption of durables. In the United Kingdom housing investment declined in 1955 and 1956 and consumption of durables in 1956. Unlike the Scandinavian countries, however, the United Kingdom continued to show a marked rise in industrial investment in 1955; the rapid increase in business investment in plant and equipment provided a powerful stimulus to economic expansion in that year, and, despite the tapering off of the industrial investment boom in 1956, this category of investment remained the primary expansionary factor. The improvement in the foreign balance in Denmark in 1955, and in the other three countries in 1956, constituted an important expansionary factor, but was not sufficient, except in Norway, fully to offset the weakening in domestic demand.

The other countries of western Europe, which had entered the present period of expansion with relatively larger reserves of unemployed labour and, in some cases, unutilized capacity in equipment, did not generally encounter serious strains on their resources in the earlier years of the present upswing. The measures introduced by them in 1955 and 1956 were relatively mild in their effect on the growth of internal demand as compared with the policies followed during that period by the Scandinavian countries and the United Kingdom. Internal demand continued to expand rapidly in these countries in 1955 as a result of the steep rise in fixed investment and personal consumption. Additional stimulus to economic activity was provided in Belgium, France, Italy and the Netherlands by the improvement in their foreign balances. During 1956 there was no significant decline in the growth of consumption demand in these countries, but a moderate weakening developed in fixed investment demand in Italy and a more pronounced one in France and especially western Germany, following the slackening in residential construction in all three countries and, in western Germany, in addition, the tapering off of the industrial investment boom. In France a steep rise in government defence expenditure more than counterbalanced the slowing down in fixed investment demand and helped to sustain the growth in internal demand which was associated with a pronounced deterioration in the foreign balance. In western Germany, however, the slowing down in the growth of fixed investment resulted in an easing of internal demand pressure; the adverse effect of this development on industrial activity was only partly offset by an improvement in the foreign balance. In the Netherlands, where investment and consumption demand rose at the same rate as in 1955 or faster, there was an appreciable increase in the pressure of internal demand, which was reflected in a substantial deterioration in the foreign balance.

In these countries the highest rates of expansion in the gross national product during the present upswing were recorded in 1955. They ranged from 3 per cent in Belgium to 7 per cent in France, Italy and the Netherlands and 11 per cent in western Germany. The decline in the over-all rate of growth in western Germany and the Netherlands during 1956 reflected largely the slowing down in industrial expansion, as reserves of unemployed labour, especially skilled workers, were gradually exhausted. In western Germany the pronounced slackening in fixed investment activity, mentioned earlier, and in the Netherlands the fall in agricultural production also contributed towards slowing down in the growth of total product. In France and Italy, the rate of industrial expansion was broadly maintained in 1956, but agricultural production was adversely affected by the cold winter of 1955/56.

In Canada and the United States some unutilized capacity and increase in unemployment had developed during the mild 1953/54 recession. This slack made possible the very large rates of growth in the total product—9 per cent in Canada and 7 per cent in the United States—during 1955. The major expansionary factors during that year were residential construction and consumption of durables, especially automobiles. The moderate decline in this rate of growth in Canada during

1956 was largely due to tightness in the supply of both manpower and materials. There was no weakening in the expansion of internal demand in that country, where a very rapid increase in business investment outlays offset a slowing down in the growth of residential construction and consumer expenditure on durables. As in France and the Netherlands, the rise in internal demand in Canada was associated with a substantial deterioration in the foreign balance. The decline in the rate of growth in gross national product was more pronounced in the United States than in Canada. The rapid rise in business investment outlays, which as in the case of Canada constituted the primary expansionary factor in the economy, did not fully offset the adverse effect of the pronounced decline in the level of residential construction and consumption of durables on the expansion of internal demand. The rise in export demand, however, partly compensated a weakening in internal demand.

Slower growth in fixed investment

The high rates of increase in fixed investment, which had been an important feature of the earlier years of the present economic upswing, were not generally maintained in 1956. The slowing down in the growth of investment demand was more widespread and in most countries tended to be more pronounced than that in non-investment demand. As such, it played an important part in restraining the expansion of aggregate demand in 1956. Despite this development, investment in fixed capital rose faster than gross national product and consumption in all industrial countries, except Denmark, western Germany and Norway. The fall in the rate of increase in fixed investment can partly be accounted for by a pronounced slackening in residential construction activity, which resulted from government curbs on housing investment and from a number of other factors discussed below. There was also some tapering of industrial investment, but this was less widespread than the slowing down in residential construction (see table 64).

Further decline in the importance of dwelling construction

It was explained in *World Economic Survey, 1955*[13] that in western Europe investment in housing, which had been stimulated by the relaxation of rent controls and the removal of other restrictions on construction after the Korean conflict, played an important part in sustaining the level of investment activity in the early phase of the present upswing. With the revival of industrial investment in 1954, there was a general slackening in residential construction activity in most countries. This trend became more widespread and pronounced in 1955 as the economic upswing gathered momentum, and a number of governments introduced restrictive

[13] United Nations, *World Economic Survey, 1955*, pages 129-131.

Table 64. 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	*1954*	*1955*	*1956*
Denmark:			
Total gross fixed investment...	7	−7	—
Machinery and transport equipment[a].....	5	−3	1
Housing.....	11	−17	−4
Norway:			
Total gross fixed investment...	4	4	1
Industry.....	4	−6	1
Housing.....	—	−2	−16
Sweden:[b]			
Total gross fixed investment...	9	2	2
Industry.....	21	1	—
Housing.....	7	4	5
Germany, western:			
Total gross fixed investment...	12	19	5
Plant and equipment.....	14	21	7
Housing.....	15	3	1
United Kingdom:			
Total gross fixed investment...	8	6	3
Industry.....	5	17	9
Housing.....	5	−8	−4
Netherlands:			
Total gross fixed investment...	15	13	12
Industry.....	20[c]	19	13
Housing.....	10	−3	19
Belgium:			
Total gross fixed investment...	12	6	8
Plant and equipment.....	...	5	13
Housing.....	15	−5	−5
France:			
Total gross fixed investment...	9	13	6
Industry.....	7[c]	12	13
Housing.....	23	12	—
Italy:			
Total gross fixed investment...	8	10	6
Industry.....	1	11	8
Housing.....	24	21	7
Canada:[d]			
Total gross fixed investment...	−5	10	19
Machinery and equipment...	−13	4	22
Housing.....	9	24	1
United States:[b]			
Total gross fixed investment...	—	10	4
Plant and equipment[e].....	−5	8	14
Housing[f].....	14	20	−12

Source: See table 63. In addition, for Belgium: Ministry of Economic Affairs, *Bulletin mensuel de la Direction Générale des études et de la documentation* (Brussels).

In this table countries have been grouped in accordance with the discussion of industrial investment in the text. Since other categories of fixed investment are not shown, changes in the two components included in the table do not fully account for changes in total gross fixed investment. Industry generally includes manufacturing, mining and construction. Where no consistent comparable data are available, other indicators of industrial investment are given.

[a] Excluding motor vehicles and ships.
[b] Private sector only.
[c] Machinery and other equipment.
[d] Excluding all public investment other than capital expenditure in government business enterprises.
[e] Non-farm producers' equipment and construction.
[f] Non-farm residential construction.

measures aimed at slowing down the growth of internal demand. During 1956 there was a further pronounced decline in the importance of housing investment as an expansionary factor in most countries of western Europe. It was only in Italy, the Netherlands and Sweden that the rise in housing investment made a relatively significant contribution to the advance of total fixed investment. In all the other countries the volume of residential construction either remained unchanged or declined in the course of the year.

In Denmark, Norway and the United Kingdom the decline in housing investment in 1955 and 1956 followed the government policies of curbing the growth of internal demand, under which construction of housing, both private and public, was subjected to severe measures of restraint. Apart from raising interest rates, a variety of measures, which included reductions in housing subsidies and direct restrictions on building credits and permits, were taken to slow down housing construction. In Sweden, which also pursued a severe policy of credit squeeze in 1955 and 1956, loans for dwelling construction were not subjected to the directives requiring banks to reduce their advances, and the rate of increase in housing investment was maintained in 1956. In western Germany, credit restrictions had an adverse effect on the construction of housing. In France, shortage of skilled construction labour proved a limiting factor, and building resources were spread rather thinly over many projects which made house building slow and expensive. In Italy, a decline in publicly financed residential construction and a slackening in demand for high-grade private dwellings contributed to the slowing down in housing investment.

The developments in housing in Canada and the United States, although different in timing, were in many essential respects similar to those in the western European countries mentioned above. The recovery from the recession of 1953/54 in these two countries was accompanied by a rapid increase in residential construction in the first phase of the present expansion. Housing investment recovered in the United States after the first quarter of 1954, and rose rapidly throughout the remainder of the year and most of 1955. The rise in business expenditure on plant and equipment in both countries in the second quarter of 1955, and the rapid growth in this category of investment in 1956, were accompanied first by a slowing down in the rate of growth and later by an absolute decline in the level of residential construction.

The slackening in residential construction in North America, as in most western European countries, followed government measures to tightening credit and raise interest rates. Higher costs of land and construction in the United States also had an adverse effect on housing investment. Although some of the measures of restraint initiated in 1955 by United States federal agencies were eased in the course of 1956, tight credit conditions were maintained and rates of interest further raised in both countries. The continued weakness in housing in early 1957 has prompted the Governments of these countries to ease somewhat credit conditions affecting residential construction.

Divergent patterns of industrial investment

The decline in the importance of housing investment in the course of the current economic expansion, as mentioned earlier, has generally been associated with an increase in the scale and importance of industrial investment in most countries. There has, however, been a difference in timing, strength and duration of the industrial investment boom in different countries, in line with the timing and the nature of government investment policies, developments in the growth of internal and foreign demand, and a number of other factors mentioned below.

The picture of industrial investment in 1956 accordingly presents three broad patterns. In the Scandinavian countries, where the growth in industrial investment had been halted or reversed in the preceding year, the volume of this category of investment remained unchanged in 1956. In western Germany and the United Kingdom, the boom in industrial investment tapered off in the course of the year, and the Netherlands experienced an appreciable, though less pronounced, decline in the rate of growth of business investment. Finally, in the third group can be included France and Italy—where the high rate of growth in this category of investment which had prevailed in 1955 was broadly maintained—and Belgium, Canada and the United States, which experienced a steep rise in the rate of increase of business expenditure on plant and equipment for the first time in the present upswing. Despite the different patterns in the three groups, industrial investment was an important factor in the rising level of investment activity in 1956 everywhere, except in the Scandinavian countries. In some countries, notably Canada, the United States and the United Kingdom, it represented the most dynamic expansionary factor in the economy.

It can be seen from table 64 that in the Scandinavian countries, especially Sweden, substantial increases in industrial investment took place at a relatively early stage in the present period of expansion. The boom in fixed capital investment, including industrial investment, had been effectively checked in all these countries in 1955. The increase in fixed investment in Norway during that year was accounted for by the large rise in outlays on ships, which represented the fulfilment of contracts concluded in earlier years. Slackening in the growth of business investment accompanied the introduction of rigorous measures aimed at restraining the growth of fixed investment, including investment in industry, in Denmark in 1954 and in Norway and Sweden in 1955.[14] The volume of industrial investment

[14] For details of these measures, see United Nations, *World Economic Survey, 1955*, pages 149-152.

remained almost unchanged in all three countries in 1956, in the course of which the restrictive measures on investment and consumption that damped the growth of domestic demand were either maintained or further strengthened. These countries intend generally to maintain their restrictive policies in 1957, and do not expect a substantial acceleration in the rate of growth of industrial investment during that year.

Unlike what occurred in the Scandinavian countries, the boom in industrial investment did not end in western Germany and the United Kingdom in 1955. Business expenditure on plant and equipment, which had increased relatively slowly in the United Kingdom and somewhat faster in western Germany in the early phase of the present expansion, gained momentum in both countries in 1955 and did not show any sign of weakening until 1956. The anti-inflationary measures taken in 1955, which, apart from restrictive measures on consumption and dwelling construction in the United Kingdom, consisted primarily of raising discount rates and of applying certain measures of credit control, were relatively mild in their effect on business investment as compared with those introduced by the Scandinavian countries. Moreover, there was in 1955 a favourable climate for expansion of industrial capacity and modernization of equipment, especially in the iron and steel, engineering and chemical industries, as a result of the continued stimulus provided by internal consumption and foreign demand. Induced by the rapid growth in demand in the earlier years of the upswing, many investment schemes were undertaken which could not be completed until 1956.

A number of factors, however, contributed to bringing about a levelling off in the industrial investment boom in both countries during 1956. Restrictive monetary measures were strengthened, discount rates were raised again and bank advances were further curbed, at a time when a tendency towards declining profit margins in many enterprises reduced their capacity for self-financing. In the United Kingdom, in particular, a series of strong measures were taken, which included a reduction in the rate of depreciation allowance on new investment, an increase in profit tax rates, a cut in the capital expenditure programme of nationalized industries and stricter control of capital issues. Moreover, in both countries, the enlarged capacity of production in many branches of industry, resulting from earlier investments, was confronted by a gradual weakening in the growth of demand in 1956. This produced a business climate which was not very favourable for starting new investment schemes. Although export demand remained strong for many products, especially capital goods, there was a slowing down in aggregate demand owing largely to unfavourable developments in private consumption and residential construction. This was particularly the case in the United Kingdom, where housing investment fell for the second year in succession and consumption of durables declined noticeably in the course of the year, giving rise to unused capacity and unemployment in some branches of the engineering industry. A further slackening in the growth of industrial investment is expected in the United Kingdom during 1957.

In the Netherlands, too, where no severe measures to restrict fixed investment had been introduced and where consumer and export demand had risen appreciably in 1955, there was no slackening in the rapid rate of expansion of industrial investment until 1956. During that year, although pressure of domestic demand continued to increase, credit conditions became tighter and business capacity for self-financing was reduced by the fact that industry was not allowed to pass on to buyers more than a very small portion of increases in production costs, especially of those resulting from wage increases. The forecast for 1957 envisages a further pronounced fall in the rate of growth of business investment.

Growth in industrial investment in the early phase of the present expansion was less pronounced in Belgium, France and Italy than in most other western European countries. The rapid increase in consumption of durables and in foreign demand for steel and engineering products led to the gradual exhaustion in some branches of industry of the unused capacity in equipment which these countries had possessed at the beginning of the upswing. This, together with the continuous public encouragement given to industrial investment,[15] led, at a relatively later stage of the current expansion, to a more rapid rise in industrial investment. During 1956, the rate of increase in industrial investment rose appreciably in Belgium, remained unchanged in France and declined only moderately in Italy.

Developments in the composition of fixed investment in Canada and the United States in the course of recovery from the 1953/54 recession and the subsequent expansion were in many ways similar to those in the western European countries described above. As mentioned earlier, in the first phase of the present expansion the growth in residential construction had been the dominant factor in stimulating fixed investment activity in both countries. Investment in plant and equipment during this period had remained almost stationary, at a level lower than the peak attained in 1953. The revival in this category of investment in the second quarter of 1955 was accompanied by a gradual decline in the relative importance of residential construction. This trend was considerably strengthened in 1956. While housing investment continued to slow down, business expenditure on plant and equipment increased rapidly throughout the year, acquiring the character of a major

[15] In Belgium, although the Central Bank rate was raised from 2.75 to 3 per cent in August 1955, and to 3.5 per cent in December 1956, the Government continued until about the middle of 1956 with the measures introduced in 1953 and 1954 aimed at encouraging industrial investment by providing easy credit facilities for industrial construction and permitting early amortization of new investment.

industrial investment boom and becoming the foremost expansionary factor in the economy.

It is noteworthy that the boom in business investment in 1956 took place despite an appreciable slowing down in the rate of growth of consumption and residential construction, and despite successive rises in interest rates and tight credit conditions during that year. Investment in plant and equipment was stimulated, largely by the favourable business expectations—prevailing in the earlier phase of the present upwing of internal and foreign demand. Many investment schemes were planned and begun which could not be completed until 1956 or later. Additional stimulus was provided by the competitive pressures for re-equipment and introduction of new technological improvements and by the continued growth in foreign demand for basic metals and capital goods. The sharp increase in world demand for products of resource-based industries was particularly important in stimulating business investment in Canada. The effect on investment of a tight money policy was, furthermore, cushioned by a number of factors. In the United States, corporations were able to finance a large part of their expenditure on plant and equipment out of funds provided for depreciation and out of retained profits and liquid resources accumulated in earlier years. In Canada, the inflow of foreign capital, which in some cases provided the initial stimulus to investment, furnished a substantial part of the funds required for the growth in business investment. A considerable decline in the rate of increase in business investment is indicated in both countries in 1957, as is shown below in the section on the economic outlook.

Changes in the volume and pattern of personal consumption

The growth of personal consumption has played an important part in stimulating the continued expansion in internal demand and inducing industrial investment during the current economic upswing. A particularly significant factor in this development has been the very rapid increase in consumer expenditure on durables. This was true in most countries even in 1956, despite the decline in the rate of expansion of consumption experienced during the year by many of them. The slowing down in the growth of consumption was generally in line with the lower rate of increase in real personal disposable income (see table 65). There is, however, some evidence that in Canada, the United Kingdom and the United States the pronounced slackening in consumer demand for durables was associated with a decline in the ratio of personal consumption to personal disposable income.

The slowing down in the growth of real personal disposable income took place despite a tendency for the share of personal income in gross national product and in total private income to rise in many countries. The easing of the pressure of demand was generally accompanied by a slower increase in employment and a reduction in weekly hours worked. There was, at the same time, also some decline in the rate of increase in output per man-hour in industry, which contributed to a faster rise in retail prices than in the earlier years of the present economic upswing. Thus, although hourly money earnings in industry continued to rise in 1956 at the same rate as in 1955 or at a faster rate, and

Tables 65. Changes in Gross National Product, Personal Disposable Income and Personal Consumption, by Country

(In real terms; percentage change from previous year)

Country and year	Gross national product	Personal disposable income[a]	Personal consumption
Denmark:			
1954	2.7	...	5.6
1955	−0.2	...	−1.9
1956	0.6	...	1.1
Norway:			
1954	4.1	4[b]	5.9
1955	3.1	5[b]	3.5
1956	3.9	4[b]	3.4
Sweden:			
1954	4.6	...	4.4
1955	3.9	...	3.3
1956	1.6	...	2.3
United Kingdom:			
1954	4.7	3	4.6
1955	2.9	4	3.0
1956	1.4	2	0.6
France:			
1954	5.0	7[c]	4.4
1955	7.0	9[c]	8.1
1956	4.0	5[c]	5.0
Germany, western:			
1954	8.4	7[d]	8.0
1955	10.6	10[d]	11.4
1956	7.1	9[d]	8.9
Italy:			
1954	5.0	...	2.5
1955	7.3	...	4.6
1956	4.0	...	4.0
Netherlands:			
1954	6.0	...	5.8
1955	7.3	...	7.1
1956	4.4	...	8.8
Canada:			
1954	−1.8	—	4.1
1955	8.6	9	8.1
1956	7.3	9	6.7
United States:			
1954	−1.6	1	1.7
1955	7.2	7	7.2
1956	2.5	4	2.8

Source: See table 63.

[a] Money incomes deflated by cost of living index.

[b] Disposable income from wages and salaries, including receipts in respect of children's allowance, old age pensions, etc.

[c] Money incomes deflated by implicit deflator derived from total personal consumption at current and constant prices.

[d] Disposable income from wages and salaries, retirement pensions and public transfer payments.

Table 66. Changes in Real Consumption and its Major Components, by Country

(Percentage change from corresponding period of preceding year)

Country	Total consumption			Food[a]			Textiles[b]			Durables[c]		
	1954	1955	1956	1954	1955	1956	1954	1955	1956	1954	1955	1956
Denmark	6	−2	1	4	−1	...	3	−5	...	17	−7	...
Norway	6	4	3	4	4	3	3	1	5	...	...	...
Sweden	4	3	2	2	2	1	1	5	1	17	4	6
United Kingdom	5	3	1	3	1	2	7	5	3	16	13	−7
France	4	8	5	2	6	2	6	10	6	16	20	11
Germany, western	8	11	10[d]	7	10	9[d]	5	12	13[d]	10	18	20[d]
Italy	2	5	4	3	4	2	−6	—	7	9	3	8
Netherlands	6	7	9	5	6	6	11	10	19	9	12	13
Canada	4	8	7	4	5	5	—	5	6	−4	19	6
United States	2	7	3	1	5	5	—	6	5	1	21	−5

Source: See table 63.

[a] Including beverages, for some countries.

[b] Including footwear and leather goods, for some countries.

[c] Coverage for different countries is not uniform: for France, the figures are based on products of mechanical and electrical industries; for western Germany, on furniture and household goods; for Italy, on durable household goods; and for Sweden and the United Kingdom, on durable household goods, cars and motor cycles.

[d] First six months.

there was even a tendency for a narrowing of profit margins, real wage and salary bills and real personal income rose in most countries at a slower rate than a year earlier.

It has already been noted that in the Scandinavian countries and the United Kingdom the rapid growth in internal demand, in which the rise in consumption had played a major part, was accompanied by balance of payments difficulties at an earlier stage in the present period of expansion. The high rate of increase in imports of passenger-cars in 1953 and 1954 had a particularly adverse effect on the balance of payments position of the Scandinavian countries. Strong measures were taken as early as the middle of 1954 in Denmark, and in the other countries in the course of 1955, to curb the growth of consumption. These measures were generally maintained and in some instances further reinforced in 1956. They included curbing the rise in consumers' credit, reducing food subsidies and raising indirect taxes on consumer goods, including motor-cars.

It can be seen from table 66 that the growth in personal consumption had already slowed down or been reversed in these countries in 1955. Particularly pronounced was the decline in the rate of expenditure on motor-cars in the Scandinavian countries (see table 67). During 1956, despite the adverse effect of the slackening in internal demand, the good harvest and fish catch and the stimulus of export demand produced a moderate increase in the rate of expansion of real private income in Norway. Although the improvement in terms of trade was associated with a redistribution of income in favour of the entrepreneurial group, and real income of wage and salary earners grew more slowly than in the preceding year, the rate of increase in personal consumption was maintained. There was some further slackening in the growth of consumption in Sweden in line with the slower rise in total product and real income. In Denmark, which suffered from a pronounced slackening in industrial activity and a high level of unemployment in 1955 and 1956, there was an absolute decline in the level of private consumption in 1955, from which only a modest recovery was made in 1956.

The slackening in the advance of private consumption in 1956 was more pronounced in the United Kingdom. The rise in real personal income was restrained by the steep decline in the growth of fixed investment and by the fall in production of passenger-cars. This was accompanied by stagnation in the level of employment and industrial production and some decline in output per man-year. Total consumption was also adversely affected by the fall in consumer expenditure on durables, which was associated with a rise in the proportion of disposable income devoted to saving. While consumption of food and textiles still showed moderate rates of increase, the purchase of durables, especially of motor-cars, declined appreciably below the level of the preceding year, thus completely reversing the trend of rapid increase in this category of expenditure experienced in the preceding three years. This change in the pattern of consumer expenditure in the United Kingdom may be attributed largely to the restrictions imposed by the Government on hire-purchase transactions in 1955 and 1956, which resulted in a fall of about 20 per cent in the hire-purchase debt outstanding, and also to an increase in purchase tax rates on many lines of durable consumer goods in October 1955. The rationing of petrol in November had also an adverse effect on the sale and production of motor-cars towards the end of the year.

The slackening in the demand for durables in 1955-1956 contributed to the improvement in the balance of trade of the Scandinavian countries, which rely to a large extent on imports for the supply of these goods. In the United Kingdom, on the other hand, the decline in demand for passenger-cars in 1956, which was ac-

companied by a fall in exports, led to a gradual fall in production and a rapid rise in unemployment and short-time work in the motor-car industry. Towards the end of the year, the Government relaxed hire-purchase restrictions on motor-cars, and early in 1957 reduced the level of purchase tax on many lines of durables, including motor-cars.

Unlike the Scandinavian countries and the United Kingdom, the other western European countries had not experienced any slowing down in the growth of private consumption in 1955. In these countries the rate of expansion in consumer expenditure continued to rise until 1956, when for the first time it declined moderately in all of them, with the exception of the Netherlands and probably Belgium. Private consumption, nevertheless, rose at an equal rate with, or even faster than, total product in these countries and played an important part in stimulating the growth of aggregate demand and economic activity in 1956. Particularly significant was the expansionary role of the rapid increase in the consumption of durables, especially motor-cars, in France, Italy and western Germany, as shown in table 67.

In France and Italy where the rates of increase in industrial production and output per man in industry were generally maintained, the growth in real personal income and consumption was adversely affected by the bad harvest of 1956. In western Germany the adverse effect of the steep decline in fixed investment activity on the growth of incomes was not completely offset by the

Table 67. Changes in Consumer Expenditure on Motor-cars, by Country

(Percentage change from preceding year)

Country	*1954*	*1955*	*1956*
Denmark	38	−19	9
Norway	57	−15	−4
Sweden	34	4	8
United Kingdom	31	30	−20
France	15	25	14
Germany, western	24	33	20
Italy	22	18	29
Netherlands	55	51	17
Canada	−14	25	5
United States	−3	30	−18

Source: See table 63. In addition, United Nations, *Economic Survey of Europe in 1956*; Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series IV (Paris); Canada: Dominion Bureau of Statistics, *Canadian Statistical Review*; United Kingdom: Central Statistical Office, *Monthly Digest of Statistics*.

Figures for Sweden are based on expenditure, at constant prices, on passenger-cars and motor cycles; for France, Italy, the United Kingdom and the United States, on registration of new passenger-cars; and for the other countries, on domestic sales or available supply.

improvement in the foreign balance which resulted from the higher rise in exports than imports. There was a very moderate slowing down in the advance of real disposable income and consumption. Despite this fact, the rise in consumer expenditure, which, for the first time in the present upswing, was higher than the rate of increase in fixed investment, played a dominant part in sustaining the expansion of demand.

In Canada and the United States, the recovery from the 1953/54 recession had been accompanied by a very rapid increase in real personal incomes and consumption in 1955. Particularly significant as an expansionary force in the recovery was the high rate of increase in consumer expenditure on durables, especially motor-cars, in that year. During 1956 there was a pronounced slackening in the growth of private consumption in the United States and a relatively moderate slowing down in Canada.

Private consumption was adversely affected in the United States by a slowing down in the increase of real personal income, associated with the slackening in fixed investment activity. The steep fall in consumer demand for automobiles also had an adverse effect on the growth of industrial production and incomes. Employment rose, but at a slower rate than in 1955, and there was a moderate decline in the weekly hours worked in manufacturing.

The decline in the rate of increase in consumption was, however, steeper than in real disposable income. The major factor responsible for this development was the substantial slowing down of consumer demand for durables, especially automobiles. While consumer expenditure on non-durables and services continued to rise at only a slightly lower rate than in 1955, consumption of durables fell well below the high level attained in the previous year. This change in the pattern of consumer expenditure was associated with a rise in the proportion of personal disposable income devoted to saving, thus reversing a trend of a falling proportion which had prevailed since 1952. It was also largely responsible for the pronounced slowing down in the rate of increase in consumer credit, especially automobile financing.

In Canada, unlike the United States, fixed investment rose at a faster rate than in the preceding year and the rate of growth in real disposable personal income was maintained in 1956. The moderate decline in the rate of increase in private consumption was accounted for by a slackening in consumption of durables, which, as in the case of the United States, was associated with a rise in the ratio of savings to disposable income. There was no decline in the rate of expansion of the other major components of consumption.

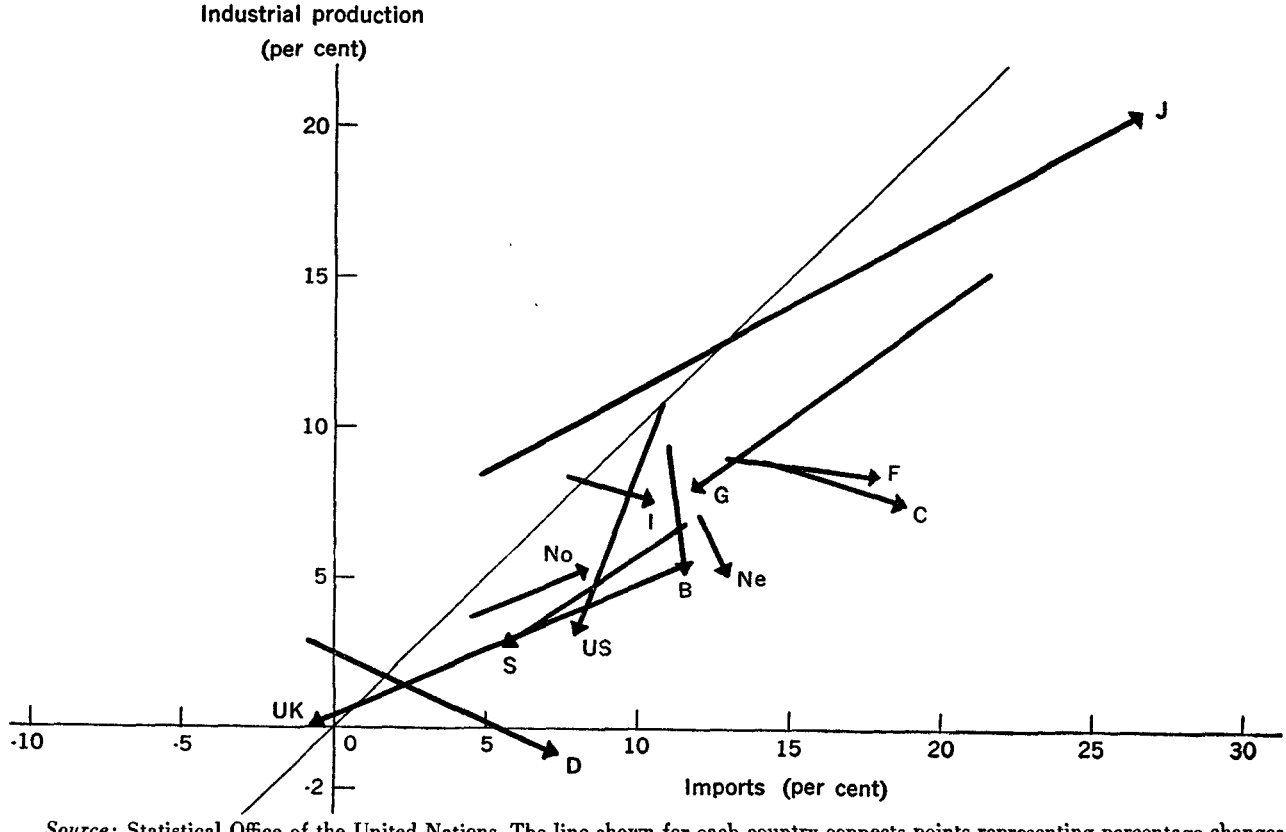
Developments in Foreign Trade

Foreign demand for the exports of industrial countries did not slacken in 1956. In those countries in which there was a slowing down in the growth of domestic investment and consumption in 1956, the volume of imports generally increased less than that of exports, so that the real balance of trade improved. The opposite tendency prevailed in countries where domestic demand pressures were maintained or increased.

It may be seen from table 68 that in western Germany, Italy, Norway, Sweden, the United Kingdom and the United States the volume of exports of goods and services in 1956 rose either at about the same rate or at a higher rate than in the preceding year, while the rate of growth of imports slowed down considerably except in Italy and Norway. As a result the real balance of trade in all these countries improved, thus completely reversing, for most of them, the experience of the preceding year. These are all countries in which domestic demand eased in 1956. Only in Canada, France, the Netherlands and, to a lesser extent, Belgium and Denmark did the real balance of trade deteriorate significantly owing to greater increases in imports than in exports; France was the one country whose exports actually dropped in 1956. Domestic demand was maintained or increased in these five countries; in the first three the strong domestic pressures of 1955 continued to grow in 1956, while in Denmark there was a moderate recovery from the previous year's decline in domestic demand. Part of the increase in imports in Denmark and France was due to a further liberalization of import controls.

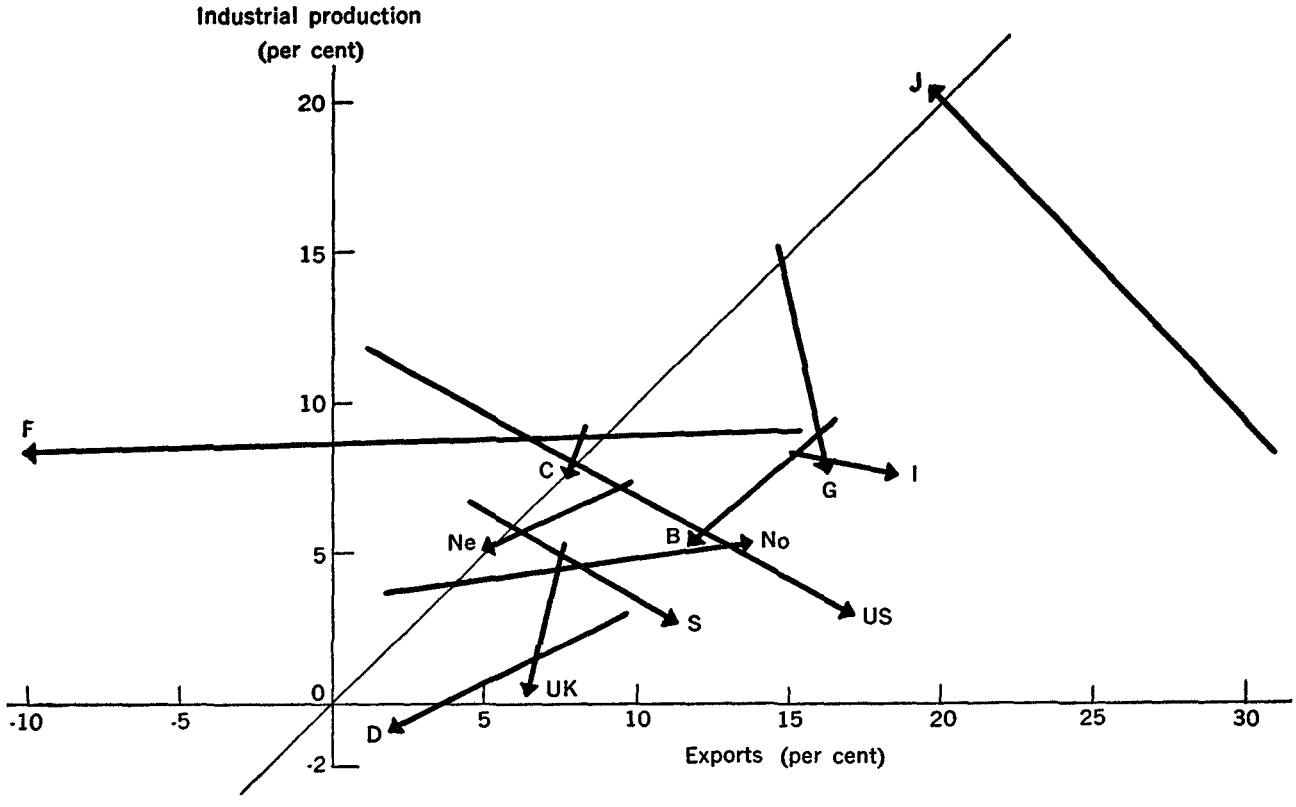
An outstanding feature of merchandise trade in the industrial countries in 1956 was that its expansion, although slower than in 1955, was taking place at a faster rate than the rise in gross national product or industrial production. This is illustrated in charts 19 and 20 in which percentage increases in industrial production in each country from 1954 to 1955 and from 1955 to 1956 are plotted against the corresponding percentage increases in the volume of merchandise imports or exports. The line shown for each country connects the points for 1954 to 1955 and 1955 to 1956, the change in the latter period being indicated by an arrowhead. All points lying to the right of the 45-degree line in the first quadrant indicate a faster rate of expansion in merchandise imports or exports than in in-

Chart 19. Changes in Industrial Production and Volume of Imports



Source: Statistical Office of the United Nations. The line shown for each country connects points representing percentage changes in industrial production and the volume of imports (for chart 20, exports) from 1954 to 1955 and from 1955 to 1956, the change in the latter period being indicated by an arrowhead. *B* represents Belgium; *C*, Canada; *D*, Denmark; *F*, France; *G*, western Germany; *I*, Italy; *J*, Japan; *Ne*, Netherlands; *No*, Norway; *S*, Sweden; *UK*, United Kingdom; *US*, United States.

Chart 20. Changes in Industrial Production and Volume of Exports



Source: United Nations, *Monthly Bulletin of Statistics* and table 62. The line of each country connects the points for 1955 and 1956, the latter year being denoted by an arrowhead. All points to the right of the 45-degree line in the first quadrant represent a faster rate of increase in exports than in industrial production. Abbreviations are the same as in chart 19.

dustrial production. It may be noted that a faster increase in imports than in industrial production in 1956 was evident in all countries except the United Kingdom, which reacted from a rather high rate of increase in imports and inventories in the previous year. An outstanding exception to the relative rise in exports was France where, as noted above, exports declined.

It should be noted that the data on imports for the year 1956 as a whole may, in a sense, be misleading, especially in those countries for which imports normally shipped through the Suez Canal are a substantial element in the total. The Suez crisis probably tended to reduce the volume of imports of industrial countries, both directly, through the interruption in oil supplies, and indirectly, by increasing the average length of haul. On the other hand, it may have stimulated some imports by contributing to increases in prices of certain commodities and creating the expectation of still further increases. In the discussion of the geographic distribution and commodity composition of trade which follows, therefore, data for the first nine months of 1956 have been compared with data for the corresponding periods of 1954 and 1955 in order to gain a clearer view of underlying tendencies.

While the primary stimulus to the rise in exports from 1955 to 1956 was derived once again, as in the previous year, from a higher level of exchanges among the industrial countries themselves, the share of the rest of the world in the upsurge in external demand increased considerably, as shown in table 69. Less than one-fifth of the total increase in the value of shipments from North America and western Europe from 1954 to 1955 had been accounted for by trade with the rest of the world, but the corresponding proportion in the following year exceeded one-third.

This in turn may be regarded partly as a consequence of the enhanced importance of primary producing countries in the rise in value of imports of the industrial countries. While from 1954 to 1955 the rest of the world had supplied considerably less than a quarter of the rise in the value of imports of industrial countries, this proportion rose to one-third or more from 1955 to 1956.

Thus the primary producing countries, which had not participated fully in the growth in trade accompanying the earlier phases of the boom in western Europe and North America, did not fall behind to the same extent in 1956. The rate of increase in the total value of

Table 68. Changes in Real Gross National Product and Volume of Exports and Imports of Goods and Services, by Country

(At 1954 prices; percentage change from corresponding period of preceding year)

Country and year	Gross national product	Goods and services[a]	
		Exports	Imports
Countries showing improvement in the real balance of trade:			
Germany, western:			
1955	11	15	22
1956	7	16	12
Italy:			
1955	7	15	9
1956	4	14	11
Norway:			
1955	3	5	6
1956	4	10	7
Sweden:			
1955	4	6[b]	11[c]
1956	2	9[b]	6[c]
United Kingdom:[d]			
1955	3	6	11
1956	1	6	2
United States:[e]			
1955	7	10	12
1956	2[f]	14	8
Countries showing deterioration in the real balance of trade:			
Belgium:			
1955	3	17	11
1956	...	8	12
Canada:			
1955	9	7	13
1956	7	7	16
Denmark:			
1955	—	8	—
1956	1	2	6
France:			
1955	7	16	13
1956	4	−10	18
Netherlands:			
1955	7	11	8
1956	4	3	12

Source: See table 63. For Belgium, France and western Germany, also United Nations, *Monthly Bulletin of Statistics.*

[a] For Belgium, France and western Germany, quantum indices of trade, exports f.o.b., imports c.i.f.

[b] Exports of goods and net services.

[c] Imports of goods, c.i.f.

[d] At 1955 factor cost.

[e] See footnote *d* to table 63.

[f] The unrounded figure, as shown in table 63, is 2.5.

imports of the industrial countries accelerated only slightly from 1955 to 1956, and imports of these countries from one another rose much more slowly than in the previous year; on the other hand, the rate of increase in imports from primary producing areas jumped sharply. In spite of this, however, the share of the rest of the world in the increase in trade of the industrial countries from 1955 to 1956 was still less than might have been expected in light of the fact that the rest of the world accounted for about 40 per cent of total imports as well as of total exports of the industrial countries; consequently, this percentage was further reduced in 1956, though much less rapidly than in 1955.

Changes in the sources of imports of the industrial countries were largely determined by associated changes in commodity composition; and these in turn corresponded to the shifts which took place in the pattern of domestic production. These have been indicated in an earlier section of the present chapter, and are summarized in the following table showing percentage increases in industrial output in western Europe and the United States from 1954 to 1955 and from 1955 to 1956:

	Western Europe		United States	
	1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956
Total industrial production	9	4	12	3
Mining	4	4	9	6
Manufacturing	10	4	11	3
Food, beverages and tobacco	6	5	3	2
Textiles	—	4	12	−2
Basic metals	17	4	29	−2
Metal products	15	5	10	4
Chemicals	10	7	12	5

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin.*

From 1954 to 1955 activity in the metals, engineering and chemical industries moved ahead of that in other sectors, especially in western Europe, where textile production did not increase at all. This meant that, except for petroleum refining, it was the industries using a relatively small proportion of imports from primary producing countries that increased their output most in western Europe in 1955. The situation was somewhat different in Canada and the United States, since textiles participated in the general recovery from the recession of 1953/54. However, an important factor affecting North American imports from primary producing countries in 1955 was a reduction in the value of imports of cocoa and coffee. In general, the surge of the metal, engineering and chemical (including petroleum) industries both in western Europe and North America meant that about one-half of the rise in the value of imports of these areas from 1954 to 1955 was accounted for by fuels, metals and metal products, as may be seen in tables 70 and 71.

In 1956 disparities in the rate of growth of the various industrial sectors were greatly reduced in western Europe and, to a lesser extent, in North America. The combined share of the low import-consuming metal and metal product sectors in the growth of western Europe's imports fell in consequence. At the same time imports of food increased almost as much as in 1955, due partly to the poor quality of the grain crop. While this mainly affected imports from North America, food imports from primary producing countries also rose somewhat. Moreover, the rate of decline in the total value of im-

Table 69. Direction of Trade of Industrial Countries[a]

(Millions of dollars)

Item	Increase in exports		Increase in imports	
	1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956
Trade of industrial countries:				
With one another	3,044	2,938	3,632	3,227
With rest of world	737	1,508	1,092	1,674
TOTAL	3,781	4,446	4,724	4,901

Source: See tables 70 and 71. Data for all years relate to the first nine months.

[a] OEEC countries, Canada and the United States.

ports of textile fibres slowed down while the drop in fibre imports from primary producers was halted and reversed. Finally, there was a further rise in imports of petroleum from primary producing countries in the first nine months of 1956. Consequently the rate of imports from primary producing countries by western Europe accelerated in 1956.

A rise in the rate of increase of imports from primary producing countries into North America was due to rather different factors. While part of the acceleration in total imports in 1956 was due to an abrupt reversal in imports of food (primarily coffee), as shown in table 70, there was also a very sharp stepping up of imports of metals and metal products, despite the slackening rate of increase in corresponding domestic production in the United States. United States imports of steel mill products rose sharply in consequence of the steel strike, and a higher value of imports of non-ferrous metals accompanied some accumulation of private stocks and further additions to the government stockpile. An increase in North American imports of machinery reflected the acceleration of the boom in industrial investment which was discussed earlier.

The stepped-up advance in imports of metals and metal products by North America did not contribute a great deal to the rise in imports from primary producing countries, most of the increase being supplied within North America itself or from western Europe. Moreover, the rate of increase in imports of raw materials actually slowed down, due mainly to a drop in rubber imports as the price of rubber weakened and domestic use of the synthetic product continued to grow relatively, while total consumption fell. Most of the increase in the value of imports from primary produc-

Table 70. North America: Changes in

(Millions of dollars

Commodity group[c]	Imports (f.o.b.) from					
	World[b]		Western Europe		North America	
	1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956
Food	−281	264	−7	12	−40	53
Cereals and cereal preparations	−34	22	—	1	−31	19
Crude materials	393	105	77	−20	165	59
Wood, lumber and cork	...	−4	...	−2	...	−5
Textile fibres and waste	95	−34	44	−21	9	−24
Mineral fuels	158	250	1	−1	14	81
Chemicals	44	44	2	12	23	22
Metals and metal products	285	820	34	316	220	419
Base metals	42	329	−13	140	38	125
Machinery	93	317	4	75	84	231
Transport equipment	138	106	33	80	104	25
Manufactures of metals	12	69	10	21	−7	39
Other manufactured goods	306	352	105	144	99	91
Textile yarn and fabrics	58	68	20	29	6	8
Other	248	285	85	115	93	83
TOTAL	905	1,836	211	461	480	724

Source: Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series II, "Foreign Trade by Commodity Categories and by Areas".

[a] Changes from first three quarters of one year to corresponding period of following year.

[b] Excluding unspecified items.

[c] Corresponding to the following Standard International Trade Classification grouping: food, sections 0, 1, 4; cereals and cereal preparations, division 04; crude materials, section 2; wood,

ing countries was due to the recovery in the value of imports of coffee after the drop in 1955, and to a further advance in imports of petroleum.

In general, therefore, the structure of production in western Europe and in North America shifted in 1956 in a manner which tended to raise imports in relation to output in both areas—though for different reasons—and, in addition, to increase imports from primary producing countries more nearly in proportion to total imports than had been the case in the previous year.

The rise in exports of industrial countries in 1956 resulted in part from the further growth in economic activity in these countries themselves and partly from the increase in import capacity of some of the primary producing countries in consequence of the developments reviewed above. Preliminary data also suggest that capital outflow to the primary producing countries increased in 1956.

Exports of metals and metal products from western Europe and North America increased even more rapidly in 1956 than in 1955, as may be seen in tables 70 and 71. A slower rate of increase in shipments to western Europe, where the growth of investment demand slowed down, was more than made good as a result of the upsurge in demand in North America and the primary producing countries. Other major elements in the rise in exports of industrial countries in 1956 included larger North American shipments of food as a result of the relatively poor harvest in western Europe, and in connexion with the food surplus disposal programme of the United States. Increased exports of coal to western Europe and, towards the end of the year, of petroleum products, also contributed to the rise in United States exports. Western Europe, on the other hand, considerably more than doubled the rate of increase in the value of its exports to the United States in 1956, partly because of the shipments of steel and other metal goods referred to above, but also by virtue of higher deliveries of a variety of other manufactured goods, including civil aircraft. In France, the decline in exports in 1956 was due in part to the poor wheat harvest. In addition, however, France was the only major industrial country experiencing a drop in the volume of exports of manufactures, as shown in table 72; for the industrial countries as a whole, the increase in the volume of exports of manufactures from 1955 to 1956 was maintained at the same rate as in the previous year, namely, 10 per cent. The exception in the case of France was probably due to factors operating on the side of domestic supply rather than of external demand, notably the rise in defence expenditures. The rate of increase in the volume of exports of manufactures slowed down appreciably in Canada and the Netherlands where, as noted above, domestic pressures were maintained or increased in 1956. The slight drop in the rate of increase in exports of manufactures from the United Kingdom from 1955 to 1956 shown in table 72 would become a rise of one to 2 per cent if allowance

the Composition and Direction of Trade[a]
at current prices)

Exports (f.o.b.) to									
World[b]				Western Europe		North America		Rest of world	
1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956
−234	200	248	580	269	262	−51	41	30	277
−3	2	259	376	325	174	−43	22	−23	180
150	66	198	199	61	51	169	43	−32	105
...	3	...	−48	...	−27	...	−7	...	−14
42	10	−160	36	−105	21	5	−20	−60	34
143	171	164	202	124	147	23	54	17	1
19	11	116	117	36	29	39	29	41	59
31	86	413	682	238	5	154	344	21	334
17	64	234	161	175	−45	44	131	14	75
5	11	99	420	27	52	83	168	−11	200
—	1	100	85	35	−4	54	42	11	47
9	9	−20	16	1	2	−28	2	7	11
103	117	233	62	84	35	74	43	75	−16
33	31	−1	−34	6	4	4	−4	−11	−34
70	86	234	96	78	31	70	47	86	18
214	650	1,373	1,842	813	528	408	555	153	759

lumber and cork, division 24; textile fibres and waste, division 26; mineral fuels, section 3; chemicals, section 5; metals and metal products, section 7 and divisions 68 and 69; base metals, division 68; machinery, divisions 71 and 72; transport equipment, division 73; manufactures of metals, division 69; other manufactured goods, sections 6, 8, 9, less divisions 68, 69; textile yarn and fabrics, division 65.

Table 71. Western Europe: Changes in
(Millions of dollars

Commodity group[c]	Imports (f.o.b.) from: World[b] 1954 to 1955	World[b] 1955 to 1956	Western Europe 1954 to 1955	Western Europe 1955 to 1956	North America 1954 to 1955	North America 1955 to 1956
Food	611	564	184	121	345	246
Cereals and cereal preparations	222	218	3	22	260	171
Crude materials	672	351	207	139	225	−34
Wood, lumber and cork	...	−68	...	−11	...	−26
Textile fibres and waste	−157	−39	6	25	−50	−95
Mineral fuels	579	707	196	91	192	266
Chemicals	160	127	92	95	44	25
Metals and metal products	1,252	837	712	688	330	−5
Base metals	788	305	377	233	220	−62
Machinery	268	375	195	293	57	75
Transport equipment	189	120	141	124	47	−21
Manufactures of metals	7	39	—	38	5	2
Other manufactured goods	453	294	272	256	73	34
Textile yarn and fabrics	60	67	27	61	4	12
Other	394	228	246	196	68	22
TOTAL	3,728	2,881	1,663	1,389	1,208	532

Source: Organisation for European Economic Co-operation, *Foreign Trade Statistical Bulletin*, series II, "Foreign Trade by Commodity Categories and by Areas".

[a] Changes from first three quarters of one year to corresponding period of following year.

[b] Excluding unspecified items.

[c] Corresponding to the following Standard International Trade Classification grouping: food, sections 0, 1, 4; cereals and cereal preparations, division 04; crude materials, section 2; wood,

were made for the displacement of exports from 1954 to 1955, due to the dock strike in October 1954. Even so, however, the acceleration was relatively slight, and the rate of increase in manufactured exports from the United Kingdom remained well below the average for all industrial countries. A much larger release of manufacturing resources to the export sector seems to have occurred in Sweden.

There was, for the most part, little change in the terms of trade of industrial countries in 1956, as shown in table 73, since both export and import prices rose. Export prices for manufactures in 1956 reflected the advance in raw material prices in the previous year, particularly for base metals and ores, as well as increases in wage costs per unit of output. While import unit values for food on balance probably did not change very much, import unit values for non-food items increased. Changes in balance of payments position on current account in 1956, therefore, were broadly in line with the developments in the real balances of transactions in goods and services discussed above. There were improvements in the balance on goods and services in current prices in western Germany, Norway, Sweden, the United Kingdom and the United States, little change in Italy, a mild deterioration in Denmark, and marked deterioration in Canada, France and the Netherlands. In Norway the improvement in the balance was affected substantially by a rise in export prices for forest products and particularly for ores and metals, as well as by a considerable advance in freight rates.

Table 72. Volume of Exports of Manufactures by Industrial Countries
(Previous year = 100)

Country[a]	1955	1956
Italy	124	122
Belgium-Luxembourg	119	114
Germany, western	116	116
France	112	97
United States[b]	109	112
Canada	108	103
Netherlands	106	104
United Kingdom	106	106
Sweden	102	120
TOTAL	110	110

Source: Statistical Office of the United Nations.

[a] In descending order of the increase in volume from 1954 to 1955.

[b] Excluding special category exports.

The increase in the export balance of the United States in 1956 did not give rise to balance of payments difficulties in the rest of the world. For the year as a whole, total payments by the United States to other countries remained greater than total receipts from them, and other countries were able to increase their holdings of gold and dollars as a result of transactions with the United States by about $1 billion, or slightly less than in the preceding year.

Nearly half of the rise in total payments was due to the unusually large advance in capital expenditures. Direct investments abroad, at $1.6 billion, were more than double the level of 1955. Other net outflows of

the Composition and Direction of Trade[a]
at current prices)

Rest of world		Exports (f.o.b.) to							
		World[b]		Western Europe		North America		Rest of world	
1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956	1954 to 1955	1955 to 1956
82	197	170	160	188	90	−8	35	−10	35
−41	25	−17	49	8	15	—	1	−25	33
240	246	252	95	177	105	56	−22	19	12
...	−31	...	−14	...	−10	...	−1	...	−3
−113	31	53	—	12	18	44	−23	−4	5
192	350	101	79	169	100	−1	—	−67	−22
25	7	188	170	70	94	1	18	117	58
210	155	1,262	1,713	733	664	42	338	487	711
192	133	527	601	370	226	−18	147	174	228
16	6	415	601	237	278	7	75	171	249
—	17	239	439	86	161	52	98	100	180
2	−1	81	72	39	−1	1	18	42	54
108	4	434	388	268	232	128	201	37	−46
29	−6	−46	2	26	63	21	29	−92	−91
80	10	479	386	243	169	107	171	129	46
857	959	2,408	2,604	1,605	1,285	219	570	584	749

lumber and cork, division 24; textile fibres and waste, division 26; mineral fuels, section 3; chemicals, section 5; metals and metal products, section 7 and divisions 68 and 69; base metals, division 68; machinery, divisions 71 and 72; transport equipment, division 73; manufactures of metals, division 69; other manufactured goods, sections 6, 8, 9, less divisions 68, 69; textile yarn and fabrics, division 65.

private capital, largely short-term and medium-term credits by banks and net sales of new foreign bonds in the United States, amounted to about $1.1 billion during the year. Imports of goods and services, although they accounted for only half of the rise in total payments, increased by over 10 per cent, which, as noted above, was substantially greater than the rate of increase of domestic output and income.

There was a marked change, however, in the relationship between total United States receipts and total United States payments during the fourth quarter of 1956, when there was an excess of receipts over payments for the first time since the beginning of 1952. As a consequence, gold and liquid dollar holdings of other countries were drawn down during the fourth quarter, due to transactions with the United States, by about $300 million, compared with average increases of nearly $430 million per quarter during the first three quarters of the year. Only part of this shift can be attributed to seasonal factors.

It is not entirely clear how much of the change in the fourth quarter can be attributed to the Suez crisis. Exports of petroleum products increased by about $100 million over the third quarter and imports of crude

Table 73. Export and Import Unit Value Indices and Terms of Trade
(1954 = 100)

Country	Export unit value		Import unit value		Terms of trade[a]	
	1955	1956	1955	1956	1955	1956
Belgium-Luxembourg	103	107[b]	100	103[b]	103	104[b]
Canada	102	106	101	103	101	103
Denmark	101	104	101	105	100	99
France	101	105	99	104	102	101
Germany, western	102	105	104	107	98	98
Italy	99	105	102	107	97	98
Netherlands	101	103	102	105	99	98
Norway	108	116	102	104	106	112
Sweden	104	104	100	105	104	99
United Kingdom	102	106	103	105	99	101
United States	101	104	99	102	102	102

Source: Organisation for European Economic Co-operation, *General Statistical Bulletin.*

[a] Exports over imports.
[b] Average of eleven months.

petroleum from the Middle East dropped by over $20 million. Travel and transportation expenditures also apparently fell off slightly. But as a partial offset, incomes from United States direct investment in the Middle East were smaller than would otherwise have been expected, and incomes from European investments also seem to have been lower. The identifiable short-run effects of the Suez crisis on the current and capital accounts of the United States balance of payments (excluding, however, unrecorded capital transactions) appear to involve a shift of less than $200 million. Moreover, after allowance for the waiver of $81 million due in interest from the United Kingdom, the effect is reduced to about $100 million.[16]

Among other factors accounting for the change in the balance of payments in the fourth quarter, the largest was the continued rise in merchandise exports. Even omitting the $100 million of oil shipments that can be attributed to the Suez crisis, merchandise exports were over 20 per cent higher than in the corresponding quarter of 1955. These more than offset the continuation of private net capital outflows at an extremely high level ($880 million in the fourth quarter of 1956, bringing the total for the year to $2,750 million, as against $1,150 million in 1955).

It seems likely, therefore, that while the Suez crisis played an important part in changes in balances of payments with the dollar area in 1956, longer-run forces may also have been at work. These include the general rise in economic activity abroad, the continuing reduction of discrimination against imports from the dollar area, the food surplus disposal programme of the United States and the tendency to look upon North America as the ultimate source available in case of emergency to make good deficiencies arising elsewhere—such as the deficiencies in coal and foodstuffs in western Europe in 1956.

There were both favourable and unfavourable elements in the evolution of western Europe's balance of payments position in 1956. On the positive side should be recorded the recovery of the balance of payments in those countries which had encountered difficulties in 1955, particularly Norway and the United Kingdom. Against this must be set the deteriorations in the Netherlands and especially France, reflected in the trade balances shown in table 74, and the persistence of the problems resulting from the high level of western Germany's export balance.

In Norway it was the invisible account that contributed chiefly to the recovery, and in the United Kingdom it was the visible account. Although the volume of Norway's exports of goods increased much more than its imports, due to the reduction in domestic demand pressures, a much more important factor in the virtual elimination of the deficit on current account was a steep rise in freight earnings. In the United Kingdom, on the other hand, the net result of various offsetting movements in the invisible account was little change in the aggregate, so that the 1956 recovery was due almost entirely to the fact that imports of goods were held down by the levelling off in domestic demand while exports of goods continued to rise. The surplus thereby generated was more than sufficient to finance a net outflow of long-term investment that was somewhat higher than in 1955; in fact, the balance on current and long-term capital accounts taken together improved from a deficit of nearly $680 million in 1955 to a surplus of nearly $120 million in 1956.

In the second half of 1956, however, the balance on current and long-term capital account moved into deficit largely owing to a temporary break in confidence associated with the Suez crisis, resulting in heavy capital outflows and reductions in the sterling holdings of non-sterling countries. The large losses of gold and dollars which resulted prompted a decision to reinforce the reserves by obtaining credits to a total of over $1.2 billion which could be drawn upon if occasion arose.[17] Together with applications for a waiver of interest by the Canadian and United States Governments on the post-war loans, these measures sufficed to end speculation.

Table 74. Trade Balances of Industrial Countries
(Millions of dollars)

Country	*1954*	*1955*	*1956*
Austria	−43	−188	−125
Belgium	−235	−54	−101
Denmark	−207	−121	−200
France	−40	173	−1,014
Germany, western	677	342	741
Italy	−801	−854	−1,012
Netherlands	−444	−521	−850
Norway	−436	−547	−438
Sweden	−193	−271	−266
Switzerland	−75	−182	−324
United Kingdom[a]	−1,677	−2,407	−1,598
Canada[b]	−149	−365	−858
United States[b c]	1,880	2,169	3,945

Source: United Nations, *Monthly Bulletin of Statistics*, May 1957; United States Department of Commerce, *Total Export and Import Trade of the United States.*

[a] General trade, not including re-exports.
[b] Imports f.o.b.
[c] Imports for consumption; exports of United States merchandise, excluding types I and II special category.

In France and the Netherlands, the deterioration in the balance of payments position resulted in substantial depletions in the gold and foreign exchange reserves accumulated in the previous years of the present up-

[16] United States Department of Commerce, *Survey of Current Business*, March 1957.

[17] Some $560 million were drawn from the United Kingdom's quota in the International Monetary Fund, and arrangements were made for a further standby credit from the Fund and a line of credit from the United States Export-Import Bank.

swing, when domestic demand in these two countries had been growing less rapidly than elsewhere. The loss in reserves in 1956 was particularly large in France, declining by about one-third in the course of the year. While the foreign exchange reserve position of these two countries was relatively stronger than that of the countries which had run into difficulties in 1954 and 1955, and therefore provided them with a somewhat greater freedom of action in the short run, it was clear by the beginning of 1957 that measures would be required, especially in France, to arrest the deterioration in the external sector of the economy. Canada—the third of the countries referred to earlier as having experienced a significant deterioration in the balance of trade in 1956 — was not confronted by the same sort of problem as France and the Netherlands. This was because the large rise in the deficit on current account was matched by a sharp increase in the rate of capital inflow.

The drop in western Germany's export balance in 1955 in response to a rise in domestic demand pressures proved to be shortlived. The marked slowing down in the rate of increase in domestic demand, especially investment demand, in 1956 resulted in a recovery of the export balance to new high levels. Moreover, the balance was increasingly focused upon other members of the European Payments Union. This was due partly to the relatively higher level of demand obtaining in other countries in western Europe and partly to the further liberalization of western Germany's imports from the dollar area, which tended, to some extent, to replace imports from members of the European Payments Union or their affiliated currency areas. Thus the improvement in the total current balance of western Germany accompanied a deterioration in the balance with the dollar area. Although western Germany liberalized exports of capital, outflow of long-term capital remained much too small to contribute significantly to the solution of its surplus problem. In fact, such long-term outflows were probably more than offset in 1956 by short-term inflows of capital accompanying speculation against sterling and the French franc. These developments imposed great strain on the European Payments Union, where western Germany accounted for an even larger proportion of gross surpluses in 1956—as much as 80 per cent—than the French proportion proportion of gross debits—which was roughly one-half. This polarization of surpluses and deficits in western Germany and France could continue only as long as France was in a position to finance the corresponding gold or dollar settlements.

Policies for Stability and Growth

The continued expansion of economic activities in the industrial countries in 1956 was marked by upward pressures on prices. While the rate of expansion in production slowed down, the rate of advance in prices increased. This phenomenon was remarkably widespread. It was true in those countries where economic expansion had continued for three or more years and in those where the duration of the upswing was still relatively short; it was true in those countries where boom conditions prevailed and in those where production had ceased to increase.

At the same time the balance of payments situation remained precarious in the United Kingdom and the Scandinavian countries despite slight improvements made possible mainly by restricting domestic demand. Furthermore, in the course of 1956 a number of countries, notably France and the Netherlands, which had been free from balance of payments difficulties, began to be concerned with the rapid deterioration of their payments position.

The outstanding feature of policy measures was therefore restraint, whether the major problem was internal stability or external balance. The list of countries which did not follow the wave of restrictive measures dwindled. Belgium and France, which had seen little need to moderate expansionary forces in previous years, emerged with new measures of control, leaving Italy the only major industrial country not restricting expansion. Countries which had introduced restrictive measures earlier tended to consolidate and broaden these measures. A great variety of techniques and instruments—monetary and fiscal as well as more direct and selective ones—were called upon to serve policy objectives.

The appearance of signs of some slackening of activity since the latter part of 1956 has not so far brought about any major reversal of policy. In western Germany and the United Kingdom, where a slight relaxation was discernible, the authorities cautioned against any interpretation of this as a signal for an expansionary policy. In Japan restraining measures were introduced in 1957 for the first time in the current expansion.

Rise in prices and wages

Although the creeping advance of prices had been evident in earlier years of the present upswing in most industrial countries, the year 1956 was characterized both by the widespread occurrence of price advances and by the relatively high rates of increase, as shown in table 75.

There was not a single case where prices did not advance. Nor was there a case where the rate of advance did not speed up or at least equal that of the previous year. This was true despite the fact that in the second half of the year the rate of increase in consumer prices diminished as compared with the corresponding period

Table 75. Changes in Prices and Wages, by Country

(Percentage change from corresponding period of preceding year)

Country and year	Implicit price of gross national product	Import prices	Consumer prices		Hourly earnings in manufacturing
			Food	All items	
Denmark:					
1954	2	−3	4	1	4
1955	4	1	7	6	4
1956	...	4	5	6	6[a]
United Kingdom:					
1954	2	−1	3	2	6
1955	3	3	7	4	8
1956	6	2	...	6	8
Italy:					
1954	2	−2	3	3	4[b]
1955	2	2	3	3	4[b]
1956	3	5	4	5	6[b]
Norway:					
1954	3	−2	8	4	5
1955	4	2	—	1	6
1956	6	2	5	4	8
Sweden:					
1954	—	−1	—	1	4
1955	4	—	5	3	7
1956	5	5	8	5	8
Netherlands:					
1954	5	−5	4	4	11[b]
1955	2	2	2	2	5[b]
1956	2	3	3	2	3[b]
Japan:					
1954	3[c]	−4	8	6	6[d]
1955	—[c]	−2	−3	−1	3[d]
1956	...	3	−1	1	10[d]
Germany, western:					
1954	—	−4	2	—	2
1955	2	4	2	2	7
1956	3	3	2	3	9
Belgium:					
1954	1	−4	3	1	1[b]
1955	2	—	−1	—	1[b]
1956	...	2[a]	2	3	13[a b]
France:					
1954	1	−2	−2	—	6[b]
1955	2	−1	1	1	8[b]
1956	4	5	2	2	8[b]
Canada:					
1954	1	—	—	1	4
1955	2	1	—	—	3
1956	4	2	1	1	5
United States:					
1954	1	3	—	—	2
1955	1	−1	−2	—	4
1956	3	3	1	2	5

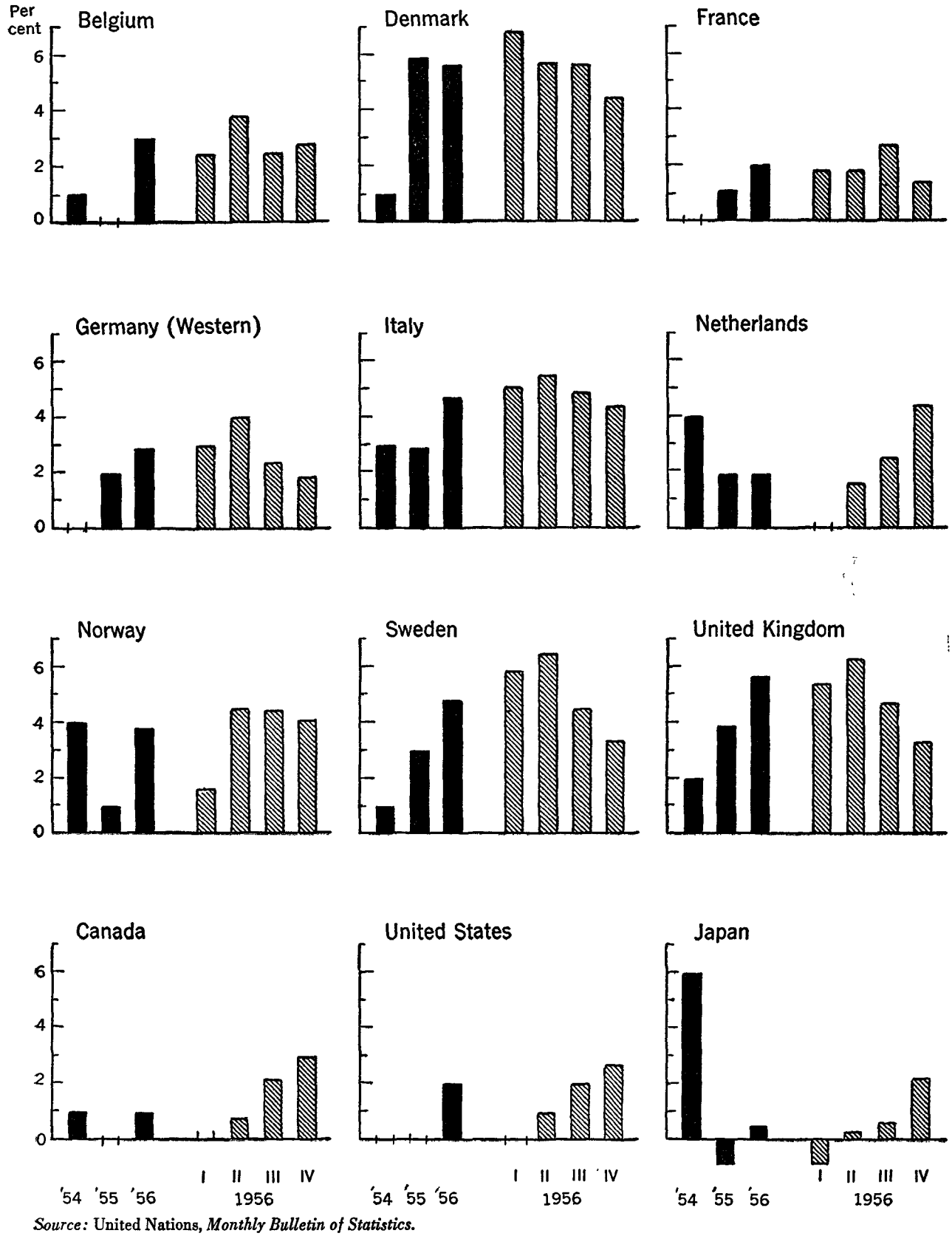
Source: Organisation for European Economic Co-operation, *General Statistical Bulletin*, and United Nations, *Monthly Bulletin of Statistics*. See also source to table 63. Countries are arranged in descending order of percentage rise of consumer prices from 1953 to 1956.

[a] Three quarters.
[b] Hourly rates.
[c] Implicit price of national income.
[d] Monthly.

of the previous year in a majority of countries in western Europe — with the notable exception of the Netherlands and Norway. In North America and Japan the upswing of prices in the second half was stronger, partly owing to the fact that the price level in the previous year had been stable (chart 21). The year 1956 thus saw the first serious threat to general price stability since the Korean boom. But in contrast with

Chart 21. Changes in Consumer Prices, Selected Countries

(Percentage change from corresponding period of preceding year)



Source: United Nations, *Monthly Bulletin of Statistics.*

that period, and in spite of the Suez crisis, the price rise did not originate from import prices nor was it characterized by an upswing of primary product prices or by speculative inventory accumulation. The rate of rise in import prices in most industrial countries remained considerably below that of other prices despite the sharp increase in freight rates. At the same time, the stabilizing influence exerted by declining import prices in the post-Korean years was missing; the stability of import prices for imported foodstuffs was, moreover, hardly reflected in domestic agricultural prices, which were largely sheltered from world price movements.

A closer examination of the components of consumer prices reveals that the rise can be traced largely to the food and service items. The importance of the food components in consumer price indices is well known. Although food supply in western Europe was adversely affected by a severe winter, there was no difficulty in meeting the deficiency. Since import prices of foodstuffs imported into western Europe were actually lower in 1956 than in the preceding year, the rise in food prices was of domestic origin. In the United States the decline in food prices in previous years was reversed, although the drop in the prices of farm products was only halted. Only in Japan did food prices, following a succession of bumper crops, continue to exert a stabilizing influence on over-all consumer prices.

The rise in the price of services was in most cases conspicuously higher than in other components. It reflected mainly a readjustment toward a level more in line with other prices. In sectors where prices were free to fluctuate, the readjustment had been going on fairly continuously at least since war-time controls had been removed. In fields such as rent, the adjustment took place more abruptly in a number of countries, mainly as a result of deliberate policies of decontrol. The adjustment was only partial, however, and did not entirely eliminate the inherited lag of rents behind other prices; indeed further increases were usually projected into future years.

The rise in the cost of living figured prominently in demands for wage increases; this was partly reinforced by anticipation of further increases in prices. In certain countries, such as Belgium, Denmark and France, there was a long established, nation-wide link between prices and wages. In others, provisions for automatic wage adjustments to changes in cost of living covered an increasingly larger number of employees. Even where no automatic adjustment was provided, certain labour contracts provided for renegotiation if the cost of living rose beyond a certain level.

The rise in money wages or hourly earnings cannot, however, be entirely explained by price movements. In fact, it was at a higher rate than the rise in prices in 1956 and even higher than the rise in the previous year as can be seen in table 75. There was thus a rise in real hourly earnings, which was in the main reflected in higher real annual earnings, except where the reduction of the work week was significant, as in Belgium. In assessing the factors responsible for the rise in earnings, however, it should be noted that the data do not measure wage rates alone but are also influenced by changes in overtime, which is paid at a higher rate than straight time, changes in the industrial structure, increases in piece-rate earnings, and improvements in certain fringe benefits,[18] which have figured importantly in recent labour contracts.

The rise in wage costs as indicated by hourly earnings tended in turn to exert an upward pressure on prices. This rise, however, was offset to a greater or less extent by increased productivity, which correspondingly reduced the wage cost per unit of output. Thus, in countries where hourly earnings rose at a substantial rate —as in western Germany, France, Italy and Japan—the upward pressure on prices was not conspicuously high since productivity also advanced rapidly. In the majority of countries, however, the rise in hourly earnings tended to be higher than that in productivity, and in some extreme cases productivity even deteriorated. In such circumstances the rise in wage cost per unit of output could not fail to exert an upward pressure on prices, except to the extent to which it was offset by a drop in the profit margin.

The current boom has indeed been characterized by an increased pressure on profit margins in a number of cases, and in some instances, such as the United States, a decline in margins was evident in many industries in 1956. It is doubtful, therefore, barring a serious recession, whether any further relief on prices by a profit squeeze is likely to be forthcoming.

Measures of restraint

Reliance upon monetary policies which had been introduced in many industrial countries in the previous years continued in 1956. A general picture of the timing and of the choice of a variety of techniques by different countries may be gained from table 76. It may be noted that the Scandinavian countries and the United Kingdom, which began their current expansion at an early date and experienced balance of payments difficulties, led in the application of restraining policies. It is also clear that the same countries adopted rather stringent monetary as well as fiscal policies, unequalled by most other countries.

Discount rates were further raised in the course of 1956 in Canada, western Germany, Sweden, the United Kingdom and the United States. In the Netherlands, where the rate had been kept at a comparatively low level in previous years, a series of upward revisions were instituted to arrest short-term capital outflow

[18] Not all fringe benefits are included in earnings data.

Table 76. Changes in Selected Monetary Restraints, by Country

Country and item	1954	1955				1956				1957[a]
		First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	
Denmark:										
A—Discount rate	A		A							
B—Bank reserves										
C—Bank advances	C		C					C		
D—Consumer credit	D									
United Kingdom:										
A—Discount rate	*A*	A				A				*A*
B—Bank reserves										
C—Bank advances			C	C						
D—Consumer credit	*D*	D		D		D			*D*	
Norway:										
A—Discount rate		A								
B—Bank reserves		B			B				B	
C—Bank advances					C			C	C	
D—Consumer credit										
Sweden:										
A—Discount rate			A						A	
B—Bank reserves			B							
C—Bank advances				C		C	C			
D—Consumer credit		D								
United States:										
A—Discount rate	*A*		A	A	A		A	A		
B—Bank reserves	*B*									
C—Bank advances										
D—Consumer credit										
Canada:										
A—Discount rate		*A*		A	A		A	A	/	
B—Bank reserves					B		B			
C—Bank advances					C					
D—Consumer credit					D				J	
Germany, western:										
A—Discount rate	*A*			A			A	*A*		
B—Bank reserves				B						
C—Bank advances										
D—Consumer credit										
Belgium:										
A—Discount rate				A					A	
B—Bank reserves										
C—Bank advances							C			
D—Consumer credit										
Netherlands:										
A—Discount rate						A		A	A	
B—Bank reserves	B									
C—Bank advances				C						
D—Consumer credit							D			
France:										
A—Discount rate	*A*									A
B—Bank reserves								B		
C—Bank advances										
D—Consumer credit								D		D
Japan:										
A—Discount rate										A
B—Bank reserves										
C—Bank advances										
D—Consumer credit										

Source: United Nations Bureau of Economic Affairs. Countries are listed in descending order of the time of the raising of the discount rate during the 1954–1957 period. The letters A, B, C, D denote introduction of more restraint in the discount rate, bank reserves, bank advances or consumer credit, respectively. Italic letters denote relaxation of such monetary restraints.

[a] Up to May.

stimulated by interest differentials and to slow down the pace of expansion as deterioration in the balance of payments exceeded expectations. In Belgium the low bank rate, which had been designed partly to encourage capital outflow to reduce excess liquidity created by an active trade balance, was revised upward in December when a continued trade surplus appeared to be less likely. In early 1957 the discount rate was raised in France for the first time since the Korean boom in concert with other restraining policies. In Japan an upward adjustment of the discount rate in 1957 signaled for the first time a policy of restraint as distinguished from previous adjustments for technical reasons. Only in western Germany did a reduction in the bank rate take place during the third quarter of 1956, when domestic expansionary forces appeared to have slowed down and a narrowing of the interest differential with other countries was considered desirable in view of a large balance of payments surplus. Signs of a further levelling of economic activity in the first quarter of 1957 brought about a second reduction. The United Kingdom also reduced the bank rate in the same quarter.

The high discount rates were accompanied by generally tight money conditions reflecting partly a brisk demand for money and credit and partly deliberate open market operations. The discount rate tended thus to bear a fairly close relation to short-term market rates, notably the Treasury bill rate. In the United States the relationship was made even closer by the practice of limiting open market operations to short-term bills. Perhaps the most explicit recognition of this close relationship was the official announcement by the Bank of Canada, in November, that, until further notice, the bank rate would from then on be automatically adjusted weekly to a fixed margin—one quarter of one per cent—above the Treasury bill rate. One purpose of this approach was to impress on the public that the tight money condition was not altogether a creation by the central bank but a phenomenon of excess demand for credit (unless counteracted by deliberate intervention by the central bank in the provision of the credit base). Consequently, changes in bank rates had no more significance than those in market rates and had little psychological or "announcement" impact. In the United Kingdom, the lower bill rate in the latter part of 1956 paved the way for a subsequent lowering of the bank rate in 1957.

The same close relationship did not appear to exist between short-term rates and long-term rates. In those countries where short-term rates had risen rapidly and to a historically high point since pre-war years, the long-term rates tended to lag behind. In extreme cases, such as the United Kingdom, Canada and the United States, some short-term rates had climbed above long-term rates and consequently important changes in the pattern of interest rates had occurred. This changed pattern partly reflected the expectation that the current rise in interest rates would not be altogether permanent and that undue fluctuations in the long-term rates, particularly in the quotations of government bonds, should be avoided. The implication of this lag was that the restraining effect of a hard money policy on long-term investment was not nearly so drastic as the official discount rates might suggest.

For certain long-term rates the lag did not always reflect the market forces. Some rates were out of line because they were fixed or subject to certain maxima, and the flow of funds into such areas was naturally impeded. The rates on government savings bonds, for instance, in the United States remained fixed until very recently. Similarly, the maximum rates on government insured mortgages and on certain local or state borrowings fell behind the market in the United States and Canada. Certain low rates of interest were, however, only apparent. Devices such as informal discounts, deposit requirements and service charges raised the effective rates. The reported long-term rates based on existing bond yields, moreover, did not fully reflect the more sensitive rates of new issues. In a number of western European countries, such as Denmark, France, Italy and Norway, whose discount rates remained unchanged in 1956, long-term rates of interest showed a tendency to advance.

Legal reserve requirements were not raised further, since the excess reserves of the banking system of most countries had already been cleared up in previous rounds of credit restraint. In cases where bank liquidity was considered excessive either because of large foreign balances or capital inflows or because of fiscal deficits, there was a tendency to resort to directives to the banks or agreements with them to maintain or tighten certain liquid reserves, as in Canada, France, western Germany, the Netherlands and Norway. The directives or agreements often went beyond the tightening of liquidity positions. Outright limits to the volume of bank credit were in force or were introduced in the United Kingdom and the Scandinavian countries. Various degrees of persuasion with respect to the quality of bank credit were also applied.

One particular sector singled out for specific control was consumer credit, which had expanded phenomenally in recent years. The raising of down-payments, the shortening of repayment periods and restrictions on bank loans to instalment finance companies were imposed in various degrees in Canada, France, the Netherlands, Sweden and the United Kingdom. The restrictions on hire-purchase of automobiles were relaxed in the United Kingdom towards the end of the year, however, when the continued effect of credit restraints and the impact of petroleum rationing intensified the sharp drop in demand for automobiles already evident prior to the Suez crisis. In the United States the sharp fall in demand for automobiles in 1956 had moderated the rise in total consumer credit. Restrictions on consumer credit introduced in previous years

were not reimposed although the subject was under active consideration by the authorities.

Credit restraint was not always applied to public enterprises to the same extent as to the rest of the economy since their credit was often derived from special institutions. Efforts were made, however, for closer supervision of their loans and expenditures. In the United Kingdom the capital needs of public enterprises were to be met by advances from the Treasury.

Taking the industrial countries as a whole, the unmistakably restrictive monetary polices outlined above were not matched in the field of fiscal policies, although in a few countries fiscal restraints tended to play a more important role. In the first place, it was not always certain whether the final budget results were those actually intended. A higher rate of growth in economic activity than expected frequently resulted in larger surpluses or smaller deficits than intended since revenues rose automatically, while upward revisions of expenditures tended to lag behind. This was the situation in Canada and Japan, which experienced a greater expansion than foreseen. The inverse was apparently true in the United Kingdom. In the second place, expenditures tended to be determined in the light of broad social policy rather than from the point of view of inflationary or deflationary policy. Thus, public social expenditures, particularly in pension and other social security schemes, expanded in most western European countries despite a general policy of restraint. Furthermore, tax deductions or subsidies were sometimes made on grounds of equity or for special purposes.

Nevertheless, most government budgets in 1956 tended to make a smaller claim on total resources, the budget of France, however, being an outstanding exception. Further, they tended to maintain a rough balance or to accumulate a larger surplus. In Sweden the objective of financing the entire capital budget from current surplus was realized. In the United Kingdom deliberate efforts were made to cut expenditures across the board. Most of the proposed budgets for 1957 or 1958 indicated a greater restraint, particularly in Belgium, France and the Netherlands. A sizable cut in the defence budget in the United Kingdom made possible a larger surplus despite a reduction in taxes. In the United States certain public works programmes were postponed to avoid competition with private activities for resources.

Among the fiscal measures intended specifically to discourage investment were the removal, partly or wholly, of rapid depreciation allowances or the imposition of investment taxes. In the Scandinavian countries, where the investment boom had taken place at an earlier date than in other industrial countries, most of these measures had been introduced in previous years and were later strengthened. In the United Kingdom the disincentive measures were supplemented by stricter scrutiny on the part of the Capital Issues Committee and by extending hire-purchase restrictions to capital purchases by industry. In the United States, although the rapid depreciation allowances were connected with projects bearing on national security, the gradual fulfilment of the objectives and perhaps tighter administration of the allowances in 1956 tended to moderate the stimulus to investment. The claims that changes in indirect taxes and subsidies were a part of disinflationary policy rested on quite divergent grounds, depending on whether the main concern was demand pressure or cost pressure. This is due to the dual role of indirect taxes or subsidies. When the emphasis was on the restraint of over-all demand by means of increasing revenues or public saving—as well as restraining particular demand for the taxed commodities—indirect taxes were raised or subsidies reduced, as in the United Kingdom in 1956 and the Netherlands in 1957. Such measures tended, however, to contribute to a rise in cost pressure which in turn could stimulate a price spiral.[19] When the emphasis was on the restraint of cost pressure, on the other hand, indirect taxes were reduced or subsidies increased as in Belgium and France. These measures were often timed to forestall an impending rise in the cost of living index beyond a critical point above which important wage rates would have to be raised, but though they tended to arrest or at least slow down a fresh round of price-wage increases, they also stimulated private demand. In certain countries, where the balance of payments problem was not a consideration, such as western Germany in 1956, reductions of import levies or liberalization of imports contributed to mitigate domestic price pressures. Similar measures taken earlier in France were reversed in 1957 owing to rapid deterioration of the international payments position.

A more drastic measure adopted in some countries was a price freeze. In order that it might be administratively feasible, the freeze was limited in France to industrial goods, whereas most agricultural goods as well as imported goods were exempted from it. In Norway the price freeze was limited to certain types of goods, notably those in which competition was restricted. In the Netherlands prices could not be increased without official sanction. Obviously such a freeze could not be maintained for long unless costs were maintained within reasonable ranges and defensive measures by private business in the form of shortages and quality deterioration did not become prevalent. In Belgium proposals for price control were not carried out owing to widespread opposition.

The price control programmes were usually also aimed at some control of profits as well as wages. In Norway a profit freeze was introduced simultaneously

[19] There was perhaps less fear of a cumulative spiral in the Netherlands than in most other industrial countries owing to a high degree of national discipline concerning wages and prices noted below.

with the price freeze mentioned above. In France and the Netherlands corporation taxes were increased.

In the majority of cases profits and wages continued to be determined by market forces and the authorities limited themselves to moral persuasion for moderation. An interesting example of centralized collective bargaining was provided by Sweden. In the spring of 1956 the Government exercised great pressure on the trade unions in their wage demands and indicated that the rise in wages should be less than that in the cost of living, declaring that if the wage rate should rise more than 3 to 4 per cent, the Government would counteract the potential increase in demand by levying consumption taxes. Although the final outcome of the negotiation was within the limits set by the Government, the subsequent rise in earnings in 1956, as in 1955, was considerably higher than that provided in the wage settlement. In 1957 the wage settlement provided for the first time a two-year contract, with a moderate increase of 2 per cent in wages in that year and a 2.5 per cent rise in the subsequent year when the work week is to be reduced.

Perhaps the most interesting experiment in wage negotiation on a national level was that in the Netherlands. On an earlier occasion the wage earners had agreed to an absolute reduction in real wages by as much as 5 per cent in response to a need to reduce internal demand. In the negotiations in March 1956 the Government permitted the payment of a lump sum bonus amounting to a maximum of 3 per cent of the wage bill of the preceding year, provided that it was paid out of profits. Furthermore, wage increases up to 6 per cent were to be submitted to the Government for approval. No wage increases over 3 per cent could be passed on in the form of higher prices, and no wage increase of up to 3 per cent could be passed on without approval by the Government. Toward the end of the year a stricter principle was introduced so that no wage rise should be a justification for asking a price increase.

Despite the proliferation of restraining policy measures in 1956, attempts to resort to quantitative restrictions on trade and exchanges were conspicuously absent in nearly all countries, including those whose balance of payments position was weak or deteriorating. Some further liberalization of trade and exchange controls was indeed evident, and the reduction of trade discrimination continued.

Impact of restraining measures

It is evident that the tight monetary policy, supplemented to a limited extent by fiscal operations, brought about a slowing down of the rate of increase and in some instances even absolute reductions in money supply (see table 77). Increases in bank ad-

Table 77. Changes in Money Supply and Commercial Bank Credits, by Country

(Percentage change from corresponding quarter of previous year)

Country and item	1955				1956			
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
Denmark:								
Money supply	−3	−5	−4	1	3	3	3	2
Bank credit	5	1	1	2	3	4	5	6
United Kingdom:								
Money supply	2	1	—	—	—	−1	—	1
Bank credit	15	19	9	−2	−6	−10	−6	3
Norway:								
Money supply	3	−2	−3	2	−1	—	2	3
Bank credit	10	6	4	3	3	3	4	−2
Sweden:								
Money supply	3	1	—	1	2	1	2	7
Bank credit	9	3	—	−5	−7	−2	−1	1
United States:								
Money supply	5	4	2	3	2	2	1	1
Bank credit	8	12	16	16	17	17	13	10
Canada:								
Money supply	7	12	9	6	4	2	1	—
Bank credit	−2	3	10	19	27	26	18	10
Germany, western:								
Money supply	12	12	11	10	10	10	8	7
Bank credit	17	20	13	16	11	11	14	5
Belgium:								
Money supply	4	3	5	6	4	5	5	3[a]
Bank credit	8	12	10	17	12	9	9	10[a]
Netherlands:								
Money supply	6	5	9	8	6	3	—	−4
Bank credit	...	...	...	21	20	25	20	14

Source: International Monetary Fund, *International Financial Statistics;* Organisation for European Economic Co-operation, *General Statistical Bulletin.* Data refer to end of quarter. Countries are arranged in the same order as in table 76.

[a] November.

vances also slowed down in a number of countries, although here the picture was less general. In those countries where absolute limits were imposed on bank credit, notably Sweden and the United Kingdom, bank advances declined conspicuously.[20] In such cases, even when the early decline in bank liquidity was reversed, the excess liquidity could not be turned into bank advances as long as the quantitative limitation on them was not removed.

The moderation in the supply of money and bank credit did not have an immediate and direct effect on aggregate demand. Considerable scope existed for a more intensive utilization of liquid funds as indicated by a general quickening of money and deposit circulation. Idle balances and funds of non-banking institutions which were not subject to the same strict control by the authorities were brought into more active use. By and large, therefore, aggregate demand was resilient against financial pressures. In fact, few policies were intended to bring about an immediate fall in demand, since the aim of most restraining policies was mainly to "lean against the wind" or to prevent an explosive situation. The need for monetary expansion in an expanding economy was explicitly recognized, in Canada and the United States, for example, and seasonal needs were particularly provided for to avoid inconvenience.

The cushioning power of the financial system tended to weaken, however, as the monetary restraints continued in effect. More rapid turn-over of money and of deposits became less convenient; frequent resort to borrowing from the central bank violated concepts of sound practice; the liquidity position of non-bank lenders and businesses began to decline. The effectiveness of restraints thus tended to increase after an initial lapse of a few months. This appeared to be the situation in most countries where restraining measures had had sufficient time to operate.

The impact of the restraints on residential building was significant in most countries. The general levelling off in residential construction or its actual decline has been examined in a previous section. In most western European countries, where housing depended importantly on government subsidies, their removal or reduction, begun in 1954 or 1955, naturally discouraged building. Also significant, in view of the long life expectancy of houses, was the rise in mortgage rates. In contrast, housing investment continued at a relatively high rate in those countries where special efforts were made to facilitate such investment, as in Sweden, where housing loans were deliberately exempted from quantitative controls, and in the Netherlands, where licensing was revised to make efficient use of scarce resources. In Canada and the United States, where the high level of residential construction played a particularly important part in overcoming the 1953/54 recession, the effect of the shift to a hard money policy was evident in the reduced availability of government-insured mortgage credit.

The slowing down or decline of residential construction helped most countries to release resources for industrial building and other construction in general. Likewise, the restraining effect of policies on capital expenditures of state and local authorities helped to moderate, if not change, the historical pattern that such expenditures tend to rise during a cyclical upswing. On the other hand, some concern was expressed that projects deserving priority, from a social point of view, such as public health, school buildings and transport facilities, might be unduly curtailed. In Canada and the United States, although state and local expenditures continued to reach new highs, there was an indication that some of these capital projects were being postponed or abandoned on account of inadequate credit.

The impact on private capital investment other than housing is much more difficult to ascertain. In the first place, the sources and ways of financing are considerably broader, retained earnings usually providing for the bulk of investment needs, and large firms also could resort to the capital market as well as to bank and non-bank lenders. Moreover, interest charges are comparatively minor in manufacturing costs and when demand is high the added costs may be passed on to the consumer. In addition, investment programmes begun at an earlier period could not be changed abruptly. There was, therefore, a considerable cushioning effect before the tight money could affect private investment expenditures, though new investment decisions as distinct from actual outlays may have been affected more promptly.

Any evaluation of the anti-inflationary measures adopted by governments during the recent boom faces the almost impossibly difficult task of determining how far the events which have taken place can be attributed directly to these measures and how far there were inherent forces tending to work in the same direction. It is clear that in fact the pace of expansion was reduced and that inflationary excesses were avoided—both of which were objectives of government policy. In appraising the unusually orderly behaviour of the current expansion, however, it should be borne in mind that violently disequilibrating forces such as were typical of the early post-war and Korean boom periods have, in any case, been largely absent in the recent upswing. The slowing down of the expansion in 1956 might also be partly attributable to additions to capacity and completion of investment programmes. Yet the foregoing analysis suggests that the policy measures introduced played some part in restraining demand; and the substantial underlying strength of demand, in the aggregate or in certain key sectors, even in those countries where a slackening occurred, suggests that the upsurge might have been stronger and strains created by it more difficult to deal with if some restraint had not been applied.

[20] The picture in the United Kingdom is not altered by excluding bank advances to the nationalized industries whose capital borrowing had been channelled through the Treasury following the 1956 budget.

Where balance of payments difficulties had been encountered in 1955, as in the Scandinavian countries and the United Kingdom, they were eased in 1956—leaving aside, in this connexion, the purely short-term instability and speculation resulting from the Suez crisis. Here there was a further dimension to government policy. While in the interests of internal balance between investment demand and savings supply it was necessary only that domestic demand should be reduced to the level corresponding to available productive capacity, a restoration of external balance in any country faced with balance of payments difficulties also depended upon the extent to which domestic demand was being restrained in that country's trading partners. It seems doubtful whether government measures in the Scandinavian countries and the United Kingdom actually made allowances for anti-inflationary measures imposed in the rest of the world, but the circumstances proved in fact to be favourable for most of the countries. To a large extent this was because the economic restraints applied in North America were less severe than elsewhere so that at least part of the resources released by domestic demand in the deficit countries found their way into exports to North America and to other markets stimulated by the growth in North American demand. In so far as this result was accidental rather than contrived, it fails to yield clear lessons for any similar situation arising in the future.

Recent experience does, however, seem to point to a somewhat clearer conclusion in relation to the effect of the policies adopted on price stability. While the general curbs on demand no doubt contributed to the fact that a serious speculative upsurge in commodity prices was avoided, it is striking that the slowing down of economic activity in 1956 was accompanied by an acceleration of price increases. It is true that some governments were in a position to moderate such increases by allowing a larger volume of imports into the country or by raising subsidies or reducing indirect taxes. Obviously, however, the ability to employ the first of these measures depended on the strength of foreign exchange reserve positions in individual countries, while the direct effects of the latter measures on prices had to be weighed against their indirect effects through the expansion in demand which they implied. In a sense, moreover, the very tendency of governments to try to operate directly on the price level by such means as those indicated above implied the conclusion that general measures of fiscal or credit restraint could not bear the burden of price stabilization by themselves.

Economic Outlook for 1957[21]

The slowing down of economic expansion in the industrial countries in the course of 1956 has continued at the beginning of 1957. The pressure on prices and wages has not been materially eased and most of the restraining policy measures are still in force. While the outlook is clouded with uncertainties, no acceleration in economic activity is foreseen in the immediate future, nor is any serious recession envisaged.

There appear to be no significant disturbing changes on the supply side. Conditions approaching over-all full utilization of capacity and labour had already been attained by 1955 in most countries, and the situation of certain key supplies, such as fuel and steel, has not become tighter. On the whole, therefore, supply limitations are not likely to bring about a lower rate of expansion in 1957 than in 1956. Whether the new investment decisions taken in 1957 will be sufficiently high to ensure another prosperous year in 1958 is uncertain. As to the annual increment of labour supply, no special difficulty of absorption is expected in most countries, particularly in view of recent reductions in working hours.

On the demand side the general prospect is that the growth of demand continues to be restrained, but there appears no sign of any drying up of aggregate demand. Some slowing down in gross fixed investment is indicated in most countries. A continued rise in industrial investment and construction is likely to be partly offset by declines in residential building. Personal consumption is highly unpredictable, but with the rise in wages and transfer incomes a parallel increase is most likely. Present indications are that in a number of countries, such as western Germany and Japan, personal consumption has become a major expansionary force. The decline in demand for consumer durables, particularly automobiles, in countries such as the United Kingdom and the United States, appears to have been largely halted. In few cases is public consumption likely to play a major part in the expansion, but barring unforeseen sizable cuts in defence expenditures, a steady increase in demand from this sector is still the rule. As to the inventory situation, the contribution from this sector to the expansion has been on the whole minor and does not appear to be out of line with production or sales. A decline in the rate of accumulation of inventories in some countries at the beginning of 1957 has so far been mild and has gathered no cumulative downward movement. The rate of increase in exports is expected to fall in most countries since it was exceptionally high in 1956 in relation to domestic economic activity, but there is no indication of any drastic decline in exports for most industrial countries.

While conditions in individual countries vary greatly, the prospects are best indicated by the nature of recent developments. In western Germany, where the rate of expansion in 1956 was very high, some slowing down

[21] This section is largely based on the replies of governments to the United Nations questionnaire on full employment and balance of payments, November 1956.

was already evident in the course of 1956, and prospects are that it will continue in 1957. In Japan the deceleration expected in fiscal year 1956 has not materialized but in 1957 the economy may be faced with limitations of key supplies such as energy, transport and steel. Nevertheless, in both western Germany and Japan, the absolute rate of advance will probably remain higher than in most other industrial countries. The spread of the boom from export industries and investment into domestic consumption has been reinforced by a steep rise in wages and, in western Germany, by tax reductions and enlarged social payments. The decline in new orders in autumn 1956 appears to have been at least temporarily reversed, particularly in consumer goods industries. The unusually buoyant conditions in the first few months of 1957 were, however, largely due to warm weather, which stimulated general economic activity including that in capital goods industries, where signs of slackening were evident until then. The relative shift in the pattern of demand is not expected to weaken the export surplus of western Germany. But the payments surplus may be considerably reduced in Japan—a fact already emerging in the course of 1956—and might become an important consideration for restraining domestic demand.

In France and the Netherlands where industrial growth was at a relatively high rate in 1956, as compared with most other industrial countries, a tightening of domestic demand on account of balance of payments considerations and supply limitations may point the way towards a lower rate of expansion. Measures to restrain government expenditures have been introduced. Personal consumption is expected to be curbed in the Netherlands by higher tariffs on public services, and by higher indirect taxes and reduced subsidies, although a projected rise in rent will be compensated by a wage rise. In France, where many items entering the cost of living index are still subsidized, a rise in indirect taxes is centered on items outside the index and emphasis is put on levies on personal incomes and corporations.

Although the high rate of expansion in Canada in 1956 was also accompanied by a substantial trade deficit, no balance of payments difficulties were experienced as capital inflow more than compensated the deficit in the current account. Private and public investment activities, which were the chief expansionary force in 1956, are expected to slow down in 1957. Investment intentions at the end of 1956 indicated a 6 per cent increase in volume in 1957 over the preceding year as compared with a 17 per cent increase in 1956.[22] The slower increase reflected partly the fact that most of the programmes were started in 1955 or 1956 and are scheduled to be completed in 1957. The sectors contributing to the increase are chiefly fuel and power and transportation and communication industries while a further rise in non-residential construction will be largely offset by a decline in housing. A moderate increase in exports and a lower rate of accumulation of inventories are expected.

In the United States, where the over-all expansion in 1956 was moderate, the situation has remained relatively stable in the first few months of 1957 and current expectations are for the continuation of a modest advance during the year. Industrial production showed little variation in recent months, and inventories appeared to have levelled off after a steady accumulation in most of 1956. As new capacity has been added, rates of operation in certain key industries, such as steel, have fallen below capacity. On the other hand, government expenditures, particularly those of state and local governments, are likely to be more expansionary in 1957 than in 1956. Business investment in plant and equipment is expected to increase further above the high level reached in 1956, though at a much lower rate than the unusually high rate of increase achieved in that year. The slower rate reflects completion of large expansion programmes begun a year or two ago and a more divergent pattern of investment among industries than in 1956. The rate of expansion is relatively high in public utilities, transportation and manufacturing, while mining and commercial companies expect some decline. The levelling of investment in manufacturing was presaged by successively lower rates of increase in capital appropriations in each quarter of 1956 as compared with the corresponding period of the preceding year. The decline in residential construction in 1956 is likely to be extended into 1957, despite the possibility that the recent reduction, concentrated in units financed with mortgages underwritten by the Government, may be alleviated by measures making such mortgages more competitive and attractive. Surveys of consumer intentions indicate continued large consumer expenditures, which will be supported by a steady increase in disposable income.

Prospects for Norway and Sweden indicate continued expansion at more or less the same rate as in 1956. In Norway the exceptionally high rate of expansion for agriculture is not expected to continue for the year. Export demand remains particularly favourable for Norwegian mining products and shipping, although a substantial improvement in the terms of trade and the consequent gain in real income realized in 1956 are not likely to continue. A steady increase in both consumption and gross fixed investment has been envisaged in the budget. In Sweden the rate of increase in private investment was expected to match the moderate one of 1956, and signs at the beginning of 1957 indicate that it may become higher. Public investment is planned to increase substantially, owing largely to a reversal of the decline in local government expenditures. A further considerable rise in public consumption is also envisaged, while very little scope for a rise in private consumption is indicated. Demand for exports will continue to rise from the high level reached—though at a

[22] Department of Trade and Commerce, *Private and Public Investment in Canada, Outlook for 1957* (Ottawa).

lower rate than in 1956. With a lower rate of increase in imports, the balance of payments is expected to improve.

In Denmark and the United Kingdom the very low rates of expansion achieved in 1956 clearly indicate that the immediate prospect is limited by demand factors rather than by supply factors. The outlook is, however, dominated by efforts to strengthen the balance of payments. In Denmark industrial production at the beginning of 1957 has been maintained at the relatively high level reached in the autumn of 1956. Thus far the increase has been concentrated in the consumer goods industries. A moderate rise in investment, particularly housing, is anticipated. On the other hand, uncertainties and some weaknesses in prices of agricultural export products may prompt the authorities to continue to restrain over-all domestic demand although measures to encourage investment have been proposed. In the United Kingdom the drastic drop in automobile production is showing signs of a reversal, which first appeared in a recovery of demand for second-hand cars following a relaxation of hire-purchase financing. Private industrial investment, which was a main expansionary force in 1956, is likely to be maintained at a high level, but the rate of increase will be much lower. Total capital expenditure on building is expected to be slightly higher than in 1956; the decline in housing and industrial building is expected to be offset chiefly by increases in work for public authorities, including nationalized industries. New orders for machine tools were at a lower rate than deliveries in the second half of 1956, but the backlog at the beginning of 1957 is still about a year's production. A substantial reduction in defence expenditures is expected to result in lower government consumption, but the consequent tax relief may stimulate private outlays.

Chapter 5

RECENT TRENDS IN PRIMARY EXPORTING COUNTRIES

The main stream of foreign trade of the primary exporting countries connects them with the industrial countries to a much greater extent than with one another. In this respect, the flow of their trade differs markedly from that of the industrial group, within which intra-trade is much more important. A corollary to this is the fact that in the primary exporting countries import capacity—and hence, in part, standards of living and, more significant for economic growth, the rate of fixed capital formation—is governed in large measure by the demand for primary commodities in the industrial countries.

The Course of International Trade

After having increased in value by almost 12 per cent between 1954 and 1955, imports into the countries of North America and western Europe of all primary commodities—food, beverages, tobacco and crude materials, including fuels, oils and fats, and non-ferrous metals—increased by rather more than 9 per cent between the first half of 1955 and the first half of 1956. In monetary terms, this expansion was somewhat smaller than that of total imports into these industrial regions, but since the price index of primary commodities entering international trade declined in both periods and that of manufactures increased (see table 78), the expansion in real terms was of much the same order: about 9 per cent in both intervals. About two-thirds of the imports of raw materials and foodstuffs were derived from the primary exporting countries in each of the periods; the proportion was appreciably higher in North America and somewhat lower in western Europe, which—though more dependent on imports for its supplies of primary products—draws relatively more from eastern Europe and from the other industrial region, North America.

In tables 79, 80 and 81 an analysis is presented of the source of imports into the two principal industrial regions of certain categories of raw materials and foodstuffs. Imports of these categories constituted two-thirds of all imports of primary products during the period under review.

Imports into North America and western Europe of some of the raw materials used chiefly in the heavier industries—metal goods, engineering and chemicals, in particular—are shown in table 79. Though there is a certain amount of trade between the industrial regions in several items in these categories of raw materials—synthetic rubber and some of the metals, in particular—and considerably more trade within these regions, in ores as well as metals, yet in general the proportion of imports derived from the primary exporting countries is very substantial—90 per cent or more in the case of rubber and petroleum.

Almost all imports of crude petroleum come from the Middle East (about 70 per cent) or Latin America (about 28 per cent). During the period under review, however, North America drew about 70 per cent of these imports from Latin America, while western European imports were derived—to the extent of 85 per cent or more—from the Middle East. Between 1954 and the first half of 1956 there was a slight disposition for North America to import relatively more from the Middle East, while western Europe switched to Latin America. In the second half of 1956, the Suez crisis threw both regions into greater dependence on Latin American supplies.

The same tendency for North America to draw a much higher proportion of its imports from Latin America is evident in the case of base metal ores and metals as well. In 1954 just over half the imports that were drawn from primary exporting countries came from Latin America, compared with about a fifth each from Africa and south-eastern Asia. Moreover, the Latin American share tended to increase—to 60 per cent by the first half of 1956—at the expense of the other two regions. Western Europe, by contrast, drew a higher proportion of the imports of these categories of materials from Africa: just over half of the base metal ores that came from primary exporting countries and almost three-fourths of the non-ferrous metals. In this case also there was a tendency for the proportion coming from Latin America to increase—from less than one-sixth in 1954 to more than one-fifth in the first half of 1956. This movement was most pronounced among the non-ferrous metals and reflects in part the divergence in price trends during 1955, particularly for copper, and the resultant deflection of supplies, particularly from Chile, from the United States to Europe. The proportion of ores drawn from south-eastern Asia (about one-fifth) was much

Table 78. Price Indices of Primary Commodities Entering World Trade

(1953 = 100)

Category	1954	1955	1956	1955				1956			
				First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
All primary commodities	104	101	102	102	99	101	101	100	100	102	105
Foodstuffs	108	99	100	103	96	98	99	96	97	102	103
Beverages	141	107	107	120	103	104	102	100	103	113	112
Other[a]	95	95	96	95	94	96	97	95	95	97	99
Cereals	90	88	88	92	89	87	84	85	89	89	89
Sugar	96	96	102	95	97	97	97	98	100	100	111
Industrial raw materials:											
Agricultural raw materials	100	102	100	102	101	104	100	99	100	99	103
Fats, oils and oil-seeds	96	89	98	91	87	89	89	94	102	96	101
Wool	96	85	87	89	89	84	78	81	83	90	95
Other[b]	102	111	106	109	108	114	112	107	106	104	106
Other textile fibres[c]	107	104	96	109	105	103	98	96	99	91	96
Mineral raw materials	99	102	110	101	101	102	105	108	108	109	114
Metal ores and concentrates	95	104	112	100	102	105	108	113	111	111	112
Fuels	100	102	109	101	101	101	104	106	107	108	115
Manufactures	98	99	103	98	98	99	101	103	103	103	104
Terms of exchange[d]	106	102	99	104	101	102	100	97	97	99	101

Source: Statistical Office of the United Nations. Weights used are those of the value of the component commodities in world trade in 1950. For details see United Nations, *Supplement to the Monthly Bulletin of Statistics*, 1954.

[a] Including meat, fish, butter and eggs, as well as cereals and sugar.

[b] Including tobacco, rubber and hides, as well as "other textile fibres".

[c] Cotton, jute and flax.

[d] The command over manufactures exercised by one unit of primary commodities, relative to 1953.

Table 79. Imports into the Countries of North America[a] and Western Europe[b] of Selected Industrial Raw Materials, Group 1[c]
(Millions of dollars)

Source and period	Petroleum		Base metal ores		Non-ferrous metals		Rubber	
	North America	Western Europe	North America	Western Europe	North America	Western Europe	North America	Western Europe
All sources:								
1954	782	1,890	643	812	842	1,380	301	377
1955	911	2,048	687	1,005	968	1,805	496	655
1955 First half	421	1,016	299	450	423	845	239	275
1956 First half	516	1,130	355	579	540	1,019	251	348
Primary exporting countries:								
1954	744	1,854	484	401	398	548	281	324
1955	846	2,018	459	494	456	750	471	456
1955 First half	396	987	230	225	191	331	227	232
1956 First half	460	1,102	274	293	241	447	239	290
Latin America:[d]								
1954	560	136	264	65	212	83	1	2
1955	607	217	277	90	241	195	2	1
1955 First half	291	96	133	33	101	89	1	1
1956 First half	322	134	165	55	144	105	1	—
Africa:[e]								
1954	—	—	101	210	79	392	22	16
1955	—	—	76	267	96	475	37	32
1955 First half	—	—	48	131	36	205	15	14
1956 First half	—	—	52	151	39	302	20	16
Middle East:[f]								
1954	157	1,688	14	22	1	9	—	—
1955	213	1,745	19	28	—	13	—	—
1955 First half	94	867	11	10	—	5	—	—
1956 First half	126	958	10	21	2	9	—	—
Southern and south-eastern Asia:[g]								
1954	27	30	91	80	86	25	258	306
1955	26	56	71	81	97	25	433	423
1955 First half	11	25	33	38	46	12	211	217
1956 First half	12	10	35	53	43	14	218	273
Oceania:								
1954	—	—	15	24	20	39	—	—
1955	—	—	17	28	21	42	—	—
1955 First half	—	—	5	12	8	19	—	—
1956 First half	—	—	12	13	13	18	—	—

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D. Imports c.i.f. in all countries except Canada and the United States, where they are f.o.b., and "special" for all except Ireland and the United Kingdom, where they are "general."

[a] Canada and the United States.

[b] Austria, Belgium, Denmark, France, western Germany, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden and United Kingdom.

[c] Materials associated chiefly with durable goods industries.

[d] Including dependent territories in the region.

[e] Excluding Egypt.

[f] Including Egypt and Turkey.

[g] Excluding Japan.

the same as in North America, but only 5 per cent or less of metal imports came from this region: while North America imports mostly tin metal from south-eastern Asia, western Europe imports mostly tin concentrates.

The import pattern for rubber was much the same in the two regions: over 90 per cent of the supplies derived from primary producing countries—exclusively natural rubber—came from south-eastern Asia during the period under review. The most noticeable difference between North America and western Europe arose from the movement of synthetic rubber from the United States.

The distribution of some of the raw materials commonly used in lighter industries, such as textiles and footwear, is shown in table 80. On the average, about two-thirds of each of these categories of imports was obtained from primary exporting countries, the proportion being somewhat lower for western Europe, which draws a considerable supply of many of the constituent materials from North America. This is particularly true in the case of tobacco, for only a third of western Europe's imports come from primary exporting countries.

Of imports derived from primary exporting countries, Latin America contributed a significant share in

each category. Except in the case of hides and skins, it provided more of North America's imports than those of western Europe: of fibres a third, compared with a fifth; of oil-seeds, oils and fats, 30 per cent compared with 5 per cent; of tobacco 42 per cent compared with 15 per cent; of hides and skins, however, about 22 per cent of North American imports as against almost 30 per cent of those of western Europe. Africa,

Table 80. Imports into the Countries of North America and Western Europe of Selected Industrial Raw Materials, Group 2[a]

(Millions of dollars)

Source and period	*Natural fibres*		*Hides and skins*		*Oil-seeds, oils and fats*		*Tobacco*	
	North America	*Western Europe*	*North America*	*Western Europe*	*North America*	*Western Europe*	*North America*	*Western Europe*
All sources:								
1954	451	2,985	58	278	218	1,249	90	494
1955	520	2,793	64	272	204	1,259	93	504
1955 First half	277	1,540	34	136	106	634	46	195
1956 First half	281	1,537	45	154	102	756	49	202
Primary exporting countries:								
1954	325	2,082	45	164	139	757	69	162
1955	386	2,014	46	157	132	742	69	161
1955 First half	199	1,033	25	83	74	369	35	62
1956 First half	229	1,128	33	95	65	416	37	65
Latin America:								
1954	107	415	9	51	43	40	30	22
1955	145	349	11	41	38	43	28	24
1955 First half	71	161	7	23	22	26	15	10
1956 First half	103	244	7	29	22	21	15	15
Africa:								
1954	36	331	6	48	10	466	—	78
1955	30	293	8	41	15	422	—	73
1955 First half	19	149	4	21	10	213	—	18
1956 First half	14	146	4	25	4	244	—	13
Middle East:								
1954	42	298	6	9	1	26	37	23
1955	57	300	6	9	1	30	39	27
1955 First half	28	168	3	5	...	17	19	14
1956 First half	21	179	5	6	...	19	21	14
Southern and south-eastern Asia:								
1954	46	200	10	14	84	166	2	38
1955	53	235	10	13	77	196	2	36
1955 First half	28	131	5	6	42	89	1	21
1956 First half	36	138	5	6	37	107	1	24
Oceania:								
1954	94	839	14	51	—	59	—	—
1955	102	837	12	54	1	51	—	—
1955 First half	55	423	6	29	—	24	—	—
1956 First half	55	421	12	30	—	25	—	—

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D. For definitions of imports and regions see table 79.
[a] Materials associated chiefly with non-durable goods industries.

on the other hand, was a much less important source of North American supplies. During the period under review, it provided almost half of western Europe's imports of tobacco from primary exporting countries, but none of North America's relatively small imports; it provided about 60 per cent of western Europe's imports of oil-seeds, oils and fats, but less than 10 per cent of North America's. The contrast was less striking in the other two categories, but it was still very marked: in the case of hides and skins, the proportions were 28 per cent to 15 per cent; in the case of fibres, 15 per cent to 9 per cent.

The Middle East is, quantitatively, a less significant source of supplies of these categories of commodities. However, it provided over half of the imports of tobacco moving from primary exporting countries to North America and about a sixth of the imports into western Europe, as well as about one-seventh of imports of fibres into both regions.

Southern and south-eastern Asia provided about 60 per cent of the imports of oil-seeds, oils and fats into North America from primary exporting countries and about 25 per cent of those into western Europe. It

also supplied North America with 14 per cent of its fibre imports—mostly jute and abaca—and 22 per cent of its imports of hides and skins, and western Europe with 23 per cent of its tobacco imports, 11 per cent of its fibre imports and 8 per cent of its imports of hides and skins.

Oceania provided the industrial regions with about a third of their imports of hides and skins and of fibres, slightly less in the case of North America, slightly more in the case of western Europe.

Though the period is too short for the establishment of trends, there appears to have been a tendency for Latin America to have become more important and Oceania and Africa rather less important as a source of fibres for North America. The relative decline in wool prices may have been partly responsible for this, but apart from a slight reduction in the proportion of fibre imports from Africa, western Europe did not show the same trend. There was also a tendency for southern and south-eastern Asia to gain at the expense of Oceania as a supplier of oil-seeds, oils and fats to western Europe, and for the Middle East to gain at the expense of Latin America as a supplier of tobacco to North America. A similar tendency for Latin America to export relatively more tobacco to western Europe, and Africa relatively less, may have been caused largely by a rather steep decline in unit value of Southern Rhodesian exports and a late export season in 1956.

The regional distribution of certain groups of foodstuffs is set forth in table 81. While both industrial regions depend very greatly on primary exporting countries for their imported supplies of sugar and beverage crops, there is much less dependence in the case of cereals, meat and dairy products. In the case of dairy products, the only trade flow of significance in the present context is that between Oceania and western Europe: it accounts for almost half of the imports of butter and cheese by western European countries and almost all their imports from primary exporting countries.

Table 81. Imports into the Countries of North America and Western Europe of Selected Foodstuffs

(Millions of dollars)

Source and period	*Cereals and flour*		*Meat*		*Butter and cheese*		*Beverages*		*Sugar*	
	North America	*Western Europe*	*North America*	*Western Europe*	*North America*	*Western Europe*	*North America*	*Western Europe*	*North America*	*Western Europe*
All sources:										
1954	95	1,544	201	900	29	477	1,938	1,655	511	418
1955	64	1,669	188	1,022	32	530	1,741	1,466	517	435
1955 First half	29	844	89	482	15	276	880	847	280	232
1956 First half	35	954	91	522	14	326	941	692	307	242
Primary exporting countries:										
1954	6	581	57	411	2	217	1,882	1,389	498	370
1955	3	489	60	508	3	258	1,685	1,414	507	391
1955 First half	1	281	28	235	1	145	851	794	275	209
1956 First half	2	259	27	281	1	180	919	632	301	203
Latin America:										
1954	4	289	40	119	1	7	1,557	534	364	210
1955	3	231	40	169	1	8	1,383	507	375	229
1955 First half	1	130	17	70	1	7	669	263	198	131
1956 First half	2	123	15	105	1	8	759	248	225	133
Africa:										
1954	2	111	—	12	—	2	214	415	9	94
1955	—	117	—	7	—	1	191	506	8	100
1955 First half	—	58	—	3	—	1	115	300	2	46
1956 First half	—	48	—	3	—	1	111	205	2	47
Middle East:										
1954	—	92	3	5	—	—	34	12	—	2
1955	—	45	4	5	—	—	32	7	—	1
1955 First half	—	31	2	2	—	—	18	5	—	—
1956 First half	—	33	3	3	—	—	13	6	—	1
Southern and outh-eastern Asia:										
1954	—	20	—	2	—	—	77	425	111	1
1955	—	20	—	2	—	—	79	391	110	2
1955 First half	—	16	—	1	—	—	49	223	72	1
1956 First half	—	10	—	1	—	—	36	171	71	—
Oceania:										
1954	—	69	14	273	1	208	1	3	14	62
1955	—	77	16	327	2	249	1	3	13	57
1955 First half	—	47	8	159	1	138	1	2	6	31
1956 First half	—	45	9	170	—	171	—	2	3	22

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D. For definition of imports and regions, see table 79.

Of the meat supplies drawn from primary exporting countries—which during the period 1954 to 1956 accounted for about half the total in western European countries and about a third of the total in Canada and the United States—Latin America provided about two-thirds of North American imports and one-third of western Europe's, while in the case of Oceania these proportions were reversed. During the period there seems to have been a tendency for western Europe to import an increasing proportion from Latin America and for North America to import relatively more from Oceania.

While North America imports practically no cereals, all the primary exporting regions contribute to western Europe's large imports. During the 1954-1956 period, they provided about a third of these imports, Latin America supplying about half, Africa about a fifth, Oceania about a seventh, and the Middle East, on average, about an eighth.

Latin America is the chief source of external supplies of sugar for both industrial regions, providing western Europe with well over half and North America with about three-fourths of all imports from primary exporting countries. The remainder of North American imports came from south-eastern Asia, while western Europe drew the rest of its supplies from Africa and Oceania. The relative contribution from Latin America tended to increase between 1954 and 1956 and that from Oceania to decrease.

Differences in the origin of beverage imports derive partly from differences in consumption patterns. As the principal source of coffee, Latin America supplied about four-fifths of North American beverage imports during the period under study, but not much more than a third of the imports into western Europe, which drew almost as large a proportion from Africa and southern and south-eastern Asia, the major sources of cocoa and tea.

Commodity market trends

In general, world production of primary commodities (outside of mainland China, eastern Europe and the Soviet Union) was greater in the year ending in 1956 than in the preceding year, the only significant exceptions being wheat, olive oil, rubber and tin. In the face of this larger output, prices on the whole remained fairly firm; indeed, if weighted by the values entering international trade, the average index of commodity prices, which had declined in 1955, was fractionally higher in 1956 (see table 78). This average, however, conceals divergent trends in the prices of individual commodities, which reflect a pattern of demand markedly different from that which prevailed in 1955.

Most important among the factors affecting demand was the decline in the rate of expansion of capital formation in the industrial countries and the slackening of production in some of the industries making durable goods, particularly motor-cars. In contrast to this, there was some recovery in a number of consumer goods industries, notably among those producing higher-grade textiles. And the demand for certain foodstuffs was also higher on the world market, either because of increasing per capita consumption—as in the case of sugar—or because of local or regional crop failures—as in the case of wheat in western Europe, olives in the Mediterranean countries and rice in some Asian countries, notably Pakistan.

Though the most dramatic change between 1955 and 1956 was the ending of the rubber and metals boom, on a longer-term view the major weaknesses in price continued to be in the category of agricultural products, especially those used in industry; in relation to 1953 levels, for example, prices were significantly lower for the fibres (especially wool, until the last quarter of the year) and hides and skins, and, to a less extent, oils and oil-seeds (especially copra and its products). Though foodstuff prices on the whole were firmer than in 1955, with the notable exception of cocoa and the poorer grades of tea and, to a less extent, beef and butter later in the year, yet cereal prices remained well below the 1953 level. And despite the fall in copper prices from the extreme heights reached in March 1956, mineral prices on the whole remained firm and well above the 1953 average. In the case of some of the metals, however—tin, lead and zinc in particular—continued or resumed stockpiling played a crucial part in sustaining the market.

The changes in market conditions between 1955 and 1956 may be best illustrated by a brief examination of the position of a number of specific commodities, taking first those for which demand changes were predominant, then those affected by movements in both demand and supply, and finally those on which changes in supply exercised the chief influence.

Among the commodities whose markets reflect mainly shifts in demand were wool and sugar. Wool consumption was about 8 per cent higher in 1956 than in 1955, most industrial countries—with the exception of the United Kingdom—participating in the increase. Since the 1955/56 clip was about 4 per cent greater than the preceding one—largely the result of expansion in Australia and, to a less extent, New Zealand—and stocks were nowhere abnormal (except perhaps for some holding back of supplies in Argentina and Uruguay), the market began to strengthen early in 1956. It was not until the third quarter, however, when the 1956/57 auction season had opened with appreciably higher bids—especially for the finer grades—that the price index of wool in international trade rose above the corresponding figure in 1955. By September the average price realized at Sydney, though still 10 per cent below the 1952/53 level, was almost 27 per cent

above the comparable 1955 figure. The Middle East crisis gave a further impetus to demand, and since manufacturers appear to have begun increasing inventories in line with the higher rate of consumption, most of the market gains were held into the new year.

In the case of sugar, world production in 1955/56 (outside mainland China, eastern Europe and the Soviet Union) was about one per cent higher than in 1954/55, declines in the United States, Argentina, the Philippines and Brazil having been counterbalanced by increases in Cuba and in many smaller producers. Since consumption, which equalled production in 1955, rose by about 5 per cent in 1956, the result was a substantial drawing down of stocks—perhaps by as much as 800,000 tons in the course of 1956. Prices, which, though well below the 1953 level, had been fairly firm in 1955, were somewhat higher in 1956—by about 3 per cent on the average over the first nine months for all sugar entering international trade and by about 6 per cent for sugar marketed outside the United States and Commonwealth agreements. In the first half of 1956, eastern Europe and the Soviet Union, whose purchases had been largely instrumental in sustaining the market in 1955, imported less and exported more, but this change was offset by larger imports into both western Europe and North America. The fact that by September the "free" spot price had dropped below the minimum of 3.25 cents per pound fixed in the 1953 agreement of the International Sugar Council probably influenced the downward revision of the range (3.15 to 4.50 cents per pound) for the ensuing amendments to the agreement, operative in the 1956/57 season. Prospects of a poorer beet crop in western Europe in 1956/57 combined, probably, with some speculation and hoarding induced by the Suez crisis, but deriving basic support from the new relationship of stocks to consumption, initiated an increase in prices in November, which by early in 1957 had raised the "free" market quotation to twice its 1954/55 to 1955/56 average. The effect of this was to render inoperative the various quotas and limitations laid upon exports under the agreement.

Though most of the commodities that had participated in the 1955 investment boom were affected by the slowing down in the rate of growth in 1956, there was no marked decline in total consumption. The weakness —relative to 1955 standards—that developed in the markets for copper, lead, zinc and rubber was mainly the result of changes in supply, to which the high prices of the preceding year had in some measure contributed.

There were increases in the output of metals in a number of primary exporting countries, including Australia (lead and zinc), the Belgian Congo (zinc), Chile (copper), Northern Rhodesia (copper and zinc) and South West Africa (lead and zinc), but the major expansion was in the industrial countries, particularly the United States. The price index of non-ferrous metals reached a peak in March 1956. Thereafter, as current production assumed a growing lead over consumption, prices moved downward. Though this trend was reversed in the second half of the year—except in the case of copper—the strength of the market was very dependent on United States stockpiling activities, which absorbed not only appreciable quantities of lead and zinc from domestic producers, but also a significant amount of these metals from primary exporting countries, exchanged under barter transactions for surplus agricultural commodities.

In the case of rubber, the supply position was affected less by the natural than by the synthetic product. The price of natural rubber began a steep decline in September 1955, and, notwithstanding the fact that the rate of production in 1956 lagged behind the 1955 figure while the rate of total consumption ran slightly ahead, the decline continued until mid-year. The explanation of this apparent anomaly lies in the more rapid increase in the production and consumption of synthetic rubber, which was available in larger quantities and at well below the natural rubber price in both the United States and western Europe. Consumption of synthetic was 7 per cent higher in 1956; the increase of little over one per cent in the consumption of natural rubber took place in Asia, where the purchases of Japan and mainland China in particular were significantly higher. Despite a recovery in the second half of the year when the Suez situation made supplies less certain, average prices in 1956 were about 14 per cent below the 1955 level—but about 44 per cent above the low level of 1953.

Of the commodities that participated fully in the 1954-1955 upswing, the only one for which conditions of demand in 1956 differed very little from those prevailing in 1955 was petroleum. Crude production was about 10 per cent greater, and although there was a tendency for inventories to expand—especially in the United States—the increase in consumption was probably of the same order. Prices continued firm, gasoline prices tending to advance slightly in some countries, while fuel oil prices—especially in western Europe where demand was still expanding rapidly—registered a more marked increase. Reflecting this, as well as the advance in freight rates and a rise in coal prices, the price index of fuels entering international trade continued the accelerating increase which began in 1955: by the third quarter it was 7 per cent above the corresponding level in 1955 and 8 per cent above the 1953 average. The closing of the Suez Canal and the pipeline from Iraq to the Mediterranean brought a further rise—to 15 per cent above the 1953 average—in the last quarter. It also resulted in a marked switch in production. Thus, for the year as a whole Middle East output—which had risen by 18 per cent between 1954 and 1955—was only 7 per cent above the 1955 level, and most of the increase was due to the continued recovery of production in Iran; production in Iraq was actually 6 per cent lower. In contrast, Latin American output—

mostly from Venezuela—increased 13 per cent in 1955 and 14 per cent in 1956.

The markets for most of the remaining commodities of major interest to the primary exporting countries were subject to more impelling forces from the supply side than from the demand side. In some cases—cocoa and beef, for example—this was the result of a simple increase in current output; in others—such as cotton and cereals, especially wheat—there were significant regional differences in relative production, and current supplies were augmented from stocks; in others again —coffee, for example, and to a less extent, tea and tobacco—the supply differences affected quality rather than region, and divergent price trends resulted.

In the cocoa market the decline from the extremely high prices of 1954, which continued, more or less unbroken, throughout 1955, came to a temporary halt in the second quarter of 1956, only to be resumed in September. Over the whole year prices averaged about 28 per cent below those of 1955. After having been curtailed markedly during the price boom, consumption recovered somewhat in 1956, but this advance—of about 10 per cent—did not bring consumption up to the 1953 level or to the level of the 1955/56 output (which was about 5 per cent above that of the previous season). With an even heavier crop in prospect for 1956/57, a further addition was thus made to the already large stocks, held mostly in consuming countries.

In the case of beef, export unit values in Argentina and Uruguay were as much as one-fifth lower in 1956 than in 1955, and there was also a decline in export prices in Australia and New Zealand. This decrease followed a significant rise in output in some of the major producers, notably Argentina, whose meat exports were some 165,000 tons (or no less than 42 per cent) higher in 1956 than in 1955, while a decline in Australian exports was more than offset by expansion in exports from New Zealand and Uruguay.

International trade in butter was about 10 per cent greater in volume in the first three quarters of 1956 than in the comparable period in 1955. That the major European exporters failed to share in this expansion was due in part to a record 1955/56 output in New Zealand and continued liquidation of United States stocks. Prices, which had risen rapidly in the second half of 1955, began to recede early in the new year, and, while appreciably above the corresponding average in the first quarter, declined fairly steeply thereafter.

Disposals from United States stocks were more significant in the case of cotton. World production in 1955/56 was almost a million bales higher than in the previous season, but United States production was up by rather more than that. Exports from the United States were 1.2 million bales smaller in 1955/56, whereas exports from other producers were 1.8 million bales greater. Hence, while stocks in North America rose by 3.3 million bales during the season—despite a 0.4 million bale expansion in consumption—stocks in the less developed producing countries declined by 1.5 million bales. Stocks in western Europe were also lower—by almost 0.3 million bales—notwithstanding a 0.3 million bale decline in consumption. As in earlier years, the largest increase in consumption—0.5 million bales—occurred in the less developed producing countries. This is the statistical background to the United States decision to dispose of a large volume of cotton (6 million bales had been sold by the end of 1956) in the 1956/57 season at "competitive" prices—which by the beginning of 1957 had proved to be about 25 per cent below the domestic support level. One result of this has been an appreciable decline in cotton acreages in a number of countries—El Salvador, Guatemala and Mexico, for example—which, along with a curtailment of production in the United States, has given rise to lower estimates of the aggregate 1956/57 crop. The decline in the world price of short-staple cotton seems to have restored a measure of confidence in consumers outside the United States, and this is reflected in the increase in their stocks from the abnormally low levels prevailing at the beginning of 1956.

In contrast to the decline in price of short-staple cotton, the prices of long-staple varieties tended to rise during the year. This was partly the result of increasing consumption, but it was also a reaction to events in Egypt—the principal producer. Here, exports were substantially higher in the first half of 1956—particularly to eastern Europe—and in the face of a smaller 1955/56 crop, stocks were reduced by about a half between August 1955 and August 1956.

Though world exports of wheat and wheat flour in the year ending in June 1956 were the second highest on record and 9 per cent above the 1954/55 level, only Australia among the primary exporting countries shared in this increase; exports from Argentina, Uruguay, Turkey and North Africa were 14 per cent lower —accounting for 15 per cent of total trade, as against 19 per cent in the preceding year. In part, this was the result of smaller crops, but it also reflects the expansion of North American exports, particularly from Canada to eastern Europe and from the United States to Egypt, Japan and Brazil. While world trade thus rose, the proportion carried on under the International Wheat Agreement was lower, accounting for only one-fourth of the total. Since smaller crops or larger exports, or both, reduced carry-over in Argentina and Australia, stocks became concentrated more than ever in North America. Despite a 19 per cent increase in Canadian exports—largely the result of the eastern European purchases—carry-over was 5 per cent greater. Similarly, an even greater increase in United States exports—40 per cent under surplus disposal arrangements—did not prevent a further expansion of this country's stocks.

Wheat crops harvested in 1956 (other than in the Soviet Union) were fractionally smaller than those of 1955, the decline being concentrated largely in Europe and Oceania. Part of the European crop was replaced by barley, and part was used as feed when harvested. This aggravated the weakness in the soft grains market later in the year when the larger 1955/56 maize crop began to be exported.

While the market for cotton and cereals was strongly influenced by exports from North America as against those from primary exporting countries, developments on the coffee, tea and tobacco markets had the effect of distinguishing among primary exporting countries, chiefly according to certain characteristics of the product.

In the case of coffee, the 1954/55 crop—which provided most of the 1956 exportable supplies—was about 18 per cent larger than its predecessor, but this increase was compounded of a large expansion in the "hard" crop—chiefly from Brazil—and a small contraction in the other Latin American crops—mostly of "mild" coffee. In combination with the tendency for consumer preferences to move in favour of the mild varieties, this crop out-turn contributed to a growing divergence in price: while Brazilian and Colombian indices were both at the 1953 level in March 1955, by September 1956 the former had advanced only 5 per cent compared to the latter's advance of 36 per cent. Exports in the first half of 1956 were almost 30 per cent above the low level of the corresponding period in 1955, most producers and all major importing areas sharing in the expansion. The result was some transfer of stocks from producing to consuming countries, but the lower prices of 1955 appear to have stimulated consumption and this, in conjunction with a markedly smaller total crop in 1955/56, probably reduced total inventories. The principal decline in 1955/56 production was in Brazil, where the crop was back at the 1953/54 level. Partly as a result of this, when mild coffee prices began receding in the last quarter of 1956, prices of hard varieties were better maintained.

In the case of tea, the contrast was between the poorer grades from India, whose prices were substantially lower in 1956 than in 1955, and the "high grown" types from Ceylon, which on the average fetched higher prices at the London auctions. The most marked contrast in the case of tobacco was between Turkey and Rhodesia: in the former the 1955/56 crop was smaller but unit export values slightly higher, whereas in the latter a substantial increase in the crop was one of the reasons for poorer quality leaf and a 16 per cent decline in average price.

On the whole, demand for the commodities which are of particular concern to the primary exporting countries was well maintained. Despite the fact that average prices of such commodities as rubber, copra, cotton, wool, cocoa, beef and butter were lower, the value of gross imports into the industrial regions of the raw materials and foodstuffs listed in table 82 was more than 11 per cent higher in the first three quarters of 1956 than in the corresponding period in 1955. This represents a greater gain than between 1954 and 1955, when gross imports of these commodities rose by 9 per cent in value in western Europe and 6 per cent in North America. There was a more rapid increase in petroleum and sugar imports into both regions, of cereals into western Europe and of metallic ores into North America. The largest relative change, however, was in the value of coffee imports which had declined between 1954 and 1955 (by 9 per cent in both regions) but expanded in 1956—by no less than 19 per cent in North America. Exclusive of coffee the rate of increase of gross imports into North America was smaller in 1956 (11 per cent) than in 1955 (13 per cent).

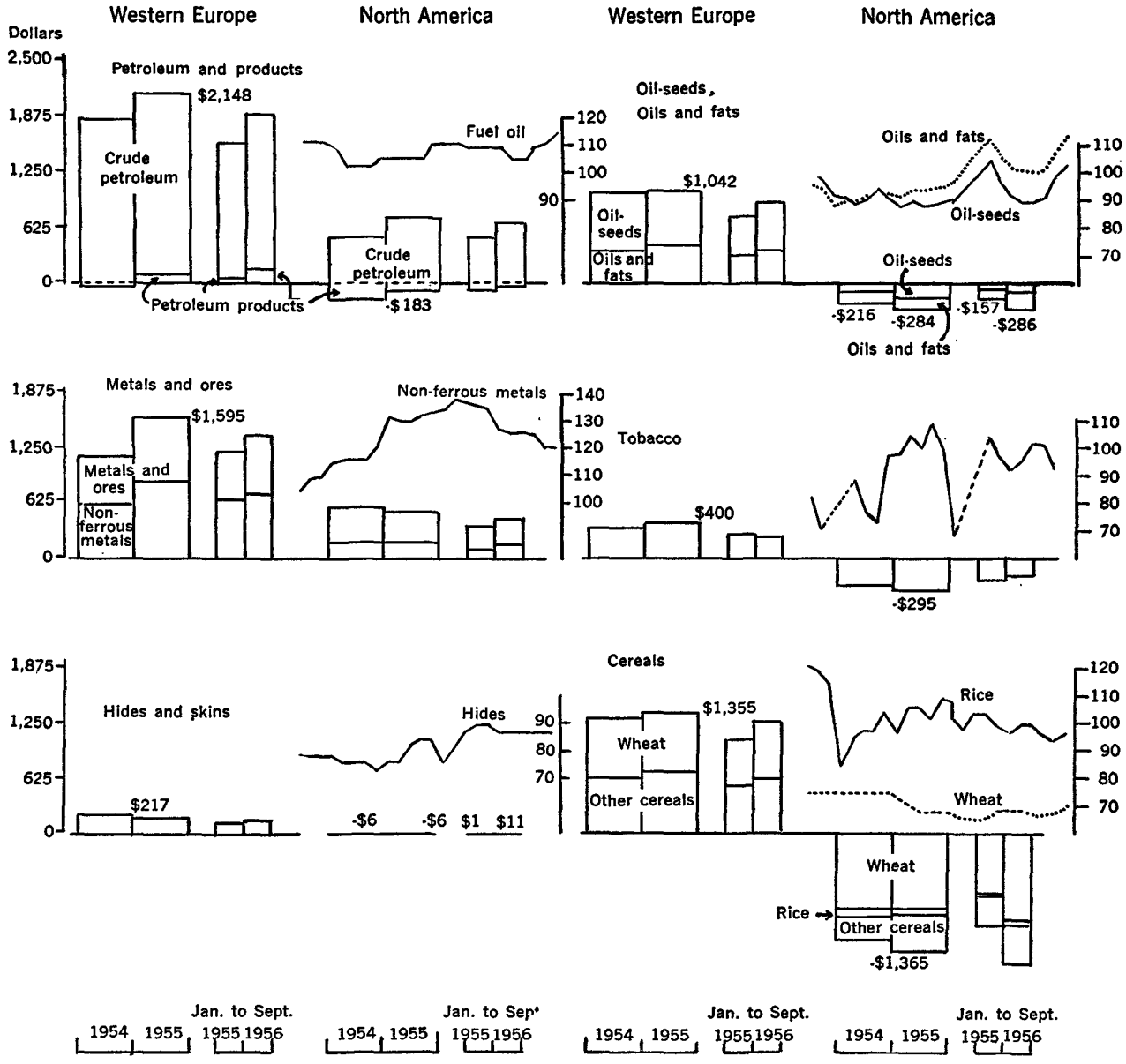
The position of the primary exporting countries as suppliers of these commodities was also affected by changes in exports from North America which in 1956 were particularly large. While the position of North America as a net importer of primary commodities was markedly different in 1956 from what it had been in 1955, the net expenditure of western Europe on these products increased at least as much between 1955 and 1956 as it had between 1954 and 1955 (see chart 22).

Western Europe's net expenditure on commodity imports increased by 9 per cent between 1954 and 1955 and by 10 per cent between the first three quarters of 1955 and the corresponding period in 1956. In terms of the c.i.f. value of net imports in the first three quarters of 1956, increases in excess of $100 million were registered by crude petroleum, wheat, metallic ores, meat, petroleum products and oil-seeds (see table 82). There were larger net imports of many other categories of primary commodities, with the notable exception of cocoa and tea, cotton and wool, tobacco and rice. Proportionately, the increase in 1956 was significantly less than in 1955 in the case of the investment boom commodities—metallic ores, non-ferrous metals and rubber—but it was markedly greater in the case of meat and sugar, coffee, cereals other than rice, oil-seeds, hides and skins and crude petroleum.

The effects of North America's commodity transactions stand in signal contrast to those of western Europe. In total, the value of net imports of commodities into North America, which had been 12 per cent higher in 1955 than in 1954, was 12 per cent lower in the first three quarters of 1956 than in the corresponding period in 1955. If crude petroleum is omitted, the expansion between 1954 and 1955 amounted to 11 per cent, but the contraction in 1956 becomes no less than one-third. The principal reason for this change was a major expansion in net exports of cereals—especially wheat—and oils, fats, oil-seeds and cotton, but there was also a considerable decline in net imports of rubber, cocoa

Chart 22. Price Indices and Value of Net Imports into

(Value of imports in millions of dollars; price indices, 1953



Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D; *Monthly Bulletin of Statistics;* Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics;* International Monetary Fund, *International Financial Statistics;* Pan American Coffee Bureau, *Annual and Weekly Statistics.* See tables 79 and 82 for definitions.

The figures on the chart represent the net balance of imports and exports (—) in millions of dollars in the period indicated. In the case of North American trade in fibres, net imports of wool (in millions of dollars) were: in 1954, $279; in 1955, $326; Jan. to Sept., 1955, $255, and Jan. to Sept., 1956, $244 — and of hard fibres: in 1954, $70; in 1955, $67; and Jan. to Sept., 1955, $51; Jan. to Sept., 1956, $54. These were more than offset by net exports of cotton: in 1954, $720; in 1955, $386; Jan. to Sept., 1955, $316; Jan. to Sept., 1956, $360. In the case of North American trade in "other foodstuffs", net imports in the case of sugar amounted to $485 million in 1954; $489 million in 1955; $394 million, Jan. to Sept., 1955; and $427 million, Jan. to Sept., 1956. In the case of meat, net imports were $81 million in 1954; $69 million in 1955; $56 million, Jan. to Sept., 1955; $41 million, Jan. to Sept., 1956. In the case of butter and cheese, the figures (in millions of dollars) were: 1954, $23; 1955, $6; Jan. to Sept. 1955, $4; Jan. to Sept., 1956, —$15.

Price indices are for the period January 1955 to December 1956 for the following commodities:

Fuel oil: United States: Distillate, Gulf Coast, No. 2, cargo lots, f.o.b.

Non-ferrous metals: Engineering and Mining Journal index for copper, lead, zinc, tin, silver, nickel and aluminium, weighted on 1922-1924 averages.

Hides: United Kingdom: East African, 8-12 lb.

Oil-seeds: International market prices of seven major oilseeds.

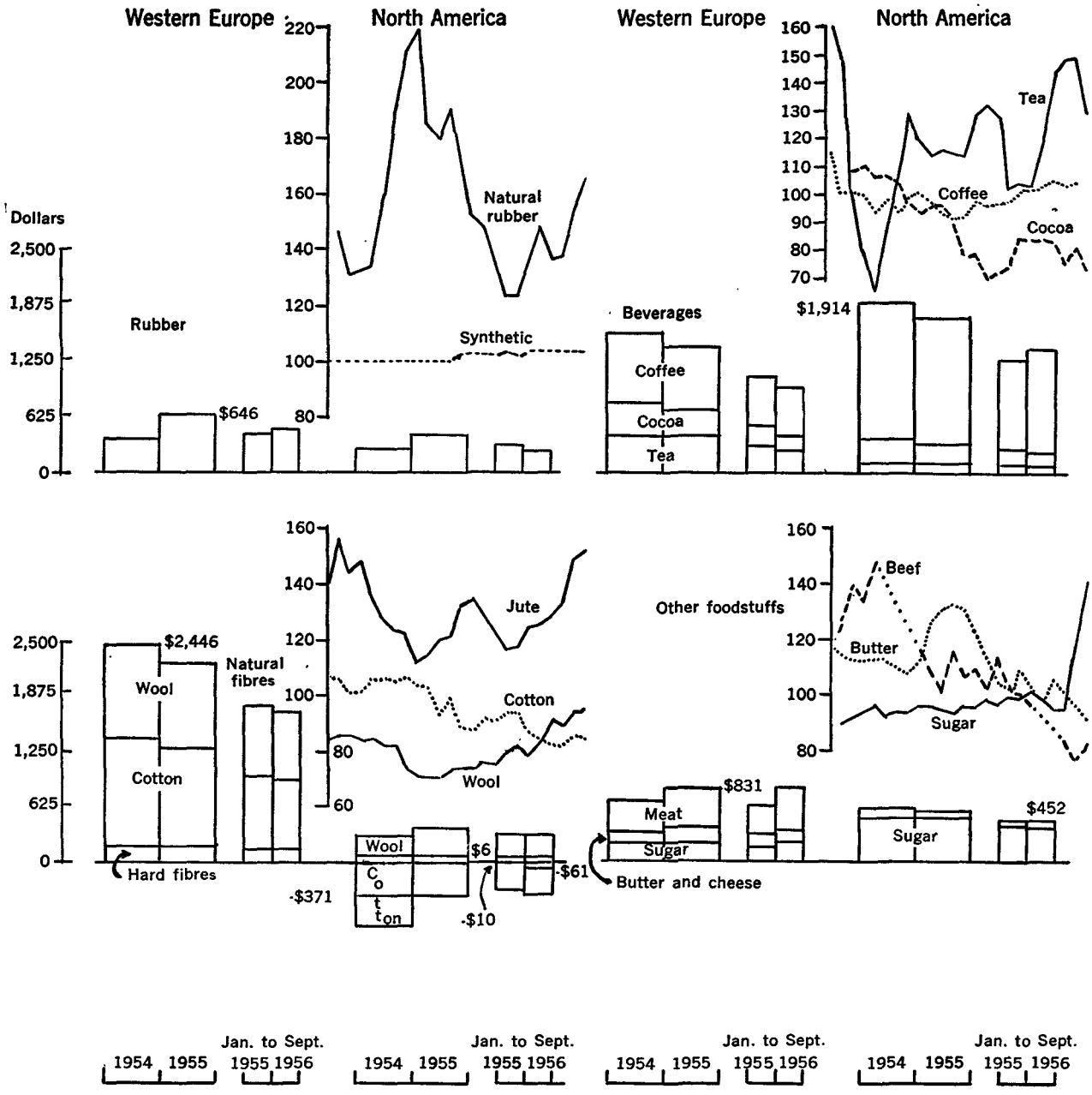
Oils and fats: International market prices of fourteen major oils and fats (excluding butter).

Tobacco: United States: Average price received by farmers.

Wheat: Australia: Wheat Board price, f.a.q. bulk, f.o.b.

Western Europe and North America, Selected Commodities

= 100, except oil-seeds and oils and fats, 1952-1954 = 100)



Rice: Burma: Nga-sein type, Rangoon, second bazaar quality.
Rubber: Malaya: "C" quality blankets, in bales, f.o.b. Singapore; United States (synthetic): 1955, butadiene-styrene GR-S, New York; 1956, S-type, cold, staining and non-staining, Nos. 1500 and 1502, f.o.b. plant.
Cotton: United Kingdom: American middling 15/16", spot, Liverpool.
Jute: India: raw lightnings, Calcutta.
Wool: Australia: greasy equivalent, average price at Sydney auctions, constant standard basis.
Cocoa: Good fermented Gold Coast, nearest futures, London Terminal Market.
Coffee: New York spot price of Brazilian Santos 4.
Tea: High grown, Colombo.
Beef: London, first quality, English longside.
Butter: New Zealand: Ex store, London.
Sugar: Cuban export unit value in dollars to countries other than the United States.

and tea, meat, and wool. These changes more than offset increases in net imports of metallic ores, hard fibres and coffee—commodity groups which had declined in 1955—and of crude petroleum, non-ferrous metals and sugar. Thus, in the first three quarters of 1956, North America's net imports—in descending order of magnitude—of coffee, crude petroleum, sugar, metallic ores, rubber, wool, non-ferrous metals, cocoa, tea, hard fibres, meat, and hides and skins were offset to the extent of almost two-thirds of their total value by net exports of wheat, rice and other cereals, cotton, tobacco, oils and fats, oil-seeds, petroleum products, and butter and cheese.

The slackening rate of expansion in demand for many of the products of the primary exporting countries was reflected in declining unit values of exports of several of these countries in the first half of 1956. However, the downward drift of prices of a number of commodities was halted or reversed by the Suez crisis. The initial impact of this was registered in July when the canal was nationalized, and uncertainty with regard to future supplies of commodities originating mainly in Asia caused a noticeable hardening in several markets—tin, rubber, jute, copra and tea, for example. To a certain extent the effect of future difficulties seems to have been discounted at this stage, for the actual closing of the canal at the end of October caused much less dislocation of commodity markets than might have been expected in view of the critical situation brought about by active hostilities. While most prices did rise in November, the increase was generally modest and in many instances there was an early reaction and a resumption of previous trends. Where this did not occur—as in the case of sugar, for example—other, and stronger, market forces were operating.

Among the commodities whose prices in consuming countries rose most markedly in the closing weeks of the year were those whose bulk was large in relation to value—oil, coal and grain, for example. This reflects the increase in freight rates which had been proceeding throughout 1955 and 1956—as a result of higher costs in constructing and operating ships and the expansion of seaborne trade, not least trans-Atlantic coal shipments; it was, however, greatly accentuated by the strain placed on available tonnage by the lengthening of the sea routes for ships previously using the canal.

As a result of these developments, the price index for primary commodities entering international trade, which had been more or less maintained at the corresponding 1955 level in the first three quarters of the year, rose 4 per cent above that level in the final quarter. Though the corresponding price index for manufactures showed a declining rate of increase during 1956, it was 4 per cent higher for the year as a whole. Thus, the terms of exchange between primary

Table 82. Changes in the Value of Imports of Selected Primary Commodity Groups into North America and Western Europe, January to September 1956, Compared with January to September 1955

Item	*North America*				*Western Europe*			
	Gross imports		*Net imports*		*Gross imports*		*Net imports*	
	(Millions of dollars)	*(Percentage change)*	*(Millions of dollars)*	*(Percentage change)*	*(Millions of dollars)*	*(Percentage change)*	*(Millions of dollars)*	*(Percentage change)*
Petroleum and products	227	22	165	31	464	21	335	21
Non-ferrous metals and ores	217	18	95	26	328	16	197	16
Rubber	−22	−6	−56	−18	52	12	46	11
Natural fibres:								
Wool	−5	−2	−10	−4	—	—	−21	−3
Cotton	−17	−20	*−44*	*−14*	−41	−5	−54	−7
Hard fibres	3	6	3	6	−1	—	5	3
Hides and skins	13	26	10	1,133	22	11	16	11
Oil-seeds, oils and fats	−5	−3	*−129*	*−82*	257	28	145	19
Tobacco	4	6	*18*	*5*	−7	−2	−30	−11
Beverages:								
Coffee	193	19	187	19	10	2	11	2
Cocoa	−35	−19	−32	−18	−94	−31	−78	−34
Tea	−17	−23	−17	−23	−42	−14	−42	−14
Cereals and flour	20	51	*−355*	*−34*	239	19	211	20
Other foodstuffs:								
Meat	−4	−3	−15	−27	105	24	112	36
Butter and cheese	2	8	*−20*	*	57	14	64	45
Sugar	46	11	33	8	25	8	43	27
TOTAL, above commodity groups	621	12	−166	−12	1,374	11	960	10

Source: United Nations, *Commodity Trade Statistics*, Statistical Papers, Series D. For definitions of imports and regions see table 79. Exports f.o.b. and "special" in all countries except Canada, Ireland, the United Kingdom and the United States, for which they are "national".

Figures in italics represent net exports. An increase in net exports is considered equivalent to a decrease in net imports and is designated by a negative sign.

* Change from net imports to net exports.

commodities and manufactured goods, which had dropped by about 4 per cent between 1954 and 1955, declined again—by almost the same proportion—in 1956, bringing the index below the 1953 level.

Value, volume and regional distribution of total trade

The quantum of exports from primary exporting countries increased between 1955 and 1956 by a somewhat smaller proportion than that from industrial countries, but in terms of value the difference was more marked. The value of world exports[1] was almost 11 per cent greater in 1956 than in 1955. This compares with a gain of just under 9 per cent in the preceding interval. The increase in the rate of growth was due entirely to changes in average price: while the unit value of exports remained practically constant between 1954 and 1955, it advanced by about 3 per cent between 1955 and 1956. Not only was the gain in the quantum of exports thus somewhat smaller between 1955 and 1956, but the rate of growth tended to decline in the course of the year: in value terms and compared with the corresponding portion of 1955 the increase was about 12.5 per cent in the first half of 1956, 11.5 per cent in the first three quarters and 10.7 per cent for the year as a whole. In quantum terms the comparable gains were 9.5 per cent, 9.0 per cent and 8.2 per cent.

The primary exporting countries as a group did not participate fully in this expansion of trade, though until the interruption of petroleum exports from the Middle East, the lag was smaller than it had been in 1955. The value of their exports in the first half of 1956 was less than 8 per cent above the corresponding figure in 1955 and since the gain made in the second half of the year was less than 2 per cent, the increase for 1956 as a whole was just under 5 per cent. If the first three quarters of the year are compared with the corresponding period in 1955 there appears to have been a decline of between 2 and 3 per cent in the unit value of exports from this group of countries; hence the quantum of exports would appear to have risen by rather less than 8 per cent (see table 83).

In the first three quarters of the year the largest gains in both quantum and value—in relation to the corresponding portion of 1955—were registered by the non-sterling countries of the Middle East. Latin America also exported a substantially greater volume of goods in 1956. In the Far East, the expansion in quantum was less than the average for primary exporting countries and as a result of declining prices—copra and rubber being major items of export—proceeds were actually below the corresponding 1955 level. The only groups in which the increase in receipts was relatively greater than that in quantum were the Middle East and that called "Other countries" (chiefly the dependent territories of western Europe). The latter was the only group to show no expansion in export volume.

Table 83. Indices of Value and Quantum of Exports from Certain Primary Exporting Regions
(First three quarters of 1955 = 100)

Region	*Exports in the first three quarters of 1956*	
	Dollar value	*Quantum*
Average, all primary exporting regions	106	108
Latin America	109	111
Middle East	113	111
Sterling	107	105
Non-sterling	119	116
Far East	96	104
Sterling[a]	95	103
Non-sterling	97	106
Rest of sterling area	107	109
Other countries and territories[a]	105	100

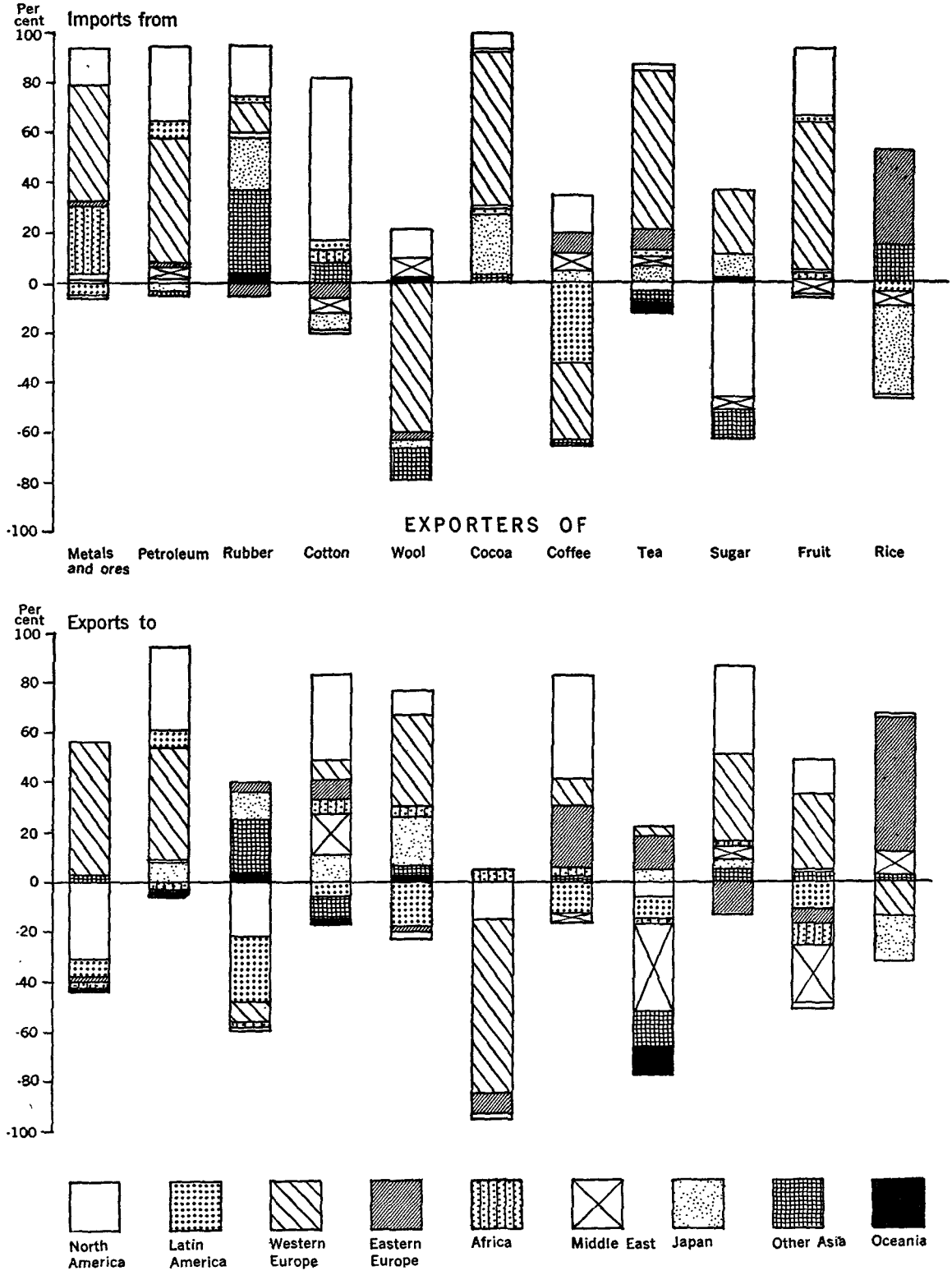
Source: United Nations, *Monthly Bulletin of Statistics.*
[a] Excluding United Kingdom dependencies, which are included with Oceania and southern Africa, in "Rest of sterling area".

The distribution of exports from the primary exporting countries in 1956 was much the same as in 1955. Of the exports whose destination is known (about 98 per cent of the total), the proportions going to other primary exporting countries and to centrally planned economies were fractionally lower; over 72 per cent of the total continued to be shipped to the industrial countries (see table 84). The primary exporting countries accounted for about 32 per cent of the allocable exports of the industrial countries—compared with 34 per cent in 1955 and 36 per cent in 1954, before the boom in trade among the industrial countries got under way. Of the exports of centrally planned economies to other regions, the primary exporting countries continued to take about one-fourth.

Changes in the distribution of exports from the primary exporting countries are represented in greater detail in table 85 and in chart 23. The effect of the rerouting of oil shipments in the last two months of 1956 is brought out in the pattern of Latin American and Middle East exports. While the former's exports to western Europe were 14 per cent higher in 1956 than in 1955, the latter's actually declined. Almost one-half of Latin American exports, however, continued to go to North America. Expansion of exports to the industrial countries was partly offset by contraction in exports to other primary exporting regions—except the group consisting chiefly of western European dependencies, including the petroleum refining islands of the Netherlands Antilles and Trinidad. Trade within the region, which had increased moderately between 1953 and 1955, showed a marked decline both absolutely and relatively—from 9.5 per cent of the total in 1955

[1] Including exports whose destination could not be determined, but excluding those of the centrally planned economies.

Chart 23. Proportional Distribution of Change between 1955 and 1956 in Trade of Selected Groups[a] of Primary Exporting Countries, by Regions



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. Figures for Argentina, Iran, southern Korea and Saudi Arabia are derived partly or wholly from the statistics of partner countries.

Where amounts represented were too small to be pictured symbolically for a given exporting group, the order follows the listing of regions in the key.

Table 84. World Exports, by Origin and Destination

(Values: f.o.b., in millions of dollars; indices: preceding year = 100)

Origin	World total[a]		Destination					
			Industrial countries[b]		Primary exporting countries		Centrally planned economies[c]	
	Value	Index	Value	Index	Value	Index	Value	Index
Total world exports:[a]								
1954	74,458	107	48,971	105	23,809	108	1,678	126
1955	82,733	111	55,230	113	25,560	107	1,943	116
1956	91,477	111	61,679	112	27,421	107	2,377	122
Industrial countries:[b]								
1954	48,350	107	30,002	105	17,221	109	1,128	142
1955	54,818	113	34,824	116	18,685	109	1,309	116
1956	61,377	112	39,730	114	19,890	106	1,756	134
Primary exporting countries:								
1954	24,109	101	17,453	100	6,110	101	546	138
1955	25,729	107	18,571	106	6,535	107	623	114
1956	27,020	105	19,676	106	6,729	103	615	99
Centrally planned economies:[c]								
1954	1,577	112	1,129	110	448	120	...	
1955	2,065	131	1,502	133	563	126	...	
1956	2,532	123	1,801	120	731	130	...	

Source: United Nations, *Monthly Bulletin of Statistics.*

[a] Excluding trade among mainland China, eastern Europe and the Soviet Union, special category exports from the United States and certain other exports whose destination could not be determined. Figures differ somewhat from those presented in table 80 of the *World Economic Survey, 1955* as a result of certain revaluations of oil shipments, adjustments of exchange rates and other revisions.

[b] Canada and the United States, member countries of the Organisation for European Economic Co-operation, Finland, Spain and Yugoslavia, and Japan.

[c] Albania, Bulgaria, mainland China, Czechoslovakia, eastern Germany, Hungary, Poland, Romania and the Union of Soviet Socialist Republics.

to 7.7 per cent in 1956—which is in some degree a counterpart to the rise in agricultural exports to this region from the United States. Latin American exports to the centrally planned economies, which had expanded considerably in 1954 and 1955 when the Soviet Union ceased buying at the Australian wool auctions, also decreased both absolutely and relatively in 1956, from 2.2 to 1.2 per cent of the total.

In the Middle East, in contrast, the failure of exports to North America and western Europe to expand was outweighed by a general increase in exports to other primary exporting regions. There was also an expansion in exports to Japan and, even more, to the centrally planned economies, which have taken a small but steadily increasing proportion of Middle East exports: 2.5 per cent in 1953, 2.7 per cent in 1954, 3.9 per cent in 1955 and 4.7 per cent in 1956.

The most notable feature in the course of exports from the countries and territories grouped as "Other" in table 85 was the decline in their rate of expansion to industrial countries—except Japan—which was largely the result of lower prices for such commodities as copper, rubber, cotton, sisal and cocoa. There were significant proportionate and absolute gains in exports to Japan and the rest of the Far East, reflecting in part the trade of such entrepôts as Hong Kong and Singapore. Exports to North America, which had expanded by 20 per cent in 1955, were less than 3 per cent higher in 1956.

Footnotes to Chart 32 (continued)

[a] *Mineral exporters:* Belgian Congo (imports, 11 months; exports, not available), Bolivia (imports, 6 months; exports, 12 months), Chile (6 months), Morocco (11 months), Rhodesia (12 months), Tunisia (6 months).

Oil exporters: Aden (12 months), Iran (imports, 12 months; exports, not available), Iraq (imports, 9 months; exports, not available), Netherlands Antilles (9 months), Saudi Arabia (6 months), Trinidad and Tobago (11 months), Venezuela (imports, 10 months; exports, 6 months).

Rubber exporters: Indonesia (imports, 10 months; exports, 11 months), Malaya and Singapore (12 months), Viet-Nam (11 months).

Cotton exporters: Egypt (12 months), French Equatorial Africa (10 months), Mexico (11 months), Mozambique (10 months), Nicaragua (9 months), Pakistan (10 months), Paraguay (imports, 6 months; exports, not available), Peru (12 months), Sudan (12 months), Syria (6 months), Turkey (12 months).

Wool exporters: Argentina (12 months), Australia (12 months), New Zealand (9 months), Union of South Africa (11 months), Uruguay (imports, 9 months; exports, 7 months).

Cocoa exporters: French Cameroons (9 months), Ghana (10 months), Nigeria (10 months).

Coffee exporters: Angola (9 months), Brazil (12 months), Colombia (12 months), Costa Rica (imports, 11 months; exports, 12 months), El Salvador (12 months), Ethiopia (6 months), Haiti (4 months), Kenya (10 months), Madagascar (11 months), Uganda (10 months), Tanganyika (10 months).

Tea exporters: Ceylon (12 months), India (11 months).

Sugar exporters: China: Taiwan (12 months), Cuba (imports, not available; exports, 7 months), Dominican Republic (imports, 9 months; exports, 12 months), Jamaica (10 months), Mauritius (12 months), Philippines (12 months).

Fruit exporters: Algeria (12 months), Ecuador (12 months), Israel (12 months), Panama (10 months).

Rice exporters: Burma (8 months).

Table 85. Indices of Changes in the Dollar Value of Exports from Selected Regions to Various Destinations
(Corresponding period in preceding year = 100)

Source	Total[a]	North America[b]	Western Europe[c]	Japan	Centrally planned economies[d]	Latin America	Middle East[e]	Asia and the Far East[f]	Oceania and southern Africa[g]	Other countries and territories[h]
World:[a]										
1955	111	113	113	107	116	101	120	103	112	109
1956	111	114	110	126	122	105	108	120	95	107
North America:[b]										
1955	104	113	122	95	152	98	127	113	116	105
1956	120	118	121	138	407	115	116	127	95	124
Western Europe:[c]										
1955	112	118	115	101	115	103	143	101	109	111
1956	109	124	108	140	128	103	85	120	92	105
Japan:										
1955	123	165	135	—	165	89	133	98	151	131
1956	124	124	123	—	186	92	94	116	79	126
Centrally planned economies:[d]										
1955	131	133	131	185	...	135	115	115	116	132
1956	122	128	120	106	...	93	156	197	115	113
Latin America:										
1955	102	104	97	84	116	106	144	60	114	100
1956	107	109	114	118	60	86	98	93	82	102
Middle East:[e]										
1955	116	126	105	103	166	199	117	122	163	150
1956	106	100	99	123	129	129	123	107	122	114
Asia and the Far East:[f]										
1955	107	112	106	118	150	176	126	87	98	95
1956	97	94	103	96	109	48	92	92	96	102
Oceania and southern Africa:[g]										
1955	109	111	103	144	85	101	167	106	111	117
1956	108	107	106	144	86	104	123	130	108	100
Other countries and territories:[h]										
1955	107	120	109	142	60	95	95	99	105	106
1956	106	103	103	132	118	94	94	130	97	110

Source: United Nations, *Monthly Bulletin of Statistics.*

[a] Excluding trade among mainland China, eastern Europe and the Soviet Union, special category exports from the United States and certain other exports whose destination could not be determined.

[b] Canada and the United States.

[c] Member countries of the Organisation for European Economic Co-operation, Finland, Spain and Yugoslavia.

[d] Albania, Bulgaria, mainland China, Czechoslovakia, eastern Germany, Hungary, Poland, Romania and the Soviet Union.

[e] Including the Federation of Ethiopia and Eritrea.

[f] Excluding mainland China, Japan and western European dependencies.

[g] Including the Federation of Rhodesia and Nyasaland.

[h] Ghana, Morocco, Tunisia and western European dependencies.

There was a slight decrease in the over-all value of exports from the primary exporting countries of the Far East. In dollar terms the principal gain was in exports to western Europe (which account for almost one-third of the total). This gain and a much larger proportional gain to the centrally planned economies were more than offset by major declines in exports to most other areas, which were only partly accounted for by lower prices.

The gains in exports from the sterling countries of Oceania and southern Africa were widespread, the most notable expansion both in 1955 and in 1956 being to Japan, reflecting in large measure the growth of wool shipments, in much the same way as the decline in exports to the centrally planned economies represents the decline in wool trade. Intra-regional trade—chiefly between Australia and New Zealand and between the Union of South Africa and Rhodesia—continued to expand and in 1956 was of the same dimensions as exports to North America.

Exports from the industrial countries to the primary exporting countries were 6 per cent higher in 1956 than in 1955. The only region not participating in this expansion was the sterling area group of Oceania and southern Africa. The largest increase was in exports from North America—almost $1 billion or 16 per cent, compared with about $200 million or 2 per cent from western Europe and $160 million or 13 per cent from Japan. The primary exporting countries of the Far East took the largest increase—about $705 million or 22 per cent—from all three industrial regions. The increase to Latin America was $560 million or 10 per cent, chiefly from North America, and, to the "Other countries and territories" $383 million or 8 per cent, chiefly

from western Europe. There was a decline in exports to the Middle East of almost $200 million or 9 per cent, accounted for by a 16 per cent reduction in shipments from western Europe. Japan's principal gain in the primary exporting group was in exports to other Far Eastern countries, but this did not halt the recent decline in the relative significance of this market: from 42 per cent of all Japanese exports in 1953 and 36 per cent in 1954 to less than 29 per cent in 1956. Exports of the centrally planned economies to the primary exporting countries were 30 per cent higher in 1956 than in 1955; in dollar terms the major expansion was to the Far East ($88 million) and the Middle East ($55 million).

While table 85 analyses the changes in the distribution of trade on the basis of the principal currency regions, chart 23 illustrates these changes as they affected specific groups of primary exporting countries combined on the basis of their major exports. Among the groups whose exports were higher in 1956 than in 1955, the chief recipient of the increase was western Europe in the case of the exporters of metals and ores, petroleum and wool, eastern Europe in the case of the rice exporters, and North America in the case of exporters of cotton, coffee and sugar. In the other groups, exports were lower, the main reductions being to Latin America in the case of the rubber exporters, western Europe in the case of the cocoa exporters, and the Middle East in the case of the fruit and tea exporters. Western Europe was chief beneficiary of the increase in imports into the groups exporting metals, petroleum, cocoa, tea, sugar and fruit; North America provided the bulk of the increase for the cotton, coffee and wool exporters, eastern Europe for the rice exporters and Asian countries for the rubber group. The chief cuts in imports fell on western Europe in the case of the wool group, Latin America in the case of the coffee group, North America in the case of the sugar group and Japan in the case of the rice group.

The total trade of these exporting groups in 1955 and 1956 is presented in table 86, along with the trade balance, both in absolute terms and in relation to the gross value of trade.

There were a number of groups in which imports moved in the opposite direction to exports. In the wool and coffee groups, for example, under the influence of the import control policies of Australia and Brazil in particular, a modest rise in export receipts—the result of a somewhat greater rise in export quantum—was accompanied by a decline in import value (and a somewhat greater decline in import quantum). The result was a substantial improvement in the balance of trade.

This position was reversed in the case of the rubber, cocoa, tea and fruit groups. In these there was a considerable rise in imports—both quantum and value—in the face of apreciably smaller export earnings, due entirely to lower prices in the case of the cocoa and rubber groups, but only partly so caused in the case of the others. In the cocoa and rubber groups the aggregate trade balances moved from active to passive; in the tea and fruit groups, the trade deficit was substantially increased. In the case of the rice group, the active

Table 86. Foreign Trade, Selected Groups of Primary Exporting Countries
(Millions of dollars)

Exporting group	1955 Exports f.o.b.	1955 Imports c.i.f.	1955 Balance	1956 Exports f.o.b.	1956 Imports c.i.f.	1956 Balance	Ratio of change in balance to exports plus imports in 1955 (percentage)
Metals and ores[a]	1,947	1,982	−35	2,150	2,046	104	3.5
Petroleum[b]	4,496	3,010	1,486	4,784	3,182	1,602	1.5
Rubber[c]	2,399	2,164	235	2,323	2,455	−132	−8.0
Cotton[d]	2,573	3,114	−541	2,645	3,340	−695	−2.7
Wool[e]	4,642	5,846	−1,204	4,961	5,559	−598	5.8
Cocoa[f]	737	717	20	666	770	−104	−8.5
Coffee[g]	2,711	2,838	−127	2,821	2,763	58	3.2
Tea[h]	1,683	1,720	−37	1,633	2,053	−420	−11.3
Sugar[i]	1,455	1,731	−276	1,627	1,838	−211	2.1
Fruit[j]	710	1,219	−509	693	1,335	−642	−6.9
Rice[k]	562	514	48	575	559	16	−3.0
TOTAL, SIXTY-SIX COUNTRIES	23,915	24,855	−940	24,878	25,900	−1,022	−0.2

Source: International Monetary Fund, *International Financial Statistics.*

[a] Belgian Congo, Bolivia, Chile, Morocco, Rhodesia, Surinam and Tunisia.
[b] Aden, Iraq, Netherlands Antilles, Sarawak, Saudi Arabia (imports in 1956 based on first half-year, at annual rates), Trinidad (and Tobago) and Venezuela.
[c] Cambodia, Indonesia, Malaya and Viet-Nam.
[d] Egypt, French Equatorial Africa, Mexico, Mozambique, Nicaragua, Pakistan, Paraguay, Peru, Sudan, Syria and Turkey.
[e] Argentina, Australia, New Zealand, Union of South Africa and South West Africa, and Uruguay.
[f] French Cameroons, Ghana and Nigeria.
[g] Angola, Brazil, Colombia, Costa Rica, El Salvador, Haiti, Kenya (and Uganda), Madagascar and Tanganyika.
[h] Ceylon and India.
[i] China: Taiwan, Cuba, Dominican Republic, Guadeloupe, Jamaica, Mauritius, Philippines and Réunion.
[j] Algeria, Ecuador, Israel and Panama.
[k] Burma and Thailand.

Table 87. International Seaborne Shipping

(Monthly average of various periods between November 1956 and March 1957, thousands of metric tons)

Country	Goods loaded			Goods unloaded		
	1955/56	1956/57	Index, 1956 (preceding period=100)	1955/56	1956/57	Index, 1956/57 (preceding period=100)
Group I:[a]						
Syria[b]	1,464	172	12	21	29	138
Egypt[c]	224	117	55	578	270	47
French Somaliland[d]	8	6	75	57	29	51
Madagascar[e]	24	19	79	38	31	82
Pakistan[c]	173	146	84	280	407	145
Israel[e]	82	82	100	145	133	92
Kenya and Tanganyika[f]	139	140	101	263	283	108
New Zealand[b]	157	173	110	438	405	92
Ceylon[e]	91	113	124	192	227	118
Sudan[g]	37	46	124	53	55	104
Australia[e]	540	839	155	1,216	1,197	98
TOTAL, TWELVE COUNTRIES	2,939	1,853	63	3,281	3,066	93
TOTAL, GROUP I, EXCLUDING EGYPT AND SYRIA	1,251	1,564	125	2,682	2,767	103
Group II:[h]						
Viet-Nam[b]	56	49	88	119	109	92
Philippines[f]	549	373	92	278	563	202
Singapore[e]	606	557	92	920	1,005	109
China: Taiwan[f]	119	113	95	155	168	108
Hong Kong[b]	156	159	102	377	421	112
Indonesia[f]	1,138	1,349	119	275[i]	447[i]	163[i]
TOTAL, SIX COUNTRIES	2,624	2,600	99	2,124	2,713	128
Group III:[j]						
Algeria[g]	646	517	80	364	454	125
French Equatorial Africa[f]	78	65	83	18	23	128
Brazil[e]	536	503	94	1,120	1,169	104
Morocco[e]	711	700	98	230	221	96
Union of South Africa[f]	352	347	99	593	740	125
Tunisia[e]	322	323	100	106	107	101
Nigeria[i]	158	158	100	172	176	102
Colombia[e]	412	421	102	147	105	71
Lebanon[e]	34	35	103	128	135	105
Belgian Congo[e]	69	72	104	110	91	83
French Cameroons[f]	26	28	108	28	38	136
Trinidad and Tobago[g]	706	773	109	604	716	119
Peru[e]	388	471	121	114	112	98
Turkey[i]	130	174	132	220	158	72
Ghana[i]	115	166	144	138	112	81
French West Africa[i]	228	405	157	232	344	148
Dominican Republic[f]	59	133	225	...	...	...
TOTAL, SEVENTEEN COUNTRIES	4,970	5,291	106	4,324	4,701	109
TOTAL, ALL GROUPS	10,533	9,744	93	9,729	10,480	107

Source: United Nations, *Monthly Bulletin of Statistics*. Countries are arranged in ascending order of percentage increases in loadings.

[a] Countries ordinarily shipping a substantial proportion of their trade through the Suez Canal or otherwise directly involved in the crisis in the Middle East.

[b] November–March.

[c] November–January.

[d] December only.

[e] November–February.

[f] November–December.

[g] October–December.

[h] Countries less dependent on trade routes through the canal.

[i] November only.

[j] Countries more or less independent of the canal.

balance was significantly reduced because imports rose more than exports.

Exports rose more than imports in the metals, petroleum and sugar groups with consequent benefit to the balance of trade, though this remained passive in the sugar group. In the case of the cotton group, on the other hand, the balance was adversely affected by an expansion of imports that was appreciably greater than the expansion of export earnings.

Proportionately, the worsening of trade balances tended to be greater than the improvement. In relation to the total trade (exports plus imports) of 1955, for example, the deterioration in balance amounted to more than 11 per cent in the case of the tea group, almost

9 per cent in the cocoa group, 8 per cent in the rubber group, 7 per cent in the fruit group and 3 per cent in the cotton and rice groups. The largest relative gain was registered by the wool group (6 per cent); the improvement in the metals and coffee groups amounted to just over 3 per cent and in the sugar and petroleum groups to about 2 per cent.

Though it is not possible to separate the events in the Middle East and the ultimate closure of the Suez Canal from all the other factors influencing the course of trade in the primary exporting countries, indications are that disruption of traffic through the canal and the consequent pressure on available shipping did not greatly affect the total value of trade in the final quarter of the year. The rise in prices tended to increase the value of trade, but the relative shortage of shipping tended to reduce its volume and since, in the short run, the former was often a direct function of the latter, the results were mutually cancelling. The proportion of trade normally passing through the canal differs considerably from one primary exporting country to another: it is negligible in the case of most western hemisphere and West African countries, small in the case of most equatorial and southern African countries; it rises to about a third in the case of Malaya, to 40 per cent in the case of Indonesia, over half in India and Pakistan, 60 per cent in Australia and even higher in the case of New Zealand and the petroleum exporters of the Middle East. The effect in distance and time of re-routing ships between these countries and western Europe around the Cape of Good Hope instead of through the canal also varies greatly—from a marginal increment in the case of Oceania to almost a doubling in the case of the Middle East.

Trade data do not provide any firm evidence that the closing of the canal exerted a systematic influence on the quantum of exports or imports of the primary exporting countries. Trade in countries geographically vulnerable to the events in the Middle East was not uniformly reduced relative to that of countries geographically independent. Apart from Egypt itself, the only countries whose trade obviously suffered were the oil exporting or transit countries of the Middle East.

This is borne out by figures of loadings and unloadings of seaborne trade, set out for the months immediately following the closure of the Suez Canal for thirty-five primary exporting countries in table 87. It would seem that factors other than the Suez crisis determined the difference between the situation in 1955 and in 1956. In the statistically important case of Australia, for example, the expansion of wool sales and the restraint on imports account for most of the change. Asian and Pacific countries seem to have made greater use of the Panama Canal, loadings and unloadings at which were about 20 per cent greater in the five months from November 1956 to March 1957 than in the corresponding period in 1955/56.

Changes in Production and Use of Resources

Production

Gross domestic production was higher in 1956 than in 1955 in most of the primary exporting countries (see table 88). In view of the low per capita income which characterizes many of these countries, the average increase was not very high—of the order of 3 to 5 per cent in real terms—but it exceeded the over-all rate of population growth.

In most of the countries in which over-average increases in production were registered—Rhodesia, the Belgian Congo, Venezuela, Cuba and the Dominican Republic, for example—expansion of the principal export commodities was chiefly responsible. In Mexico, however, the main stimulus came from secondary and tertiary activities.

In Rhodesia, where production had been depressed somewhat in 1955 by a lengthy strike of workers in the copper mines, a substantial increase in mineral output was accompanied by a record tobacco crop and sizable gains in maize and other crops (see table 89). An increase of 15 per cent in the output of electricity and 22 per cent in the output of cotton yarn (see table 90) may be taken as indicative of the rate of industrial growth—on a small base—stimulated by a high rate of immigration and capital inflow. In the Belgian Congo, there was also a general expansion in metal production—with the exception of tin and gold—averaging rather more than 5 per cent and, to judge by exports, of appreciably greater proportions in agricultural and pastoral production. In Venezuela, petroleum production was about 14 per cent higher in 1956 than in 1955, while the expansion in iron ore output was even greater. Though harvests were somewhat leaner than in 1955 and the output of some consumer goods lower, the expansion of mineral exports and the associated services, as well as of electricity and cement production, was sufficient to raise the gross domestic product very substantially.

Sizable increases in gross domestic product in Cuba and the Dominican Republic were the result of agricultural expansion—in particular, a larger sugar crop in the former and a larger coffee crop in the latter. In Mexico, by contrast, there was little advance in mining, and crops on the whole were smaller than in 1954/55 (see table 91), but there was a notable increase in the output of many manufactured products, while service

activities were stimulated by a further expansion in foreign trade and a record level of tourism.

At the other end of the scale were several countries in which the per capita level of production failed to increase in 1956. In some—notably Indonesia and Pakistan—agricultural shortfalls were the main cause. In others—including Argentina, Brazil, Chile and, to a less extent, Australia and Turkey—the situation was more complex, for although climatic factors adversely affected some crops, there was also a slowing down in certain other activities, reflecting in varying degrees the restraining influence of government policies seeking to reduce domestic demand.

In Indonesia, the 1955/56 food harvest was about 4 per cent below the level of the previous year (see table 91) and estate production was also lower in 1956 —rubber by 9 per cent, for example. These declines were not completely offset by a slightly larger 1956/57 rice crop or gains in industrial production and in mineral output (except in the case of tin, which was 10 per

Table 88. Indicated Change between 1955 and 1956 in Gross Domestic Product and Expenditure, Selected Primary Exporting Countries

Country	Gross domestic expenditure	Total consumption	Gross capital formation		Exports of goods and services	Imports of goods and services	Gross domestic product
			Total fixed investment	Change in stocks			
Belgian Congo	C	C	B	(−)	D	C	C
Ceylon	A	A	C	...	−B	C	A
Cuba	C	B	D	...	C	C	C
Dominican Republic	C	D	A	...	D	C	C
Guatemala	B	B	F	...	B	D	B
Malaya	B	B	D	...	B	C	B
Venezuela	C	C	B	...	D	C	C
Egypt[a]	B	B	D	(−)	D	E	B
Union of South Africa	A	B	−B	(+)	D	B	B
Pakistan[b]	A	A	C	(−)	D	−C	A
Philippines	B	B	D	(−)	B	−B	B
New Zealand[b]	B	B	C	(−)	E	C	B
1956: April–September	A	A	A	...	C	A	B
Rhodesia and Nyasaland	D	C	F	...	C	D	D
Ghana	B	B	C	(−)	C	B	B
Mexico	C	C	D	...	C	D	B
Australia[b]	B	B	B	(−)	D	−B	B
1956: Second half	−B	A	−C	(−)	D	−E	A
Colombia	B	A	C	(−)	−C	−B	B
Thailand[a]	C	B	C	(+)	A	D	B
India	B	A	F	...	A	F	B
China: Taiwan	B	B	C	...	A	A	B
Argentina	A	A	B	...	C	−C	B
Indonesia	B	B	C	(+)	−D	F	A
Turkey	A	B	−D	(−)	−C	−F	B
Burma[b]	B	B	A	(−)	A	B	B
Brazil	A	A	A	(−)	D	−D	B
Chile	−B	A	−E	(+)	B	−C	A

Source: United Nations Bureau of Economic Affairs. Australia: *National Income and Expenditure 1955–56* (Canberra, 1956); Burma: Ministry of Finance and Revenue, *Economic Survey of Burma, 1956* (Rangoon, 1956); New Zealand: Department of Statistics, *Report on the Official Estimates of National Income and Sector Accounts for the Year 1955–56* (Wellington, 1956); Pakistan: *The Colombo Plan for Co-operative Economic Development in South and South-east Asia, Fifth Annual Report of the Consultative Committee* (London, 1957); Dominican Republic and Guatemala: replies to the United Nations questionnaire of November 1956 on full employment and balance of payments; other countries: based on indicators derived from official statistics of trade, production and public finance.

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. The countries are arrayed in ascending order of increase in average cost of living between 1955 and 1956.

Where official estimates have been used, they were preliminary figures. Where "indicators" have been used, they were generally estimates of apparent consumption (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 to indicate investment changes. 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 1955 level) by means of the most appropriate available deflator. 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 1955 figures. 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 recent years. In general the indicators were based on a comparison of figures for the first three quarters of 1956 with those for the corresponding period in 1955. In some cases a longer period was available, in others a somewhat shorter period; in the case of Egypt and Thailand, the indicators relate to the first half of the year only.

[a] First half.

[b] Fiscal year: April–March in the case of New Zealand and Pakistan, July–June in the case of Australia, October–September in the case of Burma.

Table 89. Production of Wheat, Rice, Maize and Sugar[a]

(Thousands of metric tons)

Country	Wheat			Rice (paddy)			Maize			Sugar		
	1954	1955	1956	1954	1955	1956	1954	1955	1956	1954	1955	1956
Algeria	1,392	1,254[b]	1,400	...	...	...	95	90	...	3	4	4
Argentina	7,690	5,250	7,130	172	164	...	4,450	2,546	3,870	824	623	816
Australia	4,589	5,323	3,532	...	...	...	129	112	127	1,303	1,161	1,161
Belgian Congo	...	...	...	179	198	...	...	...	...	17	17	17
Brazil	871	1,101	1,212	3,737	3,809	...	6,690	7,310	8,012	2,249	2,235	2,435
Burma	...	...	...	5,804	5,868	6,463	...	...	...	20	24	44
Cambodia	...	...	...	850	1,100[b]	1,200[b]	...	...	...	...	...	...
Ceylon	...	...	...	649	741	585	...	...	...	...	...	...
Chile	1,029	1,048	1,006	93	61	82	102	110	...	5	6	10
China: Taiwan	...	...	...	2,108	2,009	2,200	...	...	...	755	794	816
Colombia	146	166	180	278	324	340	943	940	940	270	284	286
Cuba	...	...	...	170[b]	153	...	178[b]	185[b]	180[b]	4,596	4,740	5,171
Dominican Republic	...	...	...	103[b]	102[b]	95[b]	92	...	...	658	640	680
Ecuador	34	39	37	46	70	...	...	...	...	53	73	91
Egypt	1,729	1,451	1,547	1,118	1,310	1,520	1,508	1,714	1,790	318	313	322
El Salvador	...	...	...	16	13	...	175	158	320	33	41	42
Guatemala	40	32	...	22	20	...	368	387	...	50	54	59
India	8,017	8,919	8,482	37,387	38,824	39,000[b]	2,986	2,559	...	1,833	2,123	2,245
Indonesia	...	...	...	11,747	11,117	11,400[b]	2,721	1,883	956[b]	718	851	816
Iran	2,100[b]	2,313[b]	2,700	526[b]	322[b]	440	...	...	...	69	83	91
Iraq	1,160	473	776	180	83	111	...	...	...	...	...	...
Korea, southern	131	108	...	3,001	3,042	2,807	...	...	...	...	...	...
Lebanon	60	60	62	...	...	...	...	...	...	...	...	...
Malaya	...	...	...	662	678	700[b]	...	...	...	...	...	...
Mexico	839	850	1,100[b]	170	211[b]	240[b]	4,488	4,599	4,877	944	789	880
Morocco	1,205	954[b]	1,066[b]	...	...	...	256	286	232	...	...	...
Nicaragua	...	...	...	25[b]	34[b]	...	96	...	...	40	36	38
Pakistan	3,742	3,223	3,368	12,816	10,987	13,650[b]	433	456	...	106	114	113
Paraguay	2	2	3	...	...	...	...	...	...	...	...	...
Peru	163	151	129	259	249	...	304	297	265[b]	662	680	689
Philippines	...	...	...	3,203	3,273	3,337	770	881	914[b]	1,245	1,106	1,093
Rhodesia, southern[c]	...	...	...	...	...	...	253	258	318	...	...	...
Syria	965	438	1,051	19	11	9	...	...	...	8	5	5
Thailand	...	...	...	5,709	7,712	8,009	...	68	69	44	53	54
Tunisia	624	395	499	...	...	...	...	...	...	...	...	...
Turkey	5,010	7,016	6,612	165	95	166	914	855	900	198	283	414
Union of South Africa	600	795	825	...	...	...	3,392	3,283	2,925	752	852	794
Uruguay	854	849	750	...	...	...	...	192	218	34	33	36
Venezuela	3	2	2	58	102	60	326	317	...	142	159	200

Source: Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics*; United Nations, *Economic Survey of Latin America, 1956* and *Economic Bulletin for Latin America*, vol. II, No. 1 (Santiago); United States Department of Agriculture, *Foreign Agriculture Circular*, FS 4-56 (Washington, D.C., 1957); United States Department of Commerce, *Economic Developments in Colombia in 1956* (Washington, 1957); Federation of Rhodesia and Nyasaland, *Monthly Digest of Statistics*, vol. III, No. 12 (Salisbury), March 1957; replies to the United Nations questionnaire of November 1956 on full employment and balance of payments.

[a] Data pertain to the crops actually harvested in the year stated; in a few cases, however, they relate to the crops harvested in the latter part of the period indicated and continuing into the early part of the following year.

[b] Unofficial figures.

[c] Crops from European-owned farms only.

Table 90. Production of Electricity, Cement, Steel and Cotton Fabrics[a]

Country	Electricity[b] (Millions of kilowatt-hours)		Cement (Thousands of metric tons)		Steel (Thousands of metric tons)		Cotton fabrics (Millions of metres)	
	1955	1956	1955	1956	1955	1956	1955	1956
Algeria	874	948	650	667	—	—	1.1	0.5
Argentina	5,743	6,316	1,848	2,028	217[c]	192[c]	90.6[d]	95.6[d]
Australia	16,177[e]	17,606[e]	1,991	2,135	2,244[f]	2,640[f]	29.6	37.3
Bolivia	220	220	38	38	—	—	...	...
Brazil	10,716	12,420	2,720	3,200	1,162[c]	1,370[c]	...	...
Burma	...	...	60	39	—	—	1.4[d]	1.4[d]
Ceylon	182	194	85	85	—	—	...	...
Chile	1,823	1,920	805	770	319[c]	381[c]	40.0[g]	45.5[g]
China: Taiwan	1,951	2,229	599	593	...	...	161.7	137.2
Colombia	1,800	1,940	1,037	1,220	77	90	...	...
Costa Rica	260	290	84	87	—	—	...	...
Cuba	1,134	1,270	489	489	—	—	...	...
Dominican Republic	...	...	240	240	—	—	...	...
Ecuador	212	235	146	150	—	—	...	...
Egypt	...	...	1,372	1,351	—	—	244.0	265.0
El Salvador	135	155	58	68	—	—	13.8	12.6
Ghana	56	64	...	...	—	—	...	...
Guatemala	134	143	79	80	—	—	...	...
Haiti	...	...	...	...	—	—	3.4	3.2
Honduras	121	133	124	139	—	—	...	...
India	8,484	9,636	4,560	5,028	1,728	1,764	4,656.0	4,848.0
Indonesia	...	...	...	...	...	...	48.8	51.8
Iran	...	...	67	155	—	—	...	...
Israel	1,048[h]	1,142[h]	664	622	—	—	...	...
Jamaica	...	...	108	132	—	—	...	...
Kenya, Uganda and Tanganyika	342	444	165	229	—	—	...	...
Korea, southern	876	1,116	55	49	—	—	49.4	118.9
Lebanon	...	...	454	487	—	—	...	...
Malaya	1,299[i]	1,414[i]	108	104	—	—	...	...
Mexico	6,996[e]	7,824[e]	2,085	2,200	691[c]	845[c]	32.0[j]	41.1[j]
Morocco	880	928	703	581	—	—	...	...
New Zealand	4,032[k]	4,164[k]	410	451	—	—	...	...
Nicaragua	49	53	29	42	—	—	...	...
Nigeria	235[e]	268[e]	...	...	—	10[c]	...	...
Pakistan	550	758	694	785	11[c]	—	416.2	440.0
Panama	114[l]	124[l]	110	110	—	—	...	...
Paraguay	...	...	12	14	—	—	...	...
Peru	615	675	566	555	—	—	...	...
Philippines	782[m]	923[m]	409	444	—	—	10.8	16.6
Rhodesia	2,259	2,588	74[n]	95[n]	...	...	3.2[d,o]	3.9[d,o]
Syria	142	152	264	325	—	—	...	...
Thailand	180	213	386	420	—	—	...	...
Trinidad and Tobago	121[p]	132[p]	124	139	—	—	...	...
Tunisia	220	226	383	360	—	—	...	...
Turkey	1,417[e,q]	1,535[e,q]	816	972	188	192	146.4	152.4
Union of South Africa	16,356[e]	17,664[e]	2,336	2,471	1,584	1,608	...	...
Uruguay	1,024	1,065	292	339	...	13	...	...
Venezuela	1,151	1,355	1,282	1,451	—	—	16.2	16.0
Viet-Nam	200[e]	209[e]	...	...	—	—	...	...

Source: United Nations, *Monthly Bulletin of Statistics* and *Economic Survey of Latin America, 1956;* Federation of Rhodesia and Nyasaland, *Monthly Digest of Statistics,* March 1957; Indonesia, *Statistik Konjunktur* (Djakarta), November 1956; Cotton Board, *Quarterly Statistical Review* (Manchester); replies from Pakistan and Thailand to the United Nations questionnaire of November 1956 on full employment and balance of payments.

[a] Where data were available for only a portion of the year, they have been converted into annual rates.

[b] Production of enterprises generating primarily for public use, unless otherwise stated.

[c] Ingots only.

[d] Yarn output in thousands of metric tons.

[e] Total generation of electricity, including that of industrial establishments generating primarily for their own use.

[f] Excluding castings.

[g] Includes mixed fabrics predominantly of cotton and covers about 85 per cent of total production.

[h] Sales.

[i] Including Singapore.

[j] Thousands of metric tons.

[k] Deliveries.

[l] Cities of Panama and Colón.

[m] Manila.

[n] Northern Rhodesia only.

[o] Southern Rhodesia only.

[p] Approximately 62 per cent of capacity is owned by establishments generating electricity for their own use; output of these plants not included herein.

[q] Approximately 90 per cent of total generated.

cent smaller). Much the same is true of Pakistan, where a 3 per cent lower food harvest in 1955/56 exerted a major influence on the year's developments, notwithstanding a small increase in jute and cotton production, somewhat larger wheat and rice crops gathered later in the year and a considerable (15 per cent) increase in industrial output, concentrated chiefly in the consumer goods sector.

In Argentina, Brazil and Chile it is probable that inflation itself, being in these instances largely in the nature of a wage- and cost-raising spiral, has recently

Table 91. Indices of Agricultural and Industrial Production
(Preceding year or portion = 100)

	Agriculture				*Industry*			
	Food		*Total*		*Manufacturing*		*Total*	
Country	*1954/55*	*1955/56*	*1954/55*	*1955/56*	*1955*	*1956*	*1955*	*1956*
Algeria	109	89	107	89	110	94	110	91
Argentina	104	(−)	102	101	104	99	104	99
Australia	106	(+)	107	(+)	103[a]	101[a]	103[a]	101[a]
Bolivia	...	(−)	...	(−)	...	...	...	...
Brazil	106	(+)	107	98	...	98	...	...
Burma	100	100	100	100	...	...	...	...
Cambodia	(+)	...	(+)	105	...	...	...	...
Ceylon	108	105	105	105	...	...	100	...
Chile	104	(−)	104	99	...	...	...	103
China: Taiwan	105	104	105	105	110	102	110	103
Colombia	104	(+)	104	97	...	...	...	106
Costa Rica	...	...	...	114	...	...	...	...
Cuba	97	103	97	102	...	(+)	...	...
Dominican Republic	...	...	...	100	...	...	...	...
Ecuador	...	...	...	100	...	...	...	(−)
Egypt	110	97	110	97	...	...	...	...
El Salvador	...	(+)	...	(+)	...	...	...	(+)
Guatemala	...	(+)	...	105	...	...	105	108
Haiti	...	...	...	113	...	...	...	...
Honduras	...	...	...	112	...	...	...	...
India	100	100	101	100	107	111	117	111
Indonesia	106	96	107	96	...	...	...	(+)
Iran	...	...	...	99	...	...	...	...
Iraq	...	...	...	87	...	...	...	...
Israel	...	...	...	105	...	...	...	101
Korea, southern	100	100	103	99	...	(+)	...	...
Lebanon	...	...	...	85	...	...	...	...
Malaya	105	100	102	108	...	...	...	...
Mexico	110	94	111	98	112	108	111	110
Morocco	105	78	104	90	...	...	...	(−)
New Zealand	104	(+)	104	(+)	104[a]	100[a]	...	...
Nicaragua	...	...	...	100	...	...	...	...
Pakistan	102	97	104	98	...	...	...	115
Panama	...	...	...	98	...	...	...	...
Paraguay	...	...	...	101	...	...	...	110
Peru	104	(−)	102	91	...	...	...	(+)
Philippines	101	101	101	102	111	112	111	(+)
Rhodesia	...	(+)	...	(+)	...	(+)	...	(+)
Syria	...	...	...	82	...	...	...	...
Thailand	82	128	86	127	...	...	...	(+)
Tunisia	96	79	96	79	...	...	...	(−)
Turkey	82	118	83	112	...	...	...	...
Union of South Africa	98	(−)	99	...	102[a]	101[a]	102[a]	102[a]
Uruguay	92	...	93	101	...	...	...	100
Venezuela	...	(−)	...	99	...	...	...	108
Viet-Nam	...	(+)	...	...	...	...	...	...

Source: United Nations Bureau of Economic Affairs; United Nations, *Monthly Bulletin of Statistics, Economic Survey of Asia and the Far East, 1956* (sales number: 1957.II.F.1), and *Economic Survey of Latin America, 1956*; Food and Agriculture Organization of the United Nations, *Monthly Bulletin of Agricultural Economics and Statistics* United States Department of Agriculture, *World Food Situation, 1957* (Washington, D.C., 1956); Argentina, Ministerio de Hacienda, *Indices del Costo del Nivel de Vida, Actividad Industrial y Costo de la Construcción* (Buenos Aires, January 1957); Banco Nacional de Mexico, *Review of the Economic Situation of Mexico* (Mexico, D.F.); Central Bank of the Philippines, *Central Bank News Digest* (Manila); Israel, Central Bureau of Statistics, *Monthly Bulletin of Statistics* (Jerusalem); replies to the United Nations questionnaire on full employment and balance of payments.

[a] Employment.

tended to inhibit expansion, at least among the older industries. In Argentina a poorer wheat harvest—reaped in the last quarter of 1955—contributed to a slight decline in over-all food production and, despite moderate gains in the output of electricity, cotton fabrics and cement, industrial production was prevented from rising by widespread strikes in the last quarter of the year. In Brazil, though there was an increase in a number of local food crops—including wheat, in particular—agricultural output as a whole was lower in 1955/56 than in 1954/55, largely as a result of a major decline in cotton and coffee production, exports being expanded by depleting stocks. Similarly, in spite of substantial increases in electricity, cement and steel production, industrial output as a whole also declined slightly, production of consumer goods being about 3 per cent below the 1955 level. In Chile more stringent disinflationary policies were chiefly responsible for a marked decline in construction. While there were increases in the output of several food crops, including potatoes and pulses, the wheat harvest was appreciably smaller and agricultural production as a whole was lower in 1955/56 than in 1954/55. Following a decline in 1955, industrial output rose slightly in 1956, but mining production showed hardly any advance on 1955 rates.

In Australia, despite a further increase in the wool clip, a favourable out-turn of a number of other agricultural products (with the exception of sugar and mutton), and a rise in the local production of many items, especially consumer non-durables, imports of which had been curtailed, there was a marked slackening in the rate of expansion during 1956. This reflects credit stringency resulting from the passive trade balance and the monetary policy of the Government, lower rural incomes resulting from the continued deterioration in the terms of trade (at least until the final quarter of the year) and a reaction to the high level of spending —partly on hire-purchase—that characterized 1955.

Though disappointing harvests served to hold down gross domestic product in a number of Asian countries, this was largely the result of local floods and drought rather than of any generally unfavourable climatic conditions. Some countries in the region maintained their agricultural production—Burma, India and southern Korea, for example—while others registered appreciable gains: in Thailand production recovered from the low level of 1954/55, the rice harvest showed a marked improvement in Cambodia and Laos, and there was a further advance in most crops in China: Taiwan. In Ceylon, notwithstanding dry conditions early in the year, which resulted in a slightly smaller tea crop and rice harvests—both the spring *maha* and the autumn *yala*—considerably smaller than the record of 1955, total agricultural production was 5 per cent higher in 1955/56 than in 1954/55. There were also smaller increases in food crops in Malaya and the Philippines.

In North Africa, notwithstanding the widespread failure of the olive crop, there was a substantial recovery of food production later in 1956, the result, in particular, of better cereal harvests. This was true in the Middle East, too, despite a smaller 1955/56 rice crop in a number of countries, including Iran, Iraq, Syria and Turkey (where the wheat crop was also smaller), and a smaller sugar crop in Syria. In Egypt, the effect on agricultural output of a record rice crop and improved wheat, maize and sugar crops was offset in part by a further cutback in cotton production.

Elsewhere the 1955/56 farm year was generally favourable, though important crops were smaller in some countries. A 4 per cent increase in agricultural output in New Zealand was largely the result of higher productivity in pastoral activities, due in part to the increasing use of aerial topdressing. In the Union of South Africa, the maize crop declined again but was still well above local consumption needs, adding to supplies being exported at prices below the domestic level; wheat production, on the other hand, rose again in 1955/56 and in 1956/57, reaching a level at which imports ceased to be necessary. There were few increases in food crops in Ecuador, and in Colombia higher cereal and sugar production was offset by a smaller coffee harvest. In Peru, a severe drought in the Andean region adversely affected agricultural output in 1956, and, though there were small gains in sugar and cotton—grown under irrigation in the West—the maize crop was 11 per cent smaller. Drought was also responsible for smaller crops in Bolivia. In Uruguay, agricultural production seems to have risen in 1956, despite a wheat crop which declined both in 1955/56 and in 1956/57. In Guatemala, food crops seem generally to have been smaller—especially wheat and rice—though coffee production was higher.

In many of the less developed countries industrial production advanced to a greater degree than agricultural production in 1956. This was as noticeable in Chile, Guatemala and Mexico as in India, Pakistan and the Philippines, in all of which countries there were gains in manufacturing. In China: Taiwan, by contrast, industrial production increased less than agricultural production; this was largely the result of a recession in the textile industry but other industries also lagged, including cement. There was some retardation in the rate of expansion of manufacturing output in a number of countries, including Australia, Israel, New Zealand and South Africa, while in Argentina and Brazil—which are also among the industrially more advanced countries in the primary exporting group—there was actually a slight decline. There also appears to have been a slight decline in industrial output in Burma and a more substantial one in Algeria, Morocco and Tunisia. Textile production was lower in 1956 than in 1955 in El Salvador and Haiti, as well as in Venezuela, where other consumer goods industries—furni-

ture, for example—seem to have felt the effect of somewhat greater imports. Larger imports were also responsible for a decline in domestic production of cement in Burma, but changes in sugar and cotton mill output were due to changes in the crop—an increase in sugar and a decrease in cotton. There were reductions in cement output in a number of countries, including Chile, southern Korea and Malaya, though this was not always associated with a decline in construction.

The over-all increase in the amount of electricity generated in the primary exporting countries was about 10 per cent, particularly large relative advances being registered in Kenya and Uganda, Pakistan, Venezuela, the Philippines, Ghana and China: Taiwan. Very few of the primary exporting countries produce steel, but aggregate output was about 900,000 metric tons (10 per cent) larger in 1956 than in 1955, the largest proportionate gains having been made in Chile, Mexico, Australia and Brazil. The over-all expansion in cement production between 1955 and 1956 was of the order of 3 million metric tons (again about 10 per cent); as in the case of electricity, the greatest relative increases were achieved by smaller producers—Iran, Kenya, Rhodesia, Syria and Jamaica—though sizable gains were also made by Brazil, Turkey and Colombia.

Consumption

Personal consumption rose in the aggregate in almost all primary exporting countries in 1956, in most cases, however, by rather less than production—reflecting a general tendency for resources to move slightly more in the direction of public consumption, capital formation or exports. Where total consumption increased more than production, it was usually at the expense of external reserves rather than fixed capital formation. Though there were relatively few countries in which consumption declined in 1956—either absolutely or on a per capita basis—included among them were some of the principal trading nations of the primary exporting group.

In general, the countries in which the highest rate of expansion of consumption in 1956 was indicated were those with higher than average relative increases in domestic production: Rhodesia, Venezuela, Mexico, the Belgian Congo and the Dominican Republic, for example. In each of these countries a sizable increase in imports also helped to sustain the higher level of consumption. In most cases the expansion of public consumption appears to have been relatively greater than the expansion of personal consumption. In Mexico and Rhodesia, the rise in consumption was accompanied by a greater proportionate rise in capital formation; in Venezuela and the Belgian Congo, on the other hand, there was some slackening in the rate of growth, and in 1956 investment appears to have increased relatively less than consumption. In the Dominican Republic, the expansion in consumption was partly at the expense of capital formation, the rate of increase of which seems to have declined slightly.

In the Belgian Congo, wage earnings rose appreciably in 1956 not only because of a significant increase in the number of employees but also because of rising wage rates. By mid-year average indigenous labour costs were about 9 per cent above the level of the previous year, and in the second half of 1956 several measures were enacted to raise the wage level of African workers in public service, especially of the lowest paid groups. In Mexico, there were also increases in the salaries and benefits of civil and military employees of the Government, provided for after a balanced budget had been introduced early in the year. Wage earnings also rose in Rhodesia, led by adjustments in rates paid to workers in the copper mines and enhanced by a further expansion in employment in the monetized sector of the economy and an increase of 7 per cent in the European population—largely through immigration. Compared with 1955, hire-purchase transactions were about 17 per cent greater in number and 30 per cent greater in value, while new registrations of motorcars were about a fourth higher.

A few countries appear to have experienced an increase in consumption proportionately greater than the increase in domestic production. This was the case in Indonesia, for example, and to a smaller extent in Ceylon and Thailand, too. As in the preceding group, the expansion in public consumption seems to have been relatively larger than that in private consumption in all three of these countries, but it was not effected at the expense of capital formation, which actually increased somewhat faster. Instead, the higher level of consumption was sustained in part by a substantial rise in imports, accompanied by stationary or declining exports.

The largest increase in imports in this group was registered by Indonesia. Both food and other consumer goods, as well as producer and capital goods, were involved in the upsurge, which commenced in the last quarter of 1955 and continued until rigid controls were re-imposed in the third quarter of 1956. By that time money supply, which had been fairly stable in the first half of the year, had resumed its rapid expansion as the Government maintained its rate of expenditure by borrowing from the central bank. In Ceylon, the level of consumption was raised by a small (2 per cent) increase in the real wages of estate workers and a slightly larger increase among unskilled government workers. The subsidy on rice was increased early in 1956, enabling the ration price to be lowered; in May, the price of sugar was also reduced. This was partly offset later in the year with the raising of income tax rates in the 1956/57 budget, though the immediate effect of the latter was mitigated by some reductions in customs duties.

A third group of countries can be distinguished in which, though consumption was higher in 1956 than in 1955, it had risen less rapidly than either production or population. The chief characteristic of this group was the considerable diversion of resources to investment. In most of them moreover—India, for example, and to a less extent Guatemala and Malaya—these resources were substantially augmented by a greater volume of imports.

In Guatemala, a major determinant of the level of personal consumption was a decline in the local output of key food crops; the chief increase in industrial production was in durable goods (wood, metals and non-metallic minerals), which helped to sustain the expansion in capital formation. In Malaya, a decline in the apparent consumption of rice and fish—the country's principal food items—and of textiles may have been somewhat less than indicated by production and trade figures because stocks may have been drawn down. There was an increase in the imports of many consumer durables, but, since incomes declined as the 1955 rubber boom subsided, it is doubtful whether there was any further significant advance in mass consumption, especially in view of the indicated expansion in the volume of resources devoted to investment. In India, with the second five-year plan getting under way, resources were shifted to investment on a much more considerable scale. The fact that 1955/56 food crops showed no advance in the aggregate on those of 1954/55 was a major restraining influence on consumption, and it was supplemented by various government measures, including strict control over imports geared to the plan, limitation of the credit banks could advance against collateral of rice and other commodities, and higher excise duties (on cotton fabrics, among other things) and income taxes introduced in the March budget. Even more constraining was the rise in prices itself—symptomatic of the excessive claims on resources induced by expanding investment in the face of efforts to maintain consumption: following a 5 per cent decline in the cost of living during 1955, there was a 12 per cent rise during 1956.

Another group of countries in which per capita levels of personal consumption were not maintained in 1956 includes some of the largest primary exporting countries—among them some of the major wool exporters and the major coffee exporters, as well as Chile and Pakistan. In most of them, the lag in consumption was part of a more general retardation of growth, reflecting in most cases the results of official policies directed to restoring an economic equilibrium that had been disrupted, usually by strong inflationary pressures.

The main exception to this diagnosis—and it is only a partial exception—is Pakistan, where per capita national income had remained practically constant for three successive years—1953/54 to 1955/56. With imports still under strict control, domestic supplies were threatened in 1956 by unfavourable conditions in many agricultural areas. There was a fairly rapid increase in prices, sparked in August 1955 by the devaluation of the rupee but aggravated by local food shortages, especially of rice in the eastern region. Personal consumption would have declined more drastically had there not been a further expansion in domestic manufacturing output and an increase in imports of consumer goods —especially food—financed by foreign aid.

In Argentina, the smaller grain crop harvested at the end of 1955, a sizable reduction in imports of consumer goods, an increase in personal taxes provided for in the budget presented in March 1956, and an increase in the number of man-days lost through strikes, combined with the Government's expressed policy to postpone general advances in wage rates for as long as possible, all contributed to a lowering of the level of personal consumption. Considerable pressure on available supplies remained, nevertheless, and the cost of living rose by 16 per cent in the course of the year despite a number of price controls.

Whereas in Argentina economic trends in 1956 were largely a continuation of those evident in 1955, in Australia, by contrast, there was a sharp reversal. In real terms the expansion of personal consumption between 1954/55 and 1955/56 (July to June) was less than half that of the preceding period, and indicators show that in the second half of 1956 personal consumption may actually have been less than in the corresponding portion of 1955. This reflects the higher excise taxes introduced in a supplementary budget in March 1956, the easing labour market—with registered vacancies halved and the unemployment level, though very low by outside standards, doubled in the course of the year —a rise of about 5 per cent in the wage index compared with one of 7 per cent in the cost of living, and a decline in sales of consumer durables following a record level of hire-purchase transactions in 1955.

Developments in New Zealand were very similar to those in Australia. In real terms, expansion of personal consumption in the year ending in March 1956 (in comparison with the previous fiscal year) was probably no more than a fourth of the expansion which had taken place in the preceding interval. And 1956 was marked by an intensification of government efforts to reduce over-all demand. A 20 per cent rebate on personal income tax was halved in the 1956 budget. The labour shortage which has prevailed for some years seems to have eased slightly: by September, unemployment, though still negligible, was six times greater than a year earlier and notified vacancies were a fourth lower. Wages tended to lag somewhat behind prices: it was not until late in October—by which time effective real rates had dropped to about 4 per cent below the level of the third quarter of 1955—that the Court of Arbitration raised minimum award rates (by 5 per cent).

Curtailment of imports—designed to improve external balance—played a significant part in restraining consumption in all three wool exporters. This was also the case in the coffee exporters Brazil and Colombia, as well as in Chile, and, until the second half of the year, in Burma too. In these countries supplies were also affected by a decline in local farm crops and in the domestic output of consumer goods—as in Brazil—or by the fact that the increase in local production was too small to compensate fully for the decline in imports. In Brazil, the larger export balance in 1956, along with a large government deficit, added to the inflationary pressures in the economy and, despite a decline in investment, there was a rise in the cost of living of no less than 26 per cent in the course of the year. Until increases were granted in July, this outstripped the rise in wages; in the first half of the year, real wages were 10 per cent below the corresponding 1955 level, a fact which also tended to hold back personal consumption. In Colombia, personal incomes were reduced somewhat —at least among the higher income groups—by a sale of bonds which amounted to an arrangement for the compulsory pre-payment of a portion of 1957 income tax obligations. Rent controls were instituted in May, but the rise in prices was led by imported goods which, following new restrictions, became increasingly scarce. With a reduction in public expenditures later in the year, an "austerity" programme was promulgated. In Burma, the budget effective from October 1955 raised a number of excise taxes on consumer goods and cut back the rate of public investment expenditure. Chile, like Burma, succeeded in slowing down the rate of price increase in 1956, partly by curtailing public investment —though also without balancing the budget—and partly by loosening the previously firm link between wages and the cost of living. In combination with a reduction in subsidies—particularly on transport and other public services—this resulted in a tendency for real wages to lag and thus contributed to holding back of personal consumption.

In most of the other primary exporting countries, there was no official restraint on consumption and it increased in 1956 in much the same proportion as domestic production, that is, by rather more than population, thus permitting a rise—in general only small—in per capita levels of personal consumption. This was accompanied by a somewhat greater relative increase in investment in most of these countries, with the notable exceptions of the Union of South Africa and Turkey, where capital formation seems to have been at a lower rate than in 1955 and gross domestic expenditure to have changed very little. Where the level of domestic expenditure was higher than in 1955, it was supported in most instances by an increase in imports—except in the Philippines, where, following an upsurge in 1954/55, imports were severely curtailed. In Turkey, foreign trade dropped off significantly, and there was no appreciable gain in China: Taiwan.

By and large, the effect of tax changes in this final group of countries was inimical to personal consumption, tending to transfer purchasing power to the public sector. In the Philippines, there was a general increase in both direct and indirect taxes introduced in February in the 1956/57 budget. From the beginning of the year under the new commercial arrangement, customs duties became payable on goods from the United States and a new policy of protecting domestic industries was inaugurated while with stricter controls imported consumer goods tended to become increasingly scarce and expensive. In the third quarter of 1956, however, the retail price of rice was reduced, following a decision to increase imports at a price appreciably below the local support level. There were also increases in customs duties in Egypt, and, more significant for personal expenditure in the second half of 1956, increases in property and income taxes introduced in mid-year with the 1956/57 budget. The budget introduced in Turkey in March 1956 made provision for a 15 per cent increase in tax revenue. This was part of a disinflationary policy which included higher interest rates and restraints on credit. An attempt to control prices and trade profits in the face of a smaller supply of imports seems to have had the effect of reducing ordinary sales. In Cuba, the budget was balanced—for the first time in three years. In the Union of South Africa, the budget introduced in March 1956 was intended to stimulate savings; a substantial surplus was provided for, the supertax exemption limit was raised and corporate taxes were adjusted in favour of profit retention. In so far as it succeeded in reducing the distribution of corporate profits, it may have had a restraining influence on personal expenditure. Here also there was some discouragement of hire-purchase transactions and a monetary policy designed to curb a rapid rise in private expenditure.

In contrast to these fiscal restraints on personal expenditure, modifications in the tax structure promulgated in December 1955 and June 1956 in China: Taiwan had the general effect of reducing income tax rates, particularly on higher incomes, and hence of facilitating some expansion of personal consumption. The index of real earnings (including payments in kind) in the first three quarters of 1956 was 18 per cent above the 1955 average in the case of mining and 2 per cent above in the case of manufacturing. In Ghana, an important determinant of local purchasing power is the price paid to peasant farmers for cocoa, and in September 1955 this was raised by the Marketing Board for the 1955/56 season by about 11 per cent despite the falling world prices. The quantity sold at this higher figure was about 4 per cent greater than in the 1954/55 season. The producer price was held at the higher level for the 1956/57 season, and by the end of 1956 purchases by the Board were well above the corresponding figure for the previous season.

On the whole real wages seem to have risen slightly in this group of countries, at least in those among them whose price levels rose less rapidly. In the first three quarters of 1956, employment in the Philippines was 5 per cent above the level of the corresponding portion of 1955, and real wages of unskilled workers were about 2 per cent higher. A rise in wage levels was also reported from Cuba.

Investment

In general, the volume of resources devoted to capital formation in the primary exporting countries was significantly greater in 1956 than in 1955. As might have been expected, moreover, the changes between 1955 and 1956 were usually not only larger but also more diverse in the case of capital formation than in the case of production or consumption.

Among the countries recording the greatest increases in investment in 1956 were Guatemala, India and Rhodesia. In all three countries this involved a considerable expansion of imports, particularly in India, where the growth of domestic product was only modest. All three countries drew upon loans from the International Bank for Reconstruction and Development (IBRD): Guatemala to the extent of about $6 million for highway construction, India about $31 million for power, steel and other industrial undertakings, and Rhodesia $2.5 million for power development (see table 92).

April marked the transition in India from the first to the second five-year plan. Hence the year 1956 as a whole saw the culmination of one investment programme which had been slowly accelerating since 1951 and the inauguration of a second programme in which

Table 92. International Bank for Reconstruction and Development: Loans to Primary Exporting Countries
(Millions of dollars)

Country	Loans sanctioned in 1956	Amounts disbursed during 1954	1955	1956	Amount undisbursed as of 31 December 1956
Algeria	—	—	—	10.0	—
Australia	50.0	53.2	44.6	35.9	59.3[a]
Belgian Congo	—	7.9	—	—	—
Brazil	—	32.0	14.5	12.8	31.4
Burma	19.4	—	—	0.1	19.2
Ceylon		1.0	1.9	1.8	14.4
Chile	15.0	2.6	2.7	7.0	24.4[a]
Colombia	16.5	8.1	12.8	20.2	38.3
Costa Rica	3.0	—	—	—	3.0[a]
Ecuador	5.0	0.2	1.2	1.5	10.6
El Salvador	—	0.6	0.4	3.9	6.8
Ethiopia	—	1.0	0.9	0.5	0.7
French West Africa	—	0.5	4.0	2.6	0.4
Guatemala	—	—	0.7	6.2	11.3
Haiti	2.6	—	—	—	2.6
Honduras		—	—	0.2	4.0
India	95.0	1.8	8.9	31.1	123.8[a]
Iraq	—	0.4	—	—	—
Kenya, Uganda and Tanganyika	—	—	21.3	2.7	—
Lebanon	—	—	—	0.2	26.8
Mexico	—	8.3	32.9	23.4	17.3
Nicaragua	4.8	2.4	1.1	2.9	13.2[a]
Pakistan	—	13.9	7.7	18.4	26.8
Panama	—	0.3	1.3	1.2	4.0
Paraguay	—	0.2	0.2	1.4	1.7
Peru	—	1.5	8.0	10.1	13.9
Rhodesia and Nyasaland	80.0	15.5	3.9	2.5	77.5
Thailand	3.4	1.8	2.1	3.9	12.1[a]
Turkey	—	13.4	14.6	9.0	10.1
Union of South Africa	—	44.6	7.7	5.8	19.4
Uruguay	25.5	12.3	1.2	4.4	27.7[a]
TOTAL	320.2	223.5	194.6	219.7	600.8

Source: International Monetary Fund, *International Financial Statistics*; International Bank for Reconstruction and Development, *Eleventh Annual Report, 1955–1956* (Washington, D.C., 1956), and press releases.

[a] Including the following amounts (in millions of dollars) still requiring action by the borrower or guarantor or both before becoming effective: Australia, 59.3; Chile, 15.0; Costa Rica, 3.0; India, 20.0; Nicaragua, 1.6; Thailand, 3.4; and Uruguay, 25.5.

capital expenditure is to take place at more than double the previous rate. During the year further progress was made on the various multi-purpose river basin projects, providing a substantial increment to the area under irrigation and to electricity generating capacity—the latter contributing to the 14 per cent increase that took place in current generated. Work also proceeded on the expansion of steel-making capacity in three public and two private projects, while among the other large investments were factories to produce a number of producer goods and several key items of capital equipment required for planned future investments.

In Rhodesia, too, evidence points to a further substantial increase in the volume of capital formation. Both the federal authorities and territorial governments have major development plans under way, with particular emphasis on transport and communications, and though expenditure has tended to lag behind budget appropriations in recent years, public investment increased considerably in 1956, particularly in the second half of the year after contracts had been let for the Kariba Gorge hydroelectric project. In the private sector, rapid expansion also continued. A new copper mine came into production, and work went forward on the opening up of new mining capacity along with the extension of copper and cobalt metallurgical facilities. There was a parallel advance in industrial and commercial investment, and there are indications that construction, residential and other, reached record levels in the principal urban areas.

Cuba, Mexico and Malaya were also among the countries in which the increase in fixed capital formation was significantly greater than the increase in domestic product. This was achieved partly because the relative increase in consumption was smaller and partly because there was a major expansion in imports. In Cuba, the continued boom in construction, stimulated in large measure by United States investment, along with a more prosperous sugar industry, combined to reduce the need for special public works expenditure in the normal slack season. In Mexico, also, foreign—especially United States—investment played an important part in the expansion of capital formation in 1956. In addition, some $23 million was drawn from IBRD loans arranged in 1952 and 1954 for electric power development and railway rehabilitation, as well as $10 million from the Export-Import Bank of Washington. In Malaya, government development expenditures, which have been lagging behind budget provisions in recent years, were noticeably higher in 1956, among the new undertakings being the establishment of a Land Development Authority. Private investment, which had slackened in 1955, also expanded markedly, partly as a result of the rise in profits and savings which had characterized the 1955 rubber boom, and partly in response to the incentive provided by the Government in March in the form of larger write-off allowances for new capital employed in rubber planting and industrial buildings and facilities.

Fixed capital formation also increased greatly in Egypt (at least in the first half of the year) and in the Philippines and, to a slightly less extent, Colombia. These are countries in which the growth of domestic product was more modest and in Egypt was more or less equalled by the rise in consumption. The increase in fixed capital formation was sustained partly by the drawing down of inventories and partly by restraints on consumption (in Colombia and the Philippines) or by the expansion of imports (in Egypt). In all three countries import controls were administered more stringently, with increased discrimination against consumer goods.

In Colombia, where attempts were made to curtail credit—except to the rural sector and to residential construction—and where by the trimming of public expenditures the budget deficit was cut, the rise in investment in 1956 may well have been somewhat less than in preceding years. However, there was a substantial drawing ($20 million) on loans granted by the IBRD in 1955 for electric power and railway development and a further loan was negotiated in June 1956 for highway expansion. In Egypt, budgeted capital expenditure by government on new works—by the National Production Council and Public Service Council—rose from £E78 million in the year ending in June 1955 to £E99 million in the year ending in June 1956, though actual outlays probably lagged behind these figures. Public investment also rose considerably in the Philippines, resulting in the expansion of power and transport facilities and more rapid progress in various rural development projects. Increased lending by the Industrial Development Centre, which had been set up in 1955, helped to stimulate investment in secondary industries, especially in textile and plywood manufacturing. Foreign capital—especially from the United States and to a smaller extent Japan—also flowed into new industrial enterprises, including a large plant producing rubber goods, and into mining, both to expand current production and to open up new deposits for future exploitation. The result was a major increase in construction activity.

Despite the failure of domestic production to expand, there appears to have been a considerable rise in investment in Indonesia, too, from the relatively low level of 1955; but in contrast to the position in the three countries just mentioned, part of this probably went into the building up of inventories—particularly of imported goods—at least during the first three quarters of 1955; but in contrast to the position in the three by a rapidly deteriorating external balance, private bank advances rose more in the first half of 1956 than in the first half of 1955. New investments included plants producing various chemicals and building ma-

terials. There was a higher level of capital formation in mining, also, including expansion in the petroleum industry and modernization of coal mines as well as exploration for new coal and iron ore deposits. Among the major public investments was the Djatiluhur multi-purpose project which got under way during the year, while in October a five-year development plan was inaugurated, formalizing the investment pattern in the public sector.

Another group of countries which in 1956 experienced a sizable increase in fixed capital formation in the face of a somewhat smaller rise in domestic product includes Ceylon, China: Taiwan, Ghana and Thailand. Consumption was not noticeably restrained in order to allow this expansion of investment; except in China: Taiwan, it was facilitated by a substantial increase in imports accompanied, except in Ghana,[2] by a reduction in exports.

In Ceylon, government expenditure from loan funds —which corresponds roughly with capital expenditure— rose from an actual 216 million rupees in 1954/55 to an estimated 264 million rupees in 1955/56, more or less in line with the six-year plan inaugurated in 1954. The second stage of the Aberdeen-Laksapana hydroelectric project—a doubling of its existing 25,000-kilowatt capacity—was put in hand and about $2 million drawn from the 1954 IBRD electric power loan. Other construction—both residential and non-residential—was markedly greater in 1956 than in 1955. The amount of investment may also have been influenced by a government-supported Development Finance Corporation which came into operation during the year and began to provide medium-term and long-term credit to both industrial and agricultural producers.

In China: Taiwan, 1956 marked the concluding phase of the first four-year plan. Among the principal government investments during the year were the Keelung outer harbour and the cross-island highway: the latter was commenced in July, just as the former was completed. Private capital formation was encouraged by a number of official steps, including a reduction (of up to 10 per cent) in tax rates and exemption (for up to three years) on approved investments, instituted in December 1955; a lowering of interest rates by the commercial banks in March 1956—thus offsetting an ostensibly "tighter" (or more selective) credit policy; a reduction of tax rates on higher incomes, sanctioned in June; and the granting of a more favourable exchange rate to overseas investors initiated in October. In the year ending in June 1956, installed electric power capacity increased by 134,000 kilowatts, that is, by more than one-third.

In Ghana, the decline in world cocoa prices and the resultant reduction in foreign exchange earnings and government revenue compelled some slowing down of public capital formation towards the end of 1956. The Government was in the midst of a major development programme, however, and over the year as a whole there appears to have been a further increase in the volume of fixed capital formation, especially in the agricultural sector. This was achieved, in part, by a drawing down of stocks which had probably been substantially augmented in the course of 1955. In Thailand, by contrast, stocks were probably increased in 1956. There was also an increase in the volume of industrial investment—in cement as well as food processing and other light industries—some of it sponsored by the government-supported National Economic Development Corporation, some financed by overseas capital, and some flowing from the Industrial Promotion Act of 1954, which offers various tax and other incentives to new enterprises in approved fields. Apart from its participation in industrial expansion, the Government also extended its public works activity, completing the Chao Phya irrigation dam and continuing railway and port rehabilitation and development, assisted in some measure by IBRD funds, almost $4 million of which were drawn during the year.

In the same group of countries recording an appreciable increase in fixed capital formation in 1956 was Pakistan. In the absence of any significant increase in domestic production, this expansion involved restraint on consumption, higher imports and the drawing down of inventories. Hence, the proportion of national income devoted to capital formation, which had risen from 4 to 7 to 8 per cent in the three preceding years, probably rose again in 1956/57. The increase in investment in 1956 was probably entirely on government account; private capital formation may well have been smaller than in 1955. Electricity generating capacity was expanded by about one-seventh during the year, and work proceeded on drydock, shipyard and other port facilities at Karachi. For these projects, as well as for railway and agricultural development, rather more than $18 million was drawn from loans previously granted by the IBRD.

In the case of some of the countries in which there appears to have been only a small advance in fixed capital formation in 1956—the Belgian Congo, Burma, New Zealand and Venezuela, for example—the fact that the expansion recorded in 1955 was above average constitutes part of the explanation. In all four of the countries mentioned there was an appreciable gain in domestic production, devoted in large measure to expanding exports. Except in New Zealand, imports also rose significantly, helping to sustain an appreciable increase in consumption. In New Zealand imports were reduced, and though stocks were probably drawn down, consumption levels were barely maintained.

In the Belgian Congo, investment in transport (except highway) continued to decline from the high levels

[2] In current prices there was also a decrease in exports from Ghana.

of 1951-1954, and while other public investment under the ten-year plan was maintained, new commitments began to tail off, with the result that construction commencements began to fall below the 1955 rate. In Burma, the course of fixed capital formation was dominated by the substantial cutback in development expenditure under the budget which went into effect in October 1955, and by the decision, taken in the interests of strengthening both internal and external equilibrium and promulgated in July 1956, to readjust planned investment in favour of "consolidation" and quick-yielding projects. Restraining policies were also the main influence in New Zealand: limitation on new capital issues, stricter regulation of new building, pressure on commercial banks to reduce advances, higher interest rates, withdrawal of special depreciation allowances, a curb on government expenditure, were all intended to reduce the rate of increase of investment, which in real terms had dropped from about 47 per cent between 1953/54 and 1954/55 (April to March) to about 5 per cent between 1954/55 and 1955/56. Very high rates of growth had been characteristic of earlier years in Venezuela, too: with the completion of the facilities originally planned for exploiting petroleum and iron ore resources, rates of increase in capital formation declined.

Argentina, in acute economic imbalance both internally and externally, sought—as did Burma and New Zealand—to control investment in order to give priority to certain strategic sectors, in this case petroleum, electric power, railways and agriculture, and the export industries. Largely as a result of a deterioration in the terms of trade, however, export earnings were actually lower in 1956 than in 1955. Imports were cut correspondingly. Hence, a rise in capital formation somewhat greater, proportionately, than the increase achieved in production entailed considerable restraint on consumption.

Though most of the primary exporting countries invested more in 1956 than in 1955, there were a few in which the volume of fixed capital formation was probably smaller. Among the latter were Australia and Brazil where, as in Burma and New Zealand, official policies were directed towards stabilizing the economy. In both countries domestic production rose only slightly in the aggregate, imports were notably lower and consumption remained more or less at the 1955 level. In Australia, restraint imposed on the commercial banks, a rise in interest rates and an increase in company taxation introduced in a supplementary budget in March were designed to curb private expansion. This policy was aided by a decline in aggregate company profits in 1955/56—the first one since 1952/53. In real terms, fixed capital formation by private industry increased by about 9 per cent between 1954/55 and 1955/56 (July to June)—more or less the same rate of expansion as in the preceding period. But private dwelling construction, which had increased by about 12 per cent in the previous year, declined by about 7 per cent, and investment in inventories fell markedly, and these trends seem to have been accentuated in the second half of the year. In Brazil, changes in construction activity were the opposite of those registered in Australia: it was non-residential building that declined in 1956. The Government continued its efforts to hold back private capital expansion: in July the marginal reserve requirements of commercial banks were raised, and in September a new excess profits tax was imposed.

The position in the Dominican Republic and the Union of South Africa was similar in several respects to that in Australia and Brazil. The principal difference arose from the increase in imports which, along with a somewhat greater expansion in domestic production, provided a larger supply of goods and permitted an increase in consumption and, quite possibly, an increase in stocks. In the Dominican Republic, it was a decline in government investment which reduced the rate of fixed capital formation. In the Union of South Africa, public investment appears to have increased somewhat; the decline was in private capital formation, particularly in residential construction, which experienced a major reduction from the record level of 1955.

Among the countries showing the largest decline in fixed capital formation in 1956 were Chile and Turkey, where internal and external disequilibrium was probably more serious and official policies tended to be more strongly disinflationary than in most of the other primary exporting countries. Gains in domestic production were small, especially in Chile, and imports were lower, especially in Turkey. Per capita consumption was probably maintained in Turkey—partly through a reduction in exports and a drawing down of stocks—but not in Chile. Though it is doubtful whether the raising of bank discount rates and other purely monetary measures were as influential in Chile as they might have been in a country with a better developed money market, construction—which is usually sensitive to changes in rates of interest—led the decline in fixed capital formation. A higher discount rate, introduced in June, and restraints on bank credit were also among the measures adopted in Turkey. The budgets of State enterprises were trimmed, at least in so far as new borrowing was concerned, and the stabilization plan aimed at limiting new investment to projects likely to ease balance of payments difficulties. There are indications that the shortage of imports was itself a brake on new development.

The Course of Domestic Prices and External Payments

Changes in economic balance

Judging by the behaviour of retail prices[3] in primary exporting countries, fairly strong inflationary pressures were more widespread in 1956 than in 1955, affecting even some of the countries that had previously revealed symptoms of deflation. Of the fifty-seven countries on which table 93 is based, the proportion showing price increases of less than 5 per cent was almost two-thirds in 1955 but less than half in 1956. Conversely, the proportion in which prices rose by between 5 and 19 per cent, which had been less than a fourth in 1955, was more than two-fifths in 1956.

In most instances indigenous inflationary forces were the basic cause of rising prices. However, some of the stimulus towards higher prices in the primary exporting countries was derived from the changing cost of imported goods. This was particularly significant in some of the dependent territories, for example, in which imports provide a substantial proportion of current supplies, even of consumer goods.

Table 93. Distribution of Primary Exporting Countries According to Change in the Average Cost of Living

Cost of living index[a]	*Number of countries in*	
	1955	*1956*
Less than 99	5	3
99 to 101	15	14
102 to 104	17	11
105 to 109	9	16
110 to 119	5	8
120 and over	6	5
TOTAL	57	57

Source: United Nations, *Monthly Bulletin of Statistics*; United Nations Economic Commission for Asia and the Far East, *Economic Survey of Asia and the Far East*; United Kingdom, *Colonial Digest of Statistics.*

[a] Preceding year = 100.

As far as external balance is concerned, the situation in 1956 for primary exporting countries in the aggregate did not differ very greatly from that of 1955. For individual countries there were marked changes, but improvements in the balance of trade were just about as numerous as deteriorations. Of the fifty-five countries upon which table 94 is based, the proportion with passive trade balances was about two-thirds in 1956, as in 1955. There was a slight increase in total deficit between 1955 and 1956 but it amounted to only 0.2 per cent of the value of trade (exports plus imports).

[3] In most cases retail prices are measured by an official "cost of living" index. Because of peculiarities in its structure, its limited applicability in some countries and its tendency to be distorted by price controls and subsidies, this is a poor criterion of inflationary forces. However, it is the only one available on a wide enough basis for use in a global analysis. Its weaknesses should be borne in mind in the discussion which follows.

Table 94. Distribution of Primary Exporting Countries According to Change in Balance of Trade

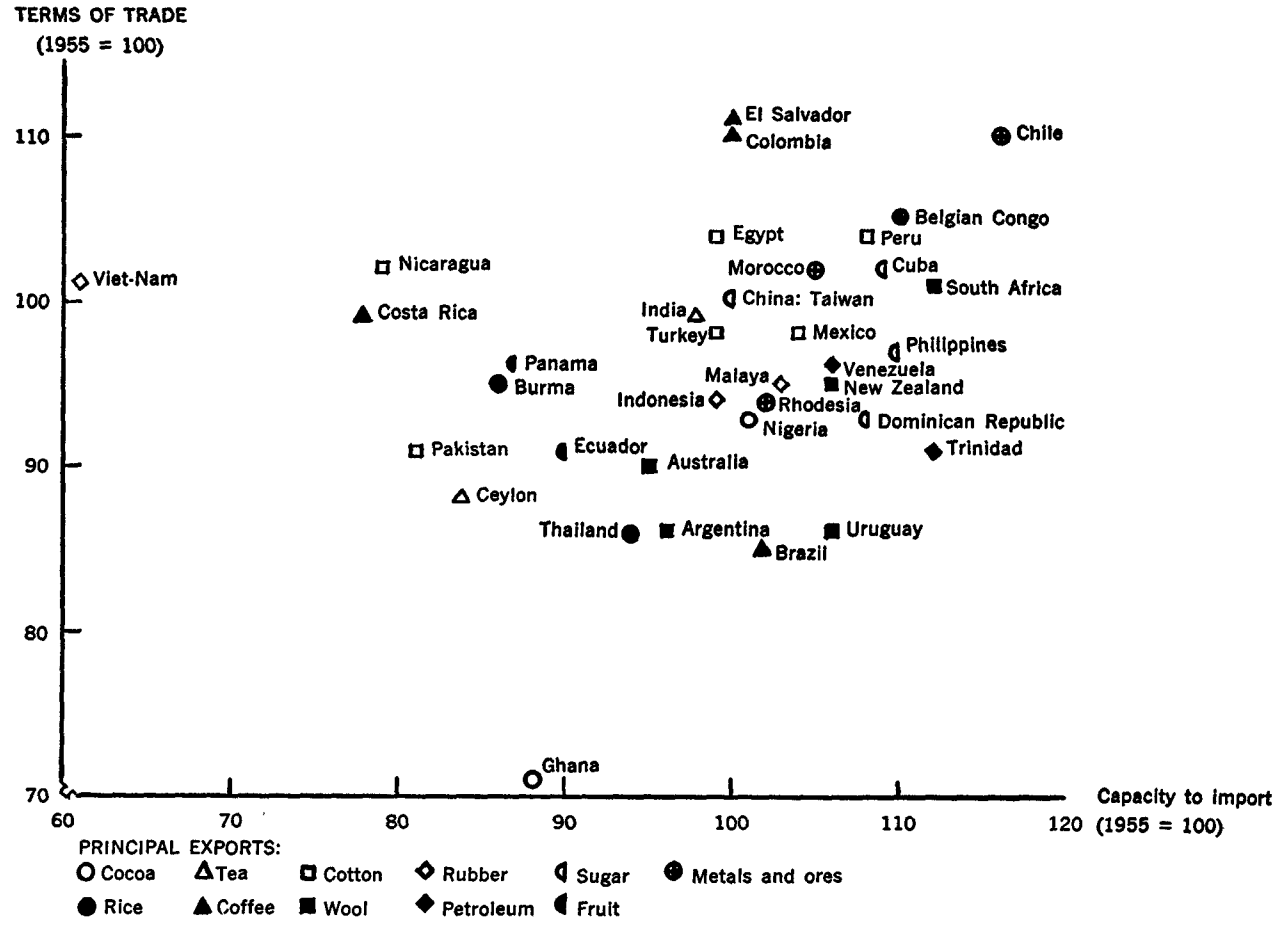
Percentage ratio of dollar value of exports f.o.b. to imports c.i.f.	*Number of countries in*	
	1955	*1956*
Less than 50	7	7
51 to 75	9	11
76 to 90	14	11
91 to 100	6	8
101 to 110	6	7
111 to 125	6	5
126 to 150	4	3
151 and over	3	3
TOTAL	55	55

Source: International Monetary Fund, *International Financial Statistics* (Washington, D.C.).

In a number of cases changes in the merchandise balance were largely the result of movements in the terms of trade. The unit value of exports from industrial countries was about 4 per cent higher in 1956 than in 1955. To this extent the primary exporting countries were all subjected to a similar influence. But some primary exporting countries import substantial amounts of grain, many import cocoa, coffee and tea, lumber, rubber and other raw materials, while most import fuel. As indicated earlier in the present chapter, these commodities followed diverse and sometimes contrary price patterns with consequent differences in the impact on average import prices. The rise in freight rates being much steeper in 1956 than in 1955, its incidence on prices was also more marked, and, because of differences in commodity structure of imports and in distance from principal sources of supply, more varied, too.

The fact that trends in commodity prices did not fall into distinct categories as they had tended to in 1955 introduces a greater diversity in the movement of export prices, also. Hence the grouping of countries in accordance with their major export product leads to classes in which contrasts are less sharply defined. Nevertheless, if averages for 1955 and 1956 are compared it is seen that there was a clear deterioration in the terms of trade among the exporters of rubber, wool, cocoa, tea, rice and fruit (see chart 24). The result is less clear among the exporters of cotton, sugar, coffee and minerals. Among the cotton exporters there was relatively little change in the terms of trade of Mexico (in which the unit value of both coffee and metals was somewhat higher), Nicaragua (also affected by higher coffee prices) and Turkey (where unit export value was stable in the case of wheat and slightly higher in the case of tobacco), but there was a measurable improvement for Egypt and Peru—whose long-staple cotton was not greatly affected by the expansion of United States exports—and a marked deterioration for Pakistan, notwithstanding a slight advance in jute prices.

Chart 24. Change between 1955 and 1956[a] in the Terms of Trade and the Capacity to Import of Selected Primary Exporting Countries



Source: United Nations, *Monthly Bulletin of Statistics;* International Monetary Fund, *International Financial Statistics* (Washington, D. C.); Argentina: Ministerio de Hacienda, *Comercio Exterior* (Buenos Aires); Belgian Congo: Banque centrale, *Bulletin de la banque centrale* (Leopoldville); Chile: Banco Central de Chile, *Boletín Mensual* (Santiago); Mexico: Banco de Comercio Exterior, *Comercio Exterior* (Mexico, D.F.); Rhodesia and Nyasaland: Central African Statistical Office, *Monthly Digest of Statistics* (Salisbury).

[a] Data for comparable portions of the two years where figures for complete year were not available.

Among the sugar exporters the decline in export unit values that affected the Dominican Republic and the Philippines (due chiefly to lower cocoa prices in the former and lower copra prices in the latter) was not evident in China: Taiwan or Cuba. Among the coffee exporters, the marked difference between the price trends of hard and mild varieties is the principal reason for the difference between Brazil (where there was a worsening in the terms of trade) and El Salvador, Colombia and Guatemala (where there was an appreciable improvement). The fact that Rhodesia did not conform to the trend followed by the other mineral exporters is accounted for by a sharp decline in the average price of its second largest export, tobacco.

Though movement of import and export prices is often an important factor in shaping the balance of trade, its effect is often outweighed by other developments. In over one-third of the countries featured in chart 24, for example, volume changes offset price changes and capacity to import moved in the opposite direction to the terms of trade. Similarly, changes in capacity to import are not necessarily translated into actual imports; changes in these tend to be governed more by import policy, which in turn tends to reflect the balance of payments position in the preceding period and current and expected changes in external reserves, as influenced by non-merchandise receipts and payments and capital movements as well as by the course of visible trade. Thus, in countries in which, because of market weakness or insufficiency of supply, exports could not be increased to the necessary extent, the most common sequence of events was the running down of exchange reserves followed by the imposition (or tightening) of import controls. Where this had happened in 1955—in Australia and the Philippines, for example—there was a marked decline in imports in 1956; in other cases—Colombia and Indonesia, for

example—stricter controls and a decline in imports came towards the end of the year. In some countries—notably India—strain on the external balance was the result of an upsurge in the demand for imports; in others—the Belgian Congo and the Union of South Africa, for instance—an increase in imports was fully met by expanding exports.

The balance of trade is the predominant element in the payments situation of most primary exporting countries. Invisible items are significant in some countries, however, in the form of receipts (for tourism, transit rights, donations, for example) or payments—for insurance, for example, and of interest and dividends. And offsetting current balances are capital movements of various kinds. For primary exporting countries as a group the small increase in the over-all deficit on merchandise account in 1956 was more than compensated by a net increase in other (including capital) receipts. Whereas official holdings of gold and foreign exchange declined by rather more than 2 per cent in the course of 1955, there was a slight increase (of about 0.7 per cent) during 1956. The proportion of countries registering a gain in reserves increased from 46 per cent in 1955 to 59 per cent in 1956 (see table 95).

Table 95. Distribution of Primary Exporting Countries According to Change in Official Holdings of Gold and Foreign Exchange

Percentage change in official holdings	*Number of countries in*	
	1955	*1956*
−15 or more	7	5
−5 to −14	8	5
0 to −4	3	4
1 to 5	1	7
6 to 15	7	6
Over 15	8	7
TOTAL	34	34

Source: International Monetary Fund, *International Financial Statistics.*

The two variables—cost of living and balance of trade—are brought together in table 96, in which countries have been divided into three main groups according to whether the cost of living showed no marked tend-

Table 96. Changes in the Cost of Living and Balance of Trade in Primary Exporting Countries

Group and country	*Cost of living index*[a] *(corresponding period of previous year=100)*			*Exports*[b] *(1955=100)*	*Imports*[b] *(1955=100)*	*Percentage ratio of exports to imports*[b]	
	1955 average	*1956 average*	*December 1956*			*1955*	*1956*
I. *Group with relatively stable prices:*							
A. *Trade balance little changed:*							
Cuba	100	100[c]	99	124[d]	121[d]	107[d]	110[d]
French Equatorial Africa	99	100	100	103	111	73	68
Dominican Republic	100	101	101	110	111	101	99
Venezuela	100	101	101	110[d]	114[d]	192[d]	184[d]
Malaya	97	101	103	100	109	109	100
B. *Trade balance worsened:*							
Nicaragua	114	94	93	79	99	103	83
Jamaica	102	100	103	118	127	76	70
Ceylon	99	100	99	89	111	133	106
Panama	100	100	100	92	109	41	34
Guatemala	101	101	100	113	118	114	109
Costa Rica	103	101	99	80	106	93	71
C. *Trade balance improved:*							
Ecuador	102	95	98	101	89	113	129
Honduras	109	96	97	125[c]	94[c]	84[c]	111[c]
Mauritius	98	99	103	113	91	100	125
Belgian Congo	100	100	99	118	109	120	130
Haiti	102	100[c]	105	134[d]	119[d]	89[d]	101[d]
Trinidad	105	101	101	116	102	97	110
II. *Group with moderately rising prices:*							
A. *Trade balance little changed:*							
Egypt	100	102	104	103	102	76	76
Netherlands Antilles	104	102[c]	101	105	107	81	79
El Salvador	104	103	102	106	114	116	118
Kenya and Uganda	106	104	102	127[d]	133[d]	38[d]	37[d]
Peru	105	105	106	115	121	90	85
Tunisia	103[e]	105[e]	104[e]	108	110	59	57
Lebanon	102	105	103	121	109	15	17
Thailand	105	106	105	100	108	100	93
Colombia	99	106	107	103	98	87	91

Table 96. Changes in the Cost of Living and Balance of Trade in Primary Exporting Countries (*continued*)

Group and country	Cost of living index[a] (corresponding period of previous year=100)			Exports[b] (1955=100)	Imports[b] (1955=100)	Percentage ratio of exports to imports[b]	
	1955 average	1956 average	December 1956			1955	1956
B. *Trade balance worsened:*							
Algeria	100	103	101	93	112	66	55
Pakistan	96	103	103	85	121	138	97
Rhodesia	102	104	103	105	115	111	102
Mexico	116	105	98	106	121	75	66
Ghana	103	105[c]	102	83[d]	108[d]	117[d]	90[d]
Iraq	103	106	106	102[d]	130[d]	211[d]	166[d]
C. *Trade balance improved:*							
French West Africa	99	102	100	111[d]	99[d]	78[d]	87[d]
Union of South Africa	103	102	102	112	103	71	78
Philippines	99	103	104	116	93	61	75
New Zealand	103	104	104	106	96	90	100
Australia	103	106	107	108	90	91	98
Morocco	103[e]	106[e]	104[e]	103	90	66	75
III. *Group with rapidly rising prices:*							
A. *Trade balance little changed:*							
Israel	106	107	105	122	112	27	29
China: Taiwan	110	111	113	96	97	61	61
Argentina	113	113	116	98	96	79	81
Syria	99[e]	114[e]	120[e]	113	105	80	86
Burma	102	115[c]	109	106	109	126	122
Korea, southern	170	124	145	139	103	6	7
Bolivia	180	244[c]	570	101	100	79	80
B. *Trade balance worsened:*							
Laos	102	108[c]	119	160[c]	204[c]	10[c]	8[c]
Nigeria	100	108[c]	111	99	112	97	86
India	95	110	112	99	121	90	74
Viet-Nam	110	112	94	61	80	26	20
Indonesia	133[e]	114[e]	98[e]	95	137	154	106
C. *Trade balance improved:*							
Uruguay	109	107	106	110	92	81	98
Turkey	108	114	107	97	82	63	75
Brazil	120	121	126	104	94	109	120
Paraguay	123	122	120	106	85	103	128
Chile	176	156	138	116	95	126	153

Source: United Nations, *Monthly Bulletin of Statistics;* International Monetary Fund, *International Financial Statistics;* United Kingdom, *Colonial Digest of Statistics.* Within each group countries are arranged in ascending order of increase in average cost of living index between 1955 and 1956.

[a] Applicable in some cases only to the principal city or to a particular population group; in the case of Bolivia, Burma, Cuba, Ghana, Haiti, Laos, Netherlands Antilles, Nigeria, the comparison in column 3 is based on the latest available month.

[b] Based on dollar values, exports f.o.b., imports c.i.f.

[c] Less than twelve months.

[d] Year ending in September.

[e] Food only.

ency to rise between 1955 and 1956, increased significantly under the influence of inflationary forces of relatively mild intensity or recent origin, or rose more considerably as a result of more powerful or more deeply seated pressures. Each of these groups has in turn been subdivided according to whether, between 1955 and 1956, the balance of trade was more or less unchanged, had worsened significantly or had improved significantly.

The factors making for economic balance in group I-A are diverse, but prominent among them is the expansion of imports in 1956, which, combined with a substantial rise in domestic production, provided the resources for an increase in both consumption (especially in the Dominican Republic and Venezuela) and investment (especially in Cuba and Malaya). Since exports also rose in these countries, there were no payments difficulties, though French Equatorial Africa remained heavily dependent on the inflow of capital and donations.

In Cuba—the recipient of a considerable inflow of capital—gold mining was exempted from taxation in order to stimulate production. Here the budget was used as a stabilizing weapon: deficits consistently arranged during the post-Korean period of lower activity and price in the sugar industry gave way to balanced accounts in 1955/56 and 1956/57 when construction and the sugar industry were making larger claims on resources. In Malaya, retail prices rose by 3 per cent in the course of the year and there were signs that the expansion in capital formation, in the face of less

favourable terms of trade than in 1955, was beginning to exert some pressure on supplies.

In the Dominican Republic, with a small surplus on merchandise account—in spite of rather less favourable terms of trade—and an offsetting deficit on other current items, the balance of payments was more or less in equilibrium in 1956 as it had been in 1955 (table 97). Venezuela also experienced less favourable terms of trade, although with oil and iron ore shipments at record levels it again had one of the largest surpluses on merchandise account. By way of contrast, it was an improvement in terms of trade that was largely responsible for the increase in export proceeds in El Salvador.

Table 97. Balance of Payments of Selected Primary Exporting Countries[a]
(Millions of national currency units)[b]

Country and period[c]	Merchandise[d]		Services (net)	Current balance (net)	Donations and long-term capital (net)	Official short-term capital and monetary gold (net)	Errors and omissions (net)
	Receipts	Payments					
Australia:							
1955	409	453	−101	−146	32	68	47
1956	400	405	−97	−103	24	17	62
Brazil:							
1955[e]	709	549	−173	−12	128	−117	1
1956	719	463	−146	110	−6	−107	3
Burma:							
1955 (Jan.–Dec.)	1,079	857	−165	59	−80	99	−77
1956 (Jan.–Dec.)	1,145	928	−150	67	15	−29	−53
Ceylon:							
1955 (Jan.–Sept.)	1,460	1,029	−97	334	−109	−232	7
1956 (Jan.–Sept.)	1,389	1,119	−127	133	−133	2	−3
China: Taiwan:							
1955	59	88	−6	−35	49	−16	2
1956	67	116	−5	−55	54	1	—
Dominican Republic:							
1955 (Jan.–Dec.)	115	100	−24	−9	−16	14	11
1956 (Jan.–Dec.)	126	108	−27[f]	−9	2[g]	2	−6
Egypt:							
1955 (Jan.–Sept.)	100	144	14	−29	...	...	...
1956 (Jan.–Sept.)	108	156	21	−26	...	...	...
Ethiopia:							
1955	100	75	−14	12	7	−23	4
1956	93	78	−13	3	9	−11	−1
Guatemala:							
1955 (Jan.–Dec.)	106	93	−18	−5	24[g]	−13	−5
1956 (Jan.–Dec.)	120	110	−21	−11	18[g]	−16	−1
India:							
1955	3,382	3,617	208	−27	275	−244	−4
1956	3,267	4,397	290	−840	483	580	−223
Indonesia:							
1955[e]	397	264	−88	45	−14	−34	5
1956	367	434	−82	−149	13	135	1
Korea, southern:							
1955	8	168	25	−135	148	−13	—
1956	13	180	8	−160	157	3	−1
Mexico:							
1955[e]	412	442	64	34	88	−101	−21
1956	457	518	70	10	−82	26	−117
New Zealand:							
1955 (Jan.–Dec.)	253	232	−57	−35	7[g]	27	2
1956 (Jan.–Dec.)	282	223	−58	1	−1[g]	−5	5
Pakistan:							
1955	673	303	−323[h]	48	119	−166	—
1956	967	420	−607	−60	240	−180	—
Philippines:							
1955	427	580	81	−72	36	62	−26
1956	437	488	60	9	59	−60	−8

Table 97. Balance of Payments of Selected Primary Exporting Countries (*continued*)

(Millions of national currency units)[b]

Country and period[c]	Merchandise[d]		Services (net)	Current balance (net)	Donations and long-term capital (net)	Official short-term capital and monetary gold (net)	Errors and omissions (net)
	Receipts	Payments					
Rhodesia:							
1955	83	75	−14	−6	2	...	...
1956	100	76	−25	−1	10	−10	1
Thailand:							
1955 (Jan.–Dec.)	335	332	−19	−16	21	−27	22
1956 (Jan.–Dec.)	338	371	−15	−47	22	24	—
Turkey:							
1955	151	264	31	−82	77*i*	...	5
1956	176	222	20	−26	36*i*	...	−11
Union of South Africa:							
1955 (Jan.–Dec.)	543	485	−86	−28	24	20	−16
1956 (Jan.–Dec.)	599	494	−95	10	2	−8	−4

Source: International Monetary Fund, *Balance of Payments Yearbook*, vol. 7 (Washington, D.C.) and *International Financial Statistics;* Ceylon, Department of Census and Statistics, *Quarterly Bulletin of Statistics*, vol. VII, No. 2, June 1956; *Central Bank of Ceylon Bulletin*, October and November 1956 and January 1957; National Bank of Egypt, *Economic Bulletin*, vol. IX, No. 4 (1956); Federation of Rhodesia and Nyasaland, Central African Statistical Office, *Monthly Digest of Statistics*, June 1956 and March 1957; Organisation for European Economic Co-operation, *Economic Conditions in Turkey, 1956* (Paris, 1956); replies of the Governments of the Dominican Republic, Guatemala, New Zealand and Thailand to the United Nations questionnaire of November 1956 on full employment and balance of payments.

[a] Data are subject to revision. Where figures are presented as net, a minus sign indicates a debit, that is, an increase of assets or a reduction of liabilities.

[b] Except for Brazil, China: Taiwan, Indonesia, southern Korea, Mexico, Thailand and Turkey, for which figures are in millions of dollars.

[c] January to June except where indicated.

[d] Including non-monetary gold. For Burma, China: Taiwan, India, Indonesia, Mexico and Thailand, exports f.o.b. and imports c.i.f.; for Ceylon, each category partly f.o.b. and partly c.i.f.; for southern Korea, exports mostly f.o.b. and imports mostly c.i.f.; in all other cases merchandise trade f.o.b.

[e] Half of the full calendar year 1955.

[f] Including private donations.

[g] "Official long-term capital" is included with "Official short-term capital and monetary gold".

[h] Including government imports of merchandise.

[i] Net balance of all capital transactions.

The relative internal stability which characterized the second group of countries (I-B) was sustained in some measure at the expense of external balance. In all countries except Nicaragua there was a sizable increase in imports in 1956 and in all countries except Guatemala and Jamaica this was accompanied by a decline in export receipts, occasioned to a large extent by a drop in unit value. In Ceylon and Guatemala the trade balance remained active; in Jamaica and Panama th deficit was met by invisible receipts and an appreciable inflow of capital; in Costa Rica and Nicaragua external reserves were drawn down (see chart 25).

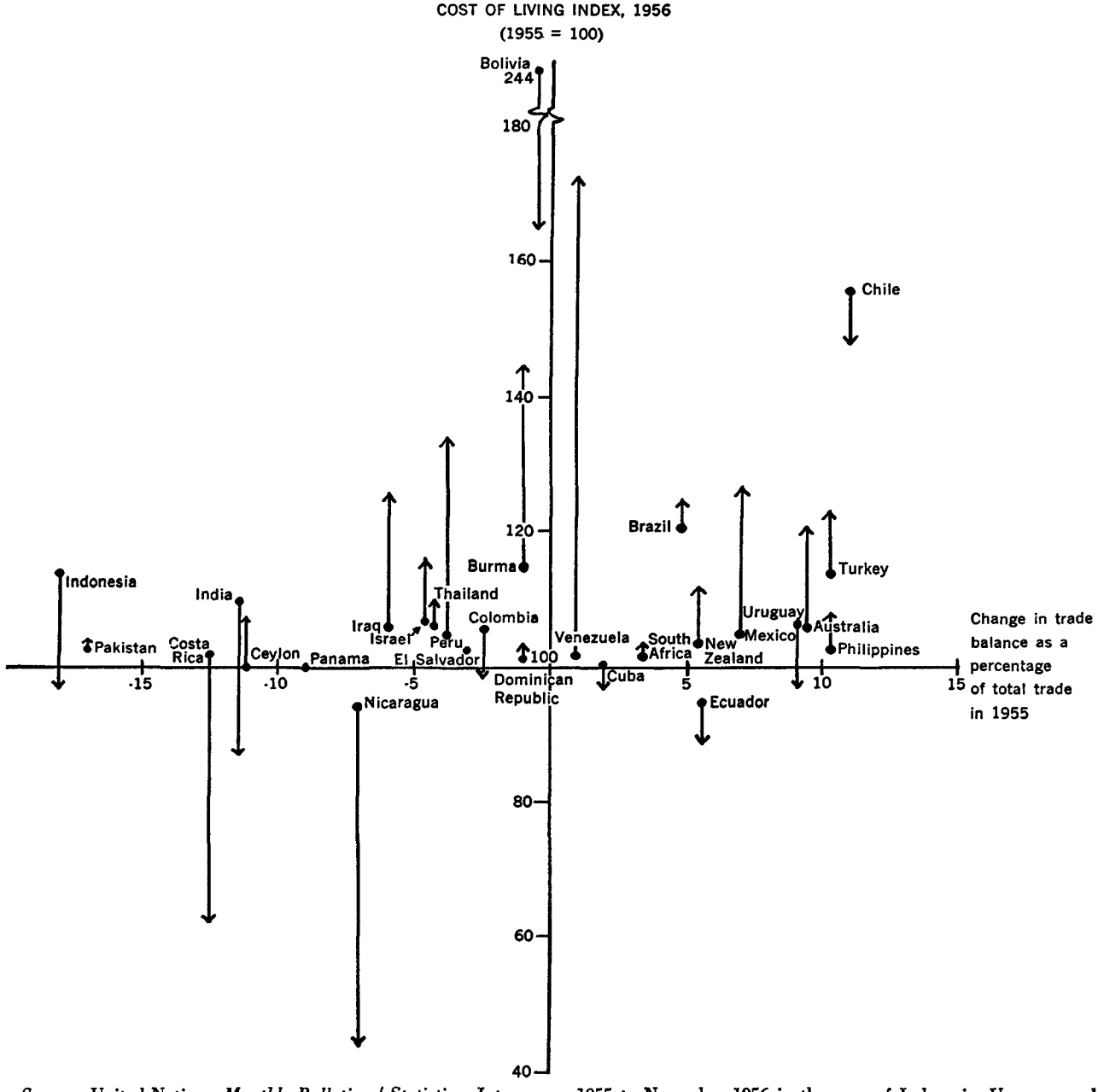
In Ceylon the lowering of the price of rationed rice in May, a continued increase in savings and the rising trend of taxation also contributed to price stability in the face of increased import unit values and a higher rate of investment. In Guatemala a budget surplus in 1955/56 permitted the retirement of $0.8 million of the public debt, successfully counteracting the inflationary effects of the increased investment which was the chief cause of the expansion of imports and the consequent current account deficit. There was a sizable inflow of capital and donations, which augmented official holdings of foreign exchange.

In Jamaica, too, both production and investment rose significantly, but though there was a substantial rise in exports, it was not sufficient to finance the higher volume of imports, and the merchandise deficit expanded. This appears to have been counterbalanced, however, by a rise in other (including capital) receipts, Jamaica was the only member of the group to experience a rising price level during the year—the result of the increase in unit value of imports and of the demand flowing from greater capital formation.

By contrast, the remaining two countries in the group —Costa Rica and Nicaragua—showed some deflationary symptoms in 1956. In Nicaragua the main export crops were lower; the harvest of local food crops was larger, however, and with smaller export incomes and a rise in social security taxes, the price level actually declined. The cost of living, which in 1955 was about 14 per cent above the 1954 level, fell by 7 per cent during 1956. Exports—chiefly cotton and coffee—fluctuated violently in a seasonal pattern which imports tended to follow. Despite the institution of a system of prior deposits to be paid by traders, imports kept up towards the end of the year in the face of declining exports. Hence, official holdings of foreign exchange, which had been well maintained during the first three quarters of the year, declined precipitantly in the last quarter. In Costa Rica, price changes were similar, though more moderate; with exports substantially lower, there was also a rapid decline in external reserves from mid-1955 level attained as a result of record coffee receipts in 1954/55.

All six countries in group I-C registered active trade balances in 1956. The improvement in merchandise ac-

Chart 25. Changes between 1955 and 1956 in Cost of Living, Balance of Trade, and Official Gold and Foreign Exchange Holdings in Selected Primary Exporting Countries



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

The length of the arrow measures (on the vertical scale) the percentage change in official reserves during 1956 (December 1955 to November 1956 in the case of Indonesia, Uruguay and Venezuela; December 1955 to January 1957 in the case of Israel; and September 1955 to September 1956 in the case of Iraq). Data for cost of living are yearly averages; trade balance in some cases pertains to the year ending in September.

count was due entirely to an expansion in exports in the Belgian Congo, Haiti and Trinidad but only partly to this factor in Ecuador, Honduras and Mauritius, where imports were substantially below the 1955 level.

In Ecuador and Honduras there was a slackening in activity in 1956 and deflationary conditions tended to develop during the year. In Ecuador, where the lag in domestic production was quite marked, stricter controls over imports—including the suspension or prohibition of some less essential items—had to be imposed in March, following a rapid decline in reserves that had started in 1955. In contrast to this, there was a marked increase in production in Trinidad, both for domestic use and for exports. The cost of living, which had increased by 5 per cent between 1954 and 1955, remained stable during 1956.

In Haiti and Mauritius the movement in prices was the reverse of this. The fact that the cost of living rose slowly during the year—in contrast to the gradual decline in 1955—was due in large measure to the rise in import unit values, though the improvement in external balance also contributed, especially in Mauritius.

Most of the countries in this group enjoyed slightly more favourable terms of trade in 1956 than in 1955. But the prices of some of their exports declined and it was in order to expand exports in the face of such commodity price changes that export duties were reduced in the Belgian Congo on such items as copper wire, palm oil and lower quality coffee.

Countries in group II are those which experienced definite—but relatively mild—inflationary pressures in 1956. Group II-A comprises countries in which this was not accompanied by any significant change in the balance of trade.[4] In general the level of trade was well maintained in this group: exports were higher than in 1955 in all countries except Thailand—where they were of the same value as in 1955—and imports were higher in all countries except Colombia, where controls held them slightly below the 1955 figure. On the whole the evolution of prices did not change greatly between 1955 and 1956, except in Egypt and Colombia. In the former, inflationary pressure was a new phonomenon; in the latter it had been held in check in 1955 by an appreciably larger volume of imports.

In Egypt—and to a less extent Lebanon too—the change from declining to rising prices reflects both an expansion of investment and an increase in the unit value of imports. In Egypt interest rates moved upward in the course of the year. A reduction of its export tax on cotton, the reopening of the futures market (in September 1955) and the conclusion of a number of trade agreements with eastern European countries led to a higher level of exports in the first half of the year. Import permits, issued quarterly at 80 per cent of the 1954/55 rate, were not granted for "luxuries" or products made locally in adequate quantities. They were much more rigorously controlled in the last quarter of the year, for although there had been no marked deterioration in the balance of payments—the current account having much the same structure in the first three quarters of 1956 as in the corresponding period in 1955 (see table 97)—the continued high level of imports had caused external reserves to decline steadily between March 1955 and June 1956, while with the closing of the Suez Canal non-merchandise receipts dropped rapidly. In Lebanon, by contrast, official reserves were well maintained.

In Colombia, too, a significant rise in fixed capital formation contributed to the increase in inflationary pressures in 1956. Even more than in Egypt the domestic imbalance was accentuated by external payments difficulties. Despite more favourable terms of trade, imports in the first three quarters of 1956 were running about 8 per cent above the high 1955 rate and well above export earnings; official reserves, which had declined by 45 per cent in 1955, declined by a further $42 million (70 per cent). Import licensing was suspended in October, and the drastic cutback in imports subsequently imposed served to reduce the import bill for the year as a whole to just below the 1955 level. Rising prices of imported goods led the Government to impose a price "freeze" on such goods in October. In an effort to hold down living costs, control had earlier (in May) been placed on rents. In the second half of the year more emphasis was laid on production, and in spite of the general policy of restricting credit—through a higher discount rate and higher marginal reserve requirements for the commercial banks —increased advances were explicitly permitted for housing and farming.

There was some slackening in the rate of increase of prices in El Salvador, Kenya and the Netherlands Antilles, which was chiefly the result of increased domestic production, along with higher imports—paid for, at least to no less an extent than in 1955, by higher exports. In the case of Kenya the ending of the *Mau Mau* emergency was also an important stabilizing factor.

In Peru, Thailand and Tunisia, on the other hand, there was a slight acceleration in the rate of price rise, chiefly as a result of the tendency for expenditure to outstrip the fairly modest increases in production, supplemented as these were by a greater volume of imports.

In Thailand, though the government deficit appears to have been somewhat smaller than in 1954/55, it was still a significant inflationary factor, reflected in part in the higher rate of capital formation. The expansion of imports followed a relaxation of control in September 1955. Because of a decline in unit value, this was not offset by a rise in export receipts, despite the improved rice harvest of 1955/56 and efforts to encourage private exports by the grant of exchange retention rights. However, the resultant deterioration in current account was offset by an inflow of capital and donations, and exchange holdings remained fairly steady.

Investment appears to have increased in Peru, too, mainly in the export sector but also in domestic agriculture following the grant of special loans to small farmers. Wage adjustments were made in the mining and fishing industries early in the year—following a

[4] It should be noted that in this group are several countries in which merchandise trade plays a relatively smaller role in the over-all balance of payments than is customary among primary exporting countries: Egypt and Lebanon earn substantial amounts from "invisible" exports and in Kenya, the Netherlands Antilles and Tunisia other current items, including donations, are of special importance.

5 per cent increase in the cost of living during 1955—but it was only after a series of strikes in April that wages were raised in the textile industry and then only in return for a higher degree of tariff protection, which also contributed to higher consumer prices. To offset the lower world market prices in the 1955/56 season, export duties on wool were reduced, but imports increased relatively more than exports. As in Thailand, however, the effect of this on the balance of trade was more than counterbalanced by an inflow of capital—IBRD and private—and official reserves rose during the year.

Except in Algeria and Pakistan, where special disequilibrants were operating, the basic cause of the rise of inflationary pressure in the countries of group II-B was an increase in capital formation in 1956. This was also the principal reason for the expansion in imports. Since export earnings were lower in four of the six countries (including Iraq, on a calendar year basis) and only slightly higher in the other two, there was a general deterioration in trade balance.

The principal reasons for a rise in the cost of living in Pakistan in 1956—after two years of declining prices—were the rise in rupee cost of imports following the devaluation of August 1955 and the local food situation in regions where flooding and other adverse natural conditions caused crop failures. Though in the course of the year ending in June 1956 the cost of living rose by only 5 per cent in Karachi and by 7 per cent in Lahore, it rose considerably more in East Pakistan, where the rice shortage was most acute—by as much as 60 per cent in one region. The rise in imports was largely the result of the need to make good these local food shortages. Otherwise, trade and exchange controls remained stringent, imports being limited in general to producer or consumer essentials. Further efforts were made to expand exports—by the renewal of the exchange retention scheme that had been inaugurated in 1954, the reduction of export duties on raw cotton and the removal of quota restrictions on jute exports; nevertheless, there was a 15 per cent decline in the aggregate dollar value of exports. The resultant current account deficit was not fully reflected in declining exchange holdings, however, since a substantial proportion of the increment in imports was financed by foreign (especially United States) aid.

In Ghana a rise in the quantum of exports was turned into a severe decline in receipts by the drop in cocoa prices. Its sterling assets being an adequate cushion, no special measures were taken to restrain imports; indeed, there was some liberalization of trade during the year. Nevertheless, there was a slackening in the development programme, a number of customs duties were raised in the 1956/57 budget and subsidies were arranged to prevent the closing up of more gold mines.

In Iraq, whose terms of trade were also less favourable in 1956, reserves continued to climb—at least until October—though at a slower rate, since the rise in imports brought about by more rapid internal development reduced the trade surplus. Though no precise figure can be given at this stage, exports declined to a very low level in the last two months of the year.

In the Federation of Rhodesia and Nyasaland, investment has been maintained at a very high rate for several years and despite the continued inflow of imports, the price level has moved slowly upward. The 1955/56 budget yielded a surplus and the only concession made in the 1956/57 budget was an increase in the allowance for insurance premiums. This was designed to raise the level of personal savings, as also was an increase in the interest rate on funds held in post office savings accounts. The expansion in imports—which almost eliminated the trade surplus in 1956—was financed in large measure by foreign-owned capital.

In Ghana, Iraq and Rhodesia there was an acceleration in the rate of price increase in 1956. In Mexico, in contrast, there was a dramatic improvement in internal balance; whereas there had been a 16 per cent rise in the cost of living between 1954 and 1955, the rise between 1955 and 1956 was only 5 per cent and at the end of the year the index was slightly lower than at the beginning. A budget surplus in 1954/55 was a balanced budget in 1955/56 along with monetary restraints, which in 1955 kept the expansion in money supply less than the increase in gold and exchange reserves, constituted the principal disinflationary policies. More significant, perhaps, was the rise in available supplies—both from a higher level of domestic production and from a large increase in imports. The latter resulted in a larger merchandise deficit and a smaller current account surplus. Imports also included a greater inflow of capital goods, however, reflecting the high rate of investment financed largely by a continued influx of foreign funds—from the International Bank for Reconstruction and Development, the Export-Import Bank and private investors—which helped to raise reserves again in 1956.

Group II-C contains the countries in which a moderate rise in retail prices was accompanied by an improvement in the merchandise balance. In all countries except the Union of South Africa there was a reduction in imports and the rise in prices was greater between 1955 and 1956 than between 1954 and 1955. In all countries except French West Africa anti-inflationary policies were explicitly adopted, though Morocco had some difficulty in balancing the budget, while in the Philippines there was a considerable expansion of investment, partly under government auspices. Where more vigorous restraints were applied to reduce total demand, the effect was evident in a decline in the per capita level of consumption, as in New Zealand, or of capital formation, as in South Africa, or of both, as in Australia.

In New Zealand, following a sharp fall in reserves in the second half of 1955, direct limitation of imports was used to a rather greater extent in 1956. Official policy, however, continued to aim at control of imports by way of restraining internal demand. The 1955/56 budget was in surplus, interest rates were raised both to curb private borrowing and to encourage savings, new construction was regulated both by a capital issues committee and by building control, commercial bank liquidity was kept under close supervision by changing reserves requirements and the central bank discount rate was maintained at the high level of 7 per cent to which it had been raised toward the end of 1955.

In the Union of South Africa the principal official restraint was exercised through the banking system, with a higher central bank discount rate after September 1955 and requests for limitation of commercial bank credit. Fiscal policy was mildly restrictive, too, with a budgetary surplus and tax adjustments aimed at reducing spending and encouraging saving. The process of trade liberalization was carried forward during the year: there was some further relaxation of control over imports and over the export of goods with a high dollar content. This reflects a notable strengthening of the current account—which was actually in surplus for the year as a whole—rather than any increase in the inflow of capital. In 1956 the inflow of funds on government account—from the International Bank for Reconstruction and Development and the Export-Import Bank, for example—seems to have been offset by a net outflow of private capital, though not to as great an extent as in 1955. At the end of 1956 official holdings of gold and foreign exchange were only one per cent higher than a year earlier and still 11 per cent below the level of December 1954.

In Australia import cuts were re-imposed in October 1955 following a rapid decline in gold and foreign exchange holdings, due chiefly to an upsurge in imports but enhanced by a further deterioration in terms of trade. These cuts were slow in bringing about a reduction in payments and they were reinforced by further measures in mid-1956, by which time reserves had begun recovering from the low level—not much more than half the December 1953 figure—to which they had fallen by March 1956. The current account shortfall in the first half of 1956, though appreciably smaller than that recorded in the first half of 1955, was still above £A100 million. With a significantly lower level of imports in the second half of the year—£A60 million a month, compared with £A68 million in the first half of 1956 and £A74 million in the first half of 1955—a rise in exports, a more favourable trend in export prices and a continued inflow of capital on both government and private account, official holdings of gold and foreign exchange increased by no less than $157 million. The reduction in imports tended to magnify the pressure of demand against supply within the economy, notwithstanding the restraint on private expenditure exerted by a supplementary budget in March that aimed at a 10 per cent increase in tax revenue. Interest rates were allowed to rise and the central bank withdrew its support of the bond market. The 1956/57 budget, promulgated in August, retained the new tax measures. Federal government policy was to restrain wages and loosen their tie with the cost of living, but in this matter few of the state authorities followed suit.

In Morocco and the Philippines export earnings met only three-fourths of the import bill—a fact which magnifies the significance of the movement of capital. This appears to have continued outward from Morocco during the year, but inward in the case of the Philippines, where donations were also an important item, significantly larger in 1956 than in 1955. A serious decline in reserves in the Philippines in 1955 was the reason for stricter import control. There was a severe cut in imports of consumer goods, especially textiles, early in 1956, which reinforced the new, higher protective tariff that was introduced at the beginning of the year. A large current account deficit in the first half of 1955 was thus turned into a small surplus in the first half of 1956. Later, however, meeting the demand for capital and producer goods generated by the higher level of investment offset much of the effect of the cutback in consumer imports—which was itself abandoned in November; hence the gain in reserves—$6 million in the course of 1956—was no more than 11 per cent of the loss that had occurred in 1955. The reduction in the supply of imported goods, along with higher unit values, tended to accentuate the rise in prices caused principally by the increase in capital formation. In contrast to the situation in nearly all the other countries in group II-C, this rise of domestic prices in 1956 followed a period in which deflationary forces had prevailed.

Group III brings together the countries with internal disequilibrium manifested in a rise in retail prices between 1955 and 1956 equivalent to an average of more than 0.5 per cent per month. In most cases this rise reflects inflationary strains of relatively long standing, but in one or two countries—notably India, and to a smaller extent Nigeria and Syria—claims on resources initiated during the year played a predominant part in raising prices.

Group III-A comprises countries in which these inflationary pressures caused no significant change to the external balance in 1956. Except in Burma this continued to be in substantial deficit. There were increases in exports in all countries except China: Taiwan, though the rise was only a small one in Bolivia and in Argentina it was more than outweighed by a decline in export prices. Except in Argentina and China: Taiwan expenditure on imports also rose, but the increase in import quantum was generally quite small.

In southern Korea, with over 90 per cent of its imports again financed by foreign aid, inflationary pres-

sures, arising chiefly in the public sector, remained very severe and though the cost of living rose less between 1955 and 1956 than it had between 1954 and 1955, it increased by no less than 45 per cent in the course of the year. In Israel there was also a deficit—on the defence budget—and in August certain tax concessions and lower interest loans were introduced as incentives to investment in designated areas, such as the Negeb. Official exchange reserves, which had risen fairly steadily until June, declined rapidly in the second half of the year. In Syria, the Suez crisis affected public revenue and on balance magnified the inflationary forces, as it did in Israel.

In Bolivia unbalanced public accounts lay behind a further acceleration of the rate of inflation, but a serious drought, which reduced agricultural production, also contributed. Official holdings of gold and foreign exchange had been almost depleted between 1951 and 1955, and the external value of the currency depreciated even faster than the internal value during 1956, even though trade was more or less at the 1955 level. A thorough-going exchange stabilization programme was launched at the end of the year. The multiple rate structure was abandoned and the boliviano left free, subject to support by a special equalization fund set up with the aid of the International Monetary Fund and the United States.

In Burma foreign trade was at a lower level in the first half of 1956 than in the first half of 1955: like the 1955/56 rice crop, exports failed to increase, despite a lowering of rail freight rates designed to cheapen movement to the ports. And, notwithstanding the relaxation of the severe controls imposed in 1955, imports did not regain the 1954 rate until the second half of the year. Liquidation of stocks and a larger 1956/57 rice crop permitted increased exports in the second half of the year; imports also rose with the extension of the "open general list" in June and November. Though the merchandise balance was slightly less active, official gold and foreign exchange holdings rose by $29 million in the course of the year, making good a small part of the decline that had taken place in 1954 and 1955. The lag in imports in the first part of the year, however, aggravated the inflationary effects of government borrowing from the central bank, which continued despite restraints placed on public investment.

Efforts to improve internal balance in Argentina were complicated by the precarious state of external balance, which did not permit any expansion of imports. Following liberalization of the exchange system in October 1955, when the peso was devalued, a multilateral payments agreement with ten western European countries was entered into in July 1956. This allowed for the consolidation of outstanding commercial debts and arrangements for their amortization over ten years. The external position was also strengthened by accession to the International Monetary Fund and the International Bank for Reconstruction and Development in August. With the strengthening of the free peso rate in the first eight months of the year, the range of transactions to be effected at this rate was widened. But little help was derived from the export side, for a decline in unit value reduced total receipts below the 1955 level, and external reserves continued to fall. Both through restraint on domestic expenditure and by more direct fiscal means a tight rein was kept on imports, priority being given to the needs of power and transport, and despite a rise in import prices the total import bill was held about 4 per cent below the 1955 level. This decline in the volume of imports and the increase in their unit value accentuated the rise in retail prices—16 per cent in the course of the year—which continued in spite of official efforts at restraint. Among the restraining measures were a slow reduction of the civil establishment, tighter credit controls, resistance to trade union pressure for wage increases, reintroduction of price controls, an "emergency" levy of 20 per cent of the 1955 tax on incomes and other steps designed to further the stabilization programme which had been inaugurated in October 1955.

In the countries of group III-B, an increase in investment was the basic cause for both a rise of inflationary forces and a deterioration in external balance. In all except Viet-Nam, imports were substantially greater in 1956 than in 1955, and in all except Laos exports were either lower in volume or else yielded smaller receipts.

The inflationary effect of a large increase in investment is seen most clearly in India, where despite a small increase in domestic production and the supplemental effect of a major expansion in imports the upsurge in capital formation placed a considerable strain on available resources. This was reflected in a rise in both retail and wholesale price indices of 12 per cent in the course of the year. The Government's anti-inflationary measures grew progressively more severe during the year. Restraints were placed on certain exports early in 1956 while, to make up for the shortfall in the cereal crop and to counter speculation, releases were made from official stocks. The commercial banks were requested not to expand their lending to the private sector, and in September the central bank was given authority to vary the reserve requirements applicable to those banks. Taxes were increased in March in the 1956/57 budget, but with the cash deficit rising rapidly, a supplementary budget was introduced towards the end of the year providing for higher customs duties, higher income taxes, a capital gains tax and some compulsory lending of undistributed profits of corporations. The year had opened with a rather more liberal import policy. The mounting demands for development purposes, however, coupled with some decline in export proceeds, resulted in a large deficit on current account —1,534 million rupees in the first three quarters of 1956 against 2 million rupees in the same period in

1955. Although the net inflow of donations was larger than in the preceding year, it was small compared with this deficit, and the brunt of the burden was borne by the foreign exchange reserves. These declined by $233 million whereas they had increased by $25 million in the corresponding period of 1955. Despite efforts to increase exports (by reducing the export duty on coarse cloth, for example) and to reduce imports (by stricter licensing introduced in October and higher customs duties introduced in December, for example) reserves were still falling at the end of the year.

Development expenditures also increased in Nigeria and this was largely responsible for the rise in imports. Because of lower prices—for cocoa, in particular—export earnings failed to reach the 1955 level and there was some drawing down of sterling holdings. In Viet-Nam there was a much greater relative decline in exports which, outweighing a reduction in imports that was brought about mainly by a reorganization of trading conditions, increased the trade deficit very markedly. Internally, however, living costs, which rose rapidly until August, dropped dramatically in the last quarter of the year as the new rice crop was harvested. The import balance was financed largely by foreign—chiefly United States—aid, as it was in Laos, where exports again met less than one-tenth of the import bill. Here a marked increase in development activity, also financed in large measure by foreign aid, seems to have been the basic cause of rising prices. Though paddy production in 1955/56 showed some recovery from the low level of 1954/55, this did not prevent a rise in food prices, but the main reason for an increase in the cost of living in the capital, Vientiane, was a rise in rent which followed from the rapid increase in the city's population.

Indonesia differs from the other countries in this group by virtue of a notable reduction in the rate of increase in prices. Food costs, which had risen by 36 per cent in the course of 1955, were no higher in the fourth quarter of 1956 than in the fourth quarter of 1955. Though a considerable improvement in the cash position of the Government occurred in the first half of 1956—a surplus of 26 million rupiahs as against a deficit of 1,236 million in the first half of 1955—the main price reducing factor was a 50 per cent expansion of imports in the first three quarters of 1956 (compared with the corresponding period in 1955) under the more liberal trade policy inaugurated in the last quarter of 1955. The wholesale price index of imported goods, which was about one-third higher in 1955 than in 1954, declined by almost 7 per cent between October 1955 and June 1956. The current account balance, however, was transformed from a large surplus in the first half of 1955 to a much larger deficit in the first half of 1956. This reflects less favourable terms of trade and—more significant—the fact that the expansion of the quantum of imports was not counterbalanced by an increase in the quantum of exports. Though there was a small net inflow of private capital—partly the result of an Export-Import Bank advance—as against a net outflow in 1955, the burden of payment fell heavily on reserves, which declined from the relatively high figure of $307 million left by the rubber boom at the end of 1955 to $168 million in July 1956 when new restraints had to be placed on external transactions. A new system of surcharges on imports was introduced in September; in conjunction with a system of premiums payable in foreign exchange certificates designed to encourage exports, this restored reserves by the end of 1956 to the level obtaining at the end of 1954, though they began declining again early in the new year.

Finally, in group III-C are the countries with deep-seated inflationary problems whose balance of trade nevertheless improved in 1956. In each of these the pressure of internal demand has been the principal cause of external disequilibrium. Amelioration of this was the prime object of official policy in 1956. The result was a notable reduction in imports in all five countries, accompanied—in all save Turkey—by an expansion in exports and hence a marked improvement in the merchandise balance.

In Uruguay, the improvement in external balance was partly the result of more favourable terms of trade. In August the system of exchange control was simplified somewhat in a change which involved, in effect, a general devaluation. Exports were allocated rates ranging in ten gradations from completely basic for the most salable category to completely free for the least salable category, while imports were divided into three classes, "most essential" being subject to permit at the basic rate, "less essential" subject to quota at the free market rate and "luxury" subject to the free market rate plus a surcharge paid into a fund for subsidizing the first of these classes. At the same time a system of prior deposit was introduced into the issue of import permits. At one stage restrictions on imports were so tight that industrial operations were hampered by shortage of raw materials. With the rise in wool prices in the third quarter, the merchandise account was brought more nearly into balance. The deficit in public accounts was somewhat larger in 1956 than 1955 and the rise in the peso price of imports tended to accentuate the inflationary pressures. Despite price controls on many essential goods and subsidies on such items as bread, meat and milk, the cost of living continued to rise and for the year as a whole was about one-third above the 1953 average.

In Brazil, where controls had been tightened after the upsurge in imports in 1954, organization of the so-called Hague Club in 1955 and creation of a special ACL (Area de Convertibilidad Limitada) unit of account transferable among its European members—increased to seven during the year—facilitated a higher degree of multilateralism in 1956. Imports, however, continued to be regulated through the auctioning of

limited, though slowly expanding, amounts of exchange. In the face of deteriorating terms of trade, efforts were also made to increase exports: in May the effective exchange rate applicable to four different categories of exports—other than coffee—was increased, the smallest cruzeiro bonus accruing to cotton, cocoa and hides and the largest to manufactures. In the first half of the year, largely through the cutback in imports, there was a substantial current account surplus—as against a deficit in 1955—and this was reflected in increased exchange reserves. The trade surplus continued in the second half of the year, though at a reduced level, and by December external reserves had reached their highest point since 1950. Internally, however, the inflationary forces were barely held in check. Reserve requirements of the commercial banks were raised in July, interest rates rose and credit conditions were tightened. But minimum wages were increased sharply in August, production rose only slightly, the government deficit was substantially larger than in 1955 and the rate of increase of prices showed no slackening.

In Turkey the rise in the cost of living between 1955 and 1956 was somewhat greater than between 1954 and 1955, but it was concentrated mainly in the first half of the year; the stabilization programme inaugurated in June served to slow down the advance. The bank rate, which had been raised by 1½ per cent in June 1955, was raised by a further 1½ per cent to 6 per cent. Retail prices were controlled by a chain of profit fixation. No further increase was sanctioned in agricultural price supports, which are financed by the central bank. Lending ceilings were imposed on the commercial banks, and an attempt was made to curb the expansion of public enterprises. Though exports rose in volume, total proceeds were somewhat lower. Strict trade and exchange controls remained in operation, modified in various ways and in some respects intensified in 1956. In August, price discrimination and premiums on exports were discontinued when a bank was established to allocate foreign exchange. This action was followed in October by a partial devaluation affecting imports of industrial equipment and spare parts, as well as travel and income payments and certain other non-merchandise items. In the first half of the year the current account deficit was substantially lower and aid receipts substantially higher and by the end of the year the merchandise balance had improved by some $83 million, the net European Payments Union deficit was $17 million less than in 1955 and reserves about $19 million higher (though $8 million of this increase was in the form of non-convertible trade agreement balances).

In Chile there was a marked deceleration in the rate of domestic price increase, achieved in the face of substantially smaller imports and higher import prices. The principal explanation seems to lie not in expansion in domestic production—which in fact was of minor proportions—but in a decline in investment induced by credit and other restraints. The impact of this decline was reduced, however, by further budget deficits and government borrowing from the central bank. These deficits were due neither to declining revenue nor to increased development expenditure but to the rising costs of ordinary administration following wage and salary adjustments made in the public as well as the private sector in the wake of rising prices. Thus, despite the apparent slowing down in the annual average increase in the price level, wage inflation remained a serious problem. The cost of living rose rapidly during 1956 and at the end of the year this index was six times the 1953 average.

Restoration of external equilibrium in Chile was undertaken as part of a general stabilization programme launched towards the end of 1955. The principal measures were enacted in April 1956, when the multiple exchange system was replaced by two free rates—one for trade and the other for tourist and capital transactions —supported by a special stabilization fund set up with the aid of the International Monetary Fund and the United States. Quantitative restrictions were greatly reduced but many items—including motor-cars, for example—were placed on a prohibited list, and prior deposits, ranging from 5 to 400 per cent of the value of the goods, were required of importers. In the first three quarters of 1956 exports—stimulated by the more favourable rate of exchange now applicable to the large mines and reflecting a rise in unit value—yielded about one-fifth more than in the corresponding period in 1955. Imports, on the other hand, were 5 per cent lower. As a result, official reserves continued the increase that the 1955 copper boom had started and by the end of September were almost $21 million (27 per cent) above the level of a year earlier. Thereafter there was an appreciable weakening of the situation: official exchange reserves and the value of the peso both declined. This was due partly to a decline in the price of copper, which affected the merchandise balance and reduced the Government's receipts of foreign exchange, partly to non-trade transactions and partly to the uncertainty generated both by the powerful inflationary forces still evident in the domestic economy and by the initial effects of the official disinflationary policy. These included a lag in real wages, a rise in unemployment and relatively stringent credit conditions.

Problems and policies

As in many previous years, 1956 saw no general trend toward government policies of a particular nature in the primary exporting countries: in general, measures were adopted on an *ad hoc* basis to meet the economic situation as it developed. On balance, however, restrictive measures were more frequent than liberalizing ones, especially in domestic matters. This reflects not only the increased incidence of inflation but also the not unrelated danger that most of these countries are exposed to because of the smallness of

their exchange reserves in relation to potential import demand.

There are many patterns of inflation, but in 1956 two or three stood out as the most common or the most intractable. Though the distinction between these patterns is far from complete, they may be typified for present purposes by their main characteristic. Thus, in some countries the principal inflationary pressure arose from—or was accentuated by—a failure of supplies to meet a level of demand that had come to be accepted as normal. In others it arose chiefly from a more or less sudden increase in demand, associated in most cases with an expansion of investment. In others again it was the result of an excessive claim on available resources exercised continuously—often through deficit spending in the public sector—over a much longer period of time. In some countries in which this pattern had become established, the spiralling effect of successive rounds of wage increases and price increases emerged very clearly. In few cases did inflationary forces have their origin in a sudden and substantial rise in export incomes, even among those countries whose major export—petroleum, rubber and copper, in particular—enjoyed a booming market in 1955.

Where internal balance was threatened by changes on the supply side, a shortfall in domestic production was chiefly responsible in some cases—Pakistan, for example—while in others, such as Australia, a major cause was reduced imports. In most instances of this category of imbalance, however, the failure of supply to rise adequately was due to deficiency in both sources —as in Brazil, to a certain extent, and more clearly in Colombia and Turkey. In almost all countries in which a shortage of imported goods caused or enhanced inflationary tendencies, the immediate reason lay in restrictive policies aimed at protecting the balance of payments, pressure on which had arisen in an earlier period. Some of the causes of this pressure are mentioned below and are dealt with in some detail in chapter 3, but it is pertinent to note in the context of this paragraph that in a number of countries the underlying factor was again a production failure—the result of lack of growth (or even of retrogression) in the export sector.

Where a threat to internal equilibrium originated in an increase in the claims on resources for capital formation, its magnitude was largely dependent on the method used for financing. In countries in which the new investment was initiated principally by government and financed to a marked extent by borrowing from the central bank—as in Thailand and somewhat less in Egypt and India—the inflationary forces tended to be more severe. Where a greater relative volume of external resources was available, the internal strain of increased investment was relieved to some degree—as in Mexico and Rhodesia—but usually at the expense of a noticeable deterioration in the current account of the balance of payments.

The possibility of deliberately reducing consumption in order to release resources for capital formation is rather narrowly circumscribed in most primary exporting countries by the low level of personal income. It seems to have been achieved in 1956 in a few of the higher income members of the group—notably Australia and New Zealand, where government policies were directed toward cutting back total demand, not only consumption but also investment. In some countries—Argentina, Brazil and Chile, for example—it also seems to have been brought about, at least in per capita terms, by the process of inflation itself. As indicated below, this process seems to have been accepted in some countries as a means of bringing effective demand into line with available supplies. In other countries, however—especially where the emergence of inflationary forces was very recent—this equilibrating function of rising prices was resisted, as in India where in order to protect consumers the Government released cereals from its reserves and opened a large number of so-called "fair price" shops.

Though the upsurge in investment which lay behind the internal disequilibrium in many of the cases just referred to reflects the desire to accelerate the pace of economic development, the rising incidence of the resultant inflation induced several governments to apply the brake, either directly on public capital formation—as in Burma and, more recently, Ghana—or indirectly by raising interest rates and stiffening credit conditions—as in Brazil, the Union of South Africa and Turkey, as well as Australia and New Zealand.

Monetary restraints exercised through changes in interest rates seem to have had some success in curbing investment, especially residential construction. But this was confined largely to countries in which the credit system is highly organized and in which the inflationary forces stemmed mainly from excessive demand of fairly recent origin. In other circumstances monetary measures proved less effective. On the whole, the more direct control over commercial bank credit exercised through the variation of bank liquidity by alteration of reserve requirements seems to be better adapted to conditions in primary exporting countries than the less direct device of changing the central bank discount rate or other rates of interest. In 1956 flexible reserve requirements were actively used for controlling credit in the private sector in several of these countries—New Zealand and Peru, for example—and authority to use the technique has recently been provided for in India, Rhodesia and the Union of South Africa. In most cases higher proportionate reserves are required against current account deposits than against fixed or time deposits. Ratios have generally been prescribed in terms of total deposits, but in 1956 more countries—especially in Latin America—began fixing marginal ratios, usually governing the increment in deposits after a specified date. Marginal differentiation was also introduced—in Chile, for example—in re-discount facilities, progres-

sively higher rates being charged as a commercial bank increased its borrowing from the central bank.

The effectiveness of the rate of interest as a regulator is limited not only by rudimentary organization of the money market in most of the primary exporting countries but also by the inflationary process itself. This is most apparent in those countries in which the lack of internal balance reflects claims on resources that have been in excess of available supplies over a period of years. Here the annual increase in the price level has been of such a magnitude that even large changes in interest rates have had relatively little significance. Thus, the rise in the central bank rate in 1956 in Chile and Turkey, for example, though large percentage-wise, was much less impressive in relation to the rate at which other prices were increasing.

It is this chronic inflation which presents one of the most intractable problems. Its basic cause in many instances continued to be investment and deficit spending by governments and government agencies, but in competing for the use of scarce resources private producers have tended to bid up factor prices so that a form of cost inflation has emerged in some countries which is extremely difficult to control. Apart from the political difficulty associated with enacting and putting into effect deflationary measures, experience in 1956—in such countries as Argentina and Chile, for example—has illustrated some of the underlying economic problems.

The attainment of budgetary equilibrium requires some combination of reduced expenditure and increased revenue, and efforts to achieve this have revealed how inflexible the structure of public finance tends to be. Efforts to cut expenditure are often faced with priorities not only for servicing the public debt and maintaining essential administration but also relatively heavy defence and security charges—as in many of the countries of the Middle East and Asia—and commitments well embedded in earlier legislation for education, health and other social welfare services—as in many of the Latin American countries. Government agencies usually include essential public utilities such as power and transport, which in the war and post-war period have often tended to lag behind the rest of the economy, sometimes to the extent of constituting bottlenecks to development; by and large these do not offer a fruitful field for expenditure cuts.

The alternative of raising revenue presents equally awkward problems. In many under-developed countries the income structure does not leave room for great flexibility in the tax system. Direct taxation tends to be prohibitively expensive to collect if assessed on low incomes, and is hardly applicable to the subsistence sector which is a relatively large one in many countries—particularly in Africa. Higher marginal rates on the upper income group—which is a very small one, in any case, in most of these countries—tend to have strongly disincentive effects and by reducing output may run the danger of defeating their very purpose. Indirect taxation, which is the more important contributor to revenue in many cases, is also difficult to increase. Export duties are extremely sensitive to external market conditions, often very volatile in yield and when raised to high levels may discourage production. Sales and purchase taxes are not susceptible to frequent or large increases in countries with chronic cost inflation since the fact that they are immediately incorporated in the cost of living tends to reinforce the wage-price spiral.

A similar objection is often raised to efforts to reduce expenditure on subsidies by raising the price of a commodity or service previously available on sub-economic terms. Thus the raising of railway freight rates and urban transport charges that was one element of the 1956 stabilization programme in Chile met with considerable opposition, the resultant increase in the cost of living not being immediately or fully recoverable through increases in wages.

A kindred problem is involved in the fixing of support prices for agricultural crops. Unless counterbalanced by internal subsidies—thus magnifying the budgetary problems just mentioned, as it has in Turkey and Uruguay, for example—this entails a rise in the cost of living with all its consequences for wage-price stability. Yet in the interests of external balance and to make up for earlier neglect of and lack of investment in the agricultural sector, such a course may be deemed necessary—as it has been in Argentina, for example. Essentially the same problem arises when, in the interests of encouraging domestic production, control over prices and the fixing of maxima are partially or completely abandoned, with the immediate effect of raising consumer prices, as has happened under the stabilization plans in Bolivia and Chile.

The object of such price incentives is expansion of output, and for most of the primary producing countries suffering from chronic disequilibrium the crux of the problem appears to lie as much in this field of increasing production as in efforts made to reduce total demand. The difficulty is illustrated by those countries in which disinflationary policies directed towards curtailing expenditure were frustrated in varying degree by their inhibiting effect on production. Thus in Argentina, Chile and Turkey, and to less extent Brazil, one of the reasons for the failure of domestic production to expand significantly in 1956 was the restrictive policies being pursued in the interests of better balance on both internal and external account. Experience in 1956 also shows that a deceleration in the rate of price increase may cause a reassessment of attitudes toward inventories so great as seriously to affect the relative magnitude of stocks customarily held by consumers and traders. The effect of a decline in inventories in the hands of consumers and traders is rapidly transmitted

to manufacturers by way of reduced orders. Such an inventory recession seems to have been partly responsible for a decline in production in a number of industries in Chile, for example.

In theory the supply position might be eased by expanding imports, but in practice many of the countries whose internal economy is out of balance face a precarious external situation also. Indeed, it is the pressure of balance of payments difficulties—being more urgent and less amenable to temporary expedients—that in many cases has tended to force primary exporting countries—Australia and Burma, for example—to adopt measures for domestic stabilization. And even those countries without pressing external problems, such as India, have found that it may take no more than a short period of enlarged expenditure to cause a serious drain on foreign exchange reserves.

In this context, external aid takes on added importance, whether in support of development or defence budgets—as in China: Taiwan and Iran during the year —or by way of the provision of raw materials, foodstuffs or manufactures to meet temporary deficiencies—as in Indonesia and Pakistan—or in the form of financial backing of a reserve fund designed to ease the transition to a freer exchange rate for the national currency —as in Bolivia and Chile.

Another symptom of disequilibrium which became more obvious, if not more serious, during 1956 is unemployment. In some countries in which policies of internal restraint were pursued, a reduction in the demand for scarce manpower was a logical objective, and unemployment, while increasing, remained negligible in Australia and New Zealand, for example. In other cases, however, rising unemployment reflects a continuing disparity in supply between labour—at least unskilled labour—on the one hand and the remaining factors of production on the other—as in Ceylon. In these circumstances it is possible for unemployment to increase in the face of a rising tempo of development and mounting inflationary pressures—as in India. The very process of development, indeed, may increase unemployment by bringing under-employment into the towns and making it more evident and more readily measurable.

As far as problems and policies relating to external disequilibrium are concerned, 1956 brought many changes to individual countries, but over the group of primary exporting countries as a whole there was no disequilibrium are concerned, 1956 brought many conditions. There were, however, some important attempts at simplifying controls and broadening the nexus of trade.

The process of growth in under-developed countries not only depends greatly on the availability of capital goods, which are for the most part imported, but also, by generating higher incomes, creates a demand for other imports—either of food and manufactured consumer goods or of raw materials and components for local production. Post-war experience of the primary exporting countries indicates that the total demand for imports tends to run ahead of increases in the production of export goods and goods which can be substituted for imports. Since few of these countries have external reserves large enough to finance such an expansion of imports for more than a short period, there has been an almost universal tendency to adopt a pattern of import control which reflects priorities determined by development needs and local production. When a larger inflow of capital or favourable turn in the terms of trade augments foreign exchange assets, some relaxation becomes possible and greater quantities or lower priorities qualify as imports. Conversely, when the movement in capital or prices is adverse, control tends to become more restrictive.

The only members of the primary exporting group able to maintain a liberal trade regime in 1956 were Cuba, Mexico, Peru, Venezuela and one or two of the other countries in the Latin American dollar account group, Saudi Arabia and some of the petroleum producing islands and sheikdoms and those territories—such as Aden, Hong Kong, Singapore and Tangiers—whose economy is heavily dependent on entrepôt activities. Here, in general, because of expanding exports or capital inflow, or both, external balance was well maintained and no special measures were required to protect reserves.

Among the rest of the primary exporting countries controls of various types and of varying severity continued to be necessary to protect the balance of payments. However, there was a trend towards more liberal or less discriminatory policies in a number of these countries, including Ceylon, Rhodesia, the Union of South Africa and some of the dependent territories of the sterling area, while the so-called Hague and Paris arrangements enabled Brazil and Argentina to increase the amount of multilateralism in their foreign trade and Chile dismantled a good deal of its exchange control apparatus, as did Bolivia at the end of the year. Thailand and Uruguay also simplified their exchange regulations, and there was a definite movement away from bilateral agreements in Latin America. Nevertheless, fairly strict import control remained in operation in most of these countries, as it did to protect reserves in a number of other countries, including Australia and to a less extent New Zealand. Outside Latin America the proportion of trade conducted on a bilateral basis tended to decline in some countries—Burma, for example—but in others it increased markedly, as in Egypt, for example. Some countries—such as the Philippines —started 1956 with stricter controls over imports and relaxed them considerably towards the end of the year; others—such as Colombia and Indonesia—followed the reverse course as a rising import bill began threatening reserves.

Table 98. Capital Movements between the United States and Primary Exporting Regions

(Millions of dollars)

Type of movement	All primary exporting countries[a]		Western European dependencies		Latin America		Other primary exporting countries[a]	
	1955	1956[b]	1955	1956[b]	1955	1956[b]	1955	1956[b]
Government capital:								
Long-term:								
Outflow	301	405	[c]	[c]	143	117	158	288
Repayment	147	179	4	2	115	126	28	51
Net	154	226	−4	−2	28	−9	130	237
Short-term (net)	116	301	[c]	−1	25	101	91	201
Total (net movement)	270	527	−4	−3	53	92	221	438
Private capital:								
Long-term:								
Direct investments	271	701	−3	39	141	521	133	141
New issues	57	77	—	—	1	—	56	77
Redemptions	20	23	—	—	9	9	11	14
Net[d]	538	801	−8	32	354	565	192	204
Short-term (net)	87	297	1	6	−25	153	111	138
Total (net movement)	625	1,098	−7	38	329	718	303	342
Total (net movement)	895	1,625	−11	35	382	810	524	780
Long-term capital	692	1,027	−12	30	382	556	322	441
Unilateral transfers[e]	1,282	1,437	24	27	108	121	1,150	1,289

Source: United States Department of Commerce, *Survey of Current Business*, March 1957.

[a] Including Japan.

[b] Preliminary.

[c] Less than $0.5 million.

[d] Including other long-term capital movements.

[e] Including private remittances, but excluding military supplies and services.

Though there were major exceptions among individual countries, on the whole long-term capital movements appear to have played a part in the balance of payments of primary exporting countries somewhat greater in 1956 than in 1955. Disbursements by the International Bank for Reconstruction and Development were 13 per cent above the 1955 level, but 2 per cent below that of 1954, and as far as the Export-Import Bank was concerned almost as much ($141.7 million) was repaid in 1956 in the aggregate as was advanced ($142.9 million). The net outflow of funds from all United States sources, on the other hand, was substantially greater in 1956 than in 1955 (see table 98). There was a net increase of $72 million (47 per cent) in long-term government capital, of $263 million (49 per cent) in long-term private capital (mostly direct investment by companies with foreign subsidiaries) and of $155 million (12 per cent) in unilateral transfers (mostly government grants).[5] No less than 87 per cent of the increase in direct investment went to Latin America; much of this was associated with the activities of oil companies, particularly in the last quarter of the year when there were large payments for leases in Venezuela. Almost the same proportion of the net increase in the outflow of short-term capital was also accounted for by Latin America, commercial bank activities in Cuba and Mexico being especially prominent.

[5] These figures include transactions with Japan.

Though the United Kingdom capital market remained very tight throughout the year and there was a slight decline in the net outflow through inter-government transactions, there was a £30 million (27 per cent) increase in the net movement of other long-term capital. This was concentrated in the second half of the year and in the sterling area, Australia being one of the principal recipients.

On the other hand, in the case of a number of countries which had enjoyed a sizable net inflow of private capital in earlier years—South Africa, for example—net receipts were very small in 1956, while in other countries—including Ceylon, India and Pakistan—as well as Morocco and Tunisia—the tendency for withdrawals to exceed new investment seems to have persisted.

Most of the changes in trade and exchange policy that took place in the course of the year were in the nature of more or less spontaneous reactions to developments in world markets for major export commodities, movements in the terms of trade, production achievements in the export sector, the trend in domestic demand for imports, capital flows and the adequacy of gold and foreign exchange holdings. Hence, the diversity in policy changes is no more than a reflection of the diversity in actual developments.

Economic Outlook for 1957[6]

If the magnitude and structure of demand in the industrial countries in 1957 are broadly similar to what they were in 1956—and this would seem to be the inference to be drawn from the analysis of prospects made in the preceding chapter—then the over-all shape of the major external forces moulding the economies of the primary exporting countries is not likely to differ very greatly from that of the forces operating in 1956. With regard to movements of specific commodities expectations—explicit or implicit—of the primary exporting countries underlie the following comments on possible trends.

Trade in petroleum is expected to return more or less to its pre-Suez pattern and consumption to resume its earlier rate of increase. However, the increase in prices which took place early in 1957 is not likely to be reversed, and Venezuela is among the countries looking forward to more favourable terms of trade.

While it seems probable that total demand for the non-ferrous metals will be sustained at its high 1955-1956 level, prices may continue to be under pressure from expanded supplies. Their course will depend to a large extent on stockpiling policies, and since the United Kingdom is already committed to a reduction of official stocks, the key factor will be the rate of intake of the United States stockpile. Lead and zinc prices were supported by such purchases in 1956. According to trade sources, copper prices might be supported by a cutback in production if they dropped much below a minimum of around 30 cents a pound (£240 a long ton); a small reduction has already been made in the United States, but new capacity is due to come into production in Rhodesia and Chile, countries which are heavily dependent on the volume and price of copper exports. In the case of tin—which the United States is reported to have ceased to stockpile—the task of holding prices within a fairly narrow range has now been assumed by the International Tin Council with its buffer pool arrangement. The pool has the financial resources to absorb the whole of the possible surplus in 1957; this may not be very large, however, for although consumption has not been increasing in the way that it has in the case of the other metals, production is not likely to expand appreciably either. Thailand is among the producers expecting export earnings from tin in 1957 to approximate the 1956 figure.

Though in the long run the position of natural rubber will depend on its ability to meet the competition of the synthetic product, output of which is increasing, there is little indication that the volume of exports of natural rubber will be significantly smaller in 1957 than in 1956. Since prices in the first quarter of 1957 averaged about 15 per cent below the corresponding figure in 1956, however, gross export proceeds may be somewhat lower. Taking into account the position in the motor-car industry—the largest single consumer—demand in the industrial countries may not differ markedly in the aggregate from what it was in 1956. However, the course of prices depends in some measure on the volume of purchases by the centrally planned countries: this may be slightly lower than in 1956 when it was above average; and is thought to have moved partly into stocks. Production in the first quarter of 1957 was about 6 per cent above the corresponding level in 1956, but if prices fall very seriously, rubber exporters expect it to decline, too, because of reduced output from peasant growers who in recent years have been very sensitive to price changes.

With incomes continuing to rise, the increase in the consumption of fibres that occurred in 1956 may well continue in 1957. Wool manufacturers have expanded their stocks in line with the higher turnover, but aggregate stocks are not considered unduly large and the small increase in the 1956/57 season's wool clip should be absorbed at prices well above the depressed 1955/56 level. In line with this, New Zealand is expecting a continuing improvement in the terms of trade. In the first ten months of the 1956/57 season average price at Australian auctions was one-third higher, and the volume of sales one-sixth higher, than in the corresponding period in 1955/56.

In the case of cotton, however, there is a greater divergence between grades. On the whole the prices of long-staple varieties have become firmer and in view of lower Egyptian stocks and production in 1956/57 may well register a higher average price in 1957 than in 1956. The market for short-staple cotton, by contrast, has been dominated by the massive disposals of United States surpluses, especially since the opening of the 1956/57 season in August 1956. In the first quarter of 1957 spot prices of American middling 15/16″ on the Liverpool exchange were rather more than 8 per cent below the corresponding average in 1956. Though 1957 prices may well average less than those of 1956, the market is considered to have been put in a healthier state by removal of the uncertainty previously overhanging it in regard to United States disposal policy. Though the United States surplus is still very large,[7] some 3 million acres (almost a fifth of the total under cotton) have been placed in the soil bank, and manufacturers in many countries have been sufficiently confident to increase their stocks from the abnormally low level at which they had been operating in recent

[6] To a large extent the substance of this section reflects the views expressed by Governments in their replies to the United Nations questionnaire, of 7 November 1956, on full employment and balance of payments.

[7] Early in 1957 the Commodity Credit Corporation began dealing with the stocks it acquired in 1954.

years. Nevertheless, a number of countries—including Guatemala, for example—expect cotton realizations to be somewhat smaller in 1957 than in 1956, some because of lower acreages, others because of lower prices.

With consumption unlikely to change very markedly, the prospects for the export earnings from beverage crops depend chiefly on changes in production. Available supplies of both coffee and cocoa are appreciably larger than in 1956. Stocks in consuming countries are also larger. Despite a smaller 1956/57 crop in Brazil, therefore, coffee prices seem unlikely to move much higher in the course of 1957. Nor is income from cocoa in 1957 expected to reach the 1956 level; average price in the first quarter of 1957 was about one-sixth lower than in the first quarter of 1956. At least one country (Venezuela), however, expects the higher (1956) coffee prices to continue through 1957, and Guatemala expects receipts from coffee exports to be slightly above the 1956 level. Ceylon, which is affected by rubber and copra sales as well as by changes on the tea market, expects trade conditions in 1957 to be "less favourable" than in 1956.

Price trends in other foodstuff markets are also very sensitive to changes in production. In the case of wheat, the effect of the withdrawal of 10 million acres into the soil bank in the United States is likely to be offset by a much improved 1956/57 harvest in western Europe, which will undoubtedly weaken export possibilities for the less developed countries. Though transactions under the International Wheat Agreement and domestic support policies in some of the major producing countries will prevent any notable decline in average price, commercial demand is also likely to be affected by United States disposals under agreements made in 1956—with Brazil and India, for example. Among the primary exporting countries, a smaller harvest in Australia in 1956/57 has been offset by a larger one in Argentina.

Though Europe's better wheat crop may mean a smaller crop of feed grains than in 1956, when frost-damaged wheat land was put under barley, the market for coarse grains is overshadowed by the stocks of maize held in the United States. Though the 1956/57 Asian rice crop seems likely to prove a large one, fully capable of meeting consumption needs in the region, Burmese stocks were greatly reduced in 1956 and demand for stocks in several importing countries may be significant.[8] A major proportion of this demand will be met from United States surpluses, however, in terms of agreements under Public Law 480, such as that with India for the supply of large amounts not only of wheat and rice but also of cotton, tobacco and dairy products. Among the Asian producers, southern Viet-Nam expects to resume rice exports, after a two-year suspension. With a "good 1956/57 crop . . . assured" Thailand is looking forward to a 10 per cent increase in rice exports and a 3 per cent increase in total export earnings.

In the case of sugar, with consumption still rising and with smaller beet crops in the United States and western Europe and stocks at or below normal, the average price for the year is likely to be appreciably above the 1956 figure. This is probable even if the price quoted on the free market—which handles about one-eighth of world production—is not sustained at the extremely high level obtaining in the first quarter of 1957 (70 per cent above the corresponding 1956 figure). The negotiated price under the Commonwealth Agreement is more than 3 per cent higher in 1957 than in 1956, and almost back at the 1953 level. China: Taiwan is among the countries expecting a substantial increase in earnings from sugar exports.

In view of the increase in production, the prices of meat and butter in international trade may well continue to weaken. Of the countries to which such a decline would be of some consequence, New Zealand expects to make good the resultant reduction in export receipts by higher earnings from wool.

Actual developments on these commodity markets will be the major determinants of import policy. However, already among the countries whose reserve position was strengthened in 1956, largely through curtailments of imports, several—Australia, the Philippines and the Union of South Africa, for example—have considered export prospects in 1957 favourable enough to warrant some relaxation in import controls. New Zealand, whose imports were cut by almost 4 per cent in 1956, expects no further reduction in 1957. Conversely, others whose reserves were drawn down in 1956 and whose exports seem unlikely to yield a substantially greater amount of foreign exchange in 1957—Colombia, India and Indonesia, for example—have tended to make their control over imports more selective or more stringent. China: Taiwan expects to hold total import expenditure constant while cutting down on consumer goods in order to expand imports of capital goods. A similar policy is foreshadowed in Guatemala under the new Industrial Development Law. In Thailand, however, "a slight decrease in imports" is foreseen as the result of a cutback in consumer goods being produced in greater quantities in local factories. Iraq also expects some reduction in imports, following the serious decline in petroleum exports caused by the Suez crisis, the severance of pipelines and the closure of the canal. Lebanon, on the other hand, expects to import more, as does Venezuela. It is significant, perhaps, that the decline in external reserves in India has resulted not only in a cut in quotas issued for private imports in the first half of the 1957 but also some modification of investment plans "giving higher priority to those which would save or earn foreign exchange". This is to be the criterion for the allocation of foreign exchange to private importers, too. Some of the countries experi-

[8] Stocks were drawn down by drought in 1956 in such countries as Ceylon and Pakistan, and are being built up as a precautionary reserve in India.

encing an inflow of foreign capital in the second half of 1956 may well register an increase in imports of producer goods in 1957 as new projects get under way.

On balance, although the degree of discrimination (against dollar goods, for example) is declining and the trend toward a more multilateral pattern of trade continuing, the extent to which imports are regulated—in total or in composition or in both—is likely to be as great in 1957 as it was in 1956. Though the Hague and Paris arrangements have made the pattern of trade more flexible in Brazil and Argentina, balance of payments considerations still dictate import restrictions. Burma's expressed tendency to prefer cash transactions rather than barter arrangements for exports has not been accompanied by relaxation of control over imports, neither has the simplification of exchange rate structure in China: Taiwan, while the break away from multiple exchange dealings in Chile has involved the complete prohibition of a number of imports.

While the principal adjustment to a changing balance of payments situation is usually made through imports, there are other significant elements in the external balance of a number of primary exporting countries. Some will continue to rely on foreign aid for closing the gap between receipts and payments. Guatemala, China: Taiwan, Iraq, southern Korea, Thailand and Viet-Nam are among the countries explicitly recognizing the importance of donations in the 1957 balance of payments. In other cases capital movements are likely to affect the external balance: a higher rate of inflow is expected in Guatemala, Venezuela and Viet-Nam and a lower rate is thought possible in Lebanon, while in Morocco there is some doubt as to whether the recent outflow of capital will come to a halt.

Though in economies which are predominantly agricultural in structure it is impossible to predict at all accurately changes in total production, yet what is known of the rate of investment in 1955 and 1956 and about crops and trends in industrial output at the end of the first quarter of 1957 gives the impression that the current year will see a widespread, but not dramatic, increase in gross national product. This should include some of the countries in which disinflationary policies occasioned a pause in the expansion of production in 1956—as in Australia, for example—as well as those in which higher rates of capital formation in recent years are due to bring new effective capacity into operation—as in Mexico and Rhodesia, for example. Where major resource bottlenecks continue to exist, however, the rate of growth is unlikely to increase. In the Union of South Africa, for example, though the transport situation is much improved, skilled labour is still very scarce. In Iraq the effects of the Suez crisis on oil production are likely to be reflected in "a temporary slowing down of progress in 1957", though agriculture should soon begin to benefit from recent heavy investment in irrigation.

In Venezuela the acceleration which occurred in the rate of expansion in the second half of 1956 is expected to result in a more rapid rate of growth in 1957. When the current investment projects come to fruition, however, future expansion may be handicapped by a shortage of skilled labour; to mitigate such shortages facilities for technical training are being increased and selective imigration encouraged. In Guatemala, industrial output is expected to benefit from easier credit and the effects of an enlarged Instituto Centroamericano de Investigación y Tecnología Industrial as well as through the protective policies initiated under the new Industrial Development Law. In China: Taiwan specific forecasts have been made of the probable increase in production between 1956 and 1957: 6 per cent in agriculture and 11 per cent in industry, the former chiefly the result of favourable weather and the expanded use of fertilizers and the latter of the maturing of earlier investments. India reports that "food grains production in 1956/57 should be about the same or slightly better than the level of the preceding season ... [while] non-food crops . . . may well be larger". Industrial output should reflect the recent increase in manufacturing facilities and the continuing high rate of investment, though shortages of technical and managerial personnel are likely to make themselves increasingly felt. In Morocco drought has damaged spring crops, but subsequent harvests are expected to be greater than in 1956. It is mining production that is expected to increase most in Tunisia. In Somaliland the continuation of well-digging and irrigation programmes is expected to raise agricultural output, and an expansion of some associated industries—sugar, meat and tanning—is under way. In Thailand, increases are predicted not only in the rice crop and other export commodities, but also in such products as cement, sugar and gunny bags, for which manufacturing facilities have recently been expanded.

Broadly speaking, consumption trends are likely to follow those in production. In some countries, however, the pattern of expenditure seems likely to reflect a greater emphasis on investment. This may happen not only in those countries in which major development plans are now under way—such as China: Taiwan, India, Iraq and Rhodesia—but also in those in which efforts have recently been made to increase the rate of saving by compulsory lending to the government, special fiscal incentives or current account budget surpluses, as in Colombia and the Union of South Africa. Where estimates have been made of the rate of growth of national income expected in 1957 from investments carried out under development plans, they range from 2.5 per cent in Viet-Nam and 5 per cent in India to 6 per cent in Ecuador and 7 per cent in China: Taiwan, Guatemala and southern Korea. In China: Taiwan shortages of timber and cement may impede some public construction projects, but a higher rate of private capital formation and of investment by foreign nationals

is expected. A greater inflow of capital is also expected to raise the level of investment in Guatemala and Venezuela.

External capital may also play a part in increasing the rate of investment in a number of other primary exporting countries. At the beginning of 1957 several Central American countries, as well as Ceylon, Lebanon, Uruguay, Thailand and Burma, had undisbursed amounts available from the International Bank for Reconstruction and Development substantially greater than their loan drawings during 1956 (see table 92). Large sums from the Export-Import Bank have also been authorized for financing imports into various countries, not only in Latin America—Argentina ($160 million undisbursed at the end of 1956), Brazil ($253 million), Mexico ($90 million) and Peru ($100 million) in particular—but also in other parts of the world, including for example Ethiopia ($24 million), Indonesia ($23 million), Liberia ($17 million), the Philippines ($70 million) and the Union of South Africa, ($123 million).

In a number of countries the rate of investment will be governed less by the long-range objective of maximizing the rate of growth than by the immediate exigencies of internal and external balance. Anti-inflationary polices of varying degrees of severity are being pursued by countries that are diverse in many other respects—Australia, Brazil Burma, New Zealand and Turkey, for example. Colombia and Ecuador have inaugurated "austerity" measures, which include attempts to reduce both the budget deficit and the total demand for imports. China: Taiwan expects a further rise in prices, caused primarily by changes in external costs and running counter to the domestic policy of credit restraint and price and wage control. Higher costs for imports and smaller 1956/57 crops lie behind rising prices in Iraq. Inflationary pressures of a more persistent nature still characterize such countries as Indonesia, southern Korea, Thailand and Uruguay, while more recent threats to economic equilibrium have been recognized in Egypt, Pakistan, Peru, the Philippines and Syria.

In India, where strain on both internal and external balance is also of recent origin, steps have been taken not only to reduce imports from the abnormally high 1956 figure—even at the expense of delaying new projects—but also to increase tax revenue in order to reduce total demand. In the budget introduced in May 1957, reduction in certain taxes on dividends is more than offset by a tax on personal and corporate wealth, a lower exemption limit for normal income tax and a sharp increase in excise and customs duties on a number of consumer and producer goods. The effective charge for railway and postal services has been raised and a general expenditure tax is to come into operation in 1958. Despite this the 1957/58 budget shows a large deficit, the inflationary effects of which the Government is seeking to reduce by encouraging production, savings and the inflow of capital. Wage incomes are to be taxed less onerously than others and in corporate taxation there is to be a slight easing of the burden on foreign companies; a Refinance Corporation is to engage in selective industrial lending; interest rates on small savings have been raised, as has the bank rate.

In some of the countries with disequilibria of longer standing—Argentina, Bolivia and Chile, for example—more comprehensive stabilization programmes have been put into operation. So far, however, widespread resistance to real or apparent cuts in consumption—whether sought by means of wage restraint, or by elimination of subsidies, reduction of social service payments or other fiscal measures—has been inimical to production. Various real handicaps also continue to hamper growth. Among the latter are poorer export prospects, owing to smaller output or lower prices, higher local costs resulting from devaluation and certain physical bottlenecks—such as a lag in transport or power facilities— which can be removed only by substantially increasing imports.

The situation at the beginning of 1957 shows that in general the basic problem still facing the primary exporting countries is the reconciliation of growth and stability, or—put in terms more appropriate to the less developed of these countries—how to attain the highest rate of growth compatible with the maintenance of an essential degree of stability. While these is no universally applicable criterion for the latter, many of the characteristics of under-developed countries point to the dangers of internal economic instability. Among the principal desiderata are foreign exchange reserves, access to external assistance, potential resources capable of fairly rapid exploitation, the elasticity of the institutional and fiscal system and the level and distribution of population skills and income. On these scores most of the primary exporting countries are not in a strong position to prevent what seems a moderate degree of instability from initiating a dangerous spiral of rising costs and prices. And once such a spiral has become established, the experience of 1956 has shown not only that it is extremely difficult to bring to an end but also that it ultimately tends to retard and prevent further real growth.

Chapter 6

RECENT TRENDS IN THE CENTRALLY PLANNED ECONOMIES

Current Economic Trends

Rapid economic expansion continued in the centrally planned economies in 1956. There was again a significant rise in industrial production, owing mainly to increases in output per man. Agricultural output rose substantially in the Union of Soviet Socialist Republics for the second consecutive year, but in Bulgaria and Romania it fell owing to poor weather conditions. Consumption increased in all countries of the group and in some countries faster than national income. Despite the rise in consumption, in some countries the pressure of demand for consumer goods increased, especially at the end of the year, either as a result of a poor harvest or under the impact of an increase in income payments in relation to output. Investment plans for 1956 proved to be excessively high in relation to available resources, and outlays fell short of targets in most countries, leading to a reappraisal of investment policies for 1957. In some countries the problem of unemployment emerged for the first time, owing to lack of raw materials, the continuous inflow of manpower from rural areas, and cuts in the administrative apparatus; in the case of Hungary the chief cause was the fall in output after the political disturbances in October. Foreign trade rose more than in 1955 in most countries and, as in the preceding year, trade with the rest of the world seems to have expanded faster than trade within the group.

Changes in domestic economic activity[1]

Industrial production increased substantially in 1956 in all the centrally planned economies, with the exception of Hungary where, owing to disruption of work caused by the October events, it fell sharply. Generally, the rate of expansion was somewhat slower than in 1955; in Bulgaria, however, the rate of increase rose from 10 per cent in 1955 to 16 per cent in 1956, and in mainland China it reached an exceptionally high rate of 25 per cent, which carried its industrial production above the level that had been set for 1957 in the first five-year plan.

Output of producer goods increased at a higher rate than output of consumer goods in 1956 in the Soviet Union, eastern Germany, Czechoslovakia and Romania, but at a lower rate in mainland China, Poland and possibly in Bulgaria. These patterns of growth were similar to those of 1955 for the majority of countries. In Czechoslovakia, however, the faster rise in output of producer goods than of consumer goods in 1956 represents a reversal of the pattern of growth of the previous two years, and, in mainland China, the change has been in the opposite direction. In the Soviet

[1] This section deals with the economic changes in Bulgaria, mainland China, Czechoslovakia, Hungary, Poland, Romania and the Soviet Union. Yugoslavia is discussed in a later section.

Table 99. Indices of Industrial Production
(Preceding year = 100)

Country	1954			1955			1956		
	Total	*Producer goods*	*Consumer goods*	*Total*	*Producer goods*	*Consumer goods*	*Total*	*Producer goods*	*Consumer goods*
Bulgaria	109	116	103	110	...	...	116	...	...
China, mainland[a]	117	120	115	108	117	101	125	124[b]	126[b]
Czechoslovakia	104	104	105	110	109	112	109	111	107
Germany, eastern	110	110	110	108	109	106	107	108	105
Hungary	103	94	109	108	108	109	86	...	...
Poland	111	113	109	112	111	112	110	109	111
Romania	107	104	111	114	116[b]	110[b]	111	114	107
USSR	114	114	113	112	115	108	111	111	109

Source: Reports on fulfilment of plans; *Statistisches Jahrbuch der Deutschen Demokratischen Republik* (Berlin, 1956); *Magyar Statisztikai Zsebkonyv* (Budapest, 1956); *Narodnoe Khozyaistvo USSR* (Moscow, 1956); *Rocznik Statystyczny* (Warsaw, 1956); *People's Daily* (Peking).

[a] Including output of handicraft factories, but excluding that of handicraft co-operatives and of individual craftsmen.

[b] Estimated.

Union, the rate of expansion of producer goods was consistently higher than that of consumer goods during the entire period 1954-1956, but it showed a significant slackening in 1956, and there was a slightly higher rate of expansion of consumer goods in 1956 than in the previous year (see table 99).

The over-all plans for industrial production were fulfilled or exceeded in the Soviet Union, mainland China, Czechoslovakia, Romania, Bulgaria, and Poland. In eastern Germany, however, industrial output in 1956 fell short of the target by 2 per cent. In Hungary industrial output was about one-fifth lower than was planned. It should be noted, however, that even where the aggregate targets for industrial production were achieved or exceeded, individual sectors often failed to reach their planned targets. As the sectors involved were generally in the field of producer goods, especially in the fuel, metals, engineering and building industries, these shortfalls were bound to have important repercussions. In the Soviet Union, the planned targets for output of coal, metals, cement and timber were not achieved despite a considerable rise in the output of these industries. In eastern Germany output fell about 3 per cent short of the target in power production and about 4 per cent short in chemicals and engineering; output of the food processing industry was 7 per cent below the target. In Poland the greatest difficulty in meeting planned output was encountered in the engineering industry, where production of several essential products fell short from 10 to 20 per cent. In Czechoslovakia there was a significant under-fulfilment of plans in hard coal production and heavy construction; and in Bulgaria output of crude steel, rolled metals and tractors was seriously below that planned. Failure to meet the targets in these sectors was an important reason for the bottlenecks which hindered industrial expansion generally in many of these countries.

Even where plans were fulfilled, the increases in output of raw materials, fuel and power (see table 100) were not sufficient to eliminate shortages, which continued in this year as in earlier years. In several countries the inadequacy of supplies of raw materials, fuel and power actually seems to have been increasing. The increase in coal production in 1956 generally lagged behind the growth of total industrial production, and the output of electricity rose only very slightly, if at all, more than industry as a whole (see table 101). The problem of fuel has become increasingly serious for the area as a whole owing to the stagnation of coal output in Poland, which is the second largest producer and the largest exporter of hard coal among the centrally planned economies. This stagnation has, to a large extent, been due to lack of adequate maintenance and developmental work at the collieries under the last six-year plan, a shortage of labour for the mines, and a decline in output per man of about 12 per cent over the past six years.[2] Output of coal increased by less than one per cent in 1956, and the rise in internal industrial demand and the even sharper increase in household deliveries resulted in a drop of 4.5 million tons in coal exports, compared with a planned increase of about 500,000 tons.[3] The reduction in Polish coal exports intensified the problem of fuel supplies in other countries of the group, particularly in Czechoslovakia and eastern Germany, which depend heavily on Polish hard coal and coke.[4]

In mainland China the appearance of bottlenecks in the supply of important industrial materials has been a very recent phenomenon. In the past few years, mainly

[2] Output per underground worker declined by 8 per cent.

[3] Total output was about 99 million tons in both 1955 and 1956. Exports of coal were 24.2 million tons in 1955 and 19.5 million in 1956, and they are expected to fall to 13 to 14 million tons in 1957 if output is not increased.

[4] In 1955 Czechoslovakia imported from Poland 3.7 million tons of hard coal, or about 15 per cent of Czechoslovak domestic output; eastern Germany imported 3.8 million tons of hard coal and 2.2 million tons of coke, or about 1.7 times as much as east German output of hard coal. Polish coal exports to the Soviet Union amounted to 8 million tons.

Table 100. Output of Fuel, Power and Basic Materials
(Millions of tons)

Item	1955				1956				1956 Index of total output (1955=100)
	USSR	Other eastern European countries	China mainland	Total	USSR	Other eastern European countries	China mainland	Total	
Coal[a]	314	226	94	634	345	232	105	683	108
Crude oil	71	13	1	85	84	12	1	97	115
Electric power[b]	170	73	12	256	192	80	15	287	112
Iron ore	72	5	...	77[c]	78	5	...	83[c]	108[c]
Pig-iron	33	9	4	46	36	10	5	50	109
Crude steel	45	14	3	62	49	15	4	68	109
Rolled metal	35	10	3	47	38	11	3	52	110
Cement	23	14	5	41	25	15	6	46	113

Source: Reports on fulfilment of plans and statistical yearbooks of eastern Germany, Hungary, Poland and the Union of Soviet Socialist Republics.

[a] In hard coal equivalent; data for 1956 partly estimated.

[b] Billions of kilowatt-hours.

[c] Excluding mainland China, for which data were not available.

Table 101. Increase in Industrial Production and in Output of Coal and Power, 1956
(As percentage of 1955 output)

Country	Industrial production	Output of coal[a]	Output of electric power
Bulgaria	16	6	16
China, mainland	25	13	24
Czechoslovakia	9	10	10
Germany, eastern	7	3	8
Hungary[b]	−14	−8	−8
Poland	10	1	10
Romania	11	4	13
USSR	11	10	13

Source: Reports on fulfilment of plans.
[a] In hard coal equivalent.
[b] Estimates based on indices for the first nine months and information on output during the last quarter contained in official statements.

as a result of the addition of new capacity, output of steel, cement, fuel and power and engineering products has been expanding rapidly, and in 1956 the rate of increase was accelerated. But towards the end of 1956 it became evident that the rate of increase in the supply of pig-iron, steel and lumber had fallen behind the rate of increase in demand. The increase in demand for these goods was the result of an exceptionally high rate of increase in investment in fixed capital (see table 106 below).

The bottlenecks and pressures which appeared or increased in severity in most countries of this group during 1956 led to a reappraisal of policies that became evident in the decisions taken at the end of the year concerning plans for 1957. Thus, according to the resolution of the Central Committee of the Communist Party of the Union of Soviet Socialist Republics,[5] "in order to eliminate the excessive tensions that have been allowed to develop in plans for individual industrial branches" and "to secure the most rational and effective use of material resources and financial means provided for the development of the national economy" it is necessary to bring the volume of capital investment and the targets for output more into line with material resources.

In Hungary industrial production in the first nine months of the year was about 7 per cent higher than in the same period of 1955, and was thus running slightly above the 6 per cent increase planned for the year. The strikes and fighting which broke out in October and lasted for several weeks brought industrial production to a virtual standstill. After the civil disturbances, the critical shortage of fuel and power and the insufficient supply of raw materials slowed down recovery. For the year as a whole industrial production was about 14 per cent lower than in 1955. At the end of the year the food processing industry was operating at about 60 per cent of capacity, and other light industry at 45 per cent of capacity. The engineering industry was operating at only 20 per cent of capacity, and the chemicals and building industries at no more than 10 per cent; production in the metallurgical industry had virtually ceased. Total industrial production in December 1956 was only about one-quarter of the September level. The delayed recovery of industrial output was primarily due to shortages of fuel. Difficulties were being encountered even before October owing to a decline in oil production as a result of water seepage in the main oilfields and owing to the drop in Polish coal and coke deliveries. Domestic output of coal, which came to a standstill in October, reached at the end of the year about 58 per cent of the pre-October daily output. The estimated output of coal for the year as a whole was consequently 10 per cent lower than in 1955, and output of oil was 40 per cent lower. The decline in output of consumer goods was much smaller than that in producer goods, partly because of a lesser dependence on imports of raw materials, but mainly because of the priority given to consumer goods industries in the allocation of fuel and power during the last quarter of the year.

The rise in industrial production, except in Bulgaria in 1956, was achieved principally from an increase in output per man and only to a lesser degree from higher employment (see table 102). The increase in output per

[5] *Pravda* (Moscow), 25 December 1956.

Table 102. Indices of Employment and Output per Man in Industry
(Preceding year = 100)

Country	1954		1955		1956	
	Employment	Output per man	Employment	Output per man	Employment	Output per man
Bulgaria	106	102	102	108	108	107
China, mainland[a]	110	...	101	...	111	...
Czechoslovakia	102	102	102	108	103	107
Germany, eastern[b]	105	106	100	107	101	108
Hungary	104	99	102	106	...	...
Poland	103	108	105	107	104	106
Romania	104	103	103	111	102	109
USSR	107	106	103	108	104	107

Source: Reports on fulfilment of plans; statistical yearbooks of eastern Germany, Hungary, Poland and the Union of Soviet Socialist Republics; *People's Daily* and *Hsin-Hua Bi-monthly* (Peking).
[a] Employment in government organizations and enterprises, including salary earners.
[b] State-owned industry; output per wage earner.

man slackened, however, in 1956, in all countries except eastern Germany and possibly mainland China.

In several countries[6] output per man increased notwithstanding a reduction in the length of the normal working week over the course of the year. A forty-six hour week was introduced in Bulgaria, Czechoslovakia and Poland in place of a forty-eight hour week; in the Soviet Union the working day on Saturdays and before public holidays was reduced by two hours and a six-hour day was introduced for workers between sixteen and eighteen years of age. The reduction in working time was made in all countries without a cut in weekly pay. Lack of information on overtime work makes it impossible to assess the effect of these measures on output per man.

Employment increased at a much higher rate than in 1955 only in Bulgaria and in mainland China. In most of the other countries the changes in either direction were insignificant. In Hungary during the first nine months of the year employment rose by 2 per cent and output per man by 5 per cent over the corresponding period of 1955. The sharp fall during the last quarter of the year, however, brought the level of employment and productivity for the year well below the level of 1955.

Although in the Soviet Union, Czechoslovakia and eastern Germany the supply of labour was rather tight in 1956, a significant problem of unemployment emerged for the first time in Poland, Bulgaria and Hungary. Lack of data makes it difficult to assess the extent and rate of growth of this unemployment in the last two countries. In Poland, it was estimated at about 180,000 during the third quarter of 1956, or about 2.6 per cent of the total hired labour force,[7] an increase of about 60 per cent over the level of 1955. Unemployment had been practically non-existent in Poland until 1953 but has since been increasing. At the same time the number of vacancies, which until 1953 was several times larger than the number of unemployed, has been falling, until in September 1956 it represented less than 40 per cent of the number of unemployed.[8] A very tentative estimate[9] suggests that the unemployment rate in Bulgaria may have been of the same order of magnitude as in Poland, totalling 30,000 to 50,000, or between 2.5 and 4 per cent of the non-agricultural labour force. As in Poland, this unemployment has developed in recent years. A similar tendency for unemployment to increase was evident in Hungary before the events of October 1956.

In all three countries a considerable proportion of the unemployed consisted of young people seeking work for the first time, peasants coming in from the country, and white collar workers dismissed in connexion with a reduction of redundant administrative services. In Poland nearly four-fifths of the unemployed were women. Unemployment among skilled workers was practically non-existent, and there were marked shortages of labour in particular sectors, notably mining. A large share of the unemployment occurred in small towns in areas remote from industrial expansion.

The composition and the low level of unemployment, and the fact that it existed alongside shortages of labour in certain sectors, may suggest that it was of a frictional nature. But there are indications that the rise in unemployment in Hungary, Poland and Bulgaria was the effect of more basic causes. Structurally all three of these countries are much more agrarian than Czechoslovakia and eastern Germany, but unlike the Soviet Union they have little opportunity for expansion of their cultivated land. The inflow of labour from rural to urban areas, which during the period of the preceding plans of development had been easily absorbed by the rapid growth of industry, continued to inflate the urban labour force, although expansion of industry was much slower. It appears that in these countries there still exists an excess of manpower in the countryside despite the very large transfers of population which have taken place since the Second World War.[10]

Although the actual level of unemployment in 1956 was still fairly low, the growth of unemployment during the year together with the possible effects of the planned reduction in the rate of expansion in 1957 have prompted the Governments of these three countries to take steps tending to restrain the growth of the supply of labour in urban areas. In both Poland and Bulgaria the employment of peasants in non-agricultural occupations was made subject to strict regulation. Furthermore, it was decided in Bulgaria to release from industrial enterprises workers recently employed in agriculture, and in Poland to dismiss owners of agricultural holdings from jobs in industry. At the same time in both countries workers were forbidden to hold more than one job, a practice which had become widespread in recent years. In Bulgaria employment of prisoners in coal mines was to cease and working hours were to be shortened in order to raise employment. In addition, an increase in imports of raw materials for processing and re-export to the Soviet Union was to create jobs

[6] Not including eastern Germany and mainland China.

[7] 3 per cent of the non-agricultural labour force.

[8] Based on data on registered unemployed and vacancies published in *Trybuna Ludu* (Warsaw), 6 September 1956, and on estimates of registered and actual unemployment published in *Zycie Gospodarcze* (Warsaw), 17 February 1957.

[9] Based on official statements made during the second half of 1956. According to *Trud* (Sofia), 15 January 1957, a "few tens of thousands" of workers will be assured of employment very soon because of additional imports of raw materials for processing industries to be delivered by the Soviet Union. According to a speech of the Deputy Prime Minister, imports of Soviet cotton cloth, rubber, leather and wool for processing and re-export to the Soviet Union will enable 25,000 workers to return to their jobs. Another 31,000 will find employment because of expansion of industry.

[10] According to *Trybuna Ludu* (Warsaw), 28 November 1956, there was an estimated surplus manpower in the eastern territories of Poland in 1955 of about 700,000, while in the western regions there was a deficit of 600,000.

Table 103. Output of Grain
(Millions of metric tons)

Country	1953–1955 average	1955	1956	Index 1956 (1955=100)
Bulgaria	4.1	4.6	3.6	84
China, mainland[a]	173.4	183.9	192.1	105
Czechoslovakia	4.7	5.1	5.4	106
Germany, eastern	6.4	6.5	5.9	92
Hungary	6.1	6.6	4.9	81
Poland[b]	11.2	12.7	12.1	95
USSR[c]	89.3	103.2	123.8	120

Source: United Nations, *Economic Survey of Europe in 1956*, (sales number: 1957.II.E.1); *Planovoe Khozyaistvo* No. 2, 1956 (Moscow); *People's Daily*.

[a] Including rice, wheat, potatoes, soya beans and miscellaneous coarse grains.

[b] Wheat, rye, barley and oats.

[c] Estimated on the basis of the planned targets for 1960, indices of grain output for 1950–1956, and a statement in *Planovoe Khozyaistvo*, No. 2, 1956: "Gross output of grain in the Kazakh SSR in 1960 will increase, compared with 1955, five times and the relative share of the Republic in the output of grain in the country will increase to 12.9 per cent instead of 4.5 per cent in 1955". Since these target increases are expressed in rounded figures, the derived estimates of actual output for 1953–1956 shown in the table may understate or overstate actual output owing to the effects of rounding.

for a large proportion of the unemployed. In Poland it was expected that higher pensions would create vacancies in positions held by workers of retirement age and, by increasing family incomes, would also reduce the number of women seeking jobs. At the same time an expansion of handicrafts, private trade and small-scale industry, especially in the most affected localities, is intended among other things to reduce the number of unemployed.

In Hungary unemployment, which before October 1956 was similar in character to that of Poland and Bulgaria, greatly increased during the last quarter of the year. In December 1956 industrial production was estimated at 25 per cent of the September level, and this would suggest a corresponding decline in employment. However, the great majority of workers continued to draw their pay during this period irrespective of work performed and therefore were not technically unemployed.[11] At the end of the year, however, it was decided to reduce the number of workers on the payrolls. The consequent increase in unemployment in January 1957 was estimated at 150,000 to 200,000,[12] that is, about 10 to 20 per cent of the industrial labour force, or 5 to 10 per cent of the total hired labour force. Special measures taken to alleviate this situation included unemployment compensation, short-time work, public works, retraining and redirection of labour to mining and agriculture, and government support given to the development of handicrafts. Much of the unemployment was expected to disappear with the recovery of industrial production, and the return to the countryside of workers who during the last five years had migrated to urban areas.

Grain production rose considerably in the Soviet Union for the second year in succession, but in all the other eastern European countries, except Czechoslovakia, bad weather reduced the harvest by from 5 to 26 per cent (see table 103). The effect of these declines was offset, however—in some countries partly and in others fully—by an increase in the output of potatoes and a rise in the livestock population and in production of meat, milk and wool. Thus, total agricultural production rose in eastern Germany, Czechoslovakia and Poland (see table 104), by one, 3 and 6 per cent, respectively; in Bulgaria and Romania, however, production declined by 5 per cent and at least 10 per cent, respectively.

Table 104. Indices of Agricultural Production
(Preceding year = 100)

Country	1954	1955	1956
Bulgaria	84	130	95
China, mainland[a]	103	108	104
Czechoslovakia	98	111[b]	103[b]
Germany, eastern	109	101	101
Hungary	103	112	...
Poland	105[c]	104[c]	106
Romania	95	121	...[d]

Source: Reports on fulfilment of plans, statistical yearbooks of eastern Germany, Hungary, Poland and the Union of Soviet Socialist Republics and data communicated to the Secretariat by the Governments.

[a] Including production of rural handicrafts.

[b] In 1955 all crops, 114; livestock production, 108; in 1956 all crops, 99; livestock production, 109.

[c] In 1954 all crops, 107; livestock production, 102; in 1955 all crops, 103; livestock production, 106.

[d] At least 10 per cent below 1955.

In the Soviet Union the increase in total agricultural production was of the order of 10 per cent in both 1955 and 1956. The indices of output of the most important agricultural products listed in table 105 suggest that the rate of increase in 1956 was somewhat greater than in 1955. Output of grain and milk increased considerably in both 1955 and 1956, but the output of meat scarcely rose in either year. Production of sunflower seeds and sugar-beets rose much less in 1956 than in

[11] In addition to this, about 180,000 people left the country, thus reducing the labour force.

[12] United Nations, "Report of the Secretary-General on Humanitarian Activities to Assist the Hungarian people" (A/3503), 17 January 1957, and *Nepszabadsag* (Budapest), 24 December 1956.

1955, but there was a large increase in the output of cotton compared with a slight decline in 1955.

Table 105. Union of Soviet Socialist Republics: Indices of Agricultural Output
(Preceding year = 100)

Item	*1954*	*1955*	*1956*
Grain	104	123	120
Sunflower seed	73	195	106
Sugar-beets	86	155	105
Cotton	109	92	123
Meat	107	101	102
Milk	105	110	117
Eggs	107	105	108
Wool	98	111	101
Cattle	103	103	105
Hogs	107	102	108
Sheep	102	106	104

Source: Narodnoe Khozyaistvo USSR; reports on fulfilment of plan for 1956.

Extension of the area under cultivation in recent years has been an important factor in the increase in agricultural production in the Soviet Union. Between 1953 and 1956 the area under grain increased by some 22 million hectares, or about 20 per cent, largely through bringing virgin and fallow lands under cultivation. Grain output rose in the same period by 55 per cent, mainly in the past two years. Although the extension of the cultivated area has slowed down—from 1955 to 1956, the total area under crops increased by only 5 per cent and the area under grain less than 2 per cent as compared with 1955—there was a considerable increase in average yields per hectare, chiefly owing to favourable weather in large areas of the country and to the rising proportion of acreage under maize. In 1955 the Ukraine and southern Russia, the traditional bread baskets of the Soviet Union, had excellent harvests, while in the newly cultivated territories crop yields were poor. In 1956 the situation was reversed; Kazakhstan and Siberia had excellent crops. The area under maize, with much higher yields per hectare than those of other cereals, rose sevenfold in the past three years; this represented an increase in the share of maize from about 3 per cent to 12 per cent of the total area under grain.

The rise in output led to a very sharp increase—by 16 million tons or more than 40 per cent—in government procurement of grain for urban consumption, reserve stocks and exports, as may be seen from the data below on output and distribution (in millions of tons):

	1954	*1955*	*1956*
Output[a]	84	103	124
Left in the countryside	49	66	70
State procurement	35	38	54
From State farms	...	5	15

Source: Pravda, 6 February 1957, and reports on fulfilment of plans, 1955 and 1956.
[a] Estimated.

The increase was made possible by the cumulative effect of two consecutive years of large increases in output of grain. Whereas in 1955 the major part of the increment in output had been left on the farms, to provide for a rise in animal and human consumption, and in farm reserves, the high level of farm consumption of grain that had been achieved previously made it possible in 1956 to release a much higher proportion of the greatly expanded output for non-farm uses. Thus, State procurement of grain, which had fallen from about 42 per cent to 37 per cent of output between 1954 and 1955, rose again to 44 per cent in 1956. A further factor which probably facilitated this rise was the increase in the share of output produced by State farms, which contribute a larger share of their output to the State procurement agencies.[13]

In contrast, State procurement of grain in most of the other countries was reduced in 1956 both as a consequence of the decline in output and as a result of alterations in the methods of procurement, such as reduction or elimination of compulsory deliveries. These factors were particularly important in Poland and Hungary, where there was a considerable decline in the number of collective farms and a partial breakdown of the delivery system. In Poland procurement of grain was 20 per cent short of that planned, and compulsory deliveries declined by 28 per cent as compared with 1955. In Hungary the declines were much greater.

In mainland China, the planned target for agriculture was not fulfilled, owing to unfavourable climatic conditions; total agricultural output in 1956 was 4 per cent higher than in 1955, as compared with a planned increase of 8 per cent. The rise that occurred was mainly attributable to the substantial increase in output of food grains, which offset the decline in some industrial crops.

The Soviet Union and mainland China were the only centrally planned countries in which national income increased more rapidly in 1956 than in the preceding year (see table 106). In the Soviet Union this reflected a higher rate of increase in agricultural output. In mainland China the predominant factor was the very steep increase in the output of industry. In all the other countries the rate of increase slowed down; the deceleration was particularly marked in Bulgaria and Romania, owing to the considerable declines in agricultural production. In Hungary, national income actually fell by some 10 per cent, mainly as a result of the drop in industrial production.

In most countries there was a considerable rise in investment but, with the exception of mainland China, not a single country of the group was able to fulfil its investment targets set in the new five-year plans which

In most countries there was a considerable rise in in-

[13] From 1953 to 1956 output of grain on State farms rose threefold and their deliveries to the State procurement agencies 4.6 times. These data, as compared with the changes in total output and deliveries, are difficult to interpret, however, because in 1956 output and deliveries of all farms increased much more in the territories with a larger share of State farms than in the rest of the country.

Table 106. Indices of National Income, Investment and Retail Sales

(At constant prices; preceding year = 100)

Country	National income			Investment			Retail sales[a]			1956 Retail sales (billions of national currency)
	1954	1955	1956	1954	1955	1956	1954	1955	1956	
Bulgaria	98	114	106[b]	104	108	100	121	112	115	15.3
China, mainland	110	105	110[c]	115	115	163	111	103	114	45.6
Czechoslovakia	104	109	106	100	101	112	120	111	109	85.0
Germany, eastern	112	107	106[b]	94	104	134	116	107	104	32.8[d]
Hungary	99	109	90[e]	70	95	89	121	105	...	44.0[f]
Poland	107	108	107	102	103	100	118	111	115	197.7
Romania	100	118	104[b]	88	113	115	113	110	104	29.1[g]
USSR	111	110	112	115	106	117	118	105	109	547.0

Source: Reports on fulfilment of plans; statistical yearbooks of eastern Germany, Hungary, Poland and the Union of Soviet Socialist Republics; information communicated by the Governments to the Secretariat; *People's Daily*.

[a] Data on percentage increases in personal consumption are available for the following countries: Bulgaria, 1954, 12 and 1955, 11; Czechoslovakia, 1954, 16, 1955, 10, 1956, 7; Hungary, 1954, 22 and 1955, 7; Poland, 1955, 8 and 1956, 12; eastern Germany, 1954, 11 and 1955, 4; mainland China, average for 1953–1956, 7.

[b] Estimated by the Bureau of Economic Affairs on the basis of data on output of industry, agriculture and other sectors.

[c] Estimated on the basis of data on government revenue and its ratio to national income.

[d] Including private trade. Value of retail sales in 1956 based on data for 1955 and announced percentage increase for 1956.

[e] Estimated on the basis of the planned increase and an official statement that the loss in national income was 9 billion forints (*Pravda*, 7 January 1956).

[f] 1955.

[g] Based on value of trade in current prices for 1955 and percentage increase in volume in 1956.

vestment occurred in mainland China, where it rose by no less than 63 per cent as compared with average increases of about 15 per cent in the past few years. As this latter rate had been substantially behind that scheduled in the five-year plan, a special effort was made in 1956 to compensate for the lag and to achieve the targets ahead of schedule. Investment also increased substantially and at a much higher rate than in 1955 in eastern Germany, the Soviet Union, Romania and Czechoslovakia; the increases were, however, from 6 to 9 percentage points below the targets. In Poland and Bulgaria investment remained at much the same level as in 1955, and in Hungary, where an increase of 14 per cent had been planned, fixed investment declined by 11 per cent. In most countries the non-fulfilment of investment plans was the result of inadequate production of building materials and equipment. The strains imposed by large investment programmes which proved excessive in relation to the available supplies of investment goods led to a reappraisal of investment policies for 1957 and to a lowering of the investment targets that had been initially contemplated. In some countries the failure to fulfil investment plans was also due to a need to devote a larger share of national income to consumption than had been anticipated, while in Hungary it reflected the general decline in output.

In several countries of the group, namely the Soviet Union, mainland China, eastern Germany, Romania and Czechoslovakia, State fixed investment increased more than national income in 1956. This would suggest a shift towards investment in the allocation of national income and a reversal of the trend of 1955, when the share of investment seems to have declined. In eastern Germany and in the Soviet Union this seems to be borne out by the smaller increase in retail sales (generally indicative of changes in consumption) than in national income. However, in mainland China, Czechoslovakia and Romania retail sales increased more than, or in line with national income. This apparent inconsistency of data reflects the fact that changes in retail sales need not correspond exactly to those in consumption and that changes in State fixed investment are not always parallel with those in the sum of all expenditures other than consumption.[14] In mainland China the much more rapid increase in investment than in national income and in retail sales[15] leaves no doubt that there was a shift in allocation of national income in favour of investment. In Romania, however, the reverse might have been true.

Since the national income includes other elements of expenditure, the change in the proportion of income devoted to State fixed investment is not in itself a sufficient guide to trends in consumption. In Czechoslovakia, for instance, retail sales increased during the last three years by 20, 11 and 9 per cent while personal consumption rose by 16, 10 and 7 per cent, respectively. In Poland retail sales rose in 1955 and 1956 by 11 and 15 per cent, respectively, and consumption by 8 and 12 per cent.

[14] The effect of changes in the volume of State fixed investment may be offset by divergent changes in non-centralized investment, such as that of collective farms, and by changes in inventories and in social consumption. No quantitative information on such changes is available for most countries. Data on retail sales do not include private trade nor the trade of the collective farm workers or consumption of peasants out of their own output and they do not, therefore, reflect exactly the changes in total consumption. They do provide some indication, however, of the direction of change in consumption. In Czechoslovakia, for instance, retail sales increased during the last three years by 20, 11 and 9 per cent while personal consumption rose by 16, 10 and 7 per cent, respectively. In Poland retail sales rose in 1955 and 1956 by 11 and 15 per cent, respectively, and consumption by 8 and 12 per cent.

[15] It should be noted, however, that in mainland China, State and co-operative retail trade accounts for a much smaller share of total consumption than in any other country and therefore a change in retail trade is much less representative of a change in total consumption.

vakia, for instance, both State investment and consumption[16] rose more than national income. Consumption also rose more than national income in Poland while investment remained unchanged; apparently the same was also true of Bulgaria but for that country data are not available on consumption but only on retail sales. Judging from the data on such sales, consumption apparently rose in all countries and may have increased faster in 1956 than in 1955 except in eastern Germany, Czechoslovakia and Romania.

The rise in total consumption and even the increase in its share in national income in some countries was not always associated with a reduction in the pressure of demand for consumption goods upon supply. Conversely, the rise in investment in relation to national income did not in all cases result in increased pressure of demand. A shift in the allocation of resources to investment or to consumption increases or reduces the pressure of demand for consumer goods at a given level of prices and distribution of income between the State and the population. However, changes in the distribution of income brought about through increases or reductions in money incomes of the population in relation to national income may either offset or reinforce the effect of the shifts of resources on the pressure of demand upon supply. In several countries of the group an important and in some cases decisive factor which tended to modify the effect of the shifts in allocation of resources was the divergence of the rates of increase in wages and productivity.

While the pressure of demand seems to have lessened in the Soviet Union, Czechoslovakia and Bulgaria (taking the year as a whole), in other countries of the group the situation remained unchanged or even deteriorated during the latter part of the year, either as a result of reduced agricultural supplies as in Bulgaria and Romania, or as a result of political events as in Poland and Hungary. In several countries the planned balances between money income in the hands of the population and the supply of goods were upset by poor harvests or by unforeseen increases in disposable income. The resulting gap between the demand and supply out of current output was narrowed in some countries by the running down of stocks, a reduction in the share of public consumption and a rise in net imports of consumer goods at the expense of investment goods, with a consequent alteration of investment plans.

Among the countries where the share of investment in national income increased, only mainland China experienced a considerable rise in the pressure of demand upon supply in 1956. This had its origin primarily in the sharp increase in State fixed investment (the increase amounted to about 6 per cent of national income in 1956), and was further aggravated by the rise in money income in urban areas resulting from an upward adjustment of wages and salaries and an increase in non-agricultural employment. Although the supply of consumer goods was substantially improved by the bumper harvest of food grains in 1955/56 and by the increase in output of manufactured consumer goods in the course of 1956, the over-all stability of prices was maintained only because of a large liquidation of government reserve stocks. But such liquidation did not prevent the appearance in many large and medium-sized cities of shortages of certain basic commodities, such as meat, woollen cloth, leather shoes and bicycles.

In the Soviet Union and in eastern Germany, two other countries where the share of investment in national income increased, this shift did not generate any inflationary pressures. The redistribution of income required by the shift in allocation of resources in favour of investment was brought about by a relatively lower rise in disposable consumer income through a smaller rise in money payments than in output. Whereas output per man in industry rose by 7 per cent in the Soviet Union and by 8 per cent in eastern Germany, wages increased by 3 per cent in both countries as may be been from the indices for selected countries below (1955=100):

	Money wages	*Real wages*
Bulgaria	102	110
Czechoslovakia	104	106
Poland	112	...
Germany, eastern	103	...
USSR	...	103

In the Soviet Union the supply of consumer goods increased substantially as a result of the rise in output of agriculture and of consumer goods industries, and retail sales increased 9 per cent. The wage bill, on the other hand, rose by 7 per cent as compared to 5 per cent in 1955, and peasants' income increased by 12 per cent, as compared with 7 per cent in 1955. The rise in pensions introduced in October 1956 and the abolition of school fees resulted in an additional increment in disposable income. Furthermore, the money income of peasants increased much faster than their total income, rising by no less than 20 per cent as a result of increases in saleable output and in prices paid for certain goods by the government agencies. Since retail sales in rural areas increased by only 11 per cent, the pressure of rural demand on the supply of manufactured goods very probably increased. Building materials, fuel and some farm implements sold through the rural retail trade network were in short supply in 1956. Shortages of meat and some other consumer goods continued in the urban areas.

Nevertheless, over-all pressure of demand lessened compared with the preceding year, as indicated by the

[16] See table 106, footnote *a*.

decline in prices in collective farm markets. Prices in State and co-operative trade, which from 1947 to 1953 were reduced each year, remained in 1956 at the same level as in 1954 and 1955. But prices in collective farm markets, which had risen in 1954 and in 1955, declined for the first time in 1956 by 10 per cent.[17]

In eastern Germany, as in the Soviet Union, the rise in investment in relation to national income did not result in any marked increases in the pressure of demand upon supply of consumer goods. This may partly reflect the fact that investment represented a much smaller proportion of national income than in other countries of the group.[18] In addition, the effect of a rise in investment was partly offset by a substantial rise in imports of food—about 30 per cent over 1955.[19] However, the main factor tending to reduce pressure was that, as in the Soviet Union, wages increased much less than output per man. Prices remained generally unchanged, and real wages increased in line with money wages.

In contrast, among the countries of the group where the share of consumption in national income rose, only Czechoslovakia was able to maintain equilibrium between supply and demand throughout the year. In that country the supply of food increased, a rise in the output of meat and of grain compensating for a fall in the output of other crops. Though the wage bill exceeded the planned rise by about 2 per cent, total sales also exceeded the planned quotas. The cost of living was reduced by about 2 per cent in 1956, and real wages rose by 6 per cent.

In Bulgaria and Romania the situation was relatively easy during most of the year, thanks to the sharply increased harvest of 1955,[20] but it deteriorated later as a result of the poor harvest in 1956. In Bulgaria the pressure of demand had also been made easier by absence of any increase in investment in 1956. The improved supply-demand position during most of the year was reflected in price reductions on a variety of goods, ranging from 5 to 30 per cent. The cost of living declined by about 8 per cent, and this reduction, together with a small increase in money wages, resulted in a 10 per cent rise in real wages. Peasants' incomes, on the other hand, fell as a result of the crop failures in 1956. The decline in the domestic supply of consumer goods in the second half of the year resulted in alteration of the plans for foreign trade. The planned level of exports was reduced, and imports of food were increased at the expense of planned imports of investment goods and raw materials.

The situation in Romania was in many respects similar to that in Bulgaria. The considerable increase in agricultural supplies from the 1955 harvest made it possible to reduce prices in December 1955 and again in April 1956.[21] During the second half of the year the situation deteriorated because of a sharp fall in agricultural output. While this decline reduced peasants' income, workers' income increased because the minimum wage was nearly doubled, wage scales in several industries were increased and pensions and children's allowances were raised. The resulting imbalance was offset, at least in part, by a cutting down of investment plans and by increased food imports from the Soviet Union, but shortages of food in the urban areas were not eliminated.

In Poland the planned balance between the money income of the population and the supply of consumer goods was severely upset under the impact of the political changes which occurred in 1956. The planned increases in productivity were not realized and the money income of the population increased much more than anticipated. The breakdown of collectivization[22] and the weakening of State control over the disposal of farm surpluses resulted in a marked decline in compulsory deliveries of grain. Both in grain and in livestock a much larger proportion of government procurement was effected at free market prices, thus substantially increasing peasants' income.[23] In addition, a large proportion of land tax was not paid. At the same time the wage bill also rose much more than planned owing to unforeseen wage increases au-

[17] In 1955 collective farm markets accounted for 9 per cent of total trade and for 15 per cent of sales of food. Their share in urban consumption was obviously much higher.

[18] In 1955 accumulation (that is, total net investment) represented 14 per cent of national income as compared with more than 20 per cent in most of the other centrally planned economies. Net fixed investment was 8 per cent of national income.

[19] From 995 million roubles to 1,295 million roubles in 1956. Imports of meats rose by 7 per cent, vegetable oil by 39 per cent, butter by 100 per cent and animal fats by 17 per cent.

Table 107. Poland: Planned and Actual Income and Sales
(Billions of zlotys)

Item	1955 Actual	1956 Planned	1956 Actual
Money income:			
Wage bill	92	...	107
Peasants' money income	42	...	49
TOTAL	134	...	156
Retail sales:			
State and co-operative	128	137	148
Private	5	5	6[a]
TOTAL	133	142	154

Source: Report on fulfilment of the 1956 plan and data quoted by the Minister of Finance and the Chairman of the Central Planning Board in *Trybuna Ludu*, 10 and 11 March 1957.

[a] Estimated.

[20] Agricultural production increased by 30 per cent in Bulgaria and by 20 per cent in Romania in 1955 (table 104).

[21] Prices of some manufactured goods were reduced by 5 to 25 per cent in December 1955 and by 5 to 30 per cent in April 1956. Prices of some foodstuffs were reduced by 10 to 25 per cent in April 1956.

[22] The number of collective farms declined during the last quarter of 1956 by about three-fourths.

[23] The increase in peasants' incomes derived from sales to government purchasing agencies was 6.1 billion zlotys in 1956, of which 1.7 billion zlotys was due to price increases and an additional 1.5 billion to the shift from compulsory deliveries at lower prices to contractual sales to the Government at higher prices.

thorized by the Government in the course of the year, and to the payment of wage arrears; there were also unauthorized increases in wages amounting to about 2 billion zlotys in 1956.

Some indication of the gap between incomes and planned supplies in Poland in 1956 is provided by the fact that, while the plan called for an increase in retail sales of about 9 billion zlotys, money incomes increased during the year by more than 22 billion zlotys (see table 107). It should be noted that most of the increase in money incomes took place during the second half of the year. The rise in peasants' incomes materialized after the 1956 harvest. The wage bill, which, compared with the corresponding period of 1955, was 18 per cent higher in July, 21 per cent in August, 22 per cent in September and 25 per cent in October.[24] For the year as a whole the wage bill rose by about 17 per cent over 1955 and peasants' money income by about 18 per cent. The resulting sharp increase in demand could not be met out of current production and necessitated a drastic revision of plans. The planned 8 per cent increase in fixed investment had to be abandoned, leaving the volume of investment at the 1955 level. The total of inventories and social consumption was reduced by 6 billion zlotys, or by 22 per cent, and their share of national income fell from 31 per cent in 1955 to 28 per cent in 1956.[25] In addition, imports of consumer goods were increased substantially at the expense of investment goods.[26] The combined effect of all these measures was to increase the volume of goods sold by 15 per cent instead of the 7 per cent provided for in the plan, so that the threatened inflationary gap between the money income of the population and the supply was to a large extent eliminated.

The fact that the wage bill and the money income of the peasants rose by about 17 per cent, while retail sales increased by 15 per cent, seems to indicate that the pressure of demand upon supply did not subside. Prices of food in State and co-operative trade increased by 1.4 per cent, while those of manufactured consumer goods declined by 1.7 per cent, the total index of retail prices remaining approximately at the 1955 level. However, prices in non-controlled markets seem to have risen, and there was an extension of illegal sales of goods purchased by speculators in government stores and resold at much higher prices to the public. It is, therefore, likely that part of the 12 per cent increase in money wages was offset by price increases in non-controlled markets.

In Hungary the supply of consumer goods declined sharply during the last quarter of the year as a result both of the October political events and of a poor harvest. The effect of this decline in output on urban supplies was considerably aggravated by the breakdown and subsequent abolition of the system of compulsory deliveries. As in Poland, this resulted in a decline in State procurement and in a rise in prices paid to peasants, thus substantially increasing income in relation to output.[27] Not less important was the continuation of wage payments despite the cessation of output in a large proportion of Hungarian industry during the last part of the year. The resulting imbalance between current output and demand was reduced in part by a cut in exports of consumer goods,[28] by grants in kind from abroad, mostly from the centrally planned economies, and by running down stocks of consumer goods. Stocks fell from 14 billion forints before 23 October to 5 billion at the end of the year; of this reduction, however, 1.5 billion represented goods destroyed, so that stocks used contributed about 7.5 billion forints to current consumption, an amount equal to about one-third of sales during the first half of the year. A similar factor affording temporary relief at the expense of future consumption was the widespread slaughtering of hogs made necessary by the shortage of feed. The influence of all these factors was not, however, sufficient to restore the balance between supply and demand without price increases during the last quarter of the year.

Plans and prospects for 1957

The plans for 1957 were strongly influenced by the difficulties in the supply of raw materials, fuel and power encountered in 1956 and by the decisions taken with respect to wages, pensions, family allowances, and working time, as well as by significant changes in policies towards peasants.[29] Shortages of fuel, power and raw materials were reflected in a general slackening of the rates of expansion planned for industrial production, but measures improving the condition of both the urban and the rural population tended to increase the share of personal consumption in national income.

In all countries the increase planned for industrial production in 1957 (see table 108) is less than in 1956. In Czechoslovakia and eastern Germany the slowing down is slight but in mainland China the increase is only about one-fourth of that achieved during 1956, and in Poland, Romania and Bulgaria about half. In the Soviet Union the planned rate of increase is reduced from 11 per cent in 1956 to 7 per cent in 1957.

It is planned to increase agricultural production by

[24] *Trybuna Ludu*, 4 December 1956.

[25] Social consumption was reduced by 17 per cent and the increase in inventories was 28 per cent smaller than in 1955.

[26] Imports of manufactured consumer goods were 67 per cent above the planned quotas, while imports of machinery, equipment, fuel and cotton fell below the planned quotas.

[27] The increase in peasants' income due to the abolition of compulsory deliveries was officially estimated at 5 billion forints.

[28] Exports were planned at 5.5 billion forints and imports at 7 billion for 1956. By 15 December 1956 exports amounted to 4.3 billion and imports to 5 billion forints. During the fourth quarter exports amounted to 350 million and imports to 400 million, the planned quotas being 2.5 and 1.5 billion forints, respectively.

[29] For a detailed review of measures taken in 1956, see United Nations, *Economic Survey of Europe in 1956*.

Table 108. Planned Targets for 1957
(1956 = 100)

Item	Bulgaria	China mainland	Czecho-slovakia	Eastern Germany	Poland	Romania	USSR
National income	112	106[a]	107	...	...	110	108
Gross fixed investment[b]	83	...[c]	113	108	100	87	109
Retail sales	108	110	105	107	116	116	111
Industrial production	108	106	108	106	104	104	107
Industrial employment	111	...	102	...	102	...	102
Output per man in industry	98	119[d]	105	...	102	...	105
Agricultural production	132	107	107	...	103	...	...

Source: Plans for 1957 and data communicated to the Secretariat by the Governments.

[a] Estimated; total output of industry and agriculture.

[b] State sector only.

[c] Lower than in 1956.

[d] The planned rise in output per man should not be compared with that of production because of difference in coverage.

32 per cent in Bulgaria, compared with a fall of 5 per cent in 1956, and by 7 per cent in mainland China and Czechoslovakia as compared with increases of 4 per cent and 3 per cent, respectively, in 1956. In Poland, where agricultural output increased by 6 per cent that year, the plan for 1957 provides for a 3 per cent rise. Other countries of the group have not announced their plans for total output of agriculture.

Largely as a consequence of the trends noted in industrial and agricultural output, the target rates of increase for national income are lower than those achieved in 1956 in the Soviet Union, eastern Germany, Poland and mainland China but higher in Czechoslovakia, Bulgaria and Romania. The last two countries suffered a sharp decline in agricultural output in 1956, and the increase in agricultural production anticipated for 1957 is expected to raise the rate of growth of national income above that achieved in 1956. In Czechoslovakia also, the considerable increase in the rate of expansion planned for agriculture would result in a slight rise in the rate of increase planned for national income. In the Soviet Union the rate of increase projected for national income in 1957 is smaller than in 1956 mainly on account of a reduction in the rate of increase planned for industry; in Poland the rate reflects a slowing down of both industrial and agricultural output.

The most striking feature of the 1957 plans is the sharp reduction in the rate of increase in State fixed investment, and an actual decrease in investment plans in some countries. Thus, Bulgaria and Romania plan to reduce investment in fixed capital by 17 and 13 per cent, respectively, and mainland China also plans for a slight decline in 1957. In Poland fixed investment is to remain at the 1955 level for the second consecutive year. The Soviet Union and eastern Germany plan to increase their fixed investment by 9 and 8 per cent, respectively, only half as much as in 1956 in the Soviet Union and only one-fourth as much as in eastern Germany.[30] The only country which planned to increase investment at a slightly higher rate than in 1956 was Czechoslovakia, though its original goal of an 18 per cent increase was reduced to 13 per cent as compared with a 12 per cent increase in 1956.[31]

The reductions reflect not only the smaller supply of investment goods than had been expected but also the need to release a larger proportion of resources for consumption. The information that is available on planned changes in retail trade, consumption and national income indicates that all countries of the group plan to increase the share of consumption in national income. The plan for retail trade in the Soviet Union, Romania, Poland and eastern Germany provides for an acceleration in the growth of the volume of sales as compared with 1956. In mainland China, Czechoslovakia and Bulgaria the reverse is true, but in Bulgaria and in mainland China the planned rise in agricultural production suggests a substantial increase in peasants' consumption that is not reflected in the data on retail sales. In Czechoslovakia, even though the increase planned for retail sales is less than last year's and less than the increase in national income, consumption is in fact planned to increase by 9 per cent,[32] raising its share in the national income.

The shift in the allocation of national income in favour of consumption in the centrally planned economies is closely associated with changes in the distribution of income brought about by policy decisions taken in 1956 and put into effect in 1956 and 1957. The general trend of these changes has been to increase the money income of the population more rapidly than production by reducing the share of national income taken by the State. The income of peasants is expected to increase not only because of the anticipated rise in production but also because of increases in prices paid to them by government agencies and because of a change in the character of government purchases.

[30] The 8 per cent increase originally planned by eastern Germany was to be further reduced in the final draft of the 1957 plan.

[31] The investment outlays of 33 billion crowns originally planned were reduced to 31 billion as compared with 28 billion invested in 1956. The plan for 1956 provided for a 21 per cent increase; the actual increase was 12 per cent over 1955.

[32] The difference between planned rates of increase in retail sales and in consumption is accounted for by the planned increase in consumption of paid services (by 10 per cent) and in consumption not covered by the data on State and co-operative trade.

In Poland and Hungary the situation was considerably influenced by the sharp decline in the number of collective farms, which fell by 75 per cent and 50 per cent, respectively, during the last quarter of 1956. Although collectivization remains the ultimate goal of the Governments of these countries, for the time being emphasis is being placed on expansion of private farming as the most effective way of raising output in the existing circumstances. To this end, the laws regulating trade in land and hiring of labour were considerably relaxed, and the maximum size of private holdings was increased. At the same time encouragement is being given to forming loose agricultural associations for the common tilling of land, as well as to common use of machinery and to sales co-operatives.[33]

The effect of these changes on peasants' incomes in 1957 may be very significant not only through their influence on output but even more through the effect of the relaxation of government control over the disposal of agricultural produce and consequently over prices paid to peasants. Average prices paid for agricultural produce will rise in 1957 in all these countries irrespective of changes in collectivization policies because of alterations in the system of government procurement and increased prices for various products. In all centrally planned economies the complicated pricing system for agricultural goods[34] is gradually being replaced by single prices, through the reduction of price differentials for different transactions and the gradual elimination of compulsory deliveries.

While this tendency was apparent during preceding years, it was considerably strengthened when a number of countries decided to abolish or reduce the scope of compulsory deliveries in 1956 and 1957. In Poland the complete elimination of compulsory deliveries was announced in 1956 as a goal to be achieved as soon as conditions of supply allow it. As of January 1957 grain quotas were reduced by one-third and completely eliminated for holdings below two hectares of land. Prices for grain deliveries were doubled. Compulsory deliveries of milk were entirely abolished. The rise in peasant's incomes resulting from the introduction of these measures was estimated at about 4 billion zlotys. The resulting losses to the Government are to be partly compensated by an increase in prices paid by peasants for coal, fertilizer, farm equipment and some consumer semi-durables and services, amounting to 2.9 billion zlotys; the net benefits derived by peasants from the introduction of these measures are thus reduced to 1.1 billion zlotys. In Hungary compulsory deliveries were abolished during the last quarter of 1956, and the rise in peasants' incomes from this source during 1957 has been estimated at 5 billion forints.

Romania also abolished compulsory deliveries of all products with the notable exception of meat (as of January 1957). Prices of meat deliveries were raised for all farms, and holdings below one hectare were released from the obligatory deliveries. In Bulgaria prices for deliveries were increased in 1956, and compulsory deliveries were abolished for potatoes, fruit and milk. In 1957 delivery quotas from private plots of collective farmers and from farms with little land per member were reduced.[35] No major changes in the method of procurement were contemplated in eastern Germany or Czechoslovakia for 1957. However, in both of these countries the spread among the various prices paid to farmers is to be narrowed by increases in prices paid for compulsory deliveries and by reductions or smaller increases in prices for contractual deliveries. In the Soviet Union, where delivery quotas had already been considerably reduced, the prices paid for some agricultural products are to be increased in 1957.

Incomes of wage and salary earners are also planned to increase more than production as a result of the rise in minimum wages and other wage increases (some of which were already in effect during part of 1956), increases in pensions and family allowances and reductions in the normal work week without reduction in pay.[36] Minimum wages were increased in all countries with the exception of eastern Germany and Czechoslovakia; in Poland, Hungary and Romania the increases occurred in the course of 1956 and in the Soviet Union and Bulgaria they took effect as of January 1957. Old age pensions were raised substantially in all countries in 1956, but the impact of these measures on income will be far greater in 1957. There were also changes in family allowances, which in some countries increased considerably. The normal work week was reduced from forty-eight to forty-six hours in the Soviet Union, Czechoslovakia, Bulgaria and Poland.[37] Hungary has announced its introduction of a forty-six-hour work week and eastern Germany a forty-five-hour week in the course of 1957. In several countries the wage increases introduced at the end of 1956 and some wage increases planned for 1957 are expected to contribute further to a rise in incomes.

The effect of these measures on total incomes is indicated in the following table (table 109). The lack of data on total personal income makes it impossible to assess the actual effect of these measures on the income

[33] In Poland this change was accompanied by dissolution of a large proportion of the State-owned machine and tractor stations, the equipment of which was sold to the remaining collective farms or to individual peasants. In Hungary the machine and tractor stations are to be retained.

[34] There are set prices for compulsory delivery and for contractual purchases, and free prices on collective farm markets.

[35] The increment of income to peasants in Bulgaria due to price increases amounted to 210 million levas in 1956 and to 510 million in 1957. In addition, income received by peasants will increase by 400 million levas in 1957 owing to the new pension law.

[36] Part of this increase may be due to a rise in overtime pay.

[37] In Bulgaria and the Soviet Union working hours were also reduced for days preceding public holidays. In the Soviet Union a six-hour work day was introduced for workers between sixteen and eighteen years of age.

of the population. However, some indication of its impact on demand in 1957 may be derived from comparisons of these increments with planned retail sales. This comparison suggests that the increment of income from these sources is of the order of 7 per cent of retail sales in all countries except Bulgaria, where it represents 13 per cent of planned sales. The effect of these increases in income on the relation of supply and demand is to be offset partly by a rise in productivity and partly by a relative decline in investment outlays.

Hungary has not announced its plan for 1957. After the October events it was decided to prepare an emergency programme for the first months of 1957 to be followed later by a plan covering the year as a whole. The emergency programme as formulated in the declaration of 5 January 1957 draws attention to the crucial importance of recovery of the output of coal and states that until this is achieved it will be necessary to cut output in some factories and close others. In order to curb inflationary pressure, it was decided to reduce government expenditure through further reductions of administrative personnel, to prevent further wage increases and to reduce planned investment outlays to insignificant amounts.[38] Stringent measures were introduced to secure payment of taxes, to preclude payment of wages for work not performed and to reduce the imbalance between receipts and outlays of enterprises. A temporary increase in unemployment was anticipated as a result of these measures. The recovery of industrial production has been faster than was anticipated. At the beginning of March 1957 power output reached about 85 per cent of that preceding October 1956, coal output 80 per cent and output of chemicals and consumer goods industries 90 per cent.

[38] "Temporarily we can devote to capital investment only insignificant sums", declaration of the Hungarian Government of 5 January 1957, *Pravda*, 7 January 1957.

Foreign trade of the centrally planned economies

The value of foreign trade of this group rose considerably more in 1956 than in 1955; trade of the European countries in the group rose by 7 per cent, compared with 4 per cent in 1955 and 10 per cent in 1954.[39] The greatest increases in total turnover occurred in Bulgaria, Czechoslovakia and eastern Germany, which expanded their trade by 24, 16 and 12 per cent, respectively. The trade of the Soviet Union, which had not risen in 1955, rose by 9 per cent in 1956. Poland showed a smaller expansion than in 1955, and in Hungary total trade dropped by about 30 per cent as a consequence of the sharp decline during the last quarter of the year. In Bulgaria, Czechoslovakia and eastern Germany foreign trade rose more than industrial production, while in Hungary, Poland and the Soviet Union the reverse was true.

The trade balances of some of the centrally planned economies were influenced during 1956 by difficulties in the supply of coal and the consequent non-fulfilment of their plans for coal exports, by crop failures which reduced exports of agricultural produce and by the need to raise imports of consumer goods above the planned quotas. Despite these factors, only Hungary, eastern Germany and possibly Romania suffered a deterioration in their over-all trade balances. In Hungary, where the drop in exports was much greater than the decline in imports, the 1955 surplus of 298 million

[39] Based on data in table 110, excluding Romania, the share of which in the total trade of the centrally planned economies is relatively small. No data are available for total trade of mainland China in 1956.

Table 109. Increment to Personal Income in 1957 from Increases in Wages, Agricultural Prices, Pensions and Family Allowances

(Billions of national currency units)

Country	*Total*[a]	*Wages*	*Pensions and family allowances*	*Peasants' incomes*	*Retail sales (planned value)*	*Increment in income as percentage of 1957 retail sales*
Bulgaria (lev)	2.1	0.8	0.8	0.5[b]	17	12
Germany, eastern (Deutsche mark)	2.6	...	...	...	35[c]	7
Poland (zloty)	13.0	8.6	1.4	4.0	175	7
Romania (leu)	2.5	...	...	...	34[c]	7
USSR (rouble)	35.0	12.0	11.0	...	597	6

Source: Data communicated to the Secretariat by the Governments; *Pravda*, 6 February 1957; *Trybuna Ludu*, 10 March 1957; *Neues Deutschland* (Berlin), 6 February 1957.

[a] The total increment to personal income includes for most of the countries the additional cost due to reduction in the normal hours of work. For Bulgaria this has been estimated to amount to about 110 million leva in 1957. In the Union of Soviet Socialist Republics the sum of 35 billion roubles given in the table is defined as additional payments resulting from the new pension law, an increase in wages of lower paid workers, a reduction in the working day, readjustment of wages in coal mining, an increase in prices paid for some agricultural products, elimination of school fees, and increases in maternity leave.

[b] In addition, pensions paid to peasants are to increase by 400 million leva; this sum is included in the total increment in pensions shown in the preceding column.

[c] Estimated by Bureau of Economic Affairs on the basis of data for earlier years and percentage increases planned for 1957.

Table 110. Indices of Trade Turnover,[a] by Country

(Preceding year = 100)

Country	1954	1955	1956	1956 Value of trade (millions of roubles)
Bulgaria	107	99	124	2,095
Czechoslovakia	103	115	116	10,356
Germany, eastern	122	103	112	11,025
Hungary	106	110	69	3,169
Poland	110	104	102	7,507
USSR	109	100	109	27,000
Total, above countries	110	104	107	61,152
China, mainland	105	113	...	...
Romania	105	112	...	...

Sources: Reports on fulfilment of plans and data communicated to the Secretariat by the Governments; *Rocznik Statystyczny*; *Magyar Statisztikai Zsebkonyv*; *Statistisches Jahrbuch der Deutschen Demokratischen Republik*; *Statisticke Zpravy*, Nos. 1 and 2, 1956 (Prague); *Neues Deutschland*, 14 February and 2 March 1956; *Soviet News* (London), 3 October 1956; *Pravda*, 31 January 1957; *Ta Kung Pao* (Tientsin), 11 February 1955.

[a] Exports plus imports.

roubles was replaced by a deficit of 230 million. In eastern Germany, which was most seriously affected by the decline in Polish exports of coal and coke, the consequent shortage of fuel prevented the fulfilment of production targets for export goods, and exports therefore increased less than had been anticipated. As a result the export balance declined by about 70 million roubles in 1956. The other countries for which data are available show improvement in their balances. In Bulgaria a decline in agricultural exports was entirely offset by a rise in exports of ore concentrates and other materials, and as a consequence its export surplus was higher than in 1955. Czechoslovakia almost doubled its export balance in 1956. In Poland the effect of the drop in the volume of coal exports and the reduction in some consumer goods exports was entirely offset by the higher prices received for coal and increased shipments of other goods. Despite a substantial increase in imports of consumer goods, total imports declined slightly, mainly as a result of reduced imports of investment goods. Consequently, it achieved an export surplus for the first time since 1953 (see table 111).

Little information is provided by the centrally planned economies concerning the distribution of the

Table 111. Exports and Imports, Selected Countries

(Millions of roubles)[a]

Country	1953	1954	1955	1956[b]
Bulgaria:				
Exports	684[c]	931	916	1,193
Imports	634[c]	784	780	952
Balance	50[c]	147	136	191
Czechoslovakia:				
Exports	3,974	4,021	4,704	5,598
Imports	3,517	3,731	4,211	4,758
Balance	457	290	493	840
Germany, eastern:				
Exports	3,870	5,120	5,113	5,689
Imports	3,930	4,384	4,691	5,336
Balance	−60	736	422	353
Hungary:				
Exports	2,012	2,100	2,436	1,465
Imports	1,885	2,051	2,138	1,704
Balance	127	49	298	−239
Poland:				
Exports	3,324	3,475	3,654	3,858
Imports	3,097	3,615	3,727	3,648
Balance	227	−140	−73	210

Source: Statistical yearbooks; reports on fulfilment of plans; data communicated to the Secretariat by the Governments; *Statisticke Zpravy*, No. 2, 1956.

[a] Based on data in roubles for eastern Germany and Poland, in dollars for Bulgaria, and for Czechoslovakia and Hungary in national currencies; conversion into roubles at official rates of exchange.

[b] In most cases estimated by applying the percentage changes indicated in reports on fulfilment of plans to absolute figures for earlier years.

[c] 1952.

expansion of their trade between the centrally planned group and the rest of the world. Such data are available for only three countries. Thus, Bulgaria expanded its trade with the rest of the world by 84 per cent in 1956, while its trade with the centrally planned economies rose by only 16 per cent. Polish trade with the West rose by 10 per cent, while its trade with the centrally planned economies fell by about 3 per cent. Eastern Germany showed the opposite tendency, its trade with the centrally planned economies rising more than its trade with the rest of the world (by 13 and 8 per cent, respectively).

For the group as a whole, certain conclusions on the distribution of trade can be drawn from a comparison of the indices of total trade given in table 110 with data on east-west trade derived from statistics of the western countries, shown in table 112. This comparison suggests that both in 1955 and in 1956 trade of the centrally planned economies with the rest of the world increased at a much higher rate than their total trade, and therefore much faster than their trade with each other. Thus, while the total trade of the European centrally planned economies rose by about 7 per cent in 1956, their trade with the rest of the world increased by more than 20 per cent.[40] Taken at face value, this comparison would

[40] Exclusive of the trade of mainland China. Romania is included in the data on trade with the rest of the world but excluded from the data on total trade. This, however, would not significantly affect the comparison in view of the relatively small share of Romania in the trade of the centrally planned economies.

Table 112. Trade of Centrally Planned Economies with Rest of World[a]

(Millions of dollars; f.o.b.)

Reporting area and period	USSR		Other eastern European countries[b]		Mainland China		Total	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Canada and United States:								
1954	12.6	5.2	33.6	7.0	1.9	0.1	48.1	12.3
1955	17.6	2.9	42.6	14.8	3.4	1.0	63.6	18.7
1956	25.6	28.7	50.2	45.0	6.0	2.5	81.8	76.2
Latin America:								
1954	27.1	66.3	62.2	78.3	2.7	8.8	92.0	153.4
1955	35.6	71.8	86.7	99.4	1.8	5.9	124.1	177.1
1956	27.7	37.6	87.0	66.7	0.8	3.0	115.5	107.3
Middle East:								
1954	20.1	27.2	52.3	44.0	9.3	12.2	81.7	83.4
1955	30.5	40.0	54.3	72.3	12.4	25.8	97.2	138.1
1956	38.7	33.5	74.1	118.5	29.1	26.8	141.9	178.8
Western Europe[b] [c]								
1954	301.7	259.7	567.1	660.2	88.8	82.8	957.6	1,002.7
1955	396.7	270.0	751.5	777.6	116.7	99.0	1,264.9	1,146.6
1956	441.8	426.4	889.5	874.0	145.0	183.3	1,476.3	1,483.7
Finland:								
1954	80.4	146.6	89.9	37.0	2.5	6.6	172.8	190.2
1955	79.2	137.8	106.5	52.6	3.7	12.5	189.4	202.9
1956	99.6	148.5	97.6	55.4	2.3	8.5	199.5	212.4
Yugoslavia:								
1954	1.0	1.5	2.6	4.7	—	—	3.6	6.2
1955	13.1	17.9	16.8	17.6	0.3	—	30.2	35.5
1956	64.0	41.6	31.5	31.4	3.2	4.4	98.7	77.4
Asia and the Far East:								
1954	5.5	37.1	46.3	33.0	225.8	175.7	277.6	245.8
1955	9.7	41.0	66.7	68.8	296.0	161.2	372.4	271.0
1956	36.2	63.6	76.7	70.8	379.8	199.3	492.7	333.7
Other areas:[d]								
1954	2.5	50.5	18.8	38.2	19.0	3.2	40.3	91.9
1955	3.1	21.9	21.7	58.6	25.7	6.3	50.5	86.8
1956	2.7	12.2	26.3	52.6	27.8	9.1	56.8	73.9
Total:								
1954	450.9	594.1	872.8	902.4	350.0	289.4	1,673.7	1,785.9
1955	585.5	603.3	1,146.8	1,161.7	460.0	311.7	2,192.3	2,076.7
1956	736.3	792.1	1,332.9	1,314.4	594.0	436.9	2,663.2	2,543.4

Source: United Nations, *Monthly Bulletin of Statistics*, June 1957; Federal Statistical Office, *Wirtschaft und Statistik*, No. 3, 1957 (Stuttgart).

[a] Data as recorded by the trading partners of the centrally planned economies.

[b] Including trade between eastern and western Germany.

[c] Metropolitan countries in the Organisation for European Economic Co-operation.

[d] Residual figures from total world trade with eastern Europe and mainland China.

suggest that trade among the centrally planned economies, which represented about 70 per cent of their total trade, increased only slightly. However, this may not be the case, as the comparability of these two sets of data cannot be determined.

In both 1955 and 1956 the value of trade between the centrally planned economies and the rest of the world grew twice as fast as total world trade,[41] the respective rates being 23 and 9 per cent in 1955 and 22 and 11 per cent in 1956. Although in 1956 the value of trade of the centrally planned economies with the rest of the world reached an all time high of more than $5 billion, it still accounted for less than 3 per cent of world trade. The expansion of trade relations with the rest of the world, which had been initiated as a result of earlier policy decisions, was further stimulated by difficulties in securing various raw materials and consumer goods within the area and by the need to satisfy the rise in consumer demand which occurred in the course of the year. The trade of mainland China with countries outside the centrally planned group rose by more than one-third, and that of the Soviet Union by nearly 30 per cent. The trade of other eastern European countries with the rest of the world rose by only 15 per cent.[42]

Exports and imports of the group as a whole increased in line, resulting in a small increase in the export balance from $116 million in 1955 to $120 million in 1956. Both in 1955 and in 1956, mainland China was responsible for the export surplus of the group as a whole, the trade of the European countries being in deficit. The most striking changes in 1956, however, were the appearance of an export surplus in the trade of eastern European countries other than the Soviet Union, and the substantially increased deficit of the Soviet Union.[43]

Expansion of trade with the rest of the world was not associated with any major changes in its geographical distribution. Despite the very sharp increase in trade with North America, Yugoslavia and the Middle East, these areas continued to account for only a small share of the trade of the centrally planned economies with the rest of the world.[44] A decline in trade with Latin America reduced its share from 7 per cent in 1955 to 4 per cent in 1956.

Western Europe continued to occupy the leading place in the trade of the centrally planned economies with the rest of the world, accounting for about 57 per cent of the total both in 1955 and 1956. Whereas total trade with western Europe increased by about 23 per cent in 1956, however, imports from this area rose by 29 per cent and exports by only 17 per cent. In consequence, instead of an export surplus, which in 1955 amounted to $118 million, there was an import surplus of $7 million in 1956. This significant decline in the export balance was mainly the result of an 85 per cent rise in Chinese imports and a 58 per cent increase in the imports of the Soviet Union. Exports of the latter rose by 11 per cent, and those of mainland China by 24 per cent in 1956. Imports of the other centrally planned economies increased less during this period than did their exports.

Trade with Yugoslavia, which for several years was at a very low level, increased sharply in 1955 and again in 1956. Exports to it rose more than threefold and imports from it more than doubled, resulting in the appearance of a surplus of about $21 million. In contrast, trade with Finland scarcely increased in 1956.

A striking rise took place in the trade of the centrally planned economies with North America; it rose by about $76 million to almost double the 1955 level. Of this, imports from Canada, which in 1955 amounted to $12 million, increased by $53 million, almost entirely as a result of large shipments of wheat. Exports of the group to North America rose by less than 30 per cent, and in consequence the export surplus fell from $45 million in 1955 to $6 million in 1956.

Trade of the Middle East with the centrally planned economies also showed higher than average increases, rising by 36 per cent in 1956. The deficit with the Middle East declined only slightly, although the value of exports rose by 46 per cent compared with a 29 per cent increase in imports. The expansion in trade was mainly accounted for by an increase of about 50 per cent in the trade of eastern European countries other than the Soviet Union, and by the doubling of Chinese exports to the region. Trade of the Soviet Union with the Middle East hardly increased at all.

Trade of the centrally planned economies with the Far East increased less than that with the Middle East, but more than trade with western Europe, rising by 28 per cent in 1956. Exports increased by 32 per cent, and imports rose by about 23 per cent; the net surplus of the centrally planned economies in this trade rose from $100 million in 1955 to $160 million in 1956. This change was entirely due to a large increase in the net export of mainland China, which rose from $135 million in 1955 to $180 million in 1956 and offset the combined deficit of the Soviet Union and other centrally planned economies.

[41] Exclusive of the trade of the centrally planned economies with each other.

[42] In 1956 the Soviet Union accounted for 29 per cent of the trade of the centrally planned economies with the rest of the world, mainland China for 20 per cent and the remaining centrally planned economies for 51 per cent.

[43] The export surplus of mainland China rose from $148 million in 1955 to $157 million in 1956. The deficit of the Soviet Union increased from $18 million in 1955 to $56 million in 1956, and in the other European countries the deficit of $15 million in 1955 was replaced by a surplus of $18 million in 1956.

[44] The share of North America, Yugoslavia and the Middle East rose from 2, 2 and 5 per cent in 1955 to 3, 3 and 6 per cent, respectively, in 1956.

Table 113. Composition of Trade of Centrally Planned Economies with Rest of World[a]
(Millions of dollars)

Area and period[b]	Foodstuffs		Raw materials		Machinery and transport equipment		Other manufactured goods		Total[c]	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
USSR:										
1954	69.0	58.3	164.2	46.2	5.8	94.5	49.0	82.4	288.0	281.4
1955	57.9	33.8	209.4	42.2	9.3	104.6	70.5	68.1	347.1	248.7
1956	72.1	54.2	265.4	63.4	10.8	143.3	87.4	135.0	435.7	395.9
Other eastern European countries:										
1954	101.5	121.5	174.9	113.6	35.3	45.8	122.3	113.7	434.0	394.6
1955	125.9	151.0	219.3	131.8	50.5	42.0	180.6	163.4	576.3	488.2
1956	178.9	186.9	253.5	153.6	66.3	53.6	214.4	220.1	713.1	614.2
Mainland China:										
1954	30.7	—	46.4	11.7	—	4.8	11.7	32.5	88.8	49.0
1955	35.4	0.4	58.7	15.5	0.3	7.2	20.2	49.7	114.6	72.8
1956	40.3	3.8	76.6	18.8	0.4	9.4	27.9	76.9	145.2	108.9
Total:										
1954	201.2	179.8	385.5	171.5	41.1	145.1	183.0	228.6	810.8	725.0
1955	219.2	185.2	487.4	189.5	60.1	153.8	271.3	281.2	1,038.0	809.7
1956	291.3	244.9	595.5	235.8	77.5	206.3	329.7	432.0	1,294.0	1,119.0

Source: United Nations, *Commodity Trade Statistics*. Data as recorded by the trading partners of the centrally planned economies. Re-exports of the reporting areas are excluded. Grouping as in the Standard International Trade Classification: foodstuffs, section 0, 1; raw materials, 2, 3, 4; machinery and transport equipment, 7; other manufactured goods, 6 and 8.

[a] For 1956, countries in the Organisation for European Economic Co-operation, except Switzerland and Iceland; Canada, Malaya, Netherlands Antilles, Finland, United States and Yugoslavia. In 1954, in addition, Japan, Nigeria and El Salvador. In 1955, all reporting countries as in 1956 except Yugoslavia, and, in addition, El Salvador. The share of the above countries is estimated at 68 per cent of total east-west trade in first nine months of 1956.

[b] First nine months of each year.

[c] Total of items listed in the table.

In contrast with these developments, trade of the centrally planned economies with Latin America and with "others" declined in 1956 by 26 and 5 per cent, respectively.

No major changes took place in the commodity composition of trade with the rest of the world, as indicated by the data in table 113. The share of raw materials fell slightly while those of food and manufactures increased. This change was principally due to a change in the composition of imports, the composition of exports remaining almost unchanged. The share of raw materials and equipment in imports declined, while that of manufactured goods rose from 35 per cent to 39 per cent of the total. As in preceding years, the centrally planned economies remained net exporters of food and raw materials, and net importers of machinery and equipment and of other manufactured goods. However, whereas balances for other commodities moved in general in line with changes in total trade, net imports of manufactured goods increased tenfold—from about $10 million in 1955 to over $100 million in 1956—mainly due to a sharp rise in net imports of the Soviet Union and of mainland China.

During the second half of 1956 several trade agreements were concluded between the Soviet Union and most of the other centrally planned economies, providing for increased shipments of food, raw materials and fuel. Some of the transactions were to take place in 1956, but the bulk were to occur in 1957 and the following years. The Soviet Union also granted long-term credits to all the centrally planned economies, mainly for purchases of raw materials and food. The known total of credits granted in 1956 and in early 1957 was about 3.2 billion roubles,[45] repayable within periods ranging from three to ten years; of this total about 600 million roubles was to be available in free currencies. The largest credits were granted to Hungary (1.1 billion roubles) and to Poland (1.2 billion).[46] The latter, in addition, obtained a cancellation of debts amounting to 2.1 billion roubles, as compensation for losses incurred during preceding years because of the reduced price paid to Poland by the Soviet Union for coal deliveries.[47] Several other credit agreements were signed between countries, providing in particular for credits to Hungary amounting to a total of 300 million roubles, of which 200 million was granted by mainland China.[48] Czechoslovakia, eastern Germany and the Soviet Union also granted credits amounting to more than one billion roubles to Yugoslavia, of which 120 million roubles is in free currencies. In addition, the

[45] This sum does not include part of the credits granted to Czechoslovakia, Bulgaria, and eastern Germany, the amount of which was not specified.

[46] Of the 1.2 billion roubles in credits granted to Poland, 700 million is not to be available before 1958.

[47] The Soviet Union also cancelled 4.3 billion lei owed by Romania for the purchase of the Soviet share in mixed corporations, and reduced the east German share of occupation cost from 1.6 billion Deutsche marks to 0.8 billion.

[48] Half in free currencies.

Soviet Union granted credits to Afghanistan, India and Indonesia amounting to about 1.3 billion roubles.[49]

The increase in credit extended by the Soviet Union and the new trade agreements are expected to stimulate the trade of the centrally planned economies, both with each other and with the rest of the world. The rates of increase planned in foreign trade turnover of those countries for which data are available are shown below (in percentages):[50]

Bulgaria	20
Czechoslovakia	11
Germany, eastern	25
Poland	10

The Soviet Union's planned expansion of its trade with other centrally planned economies is 13 per cent. Only Bulgaria and Poland have announced their targets both for imports and exports. Bulgaria plans to raise exports by 22 per cent and imports by 17 per cent, thus increasing its net surplus substantially. Conversely, the Polish plan provides for a 4 per cent decline in exports, mainly due to further reductions in coal shipments, and for a 25 per cent increase in imports as a consequence of larger purchases of raw materials, food and other consumer goods. This drastic change is expected to result in a deficit of about 850 million roubles, to be covered by credits obtained from the Soviet Union as well as from western countries.

Economic Situation in Yugoslavia

In 1956, as in the two preceding years, the economic situation in Yugoslavia was strongly influenced by sharp fluctuations in agricultural output. Agricultural production fell by about 14 per cent in 1954 and rose by 16 per cent in 1955, but again declined by 12 per cent in 1956.

For the third consecutive year industrial production increased fairly rapidly (by 10 per cent), although the rate of increase was smaller than in the two preceding years (see table 114). In 1956 output of consumer goods increased slightly faster than total industrial production, whereas in 1955 the reverse had been true. The rise in industrial production in 1956 was achieved mainly through a continued expansion of employment; it increased by 7 per cent as compared with 12 per cent in 1955. Output per man rose by 3 per cent in both years. The rise in industrial production was, however, offset by a decline in agricultural output, and neither national income nor gross national product was higher in constant prices than in 1955.

In terms of current prices, gross national product was nearly 5 per cent higher than in 1955. Personal consumption also rose by about 5 per cent so that its share of the national product was about the same or very slightly higher than in 1955. In terms of constant prices, personal consumption remained at approximately the 1955 level, partly because the effect of the reduced agricultural output was felt only in the last quarter of the year. The most significant change in the shares of different components of gross national product, shown in table 115, was a decline in gross fixed investment. This did not, however, result in a corresponding increase in the share of personal consumption since it was almost entirely offset by the continued increase in social consumption expenditure and the decline in the import balance.

Gross national product is planned to increase by 11 per cent in 1957, mainly as a result of a 13 per cent

[49] Afghanistan and Indonesia, 400 million each for thirty and twelve years, respectively, and India, 460 million for twelve years.

[50] From plans for 1957 and data communicated to the Secretariat by Governments.

Table 114. Yugoslavia: Selected Economic Indices
(Preceding year = 100)

Item	*1954*	*1955*	*1956*	*1957 (planned)*
National income[a]	103	110	98[b]	110
Agricultural production	86	116	88	112
Industrial production	114	116	110	113
Producer goods	104	115	106	115
Semi-manufactured goods	114	118	112	114
Consumer goods	115	112	111	111
Electric power	115	126	116	...
Coal	117	115	111	...
Employment in industry	113	112	107	...
Output per man in industry	100	103	103	...
Cost of living	98	113	105	...
Volume of retail sales	119	121	109	...
Consumption[b]	112	109	100	...

Source: Indeks, No. 1, 1957 (Belgrade); *Statisticki Godisnjak FNRJ* (Belgrade, 1956); data communicated to the Secretariat by the Government of the Federal People's Republic of Yugoslavia.

[a] In constant prices. The indices for 1954 and 1955 are official estimates; the index for 1956 was obtained by deflating the data reproduced in table 115 by the cost of living index. Since prices of investment goods have increased less than the cost of living, it is possible that if deflated by appropriate indices for each component, the index of national income would not show any decline in 1956.

[b] Deflated by cost of living index.

Table 115. Yugoslavia: Gross National Product
(Billions of dinars; current prices)

Item	*1954*	*1955*	*1956*	*1957 (planned)*
Gross investment	423	449	430	461
Net foreign trade balance	−32	−50	−39	−60
Social consumption[a]	248	341	377	461
TOTAL	639	740	768	862
Personal consumption	660	812	855	932
Gross national product[b]	1,299	1,552	1,623	1,794
Less depreciation	−137	−154	−180	−210
National income	1,162	1,398	1,443	1,584
Ratio of personal consumption to:				
Gross national product	51	52	53	52
National income	57	58	59	59

Source: Data communicated to the Secretariat by the Federal People's Republic of Yugoslavia; *Statisticki Godisnjak FNRJ Indeks*, No. 1, 1956.

[a] Outlays for general needs such as defence, education, administration.

[b] Gross national product according to the concept used in Yugoslavia consists of value added in the production of material goods and certain services, excluding personal, professional and administrative services.

expansion in industrial production and a 12 per cent rise in the output of agriculture, which will bring agricultural production back to its 1955 level. The more rapid increase in industrial production in 1957 than in 1956 is due entirely to the acceleration planned for producer goods, output of which is to increase by 15 per cent compared with 6 per cent in 1956.

Production of consumer goods is to rise at the same rate as in 1956. Personal consumption is to increase by 9 per cent, or slightly less than gross national product, but its share in national income will remain the same as in 1956.[51] Gross investment is planned to expand by 7 per cent in 1957; this is to be achieved by a marked rise in imports of capital equipment, the value of which is to increase by 35 billion dinars as compared with a rise of 31 billion dinars in gross investment, a change which implies a reduction in domestic resources devoted to investment.

The allocation of investment by sectors provides for a reduction in the share of industry in the total, and a rise in the shares of agriculture and forestry, as well as water supply, building and housing.

The 1957 plan involves a substantial increase in the over-all deficit on foreign trade. The value of imports is expected to increase by nearly one-quarter, while exports will rise by less than 10 per cent. This wide disparity is mainly due to the decline in agricultural production in 1956, which compelled the Government to reduce exports of agricultural goods by about 17 per cent and to expand imports of food and other consumer goods.[52] Imports of raw materials and equipment are also to increase substantially. In consequence of these changes, the foreign trade deficit is expected to rise from 39 billion dinars in 1956 to 60 billion in 1957. Only a small part of this deficit on current account will be covered by receipts for war reparations, which will amount to about 9 billion dinars in 1957. The rest will be financed by credits already granted; unused foreign credits available for use in 1957 increased from 13.9 billion dinars on 31 October 1955 to 90.8 billion dinars on 31 October 1956, mostly as a result of credit agreements signed with the Soviet Union, Czechoslovakia and Poland.

[51] National income will increase less than gross national product because of a rise in the share of depreciation.

[52] Imports of foodstuffs represent 28 per cent of all imports planned for 1957.

Development Plans, 1956 to 1960

Most of the centrally planned economies began their new five-year plans of economic development in 1956. In the Union of Soviet Socialist Republics, eastern Germany, Romania and Poland, the new plans came into operation immediately on the termination of the preceding ones. In Czechoslovakia and Hungary, where the previous plans had ended in 1953 and 1954, respectively, the inception of the new plans was postponed until 1956 so that they might begin at the same time as those of the other countries. The Bulgarian five-year plan will end in 1957 and is to be followed by a three-year plan ending in 1960, when the current five-year plans of the other countries will be completed. The current Chinese plan will end in 1957, and a new plan for 1958-1962 has been announced. The plans published to date have been presented not as final drafts but as preliminary instructions for the central planning boards, still subject to further elaboration and alteration.[53]

[53] For instance, the resolution on the Polish plan states that ". . . the indications included in the resolution are considered only as guide posts. On the basis of these indications it is necessary to prepare within the next months the final draft of the five-year plan and the project of the law on the five-year plan to be submitted to the Parliament".

Although the final texts of the new plans are not yet available, the decisions already taken indicate the direction which such alterations are likely to take. Thus, the Polish Government has decided to reduce the volume of fixed investment and the rates of expansion of industrial production scheduled in the original version of the plan. Similarly, the Soviet Union decided to reduce the investment planned and to bring the anticipated rates of increase in specific industries into line with available material resources. These revisions of the original targets were partly the result of reappraisal of existing capacity, manpower and material resources on the basis of information which was not available when the original directives were formulated. In some countries experience in the first year of the plan indicated that in certain sectors the targets were set too high; fulfilment of the annual plans encountered substantial difficulties.

The decision of the Soviet Government on the changes to be introduced in the project for the five-year plan states that curtailment of the volume of investment originally planned and changes in its distribution among industries are necessary to eliminate the pressure on resources and to "bring the targets for production and investment in line with the material resources".

The political events in Poland and Hungary not only prevented the fulfilment of their targets for the first year of the five-year plan but imposed far-reaching changes in the future allocation of resources, and consequently in the planned growth of the economy and in the relative rates of expansion assigned to various sectors. Hungary, in fact, decided to abandon its five-year plan and prepare an emergency plan for 1957, to be followed by a three-year plan ending in 1960.

Another important factor behind the contemplated changes was obviously the increased pressure of consumers for improvement in consumption levels and housing. The need to alter the original plans in favour of consumers, especially with respect to housing, has been officially stated in Poland, Hungary and the Soviet Union.

In addition, the formulation of final drafts was delayed to permit improvement in co-ordination of the national plans, an endeavour which had been decided upon previously but was not sufficiently advanced at the time when the plans were announced. The intended specialization and international division of labour was extended in the new plans, but in general was still limited to specific output in engineering industries. The problems of co-ordination were not entirely solved at the time when the new plans were announced and the various co-ordination commissions continued their work later. Their task was complicated by the events in Hungary and Poland, which necessitated considerable modification in the planned exchange of goods among the centrally planned economies and called for further revision of the plans. These problems were partly reflected in the Soviet-Czech declaration of January 1957, which called for further "co-ordination of the national economic plans and the planned integration of production" necessary for the maximum "development of industry and agriculture in harmony with the material and economic conditions, possibilities and traditions of each country".

Despite the provisional character of the data contained in the published drafts, the targets set in the new five-year plans can be considered as a broad indication of the intended pattern of development of the centrally planned economies. They should be viewed against the background of the economic situation as it has resulted from the rapid development of the preceding period.

With the notable exception of the Soviet Union, mainland China[54] and eastern Germany, the centrally planned economies have not achieved the targets set in their long-term plans of development (see table 116). Despite a rapid rise in national income, its growth was considerably short of the planned rates. This shortfall reflected primarily the serious under-fulfilment of the plans for agriculture. Czechoslovakia, Hungary and Romania also failed to reach the targets set for industrial production. In Poland and the Soviet Union, the industrial production targets were substantially exceeded, and expansion of industrial production beyond the planned level compensated—in Poland partly and in the Soviet Union fully—for the effect on national income of the non-fulfilment of the goals set for agriculture. Within the industrial sector only Poland and the Soviet Union were able to exceed the goals set for both heavy and light industry. In the other countries for which data are available, the goals set for heavy industry remained unfulfilled, while the targets for the light manufacturing and food industries were either exceeded or their degree of non-fulfilment was much lower than that in heavy industry. It is noteworthy that this happened despite the high priority given to heavy industry in the allocation of resources during most of that period.

The failure to fulfil the plans for agriculture was due to a relatively low rate of investment in this sector as well as the policies adopted towards agricultural producers. During most of the period peasants' incomes were kept down by high delivery quotas at very low prices. The depressing effect of this policy on incentives was reinforced by measures tending to discourage private farming on individual plots belonging to members of collective farms, and, in countries with a large private agricultural sector, by administrative pressures exerted on the peasants to force them to join collective farms.

[54] In mainland China the first five-year plan covers the period ending in 1957, but in several sectors the targets set for that year were already exceeded in 1956.

Table 116. Indices of Planned and Actual Output during Final Year of Plan[a] Ending in or Prior to 1955

(Year preceding beginning of plan = 100)

Country	National income		Industrial output		Agricultural output	
	Planned	Actual	Planned	Actual	Planned	Actual
China, mainland[b]	151[c]	163[c]	198[d]	224[d]	123	128
Czechoslovakia	170	159	198	193	153	114
Germany, eastern	160	162	188	190	157	144
Hungary	230	150	310	258	154	112
Poland	212	186	236	267	150	120
Romania	260	190	244	221	254	150
USSR	160	168	170	185	145	120

Source: Plans and reports on fulfilment of plans.

[a] Plan periods covered: in the case of the Union of Soviet Socialist Republics, eastern Germany and Romania, 1951–1955; China, mainland, 1953–1957; Czechoslovakia, 1948–1953; Hungary, 1950–1954; Poland, 1950–1955.

[b] For mainland China data in all tables in this section referring to preceding plan cover the period 1953–1957 and those referring to the current plan cover the years 1958–1962. The indices for 1953–1957 are estimated on the basis of actual achievements up to 1956 and planned rates of increase for 1957. The rates originally planned for 1957 were exceeded in 1956 for industrial production and national income, and almost reached the targets set for 1957 in agriculture.

[c] Total output for agriculture and industry.

[d] Excluding output of handicraft co-operatives and of individual craftsmen.

Mainland China, which planned for much slower rates of increase in agricultural output than the other countries, was the only one to increase its production according to plan. The targets set for 1957 were almost reached in 1956, and barring unfavourable weather, agricultural output is expected to exceed the original targets by 4 per cent. It is noteworthy, in contrast with several of the eastern European countries, that although the collectivization of agriculture proceeded much faster than originally planned and much faster than in any other country, it did not interfere with the rise in output. Apart from historical reasons, this was owing to the adoption of a more flexible policy, reflected among other things in the introduction of various intermediate forms of agriculture associations prior to the creation of collective farms.[55]

Towards the end of the five-year plans, the greatly expanded economies of eastern Europe were seriously affected by imbalances among particular sectors, which had become a serious obstacle to further expansion. The most important of these were the lag in expansion of agricultural output and the insufficient growth of output of power, fuel and certain industrial raw materials.

The lack of balance between the rates of expansion of output of fuel, power and raw materials and that of manufacturing industries was responsible for the non-fulfilment of plans for industrial production in several countries of the group. In all countries this imbalance resulted in severe pressure on resources and reduction in stocks in plants below the minimum necessary for smooth operation. As a result, it led to frequent slowing down or temporary interruption of work; in some countries, part of the expanded capacity remained unutilized in specific industries for lack of materials or power. In other countries shortages of manpower also appeared.

In addition, an important factor making for an actual or potential deceleration of growth was the low rate of replacement of worn-out or obsolescent equipment. The existence of such equipment hampered any reduction of unit costs in terms of input of raw materials, fuel, power and labour per unit of output. This problem acquired increasing importance as the centrally planned economies moved into a stage where the scarcity of factors became a significant obstacle to the maintenance of the high rates of growth achieved during the earlier stages of industrialization.

Not less important was the inability in several countries of the group to achieve the increases planned in real wages and in consumption owing to the slow expansion of agriculture and of the industries producing consumer goods. In some countries real wages even declined between 1951 and 1953, although they recovered subsequently.

In all countries of the group there were during this period persistent shortages of some essential consumer goods. This situation resulted in serious discontent, which in some countries was reflected in high rates of turnover of labour and in others in open resistance to the prevailing policies.

Beginning in the second half of 1953, special efforts were made to overcome or reduce the existing bottlenecks. Policy changes favouring agriculture were introduced in all eastern Europe, but only the Soviet Union was able to achieve significant improvements. These were achieved both by extending the area sown and by raising the income incentives of agricultural producers. In all countries the output of consumer goods was speeded up, and some improvement was achieved in the balance between manufacturing industries and the sectors producing fuel, power and basic materials.

[55] By the end of 1956, 63 per cent of peasant households had been organized into collective farms and another 29 per cent into agricultural producer co-operatives.

However, this was chiefly brought about by a reduction in the over-all rate of growth of the economies. Despite these readjustments, the main problems remained unsolved, and their persistence influenced the formulation of the new plans of economic development.

In mainland China, which was still at a lower stage of development, sectoral imbalance was not present during most of the period in any significant degree. This was partly due to the existence of large amounts of unused capacity at the beginning of the current plan. Shortages of certain industrial materials began to appear during the latter part of 1956 as a result of the extremely high increase in investment during the year, but there have been no serious bottlenecks because of drawing upon government stocks of these materials accumulated previously.

Viewed against this background, the new five-year plans beginning in 1956 clearly represent an attempt to eliminate the imbalances arising during the preceding period by readjusting the relative rates of growth of the various sectors of the economy. Thus, while the over-all rate of growth of national product is to be reduced, the planned increase in agricultural output, production of consumer goods, and production of fuel and power in relation to total output is greater than during the preceding five-year plans.

In all the countries the rate of expansion of industrial production during the new five-year plan is to be considerably smaller than the rates achieved during the preceding period (see table 117). The sharpest declines are planned in Hungary, Poland and Romania—in Hungary from 21 per cent per year to 8 per cent, in Poland from 19 per cent to 9 per cent and in Romania from 17 per cent to 10 per cent. In the Soviet Union the planned annual rate of increase is to be reduced from about 13 per cent during the preceding five-year plan to about 10 per cent during 1956-1960. The reduction in the rate of expansion is greater for producer goods than for consumer goods in Czechoslovakia, Hungary and Poland, and smaller in eastern Germany and probably also in Romania. In the Soviet Union and mainland China the reduction is about the same for both sectors. Although the spread between the rates of growth of these two sectors was substantially reduced in most countries, the plans call for a continued expansion in output of producer goods at a higher rate than that of consumer goods.

Table 117. Indices of Industrial Production during Preceding and Current Plans
(Year preceding beginning of plan = 100)

Country	Preceding plan[a] (actual)				Current plan (1956–1960)[b]			
	Annual rate of increase	Total production (Index, final year)	Producer goods (Index, final year)	Consumer goods (Index, final year)	Annual rate of increase	Total production (Index, final year)	Producer goods (Index, final year)	Consumer goods (Index, final year)
China, mainland	17	219	281	191	12	174	217	145
Czechoslovakia	14	193	218	166	8	150	157	140
Germany, eastern	14	190	194[c]	184[d]	9	155	160[c]	140[d]
Hungary[e]	21	255	288[f]	227[d]	8	149[g]	159[g]	139[g]
Poland[e]	19	285	296	271	9	155[g]	157[g]	154[g]
Romania	17	221	...	...	10	163	173	153
USSR	13	185	191	176	10	165	170	160

Source: Reports on the fulfilment of plans and official texts of the new five-year plans; statistical yearbooks of eastern Germany, Hungary, Poland and the Union of Soviet Socialist Republics.

[a] For periods covered see footnotes *a* and *b*, table 116.

[b] Except for mainland China, whose new plan covers 1958–1962, with index based on 1957 = 100. The planned rates of increase for 1958–1962 indicated in the tables in this section are lower than the rates indicated in the original version of the five-year plan. The latter were estimated on the basis of the old targets for 1957.

[c] Base metals and engineering.

[d] Light industry and food industries.

[e] Socialized industry only. The data in table 99 refer to all industries.

[f] Heavy industry.

[g] Average of lower and upper limit.

In order to eliminate bottlenecks in industry, the new plans provide for a considerable narrowing of the difference between the over-all rate of increase in industrial production and that of fuel and power. Although the rate of increase in the former is scheduled to decline in all countries of the group, the rates planned for electric power and coal are either higher than in the preceding plans or much less reduced than those for industrial production. This change is indicated by the considerable increase in the ratios of the indices of increase in output of coal and electric power to those of industrial production shown in table 118.

The scheduled increases in output of coal, electric power and basic materials for the countries which have

Table 118. Increase in Output of Coal and Power in Relation to Industrial Production

Country	Preceding plan[a]		Current plan, 1956–1960[b]	
	Coal	Power	Coal	Power
China, mainland	84	117	98	128
Czechoslovakia	76	85	94	113
Germany, eastern	75	77	83	99
Hungary	71	75	89	103
Poland	45	75	75	108
Romania	82	93	114	114
USSR	80	100	92	114

Source: Directives on five-year plans; reports on fulfilment of plans.

[a] For periods covered see footnotes *a* and *b*, table 116.

[b] See footnote *b*, table 117.

Table 119. Aggregate Output of Fuel and Basic Materials

(Millions of tons)

Item	1950	1955	Index, 1955 (1950=100)	1960[a]	Index, 1960 (1955=100)
Coal[b]	354.9	639.3	180	942.3	147
Crude oil	43.9	84.9	193	155.8	184
Electric power[c]	139.1	253.6	182	467.6	184
Pig-iron[d]	23.8	42.3	178	62.7	148
Crude steel	35.7	62.0	174	98.3	159
Rolled metal[d]	26.6	44.7	167	67.1	150
Cement	19.1	39.3	206	88.1	224

Source: Directives on the five-year plans; reports on fulfilment of plans; statistical yearbooks of eastern Germany, Hungary, Poland and the Union of Soviet Socialist Republics.

[a] Partly estimated, the data for mainland China being calculated on the basis of the average annual increase in output planned for 1958–1962.

[b] Hard coal equivalent.

[c] Billions of kilowatt-hours.

[d] Mainland China not included owing to lack of data for 1960. Its output of pig-iron was one million tons in 1950 and 3.6 million in 1955; output of rolled steel, 0.4 million in 1950 and 2.5 million tons in 1955.

announced their new plans are indicated in table 119. For the group as a whole, electric power is to increase at a rate as great as that during the preceding five years. The rate of increase in output of coal is less. Among the basic materials only the output of cement is planned to increase at a higher rate than during the preceding five years. The rates for pig iron, steel and rolled metal, while still very high, are substantially below those achieved from 1950 to 1955.

The rise in the planned rates of increase in output of fuel and power in relation to total output is closely related to the considerable stress laid in the new plans on increases in productivity through mechanization and automation.

The expansion of industrial production is to be achieved mainly through increases in output per man and—to a lesser extent—by a rise in industrial employment. The increase in employment during the preceding plans ranged from 2 per cent per year in Czechoslovakia to 8 per cent in Hungary, Poland and Romania. During the new plans employment is expected to increase by about 3 per cent in Poland and by not more than 2 per cent in most of the countries of the group (see table 120). Mainland China provides the only exception; employment there is scheduled to rise at a substantially higher rate during the second plan.[56]

The slowing down of the growth of employment in industry is due to different causes in different countries. The greater emphasis placed on expansion of agricultural production combined with the need to avoid increases in the pressure of demand on food and housing in the urban areas prompted the Governments to discourage shifts of manpower into industry from agriculture. In some countries a rise in the proportion of women employed in industry during the preceding period considerably reduced the scope for any further increase from this source. Moreover, the supply of manpower is likely to decline as a result of the effect of the war on the age groups entering the labour force during the next few years. In Czechoslovakia, eastern

[56] According to official statements; no data on the increase planned have been published.

Table 120. Indices of Employment in Industry and Output per Man during the Five-Year Plans

(Year preceding beginning of plans = 100)

Country	Preceding plan (actual)[a]				Current plan, 1956–1960[b]			
	Employment		Output per man		Employment		Output per man	
	Index (final year)	Annual rate of increase	Index (final year)	Annual rate of increase	Index (final year)	Annual rate of increase	Index (final year)	Annual rate of increase
China, mainland	120[c]	...	165[c]	...	...	...	...	...
Czechoslovakia[d]	112	2	173	12	104	1	145	8
Germany, eastern[e]	134	6	154	9	103	1	150	8
Hungary	150	8	147	8	110	2	136	6
Poland	161	8	177	10	118	3	135	6
Romania	150	8	148	8	110	2	148	8
USSR	129	5	144	7	110	2	150	8

Source: Directives on five-year plans; reports on fulfilment of plans; statistical yearbooks of eastern Germany, Hungary, Poland and the Union of Soviet Socialist Republics.

[a] For periods covered see footnotes *a* and *b*, table 116.

[b] Except for mainland China (see footnote *b*, table 117).

[c] Targets originally planned.

[d] Productive workers only. Total industrial employment rose by 25 per cent and output per man by 57 per cent during the first plan. It is planned to increase total employment in all sectors of the economy by 8 per cent during the second five-year plan.

[e] Productive workers in socialized industry only.

Germany and Soviet Union the scarcity of manpower for industry had already become apparent at the end of the preceding plan. It was partly alleviated by a reduction in the armed forces and by shifts of manpower from office work to factories. In some other countries, however, along with shortages of labour in certain sectors there was a certain amount of urban unemployment, and in certain industries or plants the number of workers on the payrolls was considered to be higher than actual requirements. In such cases the very small increase in total employment may be accompanied by sizable shifts from office work to production and from overstaffed shops or plants to other sectors. It is probable that part of the large increases in output per man planned for the new period are to be attained as a result of such shifts.

According to the plans, the increase in output per man is to be the principal factor in the rise in industrial production. Nevertheless, each plan provides for a smaller rate of increase than during the preceding plan in all cases except Romania, where it is to remain unchanged, and the Soviet Union, where it is to be higher. The largest declines in rate of increase are planned in countries which during the preceding period registered the largest increases in productivity, such as Czechoslovakia and Poland. In all countries except Czechoslovakia, the rise in productivity will account for a much larger share of the increment in industrial production than during the preceding plan period. The increases in output per man are to be achieved primarily by modernization of plants, elimination of bottlenecks in raw materials and fuels, and increased incentives in terms of an improved supply of consumer goods and housing.

The new five-year plans provide for a 20 to 30 per cent expansion of agricultural production in all the centrally planned economies except the Soviet Union, which plans to raise its agricultural output by no less than 70 per cent over the five-year period. This 70 per cent increase is three times as high as the rate of expansion achieved during the preceding five years and more than one and a half times as high as the planned rate for that period (see table 121).

Table 121. Indices of Agricultural Production, Planned and Actual

(Year preceding beginning of plan = 100)

Country	Preceding plan[a]		Current plan, 1956–1960[b]
	Planned (Final year)	Actual (Final year)	Planned (Final year)
China, mainland..	123	128	130[c]
Czechoslovakia...	153	114	130
Germany, eastern.	157	144	122
Hungary.....	154	112	127
Poland.....	150	120[f]	125
Romania.....	188	150	...[e]
USSR.....	145[f]	123[f]	170

Source: Directives on five-year plans; reports on fulfilment of plans; statistical yearbooks of eastern Germany, Hungary, Poland and the Union of Soviet Socialist Republics.

[a] For period covered, see footnotes *a* and *b*, table 116.

[b] Except for mainland China, whose new plan covers 1958–1962, the index being based on 1957 (see footnote *b*, table 117).

[c] On the basis of the output expected in 1957.

[d] Index for 1951–1955 is 109.

[e] It is planned to increase output of grain by 25 per cent, number of cattle by 4 per cent and hogs by 7 per cent.

[f] Estimated by the Bureau of Economic Affairs.

In Czechoslovakia, Hungary and Poland the planned rates of increase in agricultural production are more than twice as high as the rates actually achieved—but substantially lower than the rates planned—during the previous plan period.[57] In mainland China the planned rate is only slightly higher than that achieved during the first five-year plan. In eastern Germany and Romania, which had increased their agricultural production substantially during the last plan, the new plans provide for smaller rates of increase than those realized under the previous plan. The data reproduced in table 122 indicate that in all countries the rates of increase planned for livestock products such as meat and milk are higher than those for grain.

[57] In Poland this relates to the rate achieved during the last five years of the six-year plan.

Table 122. Output of Grain, Meat and Milk, 1955 and 1960

Country	Grain (millions of tons)		Index, 1960 (1955=100)	Meat (thousands of tons, live weight)		Index, 1960 (1955=100)	Milk (millions of hectolitres)		Index, 1960 (1955=100)
	1955	1960		1955	1960		1955	1960	
China, mainland.....	174.8[a]	222.0[a b]	127	...	...	...	...	...	...
Czechoslovakia.....	5.2	6.9	132	716	972	136	36	50	140
Germany, eastern.....	6.5	6.9[c]	106	1,169	1,391	119	52	73	140
Hungary.....	5.5[d]	7.3[d]	133	850	1,100	129	15	20	135
Poland.....	12.7[e]	14.2[e]	112	1,665	2,114	127	96	125	129
Romania.....	12.0	15.0	125	798	1,300	163	19	25	135
USSR.....	103.2[f]	180.0	175	...	...	200	...	...	195

Source: Directives on the five-year plans for 1955–1960; statistical yearbooks of eastern Germany, Hungary and Poland; *Planovoe Khozyaistvo*, No. 2, 1956.

[a] Paddy, wheat, coarse grains and potatoes. In 1955 output amounted to 154.9 million tons of grain and 18.9 million tons of potatoes.

[b] Estimated on the basis of planned increases for 1958–1962.

[c] Estimated on the basis of planned increases in yields.

[d] Wheat, rye and maize only. Output of barley and oats amounted to about one million tons in 1955. No data on planned increases in barley and oats were announced in the plan.

[e] Wheat, rye, oats and barley.

[f] See table 103, footnote *c*.

The rise in output in countries other than the Soviet Union is to be achieved primarily by an increase in yields, and only to an insignificant extent by an extension of the total area under crops. In Hungary, Romania and, to a certain extent, Czechoslovakia, the extension of the area under maize at the expense of other crops is expected to contribute substantially to the rise in average yields. Only in the Soviet Union is the increase in the area under grain to play an important part in the increase in output. According to the Soviet five-year plan, the increase in the actual (barn) output of grain is to be achieved through an extension of the area sown, an increase in biological yields, an extension of the share of maize in total output and a reduction in harvesting losses, which in some collective and State farms have amounted to as much as one-fourth of the biological yield. While no data on the planned extension of the total area sown to grains have been published, the new plan provides for an increase in the area under maize from 9 million hectares in 1955 to 28 million by 1960. Since the plan also provides for an unspecified increase in the area under other grains, this would imply that the total area under grain is planned to rise by no less than 15 per cent from 1955 to 1960.[58] If the increase in sown area is not greater than this, the yields per hectare would have to increase by over 50 per cent in order to achieve the 75 per cent planned rise in output of grain over that in 1955. A substantial proportion of expected increases in yields is to come from the rise in the share of maize in the total area under grain,[59] and even more from the decline in harvesting losses brought about by shortening the harvesting period to ten days in the European part of the Soviet Union and to seven or eight working days in Siberia and the Far East.[60] It is probable that, taking all these factors into account, the expected increase in biological yields is of the order of 10 to 15 per cent. The planned increases in yields per hectare in other centrally planned economies are shown in table 123. The considerable difference between the increases over 1955 and over the average yields of 1953-1955 reflects the exceptional harvest of 1955 in most countries of the group.

The higher agricultural yield is to be achieved by a considerable increase in the supply of fertilizer and a rise in the degree of mechanization, which among other things is expected to shorten the harvesting period and thus reduce harvesting losses. Thus, the number of tractors is to be increased considerably in all countries of the group, as shown in table 124. In Poland it is planned to double the number, and in eastern Germany and Romania to increase the stock by 40 per cent and over 20 per cent, respectively. It is difficult to assess the scale of the increase planned in the other countries since the data refer only to deliveries and no information is given on the rate of replacement. However, the fact that the planned deliveries in the Soviet Union, Czechoslovakia and Hungary are substantially higher

Table 123. Planned Grain Yields for 1960

Country and item	1960		
	Quintals per hectare	Index (1955=100)	Index (1953–1955 average=100)
Czechoslovakia:			
Wheat	24.3	118	130
Rye	22.8	124	134
Barley	20.2	118	125
Germany, eastern:[a]			
All grains	28.0	106	115
Hungary:			
Maize	26.7	110	106
Other grains	16.6	99	117
Poland:			
Four grains	14.9	104	117
Romania:[a]			
Maize	21.5[b]	87	117
Other grains	15.8	136	158[c]

Source: Directives for five-year plans; statistical yearbooks of eastern Germany, Hungary and Poland; *Economic Survey of Europe for 1956;* for Czechoslovakia data communicated to the Economic Commission for Europe by the Government.

[a] Biological yield.

[b] Average of the lower and upper limit.

[c] Based on the 1953–1955 average output as estimated by the Economic Commission for Europe.

Table 124. Supplies of Tractors to Agriculture during 1955-1960, and Stock of Tractors in 1955

(In terms of 15-horsepower units)

Country and item	Thousands
Czechoslovakia:	
Stock in 1955	34
Deliveries from 1956–1960	36
Germany, eastern:	
Stock in 1955	75
Stock in 1960	105
Hungary:	
Stock in 1955	18
Deliveries from 1956–1960	19
Poland:	
Stock in 1955	59
Stock in 1960	117[a]
Romania:	
Stock in 1955	30
Stock in 1960	37
USSR:	
Stock in 1955	1,439
Deliveries from 1956–1960	1,650

Source: Directives on five-year plans and statistical yearbooks.

[a] Deliveries during the five-year period are to be 70,600 units.

[58] From 126 million hectares to at least 145 million.

[59] From about 7 per cent in 1955 to some 20 per cent in 1960. According to a rough estimate this alone could raise the average grain yields per hectare by about 10 per cent.

[60] According to Mr. N. Khrushchev (*Pravda*, 3 February 1955), in 1954 the harvest in some kolkhozes took as long as one month or forty-five days. Experiments conducted in the Soviet Union demonstrated that a shortening of harvesting time from twenty to ten days would increase the barn yields by 13 to 26 per cent. Assuming that the average of this percentage is representative for the country as a whole, one could expect an increase of about 20 per cent in actual yields per hectare due solely to the reduction of harvesting losses.

Table 125. Planned and Actual Indices of Consumption and National Income
(Year preceding beginning of plans = 100)

Country	Preceding plan[a]			Current plan, 1956–1960[b]		
	Index, final year		Ratio of column 2 to column 1	Index, final year		Ratio of column 5 to column 4
	National income (1)	Consumption (2)	(3)	National income (4)	Consumption (5)	(6)
China, mainland.....	144[c]	130[c]	90.3	150[d]	150[d]	100.0
Czechoslovakia.....	159	125[e]	78.6	148	133[e]	89.9
Germany, eastern.....	162	169[f]	104.3	145	135[f]	93.1
Hungary.....	150	130[g]	86.6	140	134[g]	95.7
Poland.....	186[h]	150[h]	80.6	150	150[h]	100.0
Romania.....	190	200[i]	105.3	150	160[i]	106.7
USSR.....	168	190[i]	113.1	160	150[i]	93.8

Source: Directives on the five-year plans; reports on fulfilment of plans; statistical yearbooks of eastern Germany, Hungary, Poland and the Union of Soviet Socialist Republics.

[a] For periods covered, see footnotes *a* and *b*, table 116.

[b] Except for mainland China (see footnote *b*, table 117).

[c] 1953–1956.

[d] On the basis of original targets for 1957. Estimates for consumption refer to retail turnover.

[e] Personal consumption; retail trade during the preceding plan: 133.

[f] Personal consumption; retail trade indices were 270 and 140, respectively.

[g] Total consumption; retail trade indices were 131 and 135, respectively.

[h] Data for the plan ended in 1955 refer to six years, 1950–1955. During 1951–1955 national income increased by 54 per cent and retail sales by 34 per cent. Data on consumption refer to total consumption for the preceding plan and to retail sales for the new five-year plan.

[i] Retail sales.

than the stock existing at the beginning of the period suggests that the actual extension of the stock may be considerable. If the need for replacement were of the same order as in Poland[61] the increase in stock in these three countries would amount to 60 to 80 per cent. Although this is a very crude estimate, it indicates that considerable increases are planned in most of the countries of the group.

Data on planned increases in livestock population have not been published by most of the countries. The rise in output of livestock products is to be achieved mainly by considerably higher productivity, made possible by increased supplies of feed and by improved husbandry.

Incentives for greater production have been strengthened during the past two years by the raising of prices paid to agricultural producers, the reduction of compulsory delivery quotas and the more flexible planning of agricultural production, and these factors are also expected to play an important part in increasing output in the future.

The planned rates of increase in national income range from 40 per cent to 60 per cent over the five years; these are also lower than during the preceding plan periods (see table 125). As in the past, in most countries the main factor contributing to the growth of national income is the planned expansion of industrial production. As may be seen from the data in tables 117 and 121, industrial production is to increase faster than agricultural output in all countries except the Soviet Union, where for the first time the plan calls for the opposite relative change in the two sectors. Even in the other countries, however, the contribution of agriculture to the planned growth of national income is also increased significantly. This tendency is expressed in the considerable reduction in the differences between the rate of increase in national income and that in industrial production. As shown in table 126,

[61] Data on deliveries in Poland and on the total stock at the beginning and the end of the five-year period imply the replacement of about 20 per cent of existing stock.

Table 126. Changes in Rate of Growth of Industrial and Agricultural Production in Relation to National Income

Country	Preceding plan (actual)[a]		Current plan (1956–1960)[b]	
	Industry	Agriculture	Industry	Agriculture
China, mainland...	137	78	109	80
Czechoslovakia....	121	72	101	88
Germany, eastern..	117	89	107	84
Hungary.....	170	75	106	91
Poland.....	153	64	103	83
Romania.....	116	82	102	78
USSR.....	110	73	103	106

Source: Directives on the five-year plans; reports on fulfilment of plans.

[a] For periods covered see footnotes *a* and *b* to table 116.

[b] 1950 = 100, except for mainland China, whose new plan covers 1958–1962, with index based on 1957.

the greatest change in this relationship has occurred in Poland and Hungary, and the smallest in the Soviet Union. In some countries this change is to a large extent accounted for by a substantial acceleration of agricultural production in relation to national income as compared with developments during the preceding plans. But the major reason for the narrowing of the

Table 127. Aggregate State Investment in Fixed Capital

(Five-year totals in billions of national currency units)[a]

Country	1951–1955	1956–1960	Index 1956–1960 (1951–1955=100)
China, mainland[b]	49	86	176
Czechoslovakia	95	156	161
Germany, eastern[c]	24	48	200
Hungary	66[d]	77[e]	115
Poland	219	318	145
Romania	63	107	170
USSR	594	990	167

Source: Directives on the five-year plans.

[a] In 1955 prices, except for Poland (1956 prices); for Hungary and mainland China, unspecified.

[b] Referring to 1953–1957 and 1958–1962.

[c] According to the plan for 1956–1960, State investment will be twice as large as during the preceding plan and will amount to 47.6 billion marks, to which should be added 7 billion marks presumably invested by enterprises from their own funds and from credits granted by the State.

[d] 1950–1954.

[e] The target for 1956–1960 was actually stated as follows: "... 76 to 78 billion forints will be invested in the national economy from State resources and a further 2 billion forints from other resources, or 15 per cent more than investment of the first five-year plan".

gap between the relative rates of expansion of national income and of industrial production is the considerable growth of the share of industrial production in national income during the preceding plan period.[62] These two factors, however, cannot completely explain this change. In the Soviet Union both industrial and agricultural production are planned to increase at a higher rate than national income, which seems to imply that the output of other sectors[63] is planned to increase less than national income and less than industry and agriculture. A rough estimate[64] suggests that the implied rate of growth of "other sectors" may exceed that of industrial production in Poland but that in Hungary, Romania and eastern Germany it may be lower than the rate planned for industrial production and higher than that for agriculture. The rise in national income is to be achieved by very large investment. The data on total State investment in fixed capital over the whole five-year period reproduced in table 127 indicate a very marked increase as compared with the preceding five years in all the centrally planned economies except Hungary, where the increase is to be 15 per cent.[65]

Data on consumption and its relation to national income shown in table 125[66] indicate that in the countries —such as the Soviet Union, eastern Germany and Romania—which achieved the largest increases in consumption during the preceding five-year plan, a perceptible slowing down of the rate of increase is planned during the period 1956-1960. In the other countries, consumption or retail sales are to increase faster than during the preceding plan period.[67] Comparison of the planned rates of increase seems to indicate that in most of the countries the share of consumption in national income will tend to decline. For the Soviet Union and eastern Germany this would be a reversal of the trend of the preceding five-year plan; in Czechoslovakia and in Hungary, however, the decline will be smaller than during the preceding plans of these countries. In Romania the share of consumption increased during the preceding plan and is scheduled to rise under the new five-year plan. In Poland and mainland China the share of consumption declined during the first long-term plan of development and the second plan calls for no further change.

The conclusion to be derived from comparison of targets for national income and consumption seems to be in conflict with statements included in some of the directives for the new five-year plans, which indicate an increase in the share of consumption in national income during the period 1956-1960 taken as a whole compared with the preceding plan period.[68] However, this contradiction may be due to the fact that in several countries the share of consumption in national income in 1955 was much higher than the average during the five-year or six-year periods of their preceding plans.

[62] The share of industry in national income increased during the preceding plans as follows: in Czechoslovakia, from 56 to 70 per cent; Hungary, from 46 to 59; Poland, from 41 to 54; Romania, from 50 to 52; eastern Germany, from 40 to 50. It is noteworthy that, in Romania, the rate of increase of agricultural production in relation to that of national income is scheduled to decline in 1956-1960 as compared to 1951-1955, in part because the share of industry in national income increased only slightly during the preceding five-year period.

[63] Such as trade, transport, communications and building.

[64] Based on indices of industrial production and agricultural production and on their shares in national income.

[65] The changes in the share of investment in national income cannot be derived directly from a comparison of the targets set for investment and for national income. The data for national income were announced in the form of indices measuring growth between the year preceding the beginning of the plans and the last year of the plans. The targets for investments are five-year aggregates of State fixed investment. Unlike national income, they are calculated on a gross basis, and, furthermore, they do not reflect changes in non-centralized investment nor changes in inventories.

[66] Only Czechoslovakia, eastern Germany and Hungary published indices of consumption for both periods, and Poland only for 1951-1955. The data for mainland China, Romania, the Soviet Union and Poland for 1955-1960 are indices of the volume of State and co-operative retail trade. The discrepancy between these indices and those of consumption for countries for which data are available seems to be decreasing in comparison with the immediate post-war years.

[67] In Poland consumption is to increase by 50 per cent during the five years between 1955 and 1960, while during the preceding plan it increased by the same percentage only over a six-year period.

[68] According to the terminology used in the centrally planned economies, national income is broken down into two parts, accumulation and consumption, and the latter is in turn divided into social consumption and personal consumption. According to the Polish plan, "accumulation" is to represent 17 to 18.5 per cent of national income "which is less than during the six-year plan". Romania states that 25 per cent of income is to be devoted to accumulation, and Hungary 20 to 22 per cent. During the preceding plan period the ratio was approximately 25 per cent in all three countries.

A relative shift from consumption to investment from the year 1955 to the year 1960 therefore need not be inconsistent with a rise in the share of consumption during the five-year period as a whole compared with the average of the preceding plan period. In eastern Germany, the only country for which full data on national income and consumption are available for 1950-1955, the share of consumption is to decline from about 86 per cent of national income in 1955 to about 77 per cent in 1960.[69]

An increase of 30 per cent in real wages is planned in all countries except Hungary, where it amounts to 25 per cent. Peasants' incomes are scheduled to increase at the same rate as real wages of workers, or at a higher rate. As shown in table 128, the planned increases in real wages are lower than those achieved during the preceding plan in eastern Germany, the Soviet Union and mainland China. In eastern Germany the unusually sharp decline in the planned rate of increase reflects the fact that the 115 per cent increase achieved during the period 1950-1955 brought real wages from about 58 per cent of the pre-war level in 1950 to about 24 per cent above that level in 1955. In Hungary the planned rate of increase is the same as that achieved during the preceding five-year plan. Only in Romania and in Poland are real wages planned to increase at a higher rate than during the preceding plan.

The greater emphasis in the new five-year plans on the improvement of the situation of consumers is reflected in the changes in the allocation of investment outlays during the period covered by the plans. The main feature of the new investment plans common to all countries is the rise in the shares of agriculture and of housing in total State investment. In most of the countries the share of transportation in investment is also planned to increase. These shifts in the distribution of investment in favour of agriculture, housing and transportation are achieved at the expense of industry, the share of which shows some decline in most countries listed in table 129, the notable exceptions being the Soviet Union and mainland China.

Data on the distribution of investment between heavy and light industries are available only for the Soviet Union, Hungary, Romania and mainland China. In the first three countries the share of total investment devoted to the expansion of light industries is to be 6 per cent. This is less than during the preceding five years in Romania, slightly more in the Soviet Union and twice as much as during the preceding plan in Hungary. In mainland China the share of investment in light industry is to exceed the percentage allocated to this sector during the first five-year plan.

Within the industrial sector high priority is given to investment in fuel, power and basic materials. This is in line with the policy designed to eliminate or reduce the bottlenecks that were responsible, during the preceding five years, for the slowing down of the rate of expansion of the economies. Thus, in Hungary, investment in industries producing fuel, power and basic materials is to increase by 30 per cent, while investment in metallurgy and engineering is to be lower than during the preceding five-year plan. In Romania investment in engineering is to be reduced by about 9 per cent while that in fuel, power, chemicals and timber is to increase by 65 per cent. While the decline in investment in engineering in Hungary and Romania is rather exceptional, the priority given to investment in the deficiency sectors is emphasized in all countries of the group. Thus the Polish plan states that "priority should be given to investment in raw materials and fuel" and the Czechoslovak plan emphasized that "first priority in construction is to be given to the fuel, electric power and raw materials industries and agriculture". In contrast, in mainland China, the second plan is, in essence, a continuation of the first plan, with emphasis on the rapid industrialization of the economy. Hence, expansion of investment in engineering industries is especially stressed.

[69] These estimates imply rates of accumulation of 14 and 23 per cent, respectively, for the two plan periods. As has already been noted, the rate of accumulation of eastern Germany was unusually low as compared with the average of 25 per cent in the other centrally planned economies.

Table 128. Planned and Actual Indices of Real Wages and Peasants' Incomes

Country	Real wages		Real peasants' incomes	
	Preceding plan[a]	Current plan 1956-1960	Preceding plan	Current plan
China, mainland	134[b]	127[c]	...	127[c]
Czechoslovakia	...	130	...	123
Germany, eastern	215[d]	130	...	...
Hungary	125	125	125	125
Poland	113[e]	130	...	130
Romania	128	130	...	...
USSR	139	130	150	140

Source: Directives on five-year plans, reports on fulfilment of plans.

[a] For periods covered, see footnotes *a* and *b*, table 116 and footnote *b*, table 117.

[b] Actual increase between 1953 and 1956.

[c] Average of the lower and upper limit.

[d] About 24 per cent over pre-war.

[e] Six years.

Table 129. Allocation of State Gross Fixed Investment, by Sectors

Country and item	Total[a]	Industry			Building and construction	Agriculture	Housing	Transport	Trade
		Total	Heavy	Light					
China, mainland:									
1953–1957:									
Billions of yuan	77	44.6	39.6	5.0	...	5.8	...	14.7	2.3
Per cent of total	100	58.2	51.7	6.5	...	7.6	...	19.2	3.0
1958–1962:									
Billions of yuan	153	91.9	...	...	...	15.3	...	...	...
Per cent of total	100	60.0	...	...	...	10.0	...	...	...
Index (1953–1957=100)	200	206	...	...	...	263	...	...	...
Germany, eastern:									
1951–1955:									
Billions of marks	22	11.6	...	...	...	2.1	2.9	2.2	...
Per cent of total	100	53.6	...	...	...	9.6	13.5	10.1	...
1956–1960:									
Billions of marks[b]	44	22.8	...	...	...	4.9	4.5	7.1	...
Per cent of total	100	51.8	...	...	...	11.1	10.2	16.1	...
Index (1951–1955=100)	200	197	...	...	...	236	154	326	...
Hungary:									
1950–1954:									
Billions of forints	66	29.3	27.3	2.0	...	9.0	10.0	8.6	...
Per cent of total	100	44.4	41.3	3.0	...	13.6	15.2	13.0	3.0
1956–1960:									
Billions of forints[c]	77	33.0	28.0	4.6	...	14.0	13.0	10.0	2.5
Per cent of total	100	42.9	36.4	6.0	...	18.2	16.9	13.0	3.2
Index (1950–1954=100)	117	113	103	230	...	156	130	116	125
Poland:									
1951–1955:									
Billions of zlotys	219	105.8	...	...	7.9	180.0	23.4	26.7	...
Per cent of total	100	48.3	...	...	3.6	8.2	10.7	12.2	...
1956–1960:									
Billions of zlotys	318	139.6	...	...	14.9	39.1	45.8	31.0	...
Per cent of total	100	43.9	...	...	4.7	12.3	14.4	9.7	...
Index (1951–1955=100)	145	132	...	...	188	217	196	115	...
Romania:									
1950–1955:									
Billions of lei	63	36.5	31.9	4.7	2.9	6.5	2.4	7.1	1.6
Per cent of total	100	58.0	50.6	7.4	4.6	10.4	3.8	11.2	2.5
1956–1960:									
Billions of lei	108	60.2	53.7	6.5	2.7	13.4	5.9	12.4	2.7
Per cent of total	100	56.0	50.0	6.0	2.5	12.5	5.5	11.5	2.5
Index (1950–1955=100)	171	165	169	138	93	205	247	175	171
USSR:									
1951–1955:									
Billions of roubles	594	354.0	319.0[d]	34.0	...	64.0	120.0[e]	...	...
Per cent of total	100	59.4	53.7	5.7	...	10.7	20.2	...	...
1956–1960:									
Billions of roubles	990	600.0	541.0[d]	59.0	...	120.0	200.0[e]	...	...
Per cent of total	100	60.6	56.6	6.0	...	12.1	20.2	...	...
Index (1951–1955=100)	167	170	170	175	...	188	167	...	...

Source: Directives on five-year plans.

[a] The sum of the components does not add to the total because of lack of data on the allocation of investment in sectors not specified in the plans.

[b] Total State investment planned for 1956–1960 is actually higher and amounts to 47.6 billion marks plus an additional 7 billion to be financed presumably from own funds of the enterprises and credits granted by the State. However, the planned distribution of investment funds among sectors is related to "investments for further development of the economy amounting to 44 billion Deutsche marks".

[c] See footnote *e*, table 125.

[d] Estimated on the basis of difference between total industry and light industry.

[e] Inclusive of constructions for cultural and social services, public utilities, schools, universities, health, theatres, etc.

Changes in Methods of Planning and Management

The setting of the problem

While the new five-year plans of economic development were being prepared, significant changes were taking place in the methods of planning and economic organization in all the centrally planned economies. The aim of these changes was to reduce the degree of centralization in planning and management; this was to be achieved by increasing the authority of economic ministries and of regional and local bodies down to the level of enterprises, and by narrowing the extent of administrative interference by the central authorities in the day-to-day management of enterprises, relying instead on a broader use of economic incentives.

The extreme centralization characteristic of nearly all the centrally planned economies is largely the result of the historical circumstances under which the system was introduced. The existing methods of planning and control were developed gradually in the Soviet Union and were adopted with only minor changes by the other countries which nationalized their industries and introduced central planning after the Second World War. Both in the Soviet Union and elsewhere, the introduction of planning coincided with far-reaching changes in the whole economic and social structure. In these circumstances the problem facing governments was not to devise the most flexible method of planning and management, but rather to create a powerful, if rigid, system which would enable them to break down the traditional framework of economic relations and remould the economy into a new pattern. The elimination of private enterprise and the collectivization of agriculture destroyed the traditional incentives of management at the level of the individual enterprise and created the need for their replacement by government orders. The need for detailed controls was reinforced by the policy of rapid industrialization through high rates of investment and severe restrictions on consumption. The resulting shortages of many key items and the need to allocate scarce resources among competing uses in accordance with the planned pattern of development prompted still further concentration of decision-making in the hands of the central authorities. The scarcity of managerial skills at the enterprise level that was a consequence of the very rapid economic development was in itself an important factor leading to increased centralization.

While the development of this system of planning and management was closely associated with the rapid economic expansion achieved by all the centrally planned economies under their earlier industrialization plans, several features of the system have since come to constitute serious impediments to further economic progress. The features now recognized as serious drawbacks may be briefly described under three heads. The first problem is the growing remoteness of the planning and management authorities from the actual sources of production and the concentration of too many detailed decisions at the centre. This has led to the second problem, the tendency for the economy to be split along vertical lines, each branch of industry being controlled from the centre, leaving little scope for co-operation between enterprises in the different branches of industry controlled by separate ministries. Thirdly, and closely connected with the other two, has been the failure to evolve sufficient inducements to promote the most effective use of resources by managements of individual enterprises.

The existence of some of these defects in the system of planning and management has long been admitted, and the need for their elimination emphasized, in several of the eastern European countries. However, except in Yugoslavia, it was not until recently that the need for fundamental changes gave rise to important government measures of reform. The fact that these measures were generally delayed until 1955 indicates clearly that an important factor in the timing of the reforms was the change in the political climate of eastern European countries that began in 1954, and was reflected in a general reappraisal of past policies in every field of government activity. The relevance of political factors was equally obvious in Yugoslavia a few years ago.

The reappraisal of methods of planning and management was prompted by the increasingly apparent defects of the existing system as the economies of eastern Europe reached a higher stage of development. The sheer expansion of the size of the economies greatly increased the scale and difficulty of the tasks facing the central planning boards. Even more important was the growing complexity and diversification of the economies that resulted from rapid development. Methods of planning and management that were devised when the principal problem was to foster the development of new industries were quite inadequate to co-ordinate the highly specialized and complementary industries of a modern economy extremely sensitive to imbalance among its various sectors.[70]

The need to eliminate waste through a more rational utilization of resources and more flexible methods of planning and management has recently become increasingly important. Not only have several of the countries reached the stage where continuation of their previous rapid rate of growth tends to be hampered by a growing scarcity of raw materials and labour, but at the same time the increasing pressure of consumers for

[70] Several of these problems, such as price determination, management and planning in a socialist economy, were extensively discussed in western economic writings of the late nineteen thirties.

better satisfaction of their wants, and the consequent trend towards a decline in the share of investment in national income is tending to slow down the rate of expansion still further. These circumstances underlay the increased stress in the new five-year plans on the need for modernization and for specialization, as a means of increasing productivity and reducing cost in terms of input-output ratios. It has repeatedly been stressed that the realization of such technical progress over the whole field of industry will call for a much greater degree of flexibility in planning and management than has hitherto existed, and that it will entail increasing the responsibility of managers of enterprises and strengthening their incentives to secure improvements and greater efficiency.

The changes in methods of planning and management announced between 1955 and 1957 are by no means complete, representing only the first steps in a process of reorganization which is to continue in the future.[71] The common feature of these changes is that they represent an attempt to find the most effective method of combining central planning with broad autonomy of regional economic organizations and of enterprises in order to eliminate the adverse effects of extreme centralization.

The system prior to the recent reforms

Until the recent changes were introduced, the central plans comprised many detailed targets governing production, employment, investment, productivity, input-output quotas, the allocation of raw materials and semi-manufactures and other matters. These served as a basis for more detailed plans drawn up by the various ministries or their departments which in turn set specific targets for the enterprises under their supervision. In some cases production targets, even for individual important enterprises, were embodied in the central plan.

The detailed specification of the types and quantities of goods to be produced by each enterprise prevented the managers of enterprises from organizing their activities so as to make the best use of capacity and of the materials becoming available to them, or from adjusting their output to the requirements of the purchasing enterprises without prior authorization of the central boards. Since it was physically impossible to formulate in detail all tasks assigned to individual enterprises, targets were frequently set in terms of value, numbers or weight. Each of these methods, however, led to a certain bias. Targets expressed in terms of gross value of output induced managers to concentrate on the production of goods, not with the highest value added, but with the highest content of raw materials and semi-manufactures produced outside the enterprise.[72] Where the targets were formulated in numbers, the management was induced to produce the smallest items, and where they were set in weight, the heaviest items. The weakness of this system was reflected in recurrent difficulties in securing the required assortment of goods despite the over-all fulfilment of plans.

The direct dependence on the central ministry even for day-to-day decisions limited both the scope of the local or regional planning boards and the extent of co-ordination between enterprises of different industries within each region. In the Soviet Union this compartmentalization of the economy along vertical lines became increasingly important with the extension of centralized controls between 1940 and 1945, as a result of measures taken in preparation for and during the Second World War, but there was no reversal of this trend in the subsequent period. The result was a growing remoteness of central planning and operative organs from the actual sites of production, and increased vertical dimension of planning and operating management in different industries.[73] The plans drawn by individual central ministries for the enterprises under their authority were often prepared with little regard to the work of other ministries and without taking into account specific conditions in various regions and enterprises. The increasing compartmentalization of planning and management and the concentration of authority to make decisions in the central ministries also hampered co-operation between interrelated industries or enterprises at the regional and local levels. Co-operation between enterprises in different industries could be established only by complicated and lengthy procedures through the central ministries. Vertical barriers between ministries led to the creation of numerous parallel supply and purchasing agencies attached to each ministry, duplicating each other's work. This complicated machinery of allocation had become an important obstacle to co-operation and specialization of enterprises.

The existence of departmental barriers was responsible for waste of resources caused by lack of synchronization of the work of different industries and enterprises. Individual ministries tended to produce intermediate products within the enterprises under their jurisdiction in order to avoid difficulties caused by irregularity in supply. Moreover, they were reluctant to accept changes in their production schedules when their departmental interests were in conflict with the needs of other ministries and of the economy as a whole. In several instances branch ministries ordered the construction of new plants, ignoring the existence of identical

[71] Indeed in the Soviet Union some of the decisions taken in 1956 were abandoned before they went into effect and superseded by new, and in some respects contrary, decisions.

[72] This practice was encouraged by the fact that the planned profits of enterprises were calculated on the basis of gross value and therefore were not affected by changes in the ratio of value added to gross value of output.

[73] In the Soviet Union there were some thirty-odd central industrial ministries. In the Russian Soviet Republic the enterprises were under the jurisdiction of eighty-four ministries and depaetments, and in the city of Moscow alone under eighty different ministries and departments. The engineering industry in the Soviet Union was divided among some fifteen central ministries.

enterprises under the jurisdiction of another branch ministry, often in the same locality and able to produce the required assortment of goods. This lack of co-ordination resulted in unnecessary duplication, in over-capacity in specific plants under different ministries and in considerable waste caused by unnecessary inter-regional transportation of goods.[74]

While the effects of over-centralization and the vertical organization of planning and management were most serious in the Soviet Union because of the size of the country and the greater complexity of its economy, the drawbacks of this structure of planning and management were felt in all eastern European countries. In the early stages of development of the existing system, it was recognized that management by administrative order had to be supplemented by economic incentives which would induce the managements of enterprises to improve the efficiency of their operations. The enterprises were organized as financially self-sustaining units which were expected to meet their current expenses from current revenues and earnings.[75] Profit was considered the most important single indicator of efficiency, and was the basis for reward of management through bonuses and promotion, or for penalization by demotion.

Since the unit costs of the factors of production as well as the prices of finished goods were fixed by the plan,[76] changes in profits were considered to be indicators of improvement or deterioration in the input-output ratio of the enterprise, dependent solely on its technical efficiency. A certain percentage of planned profits and a much larger percentage of above-plan profits[77] were allocated to the enterprise's funds for improvement of workers' conditions, small-scale investment and bonuses for the managerial staff. While the purpose of this method was to correlate the execution of the plans directly with profits, the actual working of the system proved to be defective in many respects. Indeed, the methods used to determine prices, profits and bonuses frequently provided little inducement for full utilization of existing capacity or for production of the required assortment of goods, nor did they tend to promote technical innovations or saving on scarce materials and investments. The director of the enterprise was not allowed to introduce even small-scale modernization without the express permission of the higher authority or the central bank.[78] While the introduction of technical improvements was generally approved when these improvements resulted in increased output and a reduction in cost, it was also accompanied by an increase in output targets and a cut in planned costs but, since higher bonuses depended on over-fulfilment of the planned output and of profit quotas, little inducement was provided for introduction of new techniques. In cases where modernization involved a temporary rise in cost or a decline in output, managers were inclined to resist the introduction of improved methods. This factor has often been mentioned as responsible for the slow dissemination of new methods of production in Soviet industry.

Another problem repeatedly mentioned in recent pronouncements is the lack of inducement for a more economic utilization of scarce resources and of investment. In contrast to prices of consumer goods, which through the use of the turnover tax are set at levels roughly corresponding to the relation between supply and demand, prices of producer goods are in general completely unrelated to their scarcity relationships. Under such conditions no inducement exists either for the planning authorities or for enterprises to initiate measures for substitution or saving of the scarcer materials which they receive through the central allocation system. Similarly no inducement exists for saving on investment outlays, which are allocated to enterprises in the form of interest-free grants without any effect on the cost of production. The existence of cost-free investment was one of the factors which made it worth while for enterprises to conceal their actual productive capacity in order to avoid the raising of targets assigned to them by higher authorities.[79]

Recent changes in methods

The changes in attitude towards methods of planning and management now taking place in the other centrally planned economies were preceded by the more drastic changes introduced in Yugoslavia several years earlier. During the last five years Yugoslavia has developed an entirely new system of planning and management very different from the Soviet system, which Yugoslavia, in common with other eastern European countries, had adopted at the end of the war. The new system in Yugoslavia is of particular significance not only because it was the the first country to introduce

[74] Enterprises in the Urals, for instance, were importing certain metal goods from the south European parts of the Soviet Union while identical goods produced in the Urals in enterprises under another ministry were shipped to the south. Some measure of the waste of capacity is indicated by the fact that in 1956, 26,000 metal cutting lathes were idle or partly used in some ministries, while at the same time enterprises under other ministries suffered from lack of equipment.

[75] While fixed and circulating capital was allocated to enterprises in the form of government grants, current expenses were to be met in general out of current revenues.

[76] In general by adding a fixed percentage of profit to cost.

[77] 15 to 45 per cent of above-plan profits.

[78] Neither the director's fund nor the depreciation fund of the enterprise could be used without the approval of the higher authorities.

[79] As in the case of modernization, the inducements provided by higher profits and bonuses resulting from the reduction of unit cost through fuller utilization of capacity were frequently counterbalanced by the fear that this would result in higher targets for the following year which would not only eliminate the extra profits but might make the fulfilment of the plan more difficult. It has been suggested by Soviet and Polish economists that in order to create inducement for better utilization of capacity (as well as for innovations), it is necessary to allow the enterprises to benefit from these improvements for a longer period.

an alternative system of planning in an economy based on social ownership but also because some of the problems now being encountered in the other centrally planned economies bear considerable resemblance to those faced in Yugoslavia a few years earlier.

The main characteristics of the Yugoslav model are the broad autonomy granted to the republics, regions and enterprises, the absence of direct allocation of resources by the central authority, and the existence of market relationships both for consumer and for producer goods. The central plan determines total production, the distribution of income between consumption and investment and the allocation of investment among sectors. More specific plans are drawn up by the republics and local governments. The implementation of central and local plans is, however, brought about mainly by credit and fiscal policies. There is little if any administrative intervention in the management of individual enterprises. Broad control of the enterprises is vested in workers' councils, leaving the executive functions in the hands of directors nominated by the State subject to approval by the council. The management of each enterprise is free to plan its own production, determine its prices, purchase materials and sell its products without interference from the State authority. After paying part of its profits to the local, republican and central governments, the enterprise can allocate the remaining part between investment and additions to wages.

Economic development is directed by the central or regional governments mainly by guiding investment flows towards the desired sectors through the medium of the central bank.[80] Until 1955, repayable, interest-bearing investment credits were distributed among applicant enterprises or organizations on the basis of competitive bids according to the rate of interest and terms of repayment offered and taking into account the prospective profitability of the project. Other factors of general interest, such as the effect of the competing projects on foreign trade, were also taken into consideration.

Government control of investment was, however, reinforced in 1955 in order to prevent a recurrence of the misdirection and excessive increase of investment at regional and local levels which upset the government plans in 1954. The new regulations require the local or regional governments sponsoring the new investment projects to deposit in the central bank a guarantee fund of a certain percentage of the cost of the new projects, to be used if the credit guaranteed by the bank should prove to be inadequate for their completion. The purpose of these provisions was to increase the responsibility of the sponsoring organizations for the new investment projects and to restrict their ability to invest. The ratio of guarantee deposit to cost is determined by the central Government and by varying the rates the Government is able to control and direct the flow of investment to the most desirable sectors.

The Yugoslav model is more flexible than the planning and management in other socialized economies. It leaves more scope for the initiative of regional organizations and enterprises, and, by allowing producers to deal directly with purchasing enterprises, makes for better synchronization between complementary enterprises. The existing system of planning and management is not, however, considered as final by the Yugoslav Government and may be further modified on the basis of future experience. It is not yet clear how far the system is adequate to handle certain fundamental problems which Yugoslavia, as well as the other socialized economies, is seeking to solve. Outstanding among these problems are methods of price determination, allocation of scarce resources, and investment. It has been stated by Yugoslav officials that the prevailing system can be effective only in conditions of economic stability. In the presence of strong pressure of demand, the autonomous enterprises may be induced to raise their profits, not through an increase in efficiency but through price increases. Moreover, the enterprises may be induced to limit output in order to earn monopoly profits. Apart from the deleterious effect of such policies on the economy as a whole, the resulting redistribution of income would violate one of the basic principles of all the economies based on social ownership—namely, that profits are not to be considered as a goal in themselves but should simply be the result of, and the basis of reward for, efficiency of the enterprise.

More important is the question of whether a socialized economy, seeking to attain the optimum rate of growth by directing the economy according to a planned pattern, can achieve its objectives without centralized allocation of key resources in short supply and without direct investment by the central Government. In this respect the experience gained so far in Yugoslavia is not conclusive, since in the short period during which the new system has been operating the Government's policy has been to concentrate on the completion of projects introduced earlier or on small-scale investments. The initiation of new large projects of national importance may prove to be difficult to achieve by quasi-independent but socially-owned enterprises for which the profit motive is not of primary importance.

None of the other centrally planned economies has introduced a degree of autonomy for the enterprise comparable to that which is provided under the Yugoslav system. By far the most significant changes in the general framework of planning and management are those just announced in the Soviet Union, which replace the existing highly centralized system by a wholly new form of organization based on territorial units. But changes in attitudes toward existing methods of planning and management, particularly with respect to the degree of autonomy of enterprises, were much

[80] About two-thirds of gross investment is financed by such bank credits.

more striking in Poland than elsewhere. In the other countries of the group the basic forms of planning and management have not been altered, but many of the changes introduced in the Soviet Union in 1955 and 1956 were followed by similar decisions in the other countries.

In the Soviet Union the first important steps towards the relaxation of centralized planning and management were taken in 1955. The "law on the enlargement of the rights of directors" gave to the enterprise the right to exceed planned expenditures for technical improvement, reconstruction of separate shops and modernization of equipment, by using for this purpose part of the depreciation funds allocated for capital repairs and part of the director's fund. The director was also entitled to credits for modernization and rationalization not stipulated in the plan, provided that such credits could be repaid within two to three years. In addition, enterprises were given greater authority to prepare their own production plans within the general quotas set by the higher authorities, to fix prices for goods not included in the State price lists and to produce goods not specified in the plan, provided that the planned targets were fulfilled. With respect to goods the output of which is not centrally planned, the enterprises acquired the right to enter into agreements with purchasing agencies about the variety of goods to be produced without prior authorization of central authorities.

During the same year important changes took place in the planning of agriculture. Until 1955 the plans specified for each collective farm the area to be sown to each crop and the numbers of each variety of livestock, on a more or less uniform basis, often disregarding the specific characteristics of the soil and climate in different regions and the economic conditions of different collective farms. According to the new regulations the plans for the farms contain only targets for the surpluses of agricultural products, that is, for compulsory and contractual deliveries, and payments in kind to the machine and tractor stations. Decisions with regard to the area under various crops, number and kinds of livestock, and quantities of animal products were left entirely to the collective farms themselves.

By far the most significant changes occurred in the general framework in which the central planning and management of the economy is organized. The decentralization of planning and management achieved gradually during the last two years culminated in 1957 in a decision involving a complete shake-up of the existing system, which is to take place in the near future. In 1955 the number of detailed targets included in the central plan of the Soviet Union had already been reduced to about 1,700, as compared to 4,000 items in 1953. A large proportion of investment funds, the use of which was previously strictly determined by the central plan, was placed at the disposal of individual industrial ministries. The central ministries were given a larger degree of independence in planning and management within the limits set by the general plan and their work was to be co-ordinated by the State economic commission which, in addition to current planning, was entrusted with the "operative decisions of current problems connected with the fulfilment of the State plans".[81]

A considerable number of plants were transferred from the jurisdiction of central authorities to that of republics. A further step in this direction was taken at the beginning of 1956 when the major part of the food processing and light industries, as well as retail trade, building materials industries and road and river transport enterprises were decentralized and their administration transferred to the republics.[82] During this period, however, the decentralization was proceeding without any significant alteration in the old framework of the vertical organization of planning and management. Despite the transfer of authority to republican ministries they continued to work under the supervision of central ministries of each branch or sub-branch of industry.

This scheme of reorganization was fundamentally altered by the decisions taken in February 1957, followed a month later by the announcement of concrete proposals for further reorganization of planning and management.[83] These new proposals invalidate several decisions taken previously and represent a fundamental change in the system of planning and management as it has evolved during almost three decades of Soviet planning.

The proposed changes are designed to shift "the centre of gravity of the operative management to the points of location of industries" and to abolish the vertical compartmentalization and remoteness of planning and management through central ministries which had become an obstacle both to co-operation between economic sectors and to full utilization of resources.

[81] The State Planning Committee which had been in charge of all planning was divided in 1955 into two separate organs: The State Planning Commission (Gosplan) in charge of prospective planning and the State Economic Commission (Gosekomissia) in charge of annual planning. The creation of these separate bodies was motivated by the growing complexity of planning and the increased task of co-ordinating various economic sections resulting from decentralization. The decisions taken in December 1956 extended the authority of the State Economic Commission and, as far as one can judge from published texts, entrusted the commission with the co-ordination of the work of branch ministries.

[82] This measure affected 15,000 enterprises previously under control of the central Government. At the end of 1956, 55 per cent of total industrial production was under the supervision of the republican governments. The total number of enterprises in 1957 included 200,000 industrial plants and 100,000 building sites.

[83] Published in the form of "theses" of the report of Mr. Khrushchev to the Supreme Soviet of the USSR in *Pravda*, 30 March 1957. The final draft project of the law on re-organization of planning and management presented to the Supreme Soviet in May 1957 was somewhat different from the earlier proposals (see footnote 84).

To this effect the existing method of planning and management through the central and republican industrial ministries is to be abolished and replaced by a new form of organization based on territorial units. The Soviet Union is to be divided into a number of economic regions administered by regional economic councils endowed with a broad autonomy within the general framework of the central plan. All industrial enterprises are to be transferred to the jurisdiction of regional councils, and the central and republican ministries to which they had been subordinated are to be abolished. The regional economic councils are to be in full charge of planning and of management of all industries within their area, thus replacing the vertical system of planning and management from the centre by a horizontally integrated system within each region. The current and long-term plans of the regional councils will form the basis for the plans of the individual republics and for the national plan prepared by the Central Planning Commission.

The prerogatives of the Central Planning Commission are to be considerably enlarged to include some of the functions formerly accomplished by the industrial ministries. Thus one of its functions will be to co-ordinate the regional and republican plans, as well as to check and correct the plans of individual regions or republics with a view to assuring balanced growth of the national economy and to eliminating any tendencies toward regional autarchy. In doing so the State Planning Commission is not to interfere in the administrative management of the economic regions. The elimination of the central ministries makes it necessary to entrust the State Planning Commission with some of their functions which cannot be carried out by the regional councils, such as the development of certain key industries, the determination of their rational geographical location and the fostering of technical improvements. In addition, the State Planning Commission will plan the inter-regional deliveries of raw materials, fuel, power, capital equipment and consumer goods. The bulk of the products not included in the central plan is to be distributed directly by the regional economic councils except for a limited number of items in very short supply.

The regional economic councils will have full authority for the financial and economic management of enterprises and of economic organizations under their jurisdiction, and will be in charge of financial planning, redistribution of profits, circulating funds and investment within the area. The redistribution of profits among the areas will remain under the charge of the republican and central authorities.

The new programme of reorganization also confers increased rights on the directors of individual enterprises, and provides for the development of direct contractual relations among various enterprises, which will be able to purchase and sell without prior agreement of centralized agencies.

Even apart from enlarging the scope of the rights of directors, a considerable increase in efficiency and flexibility in management of enterprises is expected to result from the transfer of executive powers from the centre to the regions. This will make it possible to settle on the spot problems which previously could not be solved without referral to central ministries.[84]

The changes in the methods of planning and management introduced in the Soviet Union in 1955 and in 1956 were followed by similar decisions in other centrally planned economies. In all these countries the numbers of specific targets included in the central plan were considerably reduced. The planning of output of goods eliminated from the central plan was transferred to industrial ministries and to regional and local State organs. The autonomy of regional State organs and enterprises was enlarged. However, unlike the changes adopted by the Soviet Union, in the other countries of the group the basic form of planning and management through central ministries was retained. While to date no attempts have been made to alter the vertical form of organization by branch and sub-branch ministries, it is probable that the recent decisions taken in the Soviet Union will have great influence on future developments in the other countries.

In eastern Germany the number of targets included in the central plan was reduced from 950 in 1955 to 440 in 1957, and these 440 related mainly to key industries such as power, coal, rolled steel and chemicals. The specific planning of output of goods not included in the central plan was entrusted to industrial ministries, central boards and regional State organs, which in turn were instructed to reduce the number of specific targets assigned to enterprises to a few essential indices. The directors of enterprises also acquired more freedom in the utilization of their investment and general repair funds without prior approval of higher authori-

[84] The draft law on the reorganization of planning and management as presented to the Supreme Soviet of the Union of Soviet Socialist Republics in May 1957 contained essentially the same proposals as those outlined by Mr. Khrushchev in March 1957. The major difference between the original proposals and the draft law was the retention, at least temporarily, of several central and republican ministries, in order to "insure the transition towards the new forms of management without weakening the centralized control of development of these branches of industry". However, functions of the retained ministries are to be confined to planning, and these ministries are not to interfere with the administration of enterprises. Of the former central ministries, twenty-four are to be abolished and four merged. The eight economic ministries retained are those in aviation, shipbuilding, radio, chemicals, medium engineering and transport construction. The ministry of defence industry is to be merged with that of general engineering and the ministry of power plants with that of electric plant construction. The Soviet Union is to be divided into ninety-two economic regions out of which sixty-eight are in the Russian Soviet Republic and eleven are in the Ukraine. The economic administration of these regions is to be handed over to newly created Councils of National Economy.

ties. Increasing the prerogatives of regional and State organs, mainly in dealing with problems concerning industries of local importance, was reflected in a great simplification of the directives given to them by higher authorities. Instead of a large number of specific targets, objectives of regional and State organs are to be formulated in terms of global value of output, total employment, total wage fund and total investment, leaving to them the task of preparing more specific plans for the industries under their jurisdiction.

In Czechoslovakia the number of targets included in the central plan was reduced by 20 per cent in 1957. The number of central economic ministries was reduced, and the rights of local governments in planning and management were extended. In this respect the most important change was the broad extension of the autonomy of Slovakia, which has received the right to approve economic plans and budgets within the limits set by the central plan. The control of industry located in Slovakia was transferred to Slovak authorities, with the exception of engineering and railways, which remain under the control of the central Government. It seems, however, that this reform has not gone beyond giving to Slovakia a status similar to that of the Soviet Union republics before the most recent changes. As in the other countries of the group, the measures introduced in 1956 were presented by the Czechoslovak Government as the first steps in the execution of a broad programme of decentralization that was to be continued in 1957 and 1958. The conference of the Communist Party of Czechoslovakia in June 1956 stated that central plans should in the future deal only with the most important targets necessary to establish basic proportions and trends. The central allocation of resources is to be reduced, and more direct relations are to be established between complementary enterprises so as to enable them to deal with each other without the interference of ministries or central departments and boards. The extension of the authority of the directors of enterprises follows in general the decisions taken in this field by the Soviet Union.

In Romania decentralization in 1956 proceeded along similar lines. The number of production targets included in the central plan was considerably reduced in the plan for 1957. The plans for investment and for the wage fund were for the first time presented in the form of totals allocated to different ministries, and were specific only for a few of the most important investment projects. At the same time the centralized allocation of goods was reduced by 50 per cent through the transfer of 2,500 products from distribution by central agencies to the control of individual enterprises. The share of above-plan profits left at the disposal of local authorities and enterprises was increased and the rights of their directors enlarged.

In mainland China, where in recent years methods of planning and management have become similar to those of the other countries of the group, measures were also introduced in 1956 tending to make the system more flexible. The most important were the decentralization of some consumer goods industries and of trade. Production of investment goods and of such staples as cotton yarn, cloth and sugar are to remain under central control. Central allocation of consumer goods is to be replaced by the establishment of direct purchase and sale relations between stores and factories. Price controls for several consumer goods are to be relaxed and peasants are to be allowed to sell a larger proportion of their output on the free market, mostly fruits, vegetables, poultry and hogs. Free market trade is expected to reach 25 per cent of total retail trade.

In Poland, the change in attitude towards existing methods of planning and management was more far-reaching than in any other country of the group. This is reflected not only in the measures already introduced, which in general have gone beyond the changes in the Soviet Union, eastern Germany and Czechoslovakia, but even more in the numerous official pronouncements and decisions showing a tendency to introduce a system which has many points in common with that existing in Yugoslavia.

An important difference which distinguishes the process of reform in Poland from that of the other centrally planned economies is the fact that in Poland the reform received a powerful impetus from the political transformations in 1956 and from the creation of workers' councils which were to take over the management of the enterprises. This factor largely accounts for the difference between the process of decentralization in Poland and elsewhere. Whereas in the other centrally planned economies decentralization originally took the form of delegation of authority to the ministries and regional bodies, with only relatively slight extension of the autonomy of enterprises, in Poland the creation of the workers' councils pushed the problem of the rights of enterprises into the foreground. Although the need for greater participation of workers in the preparation of plans was stressed in all countries in connexion with the current reforms, this participation in countries other than Poland is to rely mainly on trade unions or factory committees with consultative functions. In Poland, on the other hand, the workers' councils tended to take over the actual management of plants, with the right to approve or reject the directors nominated by the State and to set the production plans of their enterprises. This new method of management was introduced in several plants in the form of an experiment intended to demonstrate ways and means of co-ordinating the activity of autonomous plants with the central plan.

In addition to the decree on the workers' councils, the Polish Government also made several other interre-

lated decisions in 1956 dealing with the extension of the rights of enterprises, the uses of enterprises' funds and the reorganization of the central planning commission. The old planning commission, in addition to planning, in fact took an active part in the actual administration of the economy, and in this capacity was placed above the central ministries. This commission has been dissolved and replaced by a new commission under the council of ministers, confined to the preparation of general plans, without the right to interfere with the work of the ministries. The number of targets for specific commodities included in the central plan was cut from 1,906 during the preceding years to 768 in 1957. Simultaneously, the decree on the rights of enterprises reduced the number of compulsory targets assigned to enterprises by superior authorities, and increased their autonomy in several fields. A decree on the enterprise funds provided a general framework for the participation of workers in the profits of enterprises.

As noted above, all these decisions were closely interrelated. The extension of the rights of enterprises was implied in the creation of the workers' councils to take charge of their management, and the decree on enterprise funds provides incentives for efficient management by the workers' councils. The central plan, greatly simplified by these reforms, continues to include the most important targets, in particular the value of output, broken down by essential commodities, and the wage bill. While significant decentralization occurred in the control of investment, outlays for major projects remain under the jurisdiction of the central authorities. At the present stage, the central Government also retains the authority to fix prices and to allocate essential producer goods.

This system is not considered by the Polish authorities as final, but rather as a general framework which should be further changed on the basis of experience. Several aspects of the contemplated new model of the Polish economy are still under discussion and its final form will depend on political as well as economic considerations. However, the general tendency of these changes appears clearly from official and semi-official pronouncements made during recent months. The new method of managing the economy, as it emerges from these statements, is to rely to a much larger extent than previously on economic incentives. Plans are to be implemented wherever possible through the price and profit mechanism rather than through direct specific orders handed down to each enterprise by the central, regional and local administrations. The introduction of this method will require a thorough reform of price relationships among producer goods and of the methods of determining prices and profits, in such a way as to induce enterprises to produce the desired variety of goods at the lowest cost. As price policy is to become an essential tool in the management of the economy by the Government, the setting of prices will remain under the authority of central or local powers, according to the economic importance of the commodity. Only in private, co-operative or small-scale industries, where a large number of competitive enterprises exist, will prices be determined by the market. The elimination of compulsory deliveries in agriculture will result in market determination of prices for agricultural products.

The central plan is to contain general targets for national income, consumption and accumulation and for their distribution by sectors, together with output targets for such essential industries as coal, steel, engineering, textiles and agriculture, leaving the preparation of more specific programmes for each industry to central or regional boards and to individual enterprises. The wage bill and total supply of consumer goods are to be part of the central plan.

As a general rule, the government intends to avoid any direct interference in the work of enterprises. In the consumer goods industries the planning of the assortment of goods to be produced is to be left to the individual enterprises, but in heavy industry the plans assigned to enterprises will remain more specific. Investment grants are to be replaced by interest-bearing credits, and the prerogatives of enterprises in renovation and modernization are to be considerably extended. Investment funds devoted to the construction of new projects of national importance, however, are to remain under the direct jurisdiction of the central planning and managing authorities. The projected method of economic planning and management bears some resemblance to the system adopted in Yugoslavia, but important differences between the two remain. The most significant difference is the fact that the Polish Government intends to retain price controls and assignment of production targets for a large variety of goods, especially in the investment goods industries, and to keep the construction of new investment projects under the direct supervision of the central Government.